

(Translation)

May 1, 2023

West Japan Railway Company

Summary of Q&A at FY2023.3 Results and Medium-term Management Plan 2025 Briefing

Key Strategies in Medium-term Management Plan 2025

Q1

With the transportation business yet to return to pre-pandemic levels, owing in part to rising costs, I assume other businesses compensating for this weakness, like at other companies. In JR-West's case, the market has strong expectations that the capital increase undertaken by JR-West will accelerate growth. What business fields are prime targets for growth?

A1

We understand that the capital increase places a burden on our shareholders, and recognize the importance of generating strong profits. In the railway business, we will naturally continue to strive for growth, but there is upward pressure on costs, so we think it will be a challenge to return profits to pre-pandemic levels. JR-West is keen to transform its business portfolio by concentrating on the life design field, which does not depend heavily on the mobility of customers. As an entire Group, we must reinforce our connections with customers, including through our digital strategy. While combining the digital world with real assets, we aim to encourage customers to spend more within the Group. JR-West is also entering the comprehensive infrastructure management business as a new venture where it can leverage its know-how to help solve critical social issues, such as aging public infrastructure and facilities. We view this as a huge market, and intend to build this into a solid business.

Q2

Where do you expect to see synergies emerge from the promotion of the digital strategy? What business segments and on what scale?

A2

Regarding our digital strategy, i.e., the impact from Group marketing, we are moving forward internally

on the premise that this strategy will boost transportation revenue and earnings at Group companies. However, taking new payment services as an example, we will have to make some policy decisions, such as which Group company will be in charge, and in this sense, when drawing up targets, we will put the benefits from synergies arising from our digital strategy into the other business segment, with the exception of figures that clearly belong to the mobility segment. The other segment will reflect the bulk of the impact from our digital strategy and the boost from the comprehensive infrastructure management business. Accordingly, growth in revenue and profits will appear in the other segment through the fiscal year ending March 31, 2026.

Outlook for Revenues During Medium-term Management Plan

Q3

What are your assumptions for foreign tourist demand, in the context of reaching ¥44 billion in inbound transportation revenue in the fiscal year ending March 31, 2026?

A3

Since last fall, and especially since the beginning of 2023, the number of customers who are foreign tourists has increased. JR-West recorded just under ¥10 billion in transport revenue from foreign tourists in the fiscal year ended March 31, 2023. The number of foreign visitors to Japan before COVID-19 was about 30 million people a year, and inbound transportation revenue at that time was roughly ¥30 billion. Accordingly, inbound transportation revenue has only recovered to one-third of what it used to be. Looking ahead, assuming that the number of foreign visitors to Japan will recover to pre-pandemic levels, we anticipate a revenue boost of about ¥34 billion in the fiscal year ending March 31, 2026, compared with the fiscal year ended March 31, 2023. It is important to not only have many visitors come, but also to have visitors use our areas to the fullest. We have been working to improve convenience while launching various promotions. For example, in cooperation with other JR companies, JR-West has already started a service where customers can board the Shinkansen by only showing a QR code. We have also worked on strengthening overseas sales in partnership with foreign businesses that operate electronic ticket payment systems, and developing apps that provide support to customers encountering troubles during their stay. Now that *Haruka* offers a direct connection from Kansai International Airport to Osaka Station (Umekita area), we think that more people will travel from Kansai to the Hokuriku, Kyushu and Chugoku regions. For the Osaka/Kansai Expo we believe it will be necessary to spend more on promotions to encourage more visitors to stay longer and venture out to areas.

Q4

What is the outlook for costs during the medium-term plan? Also, this management plan calls for greater outlays than the previous plan for maintenance and upgrades investments. Why?

A4

In the fiscal year ended March 31, 2023, non-consolidated operating expenses were lower by about ¥60 billion than the fiscal year ended March 31, 2020, due to emergency cuts. During the new medium-term plan, we aim to turn some of these emergency cuts into permanent reductions in structural costs. However, some costs will be necessary to get back to normal conditions, and such costs will be similar to what they were before. Moreover, there are external factors to contend with, such as rising energy costs. Other factors include an increase in DX-related point costs and higher depreciation expenses associated with the increase in capital investments. Our capital investment plan, using a 5-year comparison, has increased by ¥164.5 billion for maintenance and upgrades investments compared with the previous medium-term plan, with about 33% on a non-consolidated basis and about 66% for Group companies. As we continue to invest in safety, such as rolling stock renewal and anti-earthquake measures on a non-consolidated basis, we expect the total amount of investment to increase.

Fares and Fees System

Q5

Has there been progress in talks about revisions to the fares and fees system? It is my understanding that the discussions kicked off when the pandemic hit, and now inflation is an issue that must be addressed as well. Looking ahead, is it reasonable to expect more flexibility in the fares and fees system? Also, when will a conclusion likely be reached?

A5

Lately, we have been working on revisions to fares and fees that can be accomplished through notifications under the current system. As a result, including the boost from the introduction of a barrier-free fare system, we estimate revenue will increase by about ¥12 billion this fiscal year and about ¥16 billion by the fiscal year ending March 31, 2026.

Meanwhile, the national government has put together a study group for revising the system. Although it is unlikely that fares will be completely deregulated, we have voiced our opinions in discussions

that are taking place on what should be included in the total cost method and at what scale, as well as how flexibly the system should be operated. For example, the approach to business returns included in the total cost method, or how to interpret future capital investments as current costs, are also major topics of discussion. I understand that discussions are ongoing for enabling a more flexible way of setting fares based on the total cost method. In any case, I think it will take more time for a conclusion to be reached.

End