

## **FY24.3 Financial Results and Updating of the Medium-Term Management Plan 2025 Briefing, Summary of Questions and Answers**

### **Medium-Term Management Plan 2025 Update**

Q What is the reason for the operating income of FY26.3 being increased by ¥35.0 billion from the initial plan while it is only increased by ¥10.0 billion for FY28.3?

A We expect the revenues to recover earlier than our initial forecast and expect to see its impact on profits in the earlier years. In addition, expanding capital investments and advancing in real estate, city development, and digital strategy requires extra costs for foundational preparations. Profit plan is growing more than ever, but the expected increase in related costs as well as the rise in commodity prices and personnel costs from the arrival of an inflationary society need to be taken into account. These considerations resulted in this updated plan.

Q What are the upside and downside risks of this plan?

A There are numerous factors, but the largest issue for downside is the lack of human resources. We have been focusing on mid-career recruitment in recent years, in addition to the employment of new graduates. There are abundant applications now but we expect securing human resources to be extremely difficult in society as a whole. As such, we expect various costs related to human resources to rise and include a set amount of expenses in the plan, but it is difficult to make estimations as the changes have occurred drastically in recent years. In terms of upside, we revised the basic usage of railways from 90% to about 93%. We also expect an increase in inbound demand, but the issue is how much we can bring that to our business areas. Furthermore, we are working on expanding the WESTER economic zone as a digital strategy to encourage customers to repeatedly use our Group's services by combining various businesses of the Group. Although we are uncertain how much it progresses according to the plan. This is an important challenge for the current and next Mid-Term Management Plan.

### **Financial Strategy and Share Buyback**

Q What is the reason behind setting the additional resource allocation at about ¥310.0 billion? In addition, what is the reason behind estimating the amount of share buyback at around ¥100.0 billion and the buyback period of until FY27.3?

A In terms of this resource allocation, cash generated from higher operating cash flow from the current significantly improved operating conditions compared to the initial plan, and cash generated from utilizing liabilities within the financial discipline will be allocated according to the priority of capital use we have been disclosing. For shareholder returns, considering the weight of public offering implemented during the pandemic, we will implement share buyback of up to ¥50.0 billion during this fiscal year and a total of about ¥100.0 billion by FY27.3 for the purpose of improving EPS and reducing the cost of capital. As allocating resources is a prerequisite for achieving the three-year Mid-Term Management Plan, we have set FY27.3 as

the buyback period because it is a time at which we can make decisions based on the progress of the Mid-Term Management Plan.

Q There was a comment about the focus on EPS regarding public offering, but it seems to be missing in the presentation material. How do you regard the recovery to pre-pandemic level as a management issue?

A We have added a column for EPS in P52 of the presentation material and regard it as a management indicator. We have held discussions in the Board of Director Meetings and the management has a common awareness that recovering to the pre-pandemic level is a necessity.

Q I believe this update to the Mid-Term Management Plan is a reflection of the dialogue with the capital market. Do you plan to continue the dialogue and make further improvements?

A Considering the dialogue with the capital market, we aim to carry out management with transparency strongly in mind. As of note, we have included capital policy, or ROE, ROIC, WACC, and other factors for its prerequisites, which we have been explaining orally, have been included in the P28 of the presentation material for the first time. We would like to continue not only making the final profit results of the key strategies and return on investments clear, but also their progress and processes.

## **Fare Revision**

Q The approach to fare revisions seems to be moderate compared to other companies but what is the policy on the matter?

A We recognized that fare revision is an extremely important factor and issue in acquiring appropriate profit in a progressing inflationary society and high cost-push. On the other hand, our operating income of railway business needs to fall under around the ¥80.0 billion level to make revisions to fares under the current restrictions. As such, if the operating income is at the level of FY24.3, we have excess profit under the current system and do not allow revisions. However, we also recognized that increasing flexibility of the system and its application as well as the system itself need to be changed to continuously develop the railway business in a market that will continue to further change due to the declining birthrate and aging population. We are making various efforts including lobbying for changes but yet to make changes to the restrictions.

Q Do you consider that even taking the revision of the calculation guidelines for fully distributed cost this spring into consideration, fare revision is difficult for the Company in reality, and making revisions would be only possible by bringing investments and costs required in the future forward?

A There is more flexibility under certain conditions, such as a wider range of depreciation that can be included in the fully distributed costs. Although there is a possibility of capital investment for railways to increase due to changes in environment or social demand, which may necessitate reflecting that to the fares. Determining how to revise fares in conjunction with the new rule is an extremely important management issue, but efforts to increase yield in the current allow range are also necessary. We have been working on revisions within the allowed range, such as seasonal pricing and the special fares in the Kyoto-Osaka-Kobe area, and intend to continue efforts to increase yield appropriately.

## **Transfer of Local Lines and Financial Impact**

Q An extraordinary loss of ¥15.0 billion due to the transfer of the Johana and Himi lines is included in FY24.3 but will similar processing occur in the future? Would capital efficiency improve if individual accounting processes per individual lines become possible?

A The Johana and Himi lines are a rare case of quickly reaching the decision to improve the convenience as public transportation with a community focus through the division of roles and responsibilities among the Company and local and national governments when realizing a public transport that the community desires was difficult only by the Company.

A framework for the rebuilding of local lines, such as the rebuilding cooperation committee organized by the Ministry of Land, Infrastructure, Transport and Tourism at the request of local governments or railway operators was established in October 2023. Some sections of the local lines are unable to exert their characteristic as a means of mass transport as well as face difficulties in acquiring the human resources necessary for the preservation and maintenance of the local line. We will continue our efforts to realize a sustainable local community by discussing transport systems in detail with local communities.

## **Extension of Hokuriku Shinkansen to Tsuruga**

Q What is the current evaluation of the Hokuriku Shinkansen Tsuruga extension opened in March? Has the travel from the Tokyo metropolitan area increased?

A The generation of travel demand from the Tokyo metropolitan area and connecting Toyama, Ishikawa, and Fukui prefectures in about 20 minutes as one united economic zone have led to a large amount of usage as well as the increase of flow in the Hokuriku region. Some of the passengers who used to travel from the Tokyo metropolitan area to Fukui via Tokaido Shinkansen may have transitioned to using the Hokuriku Shinkansen as well. The usage state from April 1 to 28 (passenger volume between Joetsumyoko and Itoigawa) was 135% YoY and 112% compared to FY19 (pre-pandemic).

We will work together with local communities to ensure continuous usage by many passengers through holding campaigns and other means to not only attract passengers from the Tokyo metropolitan area but also from Kansai and Chukyo regions that we have had strong connections.

## **Real Estate Business**

Q Are traditional assets such as offices, residential, and commercial uses the main use for real estate that is included in the privately-placement REIT assets of the real estate business? Is there a possibility of other uses in the future? Is there a possibility of other uses such as for logistics facilities to increase?

A The focus is on urban properties, which mainly consist of offices and properties outside stations. We hope to include real estate for various uses while operating the real estate business with better leverage, but our current focus is office-related buildings.

## **Investment for Safety and Digitalization and Improvement of Corporate Value**

Q Is the purpose of the additional investment of ¥100.0 billion toward safety to increase safety and sustainability while also increasing productivity as a management foundation? In short, does it somehow lead to value creation or is it just a response to the labor shortage?

A For the breakdown of ¥100.0 billion, most are for bringing the replacement of aging rolling stock for the Shinkansen and in suburbs of the Kyoto-Osaka-Kobe areas forward. We think this is a meaningful measure as this will improve not only safety but also transport quality as well as reduce the cost of maintaining rolling stock, and in turn improve productivity and other various factors.

Q The target for developing digital human resources is set for the end of FY25, but what are the details regarding the costs that will be incurred as well as the method of promoting DX and improving corporate value through horizontally implementing measures across the Group?

A In terms of digital human resources, we aim to increase the digital literacy of the Company as a whole, from specialized human resources to on-site employees. Employment of advanced digital human resources is crucial in not only creating new businesses but also for digitalizing maintenance and other aspects of the railway business. Last year, we established TAILBRAZER inc. which has started recruitment based on a salary system that is different from the Company, and part of the personnel, outsourcing, and operational costs are reflected in the figures.

Q Personnel and outsourcing costs related to the acquisition of digital human resources may increase in the short term, but it is an extremely important initiative that will bring long-term returns and increase corporate value. To differentiate from other companies, would it be possible to disclose quantitative information to determine the degree of impact each measure has?

A Thank you for your valuable opinion. We have just started the new initiatives but identifying how they contribute to cost reduction or generating new sources of revenue and profit are important for management. We will work to visualize the results and other impacts for human resource development for improving organizational strength to deepen the understanding of the market.