

Supplementary Briefing During the Briefing on Earning Results
for Fiscal 2023 (Ended March 2023)
presented by Yasuo Shimada, President and Representative Director

*The page numbers shown here indicate the page numbers in the results briefing materials.

<<Introduction>>

- In May 2022, we unveiled a long-term vision titled Toward 2040 along with a medium-term plan. I understand well the background to and the contents of the vision and plan, having been involved in their formulation as head of the Group Planning Division.
- While working on initiatives to achieve our long-term vision, we want to help build thriving communities in the areas served by our railways. To that end, the most important thing is to maintain our ability to generate funds and maintain our market value.
- Concerning the latter, I previously mentioned a benchmark ROE in the range of 7%. It may be necessary to raise this benchmark to 8% or more, taking into account our progress in the series of projects.
- I want to confer with investors over what we should do on this matter.

<<Achieving the long-term vision>>

- It goes without saying that our line-side areas—the areas served by our railways—constitute our most critical asset. Therefore, our top concern is how to raise the value and attractiveness of the line-side areas.
- Line-side areas are presented with both opportunities and a threat. The threat is, of course, the shrinking and aging population. The opportunities, shown in on page 33, consist of infrastructure projects. Examples include the upcoming Osaka Expo, the project to build an integrated resort, and rapid progress in plans to build transport infrastructure in Osaka, including air and land access and new rail connections. One other example is the designation of Osaka as a National Strategic Special Zone for piloting super-city initiatives with government backing. All these projects will raise Kansai's international profile and attract people, physical assets, and money into the region, leading to huge growth for Kansai.
- In view of these opportunities, the actions we will take fall under four themes.

Enhancing our mainstay markets

- The first theme involves our mainstay markets, the greatest of which is the line-side areas. We will transform the services we offer these markets to match the new demand landscape. Examples include pandemic-related timetable changes and the introduction of premium seating on trains. These measures produce an immediate effect on cash flow, generating cash quickly.
- The second theme involves capital expenditures on long-term projects. Some of these projects are designed to revamp underperforming assets, while others are designed to raise the value of our line-side areas. Examples of the former include Shibata 1 Project and Senri-Chuo Redevelopment. Examples of the latter include Umekita Phase II Development Project and the Shin-Osaka Connection Line / Naniwasuji Connection Line Project.

- For Shibata 1 Project, we are now fleshing out plans with governmental authorities and other stakeholders. I hope to give you an overview of the project as soon as possible.
- Similarly, for the Shin-Osaka Connection Line, we will actively push forward plans in the knowledge that a number of developments are afoot following Shin-Osaka's designation as a hub for emergency urban regeneration.

Developing new markets

- Meanwhile, with the population shrinking and aging, we must also develop new markets. This is where the third and fourth themes come in: to channel the power of growing markets into line-side areas, and to expand into promising overseas markets.
- To channel the power of growing markets into line-side areas, we must capitalize on inbound tourism demand. To that end, we must develop measures to make the line-side areas that draw repeat visitors and develop a scheme for reaching out to tourists directly.
- Line-side areas must be more than tourist destinations though. Alongside tourist amenities like transport services, shopping centers, and hotels, we must provide spaces and amenities that make the line-side areas places where internationals would like to settle or work. Central to this is our Umeda Vision, which envisages Osaka Umeda as an international hub. Thus, the development of Umeda is something that will put our know-how to the test.
- As for expanding into promising overseas markets, this strategy is manifested most clearly in our overseas real estate business, which is described on page 37. Of the growing markets, ASEAN has demonstrated particularly powerful economic growth, and this is likely to continue. As well as channeling our community-development know-how into this market, we can also gain fresh insights from this market and reimport these insights into the shopping centers in our line-side areas. Granted, entering these markets does pose a risk, but we have effective controls in place. The greater risk lies in turning our back on the growth opportunities overseas and relying entirely on the shrinking Japanese market, where population shrinking and aging is clearly underway. By investing sufficiently in overseas markets, we hope to get our profit level above 10 billion yen as soon as possible.
- We have prepared a range of measures for expanding overseas. For example, the International Transportation segment is working with the Real Estate segment to develop its logistics business overseas. Similarly, and the Travel segment will market tours for inbound tourists and bring our Group's content to overseas audiences.
- Although our Information and Communication Technology segment will likely remain focused on the Japanese market, given the breathtaking growth in information and communication markets, this segment too will find promising opportunities there.

Digital transformation

- Our program of digital transformation is described on page 52. The initial phase of this program involves digital streamlining, which we expect will produce immediate outcomes in terms of better efficiency and savings in marketing costs.
- The next phase involves a full-blown digital transformation—using digital technology to radically transform earnings structure. This will be no easy task, but we are determined to embrace the challenge in a groupwide effort, so that we can both capture new earnings opportunities and also drive social change.

- In these ways, we will deliver stable cash flows and profit growth.
- To reiterate, line-side areas are fundamental to our group, and they will remain our most efficient growth driver for the time being. It is also true, however, that the population of Japan is now shrinking and aging. Relying entirely on our mainstay line-side businesses as a source of funding poses a severe risk in the long term.
- Thus, if we are to achieve sustainable growth, we must act as swiftly as possible to siphon the economic potential of promising markets into the line-side areas. We must also enter these promising markets and grasp the business opportunities there, while controlling the risks as necessary. Through such action, we can secure a stable source funds that can be invested into the line-side areas.

<<Corporate sustainability>>

- We have set many non-financial KPIs. I regard two of these as especially critical: employee satisfaction and customer satisfaction. To improve the latter, we must improve the former.
- Understanding the importance of human capital, we want to boost our talent. Last year, we formulated a talent management strategy aligned with our long-term vision. We will keep working to promote employee wellbeing and job satisfaction and create a positive working environment, in which everyone can fulfill their potential and feel valued as individuals.
- We will also embrace the net-zero transition, believing that this offers new growth opportunities.

<<Executive summary (P3–6)>>

FY2023 financial results

- In the year ended March 2023, we recorded revenue and profit growth. Alongside a recovery from the Covid impact, the Travel segment experienced bumper demand, with a surge in Covid-related orders from local authorities.
- This bumper business boosted earnings by 20 billion yen. Even when this is discounted, the results were broadly in line with our initial expectations and represent steady growth.

Medium-term plan (rolling plan)

- Regarding the medium-term rolling plan, I have two points to make.
- First, we have added 70 billion yen to the growth investment budget for the FY2023 to FY2026 period because, with Covid coming to an end, the business environment has become more conducive to aggressive growth investment.
- Specifically, we will increase spending on our condominium business and on overseas real estate, which has bright growth prospects, in order to get closer to the profit goal for FY2031 set out in our long-term vision (130 billion yen plus something extra).
- However, the increased investment start producing returns in FY2027 or later. Until then, our FY2026 indicators of financial health will deteriorate. However, we are sticking with our FY2031 target for interest-bearing debt/EBITDA ratio (5 to 6).
- The second point to make is that as of FY2024 we now use business profit as a profit indicator in order to accurately indicate profit growth in the Real Estate segment's overseas real-estate business. Business profit represents operating profit plus equity-method gains/losses related to our overseas business investments. With this change, what was previously stated in our long-term vision as an "operating profit" target is now a "business profit" target.
- Thus, whereas the FY2026 profit target set out in the medium-term plan was previously stated as 115.0 billion yen in operating profit, it is now 118.0 billion in business profit.

FY2024 performance forecasts and shareholder returns

- In FY2024, we expect profit to remain unchanged from the level in FY2023. Although we expect revenue growth, with a recovery in condominium revenue and a ridership recovery in the Urban Transportation segment, profit will remain flat relative to the bumper profit in the previous year.
- Were the bumper profit discounted, profit in FY2024 would be 20.0 billion yen higher, indicating a decent recovery trajectory.
- As for shareholder returns, the annual dividend will be the same as that for the previous year, keeping to our benchmark total payout ratio of 30%. We will resume share buybacks, although the amount will be modest.
- It's too early for me to tell you anything about future shareholder returns, but I will keep you updated.

<<Role and responsibilities as leader>>

- Finally, let me briefly discuss my leadership agenda as president and representative director.
- It is the responsibility of the head of a holdings company to make the final decision on how best to allocate the company's human and financial capital. In view of the rapid societal changes, I will actively designate authority to the leaders of our operating companies so that they can avoid letting opportunities go by and make the best possible decisions. On the other hand, to ensure robust governance, I will gather sufficient business intelligence swiftly and hold operating company leaders accountable for their company's results.
- To employees, let me keep reiterating that gathering external information is crucial, that we should value horizontal collaboration across the group, that communication must be two-way, and that speed is of the essence.
- Communication and speed are also paramount in dialogues with stakeholders. With that in mind, I humbly ask for your continued support.