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Financial Results for the Fiscal Year Ending March 31, 2024
Key Questions and Answers (Summary)

Q: What are the factors contributing to the cost increase this term, and what is the breakdown of the increase in property expenses?

- SG&A expenses amount to 136.2 billion yen, with an increase of 18.1 billion yen in non-personnel expenses, 2.5 billion yen in personnel expenses, and 0.4 billion yen in depreciation expenses compared to the previous term. Of the 18.1 billion yen increase in non-personnel expenses, 63% is due to Facility management, while 37% is attributed to the increase in Merchandise sales.
- The largest increase within facility management is expected to be in repair and maintenance costs, which are projected to rise by 4.2 billion yen. Over the past three years during the COVID-19 pandemic, we have significantly cut these costs, but had originally planned to restore them around this fiscal year according to our medium-term plan. Additionally, for the international terminal, we have factored in the need for urgent repairs due to the rapid recovery in passenger numbers and the resulting accelerated aging of facilities.
- The next largest increase is in land rent (national property usage fees), with a significant portion coming from the variable fees of the international terminal, although the fixed portions for both domestic and international terminals have also increased slightly due to improved revenue. Additionally, including the construction sites for the Terminal 2 satellite and Terminal 1 satellite, we are looking at an increase of 3.2 billion yen.

Q: What is the operating profit of the Facilities management segment when divided into the first and second half of the fiscal year

- The operating profit for the Facilities Management segment is expected to be 13.7 billion yen for the full year, with 9.0 billion yen in the first half and 4.7 billion yen in the second half.

Q: Is the company considering raising prices to absorb the increased costs?

- Given the recent inflation and the resulting surge in maintenance and management costs associated with terminal operations, as well as the rise in land rent, we believe it is necessary to review and revise the management fees. This term, we plan to examine the overall rent structure for appropriateness, and we aim to formulate a concrete approach by the first half of the fiscal year.

Q: Is the company considering revising the prices for the domestic Passenger Service Facility Charges (PSFC)?

- For domestic flights, the review of the is mandated every three years under the guidelines revised by the government in July 2020. The last price revision was made in March 2022, so the next revision will take effect from April 2025, even if there is no change in the unit price.
- During the previous revision, factors such as the renovation of Terminal 1, enhancement of connectivity with international flights, improvements in accessibility, safety measures, and the increase in investment since before the COVID-19 pandemic, as well as the consumption tax hike in October 2019, were all considered. Based on the guidelines revised in July 2020, we recalculated and comprehensively judged, leading to the price revision. We also took into account the medium-term forecast of passenger numbers, referencing opinions from third-party institutions.
- For the upcoming review, we will recalibrate the charges considering current inflation, costs related to the satellites of Terminal 1 and Terminal 2, changes in the area of domestic facilities due to the expansion of international facilities in Terminal 2, and other factors not included in the previous revision. We will apply for a revision if necessary. Regardless, we expect to reach a conclusion by the first half of the fiscal year.

Q: Is the company considering revising the prices for the international PSFC?

- The PSFC for international flights was also revised in March 2022. However, unlike domestic flights, the unit price for international flights is calculated based on long-term financial projections due to the nature of the PFI (Private Finance Initiative) project, so it is not subject to regular reviews. When new capital investments arise and a revision is necessary, the price is set at a reasonable and appropriate level following an evaluation by the Ministry of Land, Infrastructure, Transport and Tourism.
- During the previous revision, we undertook extensive renovations of Terminal 3 to accommodate the significant increase in passengers resulting from the expansion of

international flight slots in 2020. Additionally, as these measures were insufficient, we converted part of Terminal 2 into international facilities, which we lease to TIAT. The revision was conducted to recover the costs associated with these renovations and expansions.

Q: How does the company perceive the challenges and plan to address them regarding achieving management that is mindful of capital costs and stock prices?

- We are discussing management strategies focused on capital costs internally. Currently, we use ROA (EBITDA) as a key performance indicator in our midterm plans. While making substantial investments in large-scale terminals, we aim to optimize capital efficiency. However, considering the unique nature of our operations, we are also exploring ROE or ROIC for easier comparison with other companies.
- We are evaluating how to incorporate investment metrics into each department, including Facilities Management, Merchandise Sales, and Food Services, each of which operates in different sectors.
- We aim to disclose our findings to you as soon as possible.

Q: Regarding the construction of the north-side satellite for Terminal 1, will it be internationalized in the future similar to Terminal 2?

- The extension construction of the satellite for Terminal 1 is scheduled to begin operations in August 2026. This will be carried out concurrently with national apron construction and will focus on domestic flights.
- For Terminal 1 as well, converting it into a terminal that accommodates both international and domestic flights would greatly facilitate international flight connections. However, there have been no specific discussions with airlines at this stage.

Q: The government is advancing plans to construct an artificial land between Terminal 1 and Terminal 2. If this project is realized, is it likely that our company will be involved, or will it be subject to bidding like TIAT?

- In the future, the connection between Terminal 1 and Terminal 2 has not been concretely planned yet. The current situation involves the government conducting investigations into placing artificial land over the Metropolitan Expressway. The next steps are not confirmed at this point and will be topics for future discussions.
- Since both terminals' buildings are constructed and operated by our company, we naturally expect to be commissioned for any expansion projects. Given that this

involves construction spanning over the expressway, we anticipate that coordination will take time.

Q: The unit prices in duty-free shops have been increasing, and there has been a change in sales composition since fiscal year 2019, with declines in shares of alcohol and tobacco replaced by growth in brands. How have the profit margins changed compared to fiscal year 2019?

- At Haneda Airport's duty-free shops, the sales share has shifted compared to 2019: apparel has risen from 22% to 41%, while alcohol has decreased from 23% to 15%. However, alcohol sales see significant growth during months when Suntory products are abundantly stocked, influenced heavily by inventory levels.
- The composition has seen an increase in apparel, jewelry, and watches, known as brand boutiques, largely affected by the weakening yen and a higher proportion of affluent Chinese consumers.
- In terms of profit margins, alcohol, tobacco, and cosmetics sold at the Central store (comprehensive duty-free store) are higher, while luxury brand profit margins vary by brand and are generally lower than those of the Central store.
- Luxury brand sales have been increasing globally over the past year, not only in duty-free shops but also in Central stores. The Central store maintains high area efficiency, and with improvements in checkout and display, there is potential for Central store sales to increase alongside brands, maintaining profit margins.

Q: Japan Mastery Collection stores have an average purchase-per-customer spend of 30,000 yen, which is still half of your target. To further expand in the future, including multi-store deployment, what strategies are needed?

- Japan Mastery Collection opened at Haneda Airport on December 22 last year, recognizing that Japan's regions possess numerous skilled and globally renowned products and technologies that have yet to be adequately promoted worldwide.
- The original objective was to exceed the presence of the two foreign brands originally occupying that space, but as of five months later, it has grown by about 30% compared to that benchmark.
- As a growth strategy, we aim to expand preferably through airport connections, focusing on regional airports and those with strong international ties. Simultaneously, we want to foster understanding among Japanese consumers and also consider expansion beyond airports in the future.
- The average purchase price was initially estimated to be around ¥50,000 to ¥60,000,

typical of luxury brands. However, in response to souvenir demand, we introduced affordable handkerchiefs, which led to an average price of around 30,000 yen, aligning closely with our initial projections.

<u>Q: To further expand the model of promoting Japan's charm domestically and internationally, fostering regional development, and linking it to future airport usage, what initiatives and strategies are necessary?</u>

- Haneda Airport serves as a hub for domestic flights, and since its internationalization, international routes have also been increasing. We aim to utilize Haneda Airport to actively promote Japan's culture, history, art, and industries to domestic and international destinations. Japan Mastery Collection is part of this initiative, reflecting our approach to regional revitalization. We see this as our responsibility and role as a hub airport.
- Furthermore, there's a "Plus One Promotion" initiative underway where each individual strives for personal growth, with all staff engaging in a consciousness-raising reform. As part of this, voices have emerged from a joint industry-academic study session attended by young employees, aiming to achieve an “Emotional Terminal.”
- From this perspective of transforming such an airport, an organization called "terminal.0 HANEDA" has been established at Haneda Innovation City. Here, not only airport personnel but also professionals from various industries gather to work on creating a new airport, introducing new attractions, and addressing challenges. There is no intention to halt the evolution of Haneda Airport; rather, we aim to advance it further in various aspects.

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