

Condensed Transcript from Q&A Session of Financial Results Presentation for the Second
Quarter of Fiscal 2022

[Approach to Revision of Fares and Surcharges]

Q. A revision of surcharges for limited express trains and Shinkansen Green Cars was announced, but could you please tell us again about the approach to fares and surcharges? Over the coming several years, what could be revised?

A. The revision of Green Car surcharges announced at this time is implemented on a notification basis. Therefore, it is possible to proceed based on relatively minor procedures. The same applies to the recently announced surcharges for busy period and off-peak period reserved seats. On the other hand, fares themselves and the non-reserved seat limited express surcharges of Shinkansen and so on are subject to approval, and the procedures for revision take time. We are currently in the process of requesting that the procedures be speeded up a little. In addition, the setting of prices for off-peak commuter passes requires approval because some of the prices will be raised. Since the main purpose of this measure is not to increase revenues but to mitigate peaks, we are in the process of requesting faster approval.

[Asset Liquidation]

Q. Approximately what level will gain on asset liquidation be over the medium to long term? In the coming fiscal year, will you be able to continue achieving the same level of gains as you have in this fiscal year?

A. In the next fiscal year and beyond, we would like to continue the “turnover-based” business, which we have decided to continue advancing as a core business. We planned to liquidate about ¥100.0 billion over the next three years. However, as we have exceeded the current fiscal year’s plan, we would also like to exceed the overall plan.

Q. What kind of real estate will the “turnover-based” business target?

A. We are considering a wide range of options. First of all, we are considering office buildings. From the coming fiscal year onwards, however, we will also consider commercial facilities and residential properties. We are currently focusing on the Tokyo metropolitan area, but going forward we will conduct well-balanced considerations that include regional areas

and keep in mind town development.

[Fundraising]

Q. The equity ratio at the end of the second quarter was 26.9%, and funds will be required for the Shinagawa Development Project going forward. What are your thoughts in this regard?

A. It is a fact that the equity ratio is declining, but we are not thinking about an increase in capital. Regarding debt procurement, we will conduct considerations while increasing our options, such as corporate bonds and foreign bonds. Although the Shinagawa Development Project will reach its climax, a recovery in cash inflows beginning from coming fiscal year is expected. While advancing a “turnover-based” business in real estate, we will also take measures to increase cash inflows. We have not changed the forecast of achieving positive free cash flows in the fiscal year ending March 31, 2024.

[Dividends]

Q. What is your approach to dividends for the coming fiscal year and beyond? What are the conditions for returning to the previous targets of a total return ratio of 40.0% and a dividend payout ratio of 30.0%?

A. The medium-term management plan “Move Up” 2027 sets as medium- to long-term targets a total return ratio of 40.0% and a dividend payout ratio of 30.0%, and we will strive to achieve these targets. Also, we have not changed our policy of stable dividends and flexible share buybacks. We will consider the amount of dividends and other matters while taking into account our profit levels and balance sheet.

[Ongoing Cost Reduction]

Q. What progress is being made in efforts to achieve ongoing cost reduction?

A. Our ongoing cost reduction efforts are aimed at a ¥100.0 billion reduction in operation costs by the fiscal year ending March 31, 2028 compared to those of the fiscal year ending March 31, 2020. In the current fiscal year, cost reduction is ¥87.5 billion, but this includes many emergency measures. In the future, we need to move forward steadily with ongoing cost reduction. This cost reduction will reflect the reduction in the number of “Midori no Madoguchi” ticket offices, which was presented in this briefing; the introduction of off-peak commuter passes; smart maintenance; and other measures. Further, proceeding with the streamlining of regional routes will also make a contribution.