

Q&A summary of IR Day

* Please note that the following is not a verbatim transcript of the question and answer session but a concise summary prepared at the discretion of the Company.

[Part 1: Hotel Business of the JR East Group]

Teruyuki OMOTE, Senior Executive Officer and Deputy Director General of Marketing Headquarters

Takashi TAKAOKA, Executive Officer and General Manager of Management Planning Department, Corporate Planning Headquarters

Q: What are the advantages and disadvantages of running a hotel business by both owning assets and directly operating hotels? Is it not true that you can reduce risk by leasing assets to external operators?

A: When the old JNR was divided into and privatized as several companies, we used external resources to expand and improve the chain operation of Metropolitan and Mets hotels. As a result, we have developed competence that has created a strong external reputation, high customer satisfaction with our services, and high profitability. Our combined strengths of skilled human resources and locational advantage of close proximity to stations are also producing synergy effects. Simply relying on external resources would never improve the situation.

There are two major advantages of asset ownership. As demonstrated by the recent cases of leasing spaces as offices or vaccination sites during the COVID-19 pandemic, we can utilize spaces for various different uses. We also have the option to convert assets for other uses to improve the value of the whole town or the area around the station.

On the other hand, we will also try to adopt new business models that do not require asset ownership going forward, such as a franchise business to leverage our operational knowhow and a fee business to secure stable revenue.

Q: How do you obtain group-wide synergy from operating a hotel business?

A: It is mainly from the economy of scale. That is how we can reduce advertising expenses, streamline operations, and use human resources effectively. In particular, while the industry continues to face manpower shortages, the Group has so far been able to avoid a situation in which we are forced to stop selling hotel rooms temporarily due to a manpower shortage. This is also thanks to our efforts to develop internal staff within the Group by leveraging its economy of scale. High customer satisfaction has also been created largely from such human resource operations.

Hotels function as the center of the creation of mobility and prosperity around the station. In addition, the Group is working to create an economic zone based on JRE POINTs, which can be accumulated through the use of railway and other services within the Group and used as gift certificates at hotels. This is

another area where we seek to produce synergy effects.

Q: What is the most important point to consider in determining whether to open a new hotel?

A: We open city hotels, such as Metropolitan Hotels, mainly in locations where there is demand for conventions, such as key stations and prefectural capitals within the JR East area. Upscale hotels overseas, such as Hotel Metropolitan PREMIER TAIPEI, also aim to capture demand for banquets and conventions.

Hotels specialized in lodging functions, such as Mets, are expected to improve their operational efficiency further.

As for leisure hotels, we determine their locations in consideration of total investment effects, including whether the hotel can generate demand for the destinations, produce synergy with the local economy, and stimulate demand for the railway business.

As hotels can be developed also on a relatively narrow strip of land, our hotel development is expected to contribute to the effective use of land and buildings. On the other hand, given the high-risk, high-return nature of the business, we consider the use of methods to hedge risks in areas of relatively thin demand, such as a franchise arrangement and management contract.

Q: What is the future supply-demand outlook? There was a concern about oversupply before the COVID-19 pandemic.

A: The hotel industry as a whole experienced a construction rush toward the Tokyo Olympics, followed by the difficult operating environment during the COVID-19 pandemic. Once a hotel experiences a significant drop in demand, it is difficult to secure staff when the demand starts to recover. We have heard that some hotels have experienced operational constraints due to employee turnover, although our hotels have not faced that situation.

Under such a business environment, it is difficult to increase new openings unless we can reduce operational costs through, for example, remote operations using Suica's smart lock function and the effective use of digital transformation. As inbound demand from Asian countries is increasing, and the snow season in Tohoku is very attractive to foreign guests, we will aim to capture such demand without increasing operational costs.

As for upscale hotels, one possible strategy is to focus on narrow targets and raise ADR in exchange for labor-intensive services.

We expect that the development trend in the industry as a whole will not decline, but there will be a limited number of companies that can continue to expand their hotel business.

[Part 2: Discussion with Outside Officer]

Kimitaka MORI, Corporate Auditor (Part-time, Outside)

Chiharu WATARI, Executive Director

Q: How do you see the Company as its corporate auditor? It appears that the Company is actively trying new things, but with rampant “not-invented-here syndrome.”

A: In the railway business, the Company is very competent in controlling risks in railway operations, but controlling such risks and controlling risks for the whole company require different perspectives. Given that Move Up 2027 aims to shift the relative ratio of transportation business to life solution business to 50:50, we face a question whether it is appropriate to apply internal control for the transportation business also to the life solution business. Therefore, it is important to consider how we should implement risk management for the life solution business.

Before assuming office as a corporate auditor, I had the impression that the Company would not actively embrace changes. In reality, the Company is actively launching various new businesses, including the Town creation by Takanawa Gateway City, a rotational business model in the real estate business, overseas business expansion, and renewable energy development, and has also formed a number of partnerships with other companies.

Q: How do you see the status of discussion among the Board of Directors?

A: Our Board of Directors comprises four outside directors and eight inside director and is having very lively discussions. Besides the railway business, the Company is launching new businesses, expanding the real estate business, and expanding overseas operations, and the Board is actively discussing associated risks and other relevant issues.

On the other hand, the Board has not neglected the railway business and continues to discuss its revenues, the status of use by passengers, and safety issues. At each meeting, we have lively exchanges of opinions on current issues and other points that need to be discussed.

Q: How do you strive to pursue both the public nature of the railway business and the enhancement of corporate earnings?

A: Due to the strong public nature of the railway business, it is important for the Company to produce positive effects for society and the economy through the railway business in order to enhance its corporate value. Therefore, we expect that sustainable operations of local transportation through dialogue with society will lead to the enhancement of corporate value and the fulfillment of our responsibilities to stakeholders.