November 1, 2024

East Japan Railway Company

Condensed Transcript from Q&A Session of Presentation
for the Financial Results in the Second Quarter of FY2025.3

* Please note that this document is not a word-for-word transcript of the actual Q&A session, but a condensed transcript prepared by the Company by summarizing the actual interactions as appropriate.

[Fare Revision, Regional Local Lines]

Q: If the fare revision is realized, do you think the Company will be able to secure profit margins and cash flow levels that will allow it to operate the railway business sustainably? Regional local lines are also in a difficult financial situation, but can we regard the fare revision as a fundamental improvement measure for the railway business?

A: To date, we have revised fares only when the consumption tax was introduced or the tax rate was revised and when the barrier-free charge system was introduced, and we have absorbed cost increases, including price hikes, by improving our productivity. However, given the difficult business environment ahead, we have determined that we cannot sustainably operate the railway business by productivity improvements alone, and have requested that safety investments in line with social demands and price hikes be reflected in the cost of fares. The recent revision of the Revenue Cost Calculation Guideline does not reflect all of the price hikes, etc., but a certain amount of price pass-through is now permitted, so we would like to realize a sustainable railway.

The details of revenues and costs are currently being scrutinized based on the revised Calculation Guidelines, and preparations are underway on the expected schedule for the fare revision in March 2026.

Regional local lines are in a difficult financial situation, but railways create value through their networks, and it is not a simple matter of stopping operation because they are in the red. We, for our part, would like to find a solution that is a sustainable mode of regional transportation by discussing with sincerity with local residents in the line segments where the advantage of the railway cannot be demonstrated.

［Passenger Demand Trends, Inbound Tourist Demand Trends]

Q: Progress in passenger revenues in the first half looks grim, but what is the outlook for the second half and the next fiscal year and beyond?

A: In the first half of the year, passenger demand, especially for Shinkansen, was lower than expected, but in October, the level was higher than before the COVID-19. If this trend is maintained, we expect passenger revenues for the current fiscal year to be in line with our plan. We assume that passenger revenues in FY2028.3 will be 96% of the pre-COVID-19 level, but we believe that this is a minimum line, which we will try to exceed by taking various measures.

Q: Is there a structural issue that is preventing a recovery in usage of the Tohoku Shinkansen?

A: Before COVID-19, there was about 50-50 split between leisure and business use. We recognize that the lack of recovery in business demand, particularly business travel, is a structural issue, as it is the reason why Shinkansen usage levels have not returned to pre-COVID-19 levels.

We believe there are three issues to be addressed. The first is to increase weekday use, the second is to set up a flexible timetable to meet the needs of customers, and the third is to capture inbound tourist demand.

On the Tokaido Shinkansen, it appears that the decline in business demand is being offset by the acquisition of inbound tourist demand. We, too, would like to address structural issues by uncovering and disseminating tourism attractions and capturing inbound tourist demand. Specific measures will be put in place for the second half of this fiscal year.

Q: Regarding inbound tourism, I think that the Company cannot control the creation of attractive tourist destinations, etc., but is there anything that you can do for that? Besides working with foreign hotels, what other measures are being taken to attract wealthy inbound visitors?

A: Our major inbound challenge is how to attract visitors to the Tohoku and Joshinetsu regions to use our railway services. Inbound visitors traveling to the Tohoku region for one night or more account for less than 2%, which is also a growth potential. We would like to capture the needs of repeat visitors to Japan and work on business targeting wealthy overseas customers. We would like to create a system to encourage inbound customers to visit and consume in our area in cooperation with local governments.

[Haneda Airport Access Line (tentative name)]

Q: The Haneda Airport Access Line (tentative name) will directly connect to the Rinkai Line (Tokyo Waterfront Area Rapid Transit), but will there be any major issues? What will be the fare setting?

A: The East Yamate route, for which construction has already begun, is progressing as planned. The Coastal area route, which we aim to open at the same time, will use the Tokyo Waterfront Area Rapid Transit line in some parts, but there will be no problem in terms of infrastructure. The challenge for the simultaneous opening of the Coastal area route is to set a timetable to ensure profitability, so we will promote discussions with the Tokyo Metropolitan Government, Chiba Prefecture, and other relevant local governments, with the aim of opening the routes at the same time.

As for fares, a certain additional fare is planned to be set due to the reasonable construction cost for the opening of the new service. It is difficult to disclose the scale of the amount at this time, but we would like to set it within a reasonable range, as there are precedents for additional fare at other railways.

[Usage Fees for the Shinkansen Loaned by JRTT]

Q: Is there a risk that the usage fees for the Shinkansen loaned by JRTT will be increased?

A: In order not to adversely affect the operations of the JR companies, usage fees for the Shinkansen loaned by JRTT are to be paid within the scope of benefits based on reasonable demand forecasts for the first 30 years of operation. We are currently paying a fixed usage fee of 17.5 billion yen for the Hokuriku Shinkansen line between Takasaki and Nagano. The treatment after 30 years is to be negotiated in the future. Usage fees can be changed only in the event of major unforeseeable socioeconomic changes. Based on this scheme, we have assumed the role of operating entity for these Shinkansen sections, and we recognize that the government will not change the rules in the process.

[Development of the Greater Shinagawa Area]

Q: What is your approach to transportation infrastructure in the development of the Greater Shinagawa Area?

A: Since the Greater Shinagawa Area is a belt-shaped area, we will increase accessibility by improving the frequency of the Yamanote and Keihin-Tohoku lines, if necessary, and also enhance the convenience of Hamamatsucho and Tamachi stations by implementing station improvement projects that are integrated with the city design. In November of this year, a demonstration experiment of an automobile transportation system will begin in the area of TAKANAWA GATEWAY CITY. These will improve accessibility throughout the area.

[Real Estate Rotational Business]

Q: What do you envision the timing and scale of the acceleration of rotational business? Can't you make a little more progress in realizing unrealized value of rental properties?

A: We have set a goal of increasing the size of our real estate fund to approximately 400 billion yen in FY2028.3, and we believe we can expand it by more than 10% over our target by expanding the scope of our real estate business and accelerating rotational businesses, such as JR East Real Estate Co., Ltd. established this July.

The Company has approximately 1.6 trillion yen in unrealized value of rental properties, of which approximately half is in station buildings. We are considering the possibility of devising ways to liquidate even a portion of the real estate, including properties that are integrated with the railway operation. Furthermore, we recognize that there is a potential for asset utilization in central Tokyo as well, through the liquidation of business sites and company housing. By promoting the project with a sense of speed, we would like to use the cash generated for further growth.

[Shareholder Returns]

Q: Regarding shareholder returns, do you have any plans to utilize unrealized value of rental properties?

A: In “Move Up” 2027, we have stated that we aim to achieve a dividend payout ratio of 30% and a total return ratio of 40% over the medium to long term. Currently, cash is being allocated to growth investments, but we hope to turn the tide of shareholder returns around FY2027.3, when free cash flow is expected to turn around. We believe that how to superimpose our growth strategy on the expectations of our shareholders is an important management issue.

[Management Vision]

Q: With the change of president and CEO this April, and as you aim to open TAKANAWA GATEWAY CITY and revise fares in the future, are you considering revising your management vision?

A: The current management vision “Move Up” 2027" is now in its sixth year. The changes in the business environment that were initially envisioned have been accelerated by COVID-19, and customers' consumption behavior and travel needs are changing. Furthermore, we are beginning to see the realization of the large revenue base that we have been sowing, such as TAKANAWA GATEWAY CITY, OIMACHI TRACKS, and the Haneda Airport Access Line (tentative name). We are currently discussing the formulation of a new management vision based on the above and would like to announce it as soon as it is ready.