

Action to Implement Management that is Conscious of Cost of Capital and Stock Price

April 30, 2025

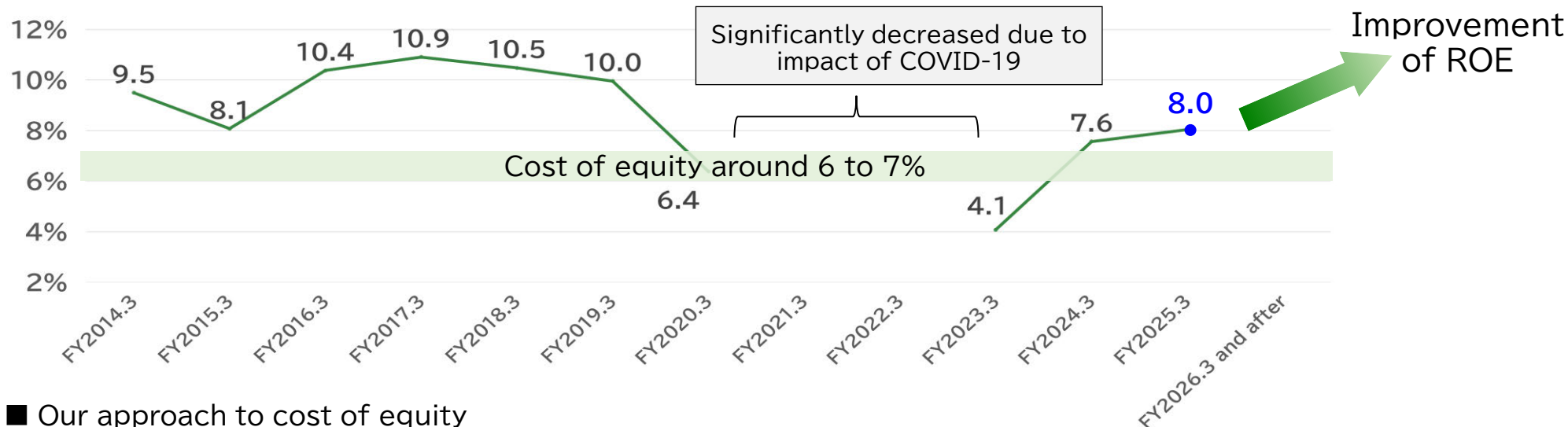
East Japan Railway Company

*Underlined: Major updates since previous disclosure

Current recognition of cost of capital and return on equity

- Cost of equity is calculated to be around 6% in CAPM due to the impact of the increase in interest rates. We recognize that our cost of equity is around 6 to 7%, based on the fact that the expected return in the market is higher than 6% through discussions with shareholders and investors.
- We aim to further improve ROE, lower cost of equity through enriching discussion with shareholders and investors, and expand the equity-spread.

■ Movements in ROE and cost of equity



■ Our approach to cost of equity

Cost of equity is calculated using CAPM

$$\begin{array}{|c|} \hline \text{① Risk-free rate} \\ \hline \text{around 1.5\%} \\ \hline \end{array} + \begin{array}{|c|} \hline \text{② Beta } (\beta) \text{ sensitivity} \\ \hline \text{0.8 to 0.9} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{③ Market risk premium} \\ \hline \text{5.5\%} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Cost of equity} \\ \hline \text{Around 6\%} \\ \hline \end{array}$$

① Risk-free rate: Yield of 10-year government bonds

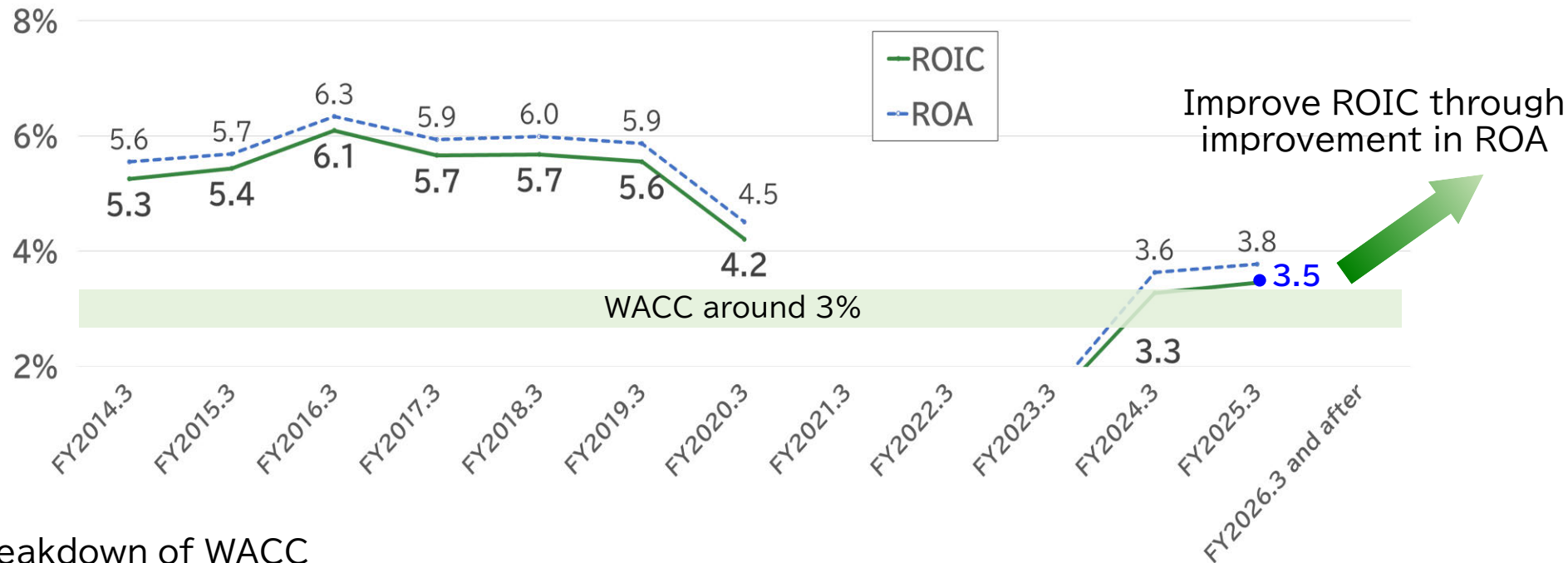
② Beta (β): Sensitivity of the Company's share price to volatility of TOPIX for the last 10 years

③ Market risk premium: Historical stock market yield minus risk-free rate

Current recognition of cost of capital and return on equity

- Our weighted average cost of capital (“WACC”) is calculated at around 3%.
- ROIC for FY2025.3 is 3.5%. Return on invested capital (ROIC) is similar to return on assets (ROA : operating income to total assets), so we aim to increase the ROIC-WACC spread by improving ROA.

■ Movements in ROIC, ROA and WACC



■ Breakdown of WACC

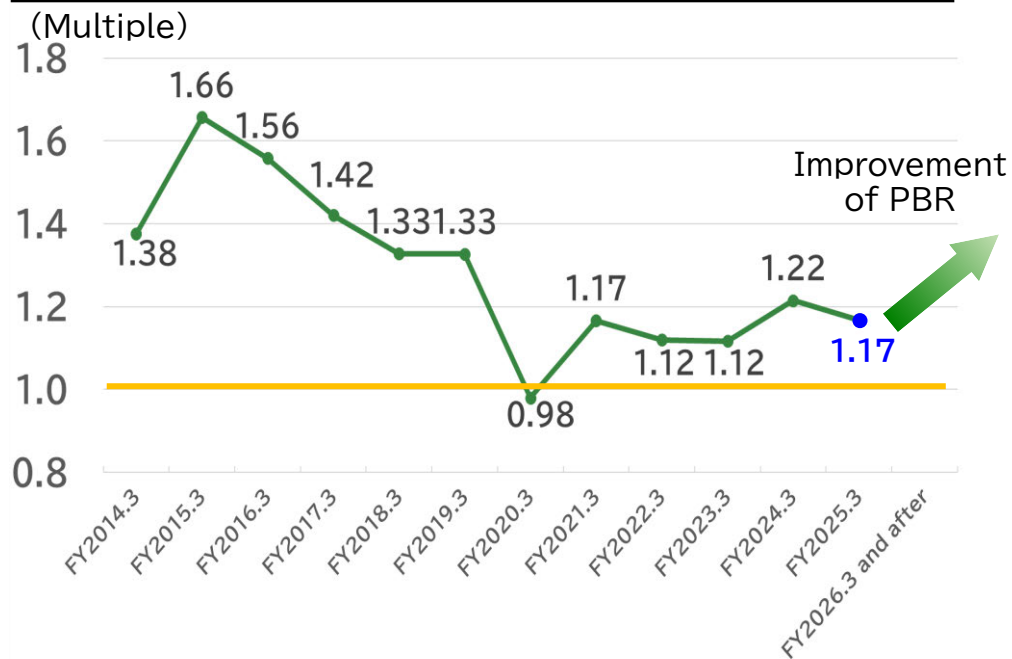
Calculated based on weighted average cost of equity and cost of debt

$$\begin{aligned} & \left(\begin{array}{l} \text{Cost of equity} \\ \text{Around 6 to 7\%} \end{array} \right) \times \left(\begin{array}{l} \text{Around 0.4} \frac{\text{Equity}}{\text{Equity} + \text{Interest-bearing debt}} \end{array} \right) \\ & + \left(\begin{array}{l} \text{After-tax cost of debt} \\ \text{Around 1\%} \end{array} \right) \times \left(\begin{array}{l} \text{Around 0.6} \frac{\text{Interest-bearing debt}}{\text{Equity} + \text{Interest-bearing debt}} \end{array} \right) = \left(\begin{array}{l} \text{WACC}^* \\ \text{Around 3\%} \end{array} \right) \\ & \text{※After-tax WACC} \end{aligned}$$

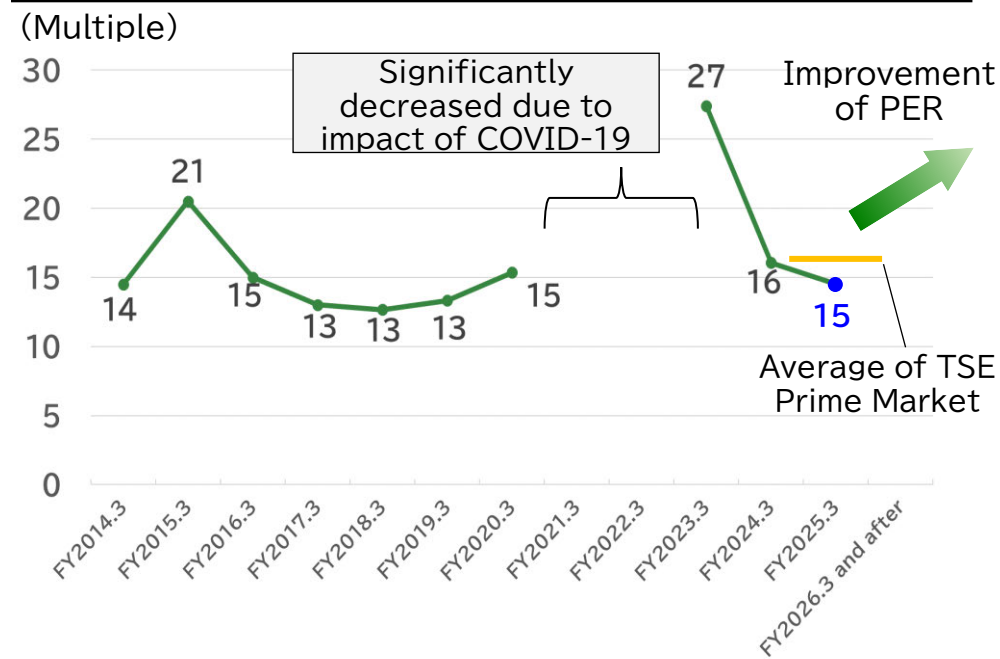
Current recognition of evaluation from the market

- PBR has not reached pre-COVID-19 levels. We will strive to continuously improve PBR.
- As PBR is the product of ROE (i.e., rate of return) multiplied by PER (i.e., expectation for growth), PBR needs to be increased by both improving rate of return and increasing expectation for growth.

■ Movements in PBR



■ Movements in PER

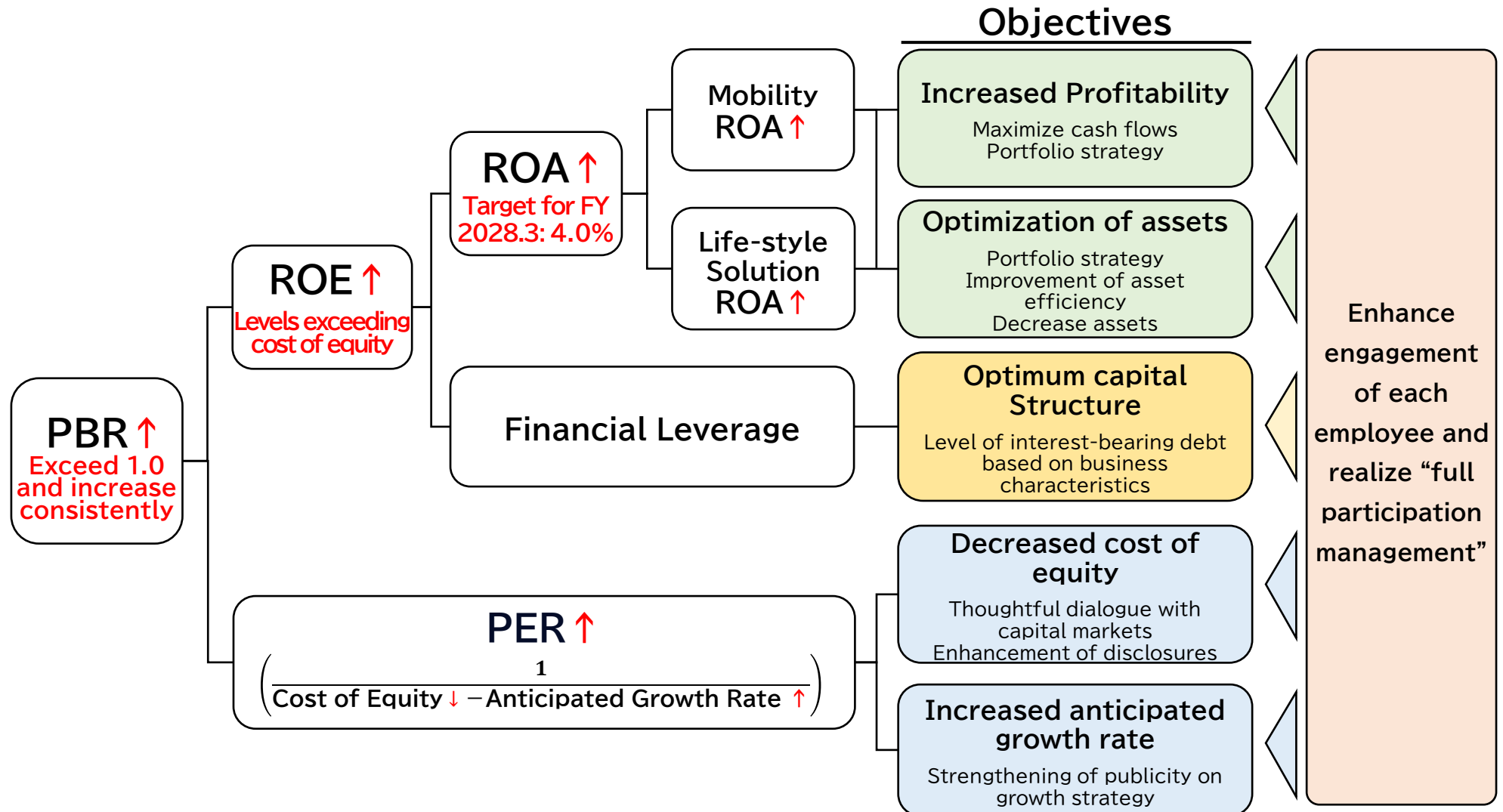


■ Breakdown of PBR

$$\begin{aligned}
 &\boxed{\text{PBR (Price-Book Value Ratio)}} = \boxed{\text{ROE (Return on Equity)}} \times \boxed{\text{PER (Price-Earnings Ratio)}} \\
 &= \boxed{\text{ROA}} \times \boxed{\text{Financial Leverage}} \times \frac{1}{\boxed{\text{Cost of Equity}} - \boxed{\text{Anticipated Growth Rate}}}
 \end{aligned}$$

Action to Implement Management that is Conscious of Cost of Capital and Stock Price

- Framework of Action to Implement Management that is Conscious of Cost of Capital and Stock Price
- In light of our Group being in a capital intensive industry as well as our Group's characteristic of engaging in the business of holding assets of a highly public nature, and therefore difficult to dispose, **aim to improve ROE and PBR through improvement of ROA.**



Specific Action to Implement Management that is Conscious of Cost of Capital and Stock Price ①

Objectives

Specific Action

Increased profitability

◆ Maximize cash flows

- In addition to improving the level of safe and stable transportation, Mobility aims to generate customer flow, including inbound travel, by increasing capacity through the construction of new railcars and the establishment of timetables, and by stimulating demand through the creation of destinations for tourists.
- Continue to request the government to implement a simple and flexible system, such as notification of express charges for Shinkansen and introduction of a system that can respond to inflation in a timely manner, and to review the total cost method itself.
In addition, review charges including for high value-added railcars and accelerate price strategy implementable by notification.
- Life-style solution creates further added value by setting unit prices and rents based on the strengths of the locations concerned and customer needs, as well as by linking Life-style solution with Mobility.
- Real estate development projects will expand business areas (reinforcing the development of land owned by the Company, the optimization of asset acquisition, and the development of external properties) and accelerate rotational business, while determining profitability in light of rising construction costs. Consider accelerating the realization of unrealized gains on rental properties and expanding the scale of the real estate fund business.
- Suica will evolve from a “device for mobility and payment” to a “device for lifestyle,” and be utilized as a hub to create synergies among the Group’s services, leading to higher Group revenues and profits.

Efficient use of assets

◆ Portfolio strategy

- The strategy updates and KPI tracing for each of the 14 businesses will clarify priority areas, areas requiring a revamp, and areas that need to be the subject of discussion as a matter of principle. In priority areas and areas requiring a revamp, we will draw up growth strategies and utilize external collaboration and M&A as necessary, while considering withdrawing from particular businesses depending on their profitability in areas where profitability needs to be discussed. Through these efforts, we will realize optimal business composition that demonstrates the Group’s synergy to maximum.

◆ Improvement of assets efficiency

- Enhance “improvement of profitability and asset efficiency” through deeper and more leveled development based on the tracing of efforts (from FY2025.3) to break down the ROA of the railway business and link it to the targets of each headquarters, branch office, and business site.

◆ Decrease assets

- Maintain cross-shareholding that contributes to the improvement of our corporate value, aiming at the maintenance and enhancement of stable business relationships as well as close collaboration from a medium-to-long-term perspective. However, we intend to continue to shrink the overall size of our holdings, and disclose the scale of reduction in cross-shareholding.

Specific Action to Implement Management that is Conscious of Cost of Capital and Stock Price ②

Objectives

Specific Action

Optimum capital structure

◆ Level of interest-bearing debt based on business characteristics

- Real Estate and Hotels is positioned as a “growth business,” which must adapt to changes with speed, and **actively utilize interest-bearing debt** for the time being. However, **in the medium-to-long term, we will control the balance between earning power and interest-bearing debt based on industry standards.**
- Mobility is positioned as a “sustainable business,” which requires stability and growth, so **we will control the balance between the medium-long term earning power and interest-bearing debt.**
- **Explore the optimal capital structure in terms of both Mobility and Life-style Solution, in addition to the Group as a whole.**

Decreased cost of equity

◆ Thoughtful dialogue with capital markets

- Presentation at financial results briefings is made by President and CEO for year-end and 2nd quarter and by Director-General of Corporate Strategies Headquarters for 1st and 3rd quarter. Continue to actively implement **dialogue between the management** and shareholders and investors.
- Enhance reliability through **flexible revisions of business forecast.**
- **Consider specific targets to definite clearly the Group’s growth story.**

◆ Enhancement of disclosures

- **Started to distribute the English-language version of the archived video of the financial results briefing** from the 3rd quarter (FY2025.3) to expand English-language disclosure. Continue to review positioning of each disclosure material and **enhance disclosure of business information and ESG information.**

Increased anticipated growth rate

◆ Strengthening of publicity on growth strategy

- **Update** medium-to-long-term goals by business segment and **strategies to achieve the goals per business.**
- **Plan to hold IR Day twice a year** to enhance opportunities to **communicate the future potential of each business** of our Group.