Financial Strategies

By both quickly restoring our financial foundation and making effective growth investments while giving top priority to safety and security, we will work to reestablish pre-pandemic profit levels and the ability to generate operating cash flows as soon as possible in an effort to increase corporate and shareholder value.

Head of operations;
Director and Senior Executive Officer; Senior General Manager of Corporate Strategy Headquarters
Eiji Tsubone

Basic Policy

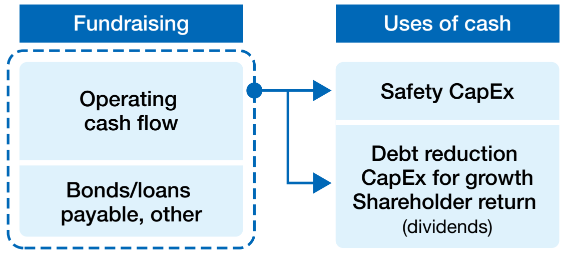
To continue to fulfill our mission as an infrastructure company, even in the event of a disaster, such as a new infectious disease or a natural catastrophe, it is important to restore our financial foundation to a certain level while remaining aware of capital costs.

Based on the above, the revised Medium-Term Management Plan 2022 calls on us to restore the D/E ratio to approximately 1 by the end of the reform/reconstruction period (end of fiscal 2028).

In September 2021, we engaged in capital procurement through the issue of new shares. This will balance growth based on taking advantage of a range of future opportunities with a quick recovery of our financial foundation.

Even as we give top priority to investing in the safety of railways, given the shrinking of Japan's population, the increased permeation of digital technologies in social activities, and risks such as new infectious diseases, we urgently need to revitalize our railway business, reform our management culture through structural reforms and other measures, and transition to a business portfolio that is more resilient to a variety of external factors. We will thus move forward with the growth investments necessary to accomplish those priorities.

By reestablishing pre-pandemic profit levels and the ability to generate operating cash flows as soon as possible through growth once the pandemic has receded, we will meet the expectations of our stakeholders by maximizing corporate and shareholder value.



Priority ranking ①

- **Safety is the highest priority.** Steadfastly maintain the JR-West Group Railway Safety Think-and-Act Plan 2022.
  Control the total amount of investment to a certain extent, but steadily make the investment necessary to enhance safety.

Priority ranking ②

- Work to **rapidly restore our financial foundation**
- **Invest with a focus on projects** that contribute to increases in future corporate value, and take steps to create new value, such as providing services that utilize digital technologies.
- Basic policy of **stable dividends over the long term**. During the **current Medium-Term Management Plan**, aim for a **dividend payout ratio of approximately 35% in FY2023**

Cash Flow Management

Cost structure reform

The plan calls for consolidated-basis reductions of 144 billion yen in fiscal 2022 and 117 billion yen in fiscal 2023 through cost reductions, including some to be undertaken on an urgent basis, after the pandemic. Of those reductions, savings of 25 billion yen on a consolidated basis (including 12 billion yen on a non-consolidated basis) during fiscal 2022, and 34 billion yen on a consolidated basis (including 20 billion yen on a non-consolidated basis) during fiscal 2023 will be realized through reforms in our cost structure. (All savings are given relative to fiscal 2020.)

Although upward pressure on costs is increasing due to soaring commodities prices, including for crude oil, and the weak yen, our aim is to realize a level of costs that will allow us to achieve stable profits even if railway and other travel does not return to the prior level while taking advantage of our ability to innovate.

Balance sheet

While levels of cash equivalents have risen temporarily due to procurement of funds through a public stock offering and through early and robust efforts to ensure short-term liquidity during the pandemic, we plan to realize a balance sheet founded on capital efficiency by using those funds to make investments in growth businesses and productivity improvements and, over the medium term, to restore prior levels of short-term liquidity.

In addition, we will procure funds in the future through a variety of means, including SDGs bonds, while remaining aware of the cost of capital.

Free cash flow outlook

Although free cash flow will not return to positive levels until fiscal 2024 or later due to planned capital investment of 245 billion yen during fiscal 2023, for example in development projects in Osaka and Hiroshima, we will work to increase our ability to create operating cash flows.

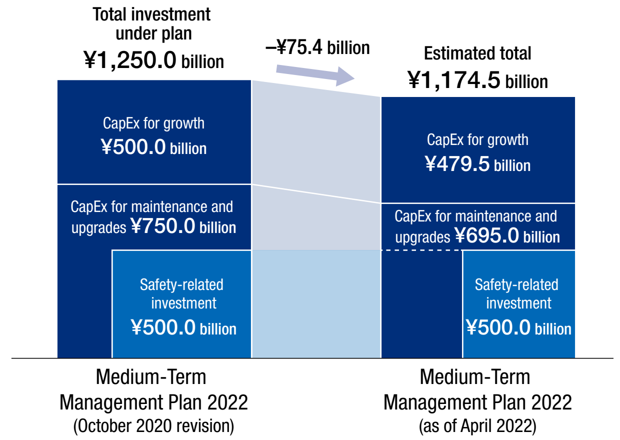
Capital Investment

Total scale of capital investment

As of April 2022, we expect capital investment during the current Medium-Term Management Plan to total 1,174.5 billion yen. While safety investments are proceeding according to plan, we're planning to reduce total investment by about 75 billion yen from the time the plan was revised due to adjustments in the timing of non-urgent measures and a careful examination of unit costs in contracts.

During the period covered by the next Medium-Term Management Plan, we will expand investment in growth businesses to make progress in large-scale projects in Osaka and Hiroshima. There will also be increased investment in the form of digital investments and upfront investments in future growth businesses. We will study how to ensure appropriate levels of investment based on a comprehensive review of our balance sheet and cash flows.

■ Capital investment plan



Decision-making criteria for growth investments

With regard to decision-making concerning growth investments, we have established a hurdle rate based on companywide capital costs. We've set other criteria for individual businesses that take into account industry-average hurdle rates for specific business domains and risk premiums based on the nature of individual businesses.

Although this does not apply to investments for maintenance and upgrades, the cash flows created by businesses in the future as a result of that work will underpin capital investment.

Safety CapEx and CapEx for maintenance and upgrades

Primarily in the railway business, a certain level of equipment maintenance and upgrades is necessary every year due to the nature of the business. We will continue to give top priority to safety improvements as an essential management strategy in order to safeguard our customers' lives and property.

We believe that maintenance and upgrade investments, including safety investments, are essential for maintaining the long-term competitiveness of our railway business so that we can continue to supply value by not only replacing superannuated equipment, but also increasing safety beyond society's expectations, realizing stable transport, improving comfort, and otherwise enhancing our operations. We will continue to develop plans that prioritize such investments.

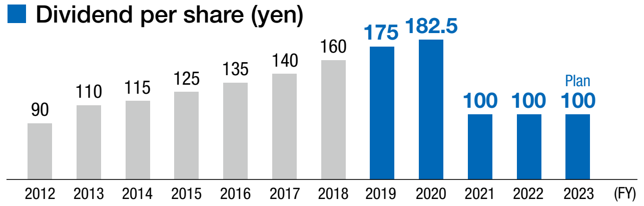
Shareholder Return

Dividend policy

We have a basic policy of stable dividends over the long term, and under the current Medium-Term Management Plan, we will maintain our policy of aiming for a dividend payout ratio of approximately 35% in fiscal 2023. Although the Group posted a loss in fiscal 2021 and 2022, we decided to pay a total annual dividend of 100 yen per share. In fiscal 2023, based on a policy emphasizing long-term stable dividends, we plan on paying a total annual dividend of 100 yen per share, a level that exceeds the payout ratio of 35%, which was based on performance forecasts and dividend forecasts.

Although we will study our dividend policy for the upcoming and subsequent fiscal years along with the next Medium-Term Management Plan, we will work to improve our ability to create operating cash flows, which serve as the source of funding for dividends.

■ Dividend per share (yen)



Note: As of July 1, 2011, one share of common stock was split into 100 shares.
The dividend per share was calculated based on the number of shares after this split.