Message from the President

Financial Policy

Because the improvement of the Group's financial position had been its greatest management challenge, it has kept total capital investment to roughly the equivalent of depreciation and amortisation, and preferentially allocated surplus funds for the repayment of interest-bearing debt. However, we reviewed that policy for fiscal 2016 and beyond and will allocate surplus funds in a well-balanced manner between "forward-looking investments," "continuous strengthening of our financial standing," and "returns to shareholders."

First, with regard to "forward-looking investments," we have decided to allocate funds mainly for the aforementioned Strategies 1 and 2 without regard to past levels of roughly the equivalent of depreciation and amortisation. During the four-year period from fiscal 2016 through 2019, we anticipate capital investments and loans of around ¥300.0 billion. Of this amount, around ¥150.0 billion is projected for investment in maintaining and upgrading existing infrastructure (investments in railway safety, and renovation pertaining to the real estate leasing business) and ¥100.0 billion for investment in large-scale development and new market development.

Meanwhile, to "continuous strengthening our financial standing," we will constantly reduce interest-bearing debt, yet at a slower pace than before. This is because we have, to deal with risk associated with interest rate increases and ensure a medium-to long-term surplus.

Although "returns to shareholders" will be discussed in detail later, starting in fiscal 2014 (dividend payment in June 2014), in order to enhance profit returns to shareholders, the annual dividend per share was raised from ¥5 to ¥6. We will work to maintain a stable dividend while balancing forward-looking investments with the need to strengthen our financial standing. At the same time, our approach to shareholder returns will be continuously reviewed.

Targeted Management Indicators (through fiscal 2019)

Based on the business strategies and financial policies outlined above, we have set operating income and the balance of interest-bearing debt as our management indicators for the period from fiscal 2016 to fiscal 2019.

First, despite declining profit levels due to lower rental income (rental area) associated with progress on the Umeda 1-1 Project, we will seek to maintain operating income at the ¥80.0 billion mark from fiscal 2016 and beyond. In order to increase future earnings, it is inevitable that profits will fall to a certain level. However, we want to strengthen the competitiveness of each business and ensure this level.

On the other hand, despite forward-looking investments, we will continuously strengthen our financial standing with the aim of steadily reducing interest-bearing debt to under ¥900.0 billion by the end of fiscal 2019.

In addition to these two goals, aiming for a longer term perspective with the idea of providing the highest level of financial soundness for a private railway operator group line, we established, as guidelines, an interest-bearing debt/EBITDA ratio over the medium- to long-term of five times level and a D/E ratio over the medium- to long-term of one time.

Returns to Shareholders

To enhance profit returns to shareholders, the annual dividend per share was raised from ¥5 to ¥6.
We will work for the stable and continuous enhancement of shareholder returns.

The expansion of shareholder returns had been a subject to be reviewed when the achievement of an interest-bearing debt/EBITDA ratio of around seven times, which had been positioned as a priority management issue, appeared to be within reach, and the achievement of that target was nearly within reach during fiscal 2014. Moreover, we believe that the foundation has been set for posting net income of around ¥40.0 billion on a stable basis. Therefore, as a result of reconsidering the enhancement of shareholder returns, in February 2014, we changed our dividend policy so as to raise our annual dividend for fiscal 2014 by ¥1, from ¥5 to ¥6, and implement a stable dividend set at a minimum of ¥6 per share annually.

This level of dividend corresponds to a dividend payout ratio of around 17% against net income of ¥45.0 billion in fiscal 2015. However, since this can by no means be considered a high payout ratio, we must carefully consider from various angles our approach to shareholder returns.

In order to become a corporate group that is capable of sustaining growth into the future, we must steadily carry out our two aforementioned business strategies from a medium- to long-term perspective and strengthen our financial standing, which is the basis for achieving those strategies. As already presented in Financial Policy, we will enhance shareholder returns while balancing forward-looking investments with the strengthening of our financial standing, based on assessment of changes in the business environment. Under this concept, we seek to further raise the Group's enterprise value and meet the expectations of shareholders.

Financial Policy

Distribute cash flow in a balanced and flexible manner

To date, we had improved our financial standing by keeping total capital investment to roughly the equivalent of depreciation and amortisation and preferentially allocating surplus funds to reduce interest-bearing debt. However, from fiscal 2016 and after, we will allocate funds in a well-balanced manner between (1) forward-looking investments, (2) continuous strengthening of our financial standing, and (3) returns to shareholders.

(1) Forward-looking investments

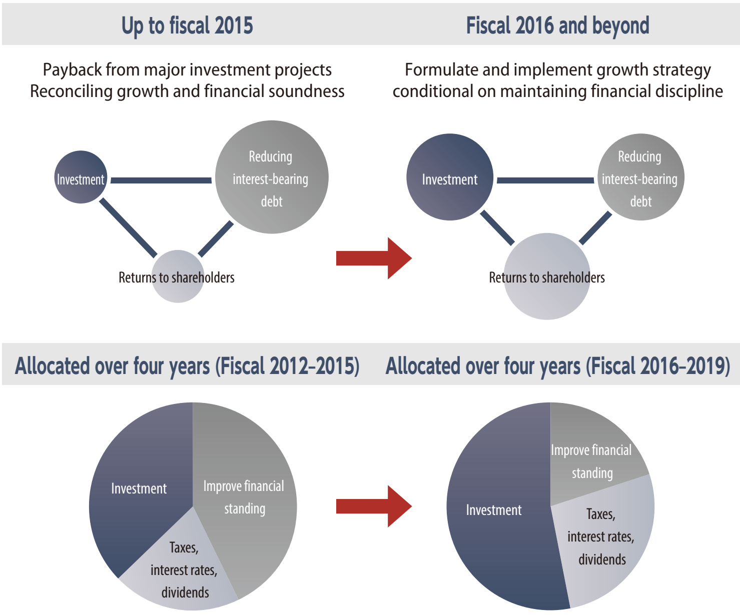
We will allocate funds for forward-looking investments without regard to past levels (equivalent to depreciation and amortisation expenses), focusing on efforts based on the aforementioned strategies 1 and 2.

(2) Continuous strengthening of our financial standing

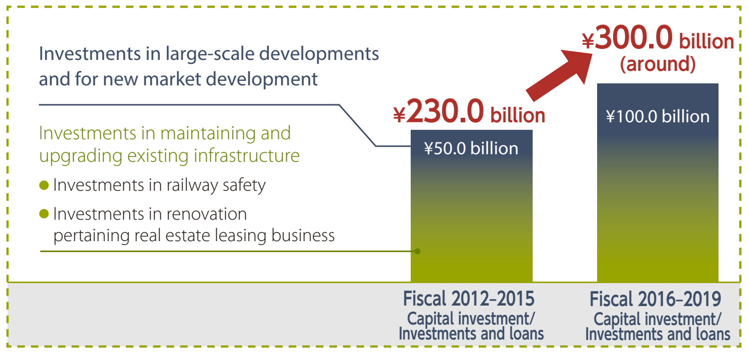
To deal with risk associated with interest rate increases and ensure a medium- to long-term surplus, we will continue to strengthen our financial standing, even after achieving our previous management target (interest-bearing debt/EBITDA ratio of seven times). Specifically, we will steadily aim for an outstanding balance of interest-bearing debt of under ¥900.0 billion by the end of fiscal 2019.

(3) Returns to shareholders

From fiscal 2014, we changed our dividend policy so as to implement a stable dividend set at a minimum of ¥6 per share annually. Thereafter, we will work to pay a stable dividend while balancing forward-looking investments with the strengthening of our financial standing.



■ Investment Funds



Management Indicators based on Business Strategies and Financial Policies

Targeted Management Indicators (through fiscal 2019)

Operating income:
Maintain ¥80.0 billion level

Interest-bearing debt:
Steadily reduce to under ¥900.0 billion by end of fiscal 2019

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Target levels at a longer term perspective

Interest-bearing debt/EBITDA ratio:
over 5.0 times

D/E ratio: **around 1 time**