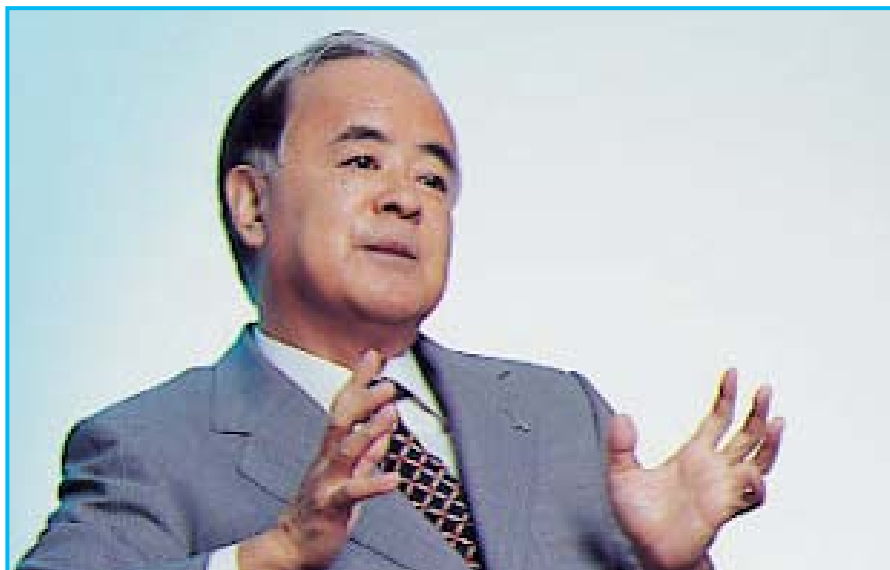


> AN INTERVIEW WITH THE PRESIDENT

> **Mutsutake Otsuka**, President and CEO, talks about the current and the future JR East, a company which accomplished **full privatization** recently.



Mutsutake Otsuka
President and CEO

Following its exclusion from the Law for Passenger Railway Companies and the Japan Freight Railway Company (the JR Law) in December 2001, JR East has become the first JR company to achieve full privatization through the sale of all remaining shares held by the Japan Railway Construction Public Corporation. As President of JR East, how do you view this achievement?

It is no longer necessary to obtain approval of the Minister of Land, Infrastructure and Transport for key management issues, as was required under the JR Law. In addition, the government is no longer able to intervene as a shareholder. I expect this freedom to have a sig-

nificant positive effect on management, since we are now able to make various decisions more quickly. At the same time, I feel that we have taken on a much heavier burden of responsibility in terms of our ability to meet the expectations of our shareholders, as well as other stakeholders, including customers and the communities that we serve. Our key management concepts from now on, even more than before, will be autonomy and self-responsibility.

Fifteen years have passed since the Japanese National Railways reforms. The path to full privatization was a long one, yet I believe that the process was a positive one in the sense that we had 15 years to build our

strength. I look forward to our new challenges with great excitement.

JR East is the focus of rising expectations. In November 2000, you launched the *New Frontier 21* medium-term business plan. How do you want to change JR East now that you have achieved full privatization?

In fact, when we developed *New Frontier 21*, we proceeded on the assumption that full privatization would be achieved. I am determined to complete all of the elements in the plan. Having achieved full privatization, I want us not just to reach, but also to exceed the numerical targets, and to do that ahead of

> AUTONOMY AND SELF-RESPONSIBILITY

Chronological table

			Shares held by government agency	
April	1987	JR East was established upon the division and privatization of the Japanese National Railways.	4,000,000	(100.0%)
October	1993	The first public sale of shares held by JNRSC Listed on the First Section of the Tokyo Stock Exchange and other exchanges in Japan	1,500,000	(37.5%)
August	1999	The second public sale of shares held by JRCC, a successor of JNRSC	500,000	(12.5%)
June	2001	The JR Law Amendment Bill was passed.		
December	2001	The amendment to the JR Law took effect.		
June	2002	The third sale of shares held by JRCC → Full privatization achieved.	0	(0%)

JNRSC: Japanese National Railways Settlement Corporation JRCC: Japan Railway Construction Public Corporation

schedule. I see full privatization as a driving force for *New Frontier 21*.

You have completed the first year of *New Frontier 21*. What progress have you made?

I regard the first year of a medium-term plan to be extremely important. I made it very clear to employees that we must all work to achieve results that would provide a strong initial impetus for *New Frontier 21*.

In retrospect, it is clear that our business activities over the past year were affected by a number of events, including unforeseen ones. The September 11 terrorist attacks in the United States appear to have had a huge impact on the Japanese economy. The economy was already faltering, and the attacks pushed it further into recession. Inevitably, this situation affected our business. For example, operating revenue from our Shinkansen line operations was not as much as we had planned.

Though the business environment was very difficult in terms of earnings, we were able to

reduce our total long-term debt at year end by almost ¥320 billion. Contributing factors included the sale of our shares in Japan Telecom Co., Ltd. and the efficient operation of our new cash management system. Based on this result, I decided that it would be better to raise the target figures for *New Frontier 21*, so that the entire JR East Group could work

together toward more ambitious outcomes. I therefore increased the target for reduction of nonconsolidated total long-term debt for the five-year period from ¥500 billion to ¥750 billion. I also decided to raise our free cash flows target for fiscal 2006 from ¥180 billion to ¥200 billion. We will continue to meet the challenge of these higher targets.

New Frontier 21 Medium-Term Business Plan of JR East Group



> *SPEEDY AND*

FLEXIBLE MANAGEMENT

In addition, we introduced last November an automatic fare collecting system based on our *Suica* IC card. In December, we started operation of the new Shonan-Shinjuku line, which traverses central Tokyo and directly links the southern and northern suburbs of the metropolis. It was developed as part of our continuing efforts to enhance our network in the Tokyo metropolitan area, which is now our main priority. We acquired The Orangepage, Inc. in December and Tokyo Monorail Co., Ltd. in February. I expect these two companies to make an important contribution to the strengthening of the JR East Group. In February, Ueno station was opened after the completion of renovation work. Ueno was in effect the first station to be upgraded under the *Station Renaissance* program.

It was an eventful year. However, we were able to launch new initiatives that have already started to contribute to performance and will continue to do so in the future. We also valued our financial instruments and real estate for sale at market prices and wrote off

past latent losses. We encountered some issues, but overall I think it would be fair to say that it was a very fruitful year.

You referred to the acquisition of The Orangepage and Tokyo Monorail. This kind of M&A activity seems to be a new direction for JR East. What criteria did you apply when making these decisions?

We acquired companies that offered synergy benefits with our business activities. We were also taking advantage of the acquired companies' leadership and experience in their fields with time efficiency.

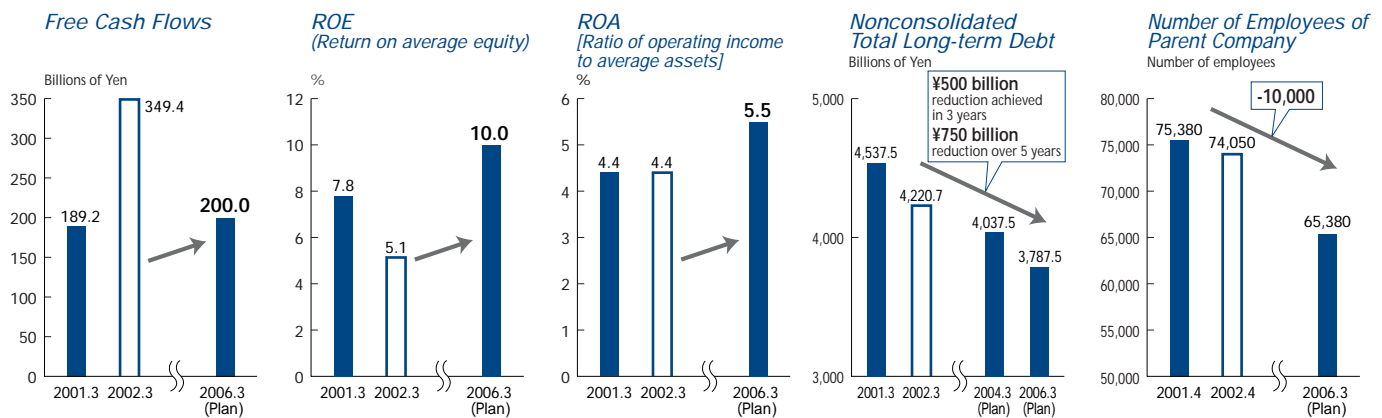
Tokyo Monorail provides access to Tokyo's Haneda International Airport. About 90% of its passengers link with the monorail system through our network, so they are our customers, too. The benefit that we gain from the acquisition of Tokyo Monorail is the ability to run our network and the monorail as an integrated system. There are plans for the construction of a new runway at Haneda, and passenger numbers are expected to grow. Looking at

our Tokyo metropolitan area network and the monorail system, both are expected to play an important role in serving the expansion, and we see very promising synergies. That is why we acquired Tokyo Monorail.

As a publisher of a very popular magazine, the Orangepage collects and analyzes information about consumer trends and develops products on the basis of that information. It has superb capabilities in this field. At first glance we seemed to have many opportunities to contact end users, but in fact our opportunities were relatively small. We expect the Orangepage to make an extremely important contribution to the development of our business activities, especially in the area of non-transportation business.

Another showcase project for JR East is the plan that you recently announced for a major redevelopment of Tokyo station. How do you view this bold initiative?

The Tokyo station redevelopment concept has been extensively discussed in the Company,



and we have also been in negotiation with outside entities. Because the investment involved is so huge, we needed to find ways to reduce capital expenditures while maximizing returns. One of the factors that drove our decision to go ahead with the redevelopment was the fact that we were able to trim the overall construction costs substantially by selling surplus air rights not required for the station building, or by transferring those air rights for other purposes. By using these transferred air rights, we were able to design a more efficient plan for commercial buildings than was thought possible in the past.

Tokyo station is the face of Tokyo, and of Japan. We believe that JR East can benefit significantly by improving of this facility, and by establishing assets with high earning potential there. We want to make Tokyo station an important Tokyo landmark. There are also benefits to revitalization of Tokyo. We therefore discussed the plan with the Governor of Tokyo before making the decision to proceed.

We intend to restore the two-story station building on the Marunouchi (western) side to its original three-story design, as completed in 1914 and renovate the plaza in front of the station to create a vista that suits Tokyo's status as a capital city. On the Yaesu (eastern) side, we will develop twin 200-meter-class buildings with space for generating income by the shopping center & office building businesses. The project will inevitably take a long time, since we need to minimize the inconvenience to the many people who use the station. We

will complete the twin buildings on the Yaesu side in fiscal 2008 and 2011, and the overall improvement of Tokyo station will be finished in fiscal 2011. I have high hopes for this scheme, as our core project after the *New Frontier 21* period.

There is considerable interest in the new *Suica* service, which was launched in November. The service has reportedly been very successful.

What is the current situation?

It was very difficult to set the time for the launch of the *Suica* automatic fare collecting system, because it would affect so many people. In a system like this, even a small error can cause massive disruption. We therefore conducted extensive field testing and monitoring, and it was not until November 18 that we were fully confident to proceed. As a result of these careful preparations, we were able to introduce the system without significant problems.

There has been a dramatic rise in the number of cardholders, which is already in excess of four million. The system is well supported by passengers, most of whom find it extremely convenient. At present *Suica* cards cannot be used to access the Shinkansen lines, but many passengers ask us why they cannot use their cards on the Shinkansen or other private railway lines. Having launched the system successfully, we now have a solid foundation for future expansion in various directions.

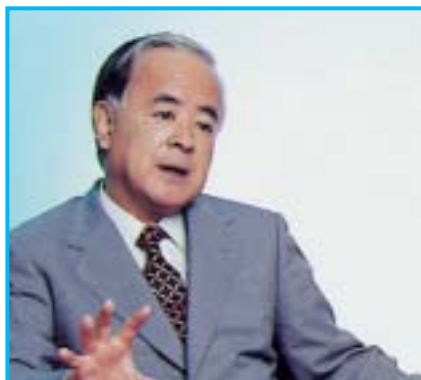
In April we introduced a common *Suica* system for the Tokyo Monorail to allow pas-

sengers to board using their *Suica* cards. In December we will start through services between our Saikyo line and Rinkai line. It will be possible to provide a common *Suica* system on Rinkai line at that time. In fiscal 2004, JR West plans to introduce an automatic fare collecting system using an IC card identical to *Suica*. If other railway operators introduce compatible systems, passengers will be able to change from one network to another simply by using their *Suica* cards. I believe that the system has considerable potential to increase rail travel, or to halt downward trends.

How do you view the potential of the *Suica* system in terms of future concepts and ideas?

We do not see the *Suica* card as something that people will use only when traveling on trains. In fact we are making good progress with plans to integrate the *Suica* card with our credit card *View Card* in fiscal 2004. We are also considering the addition of electronic money function. Another concept calls for the installation of *Suica* chips in mobile telephones. The technology now available will allow passengers to use their mobile handsets to make reservations, go through the gate, and pay for fare adjustments. In this way, *Suica* has huge potential for the future.

The *Suica* system will dramatically enhance passenger convenience. It will also bring major benefits to the Company. Because it is a contact-less system, the automatic fare collecting gates have fewer mechanical parts



We do not see the *Suica* card as something that people will use only when traveling on trains. I call this the “dream card” because it has so many possibilities.

bullet train network is especially crucial from this perspective. We plan to concentrate capital investment in these areas, and we will continue to develop new measures.

We have completed the development of Shinkansen lines to connect most of the major regional cities in our service area with Tokyo. The only remaining area is Aomori, much of which will be covered when the Shinkansen line extension to Hachinohe is completed in December of this year. This will drastically reduce the time required to reach destinations, thereby enhancing our competitiveness relative to air transport.

We are also taking the opportunity for an in-depth review of our Shinkansen services. One major change will be introduction of new cars designed to reduce swaying and improve passenger comfort. We are also looking at the issue of on-board ticket inspections, which may disturb passenger comfort. We are considering the elimination of this system, at least on Shinkansen trains. We will introduce a system under which all passenger information will be transmitted to the conductor’s terminal as each passenger passes through the gate. The conductor will know immediately whether or not a passenger has the required tickets. We will continue to enhance our Shinkansen services to improve the traveling experience for our passengers.

Let me ask you about the Tokyo metropolitan area network, which is another core transportation service. You spoke earlier about the

than magnetic card systems. This translates into lower maintenance costs. Also, if *Suica* cards became more common, it could be possible to reduce the number of ticket vending machines, ticket offices and other facilities. Station staffing requirements would be reduced and additional space would become available for new business operations at locations in the Tokyo metropolitan area where passenger traffic is heavy.

The card also promotes spontaneous and carefree use of trains. Instead of waiting in line at a ticket machine, that person can simply touch their *Suica* card to the automatic fare collecting gate and pass through immediately. Moreover, passengers no longer need to study route maps to work out the fares to their destinations. The system is extremely easy to use, and we believe that this characteristic has the potential to attract passengers to use rail travel more frequently, though we have not yet carried out detailed analyses. I call this the “dream card” because it has so many possibilities.

Have any other Japanese railway operators introduced large-scale IC card systems like *Suica*?

Not at present. For that reason, we believe that the *Suica* card could easily become the de facto standard. Rapid processing is especially important in major cities, where passengers flow through the gates continuously. With conventional magnetic card systems, processing takes around 0.7 seconds per passenger. With the *Suica* system, that has been reduced to just over 0.1 seconds. No other system can process passenger data as quickly.

In December 2002, the Tohoku Shinkansen line will be extended to Hachinohe. You referred earlier to the improvement of the rail network, including the opening of a new line in Tokyo. What other plans do you have to enhance the railway operations?

Railway operations is obviously our core activity, and it is extremely important that we manage it well. The fulfillment of our Tokyo metropolitan area network and the Shinkansen

> AIMING TO BECOME THE WORLD'S NUMBER-ONE RAILWAY



- Tohoku Shinkansen
- Akita Hybrid Shinkansen
(Through Service from Morioka to Akita)
- Yamagata Hybrid Shinkansen
(Through Service from Fukushima to Shinjo)
- Joetsu Shinkansen
- Nagano Shinkansen
- - - Extension to Hachinohe (December 2002)
- - - Under Construction

new Shonan-Shinjuku line, and it appears to have become extremely popular. Is there scope for further improvements in the Tokyo metropolitan area network?

There is. The construction of additional tracks on existing lines and the construction of new lines involve enormous capital expenditure, and it is very difficult to recover that investment. Our strategy is to improve our network by using existing facilities as effectively as possible.

The opening of Shonan-Shinjuku line involved minimal capital expenditure. Using

existing tracks wherever possible, we simply introduced direct services between the Shonan area in southern Tokyo and cities north of Tokyo in the direction of Omiya, via Shinjuku station. In fact, there are capacity bottlenecks on Shonan-Shinjuku line, and we operate few trains during the morning and evening rush hours. Though the number of trains is not large, the line is used by over 30,000 people daily. About one-third of those passengers have transferred to our service from parallel services operated by major private railway companies, because our service is more convenient or faster. When work to alleviate bottlenecks is completed, we will be able to operate trains throughout the day. We think that

passenger numbers might possibly increase from 30,000 a day to over 100,000.

I mentioned the improvement of synergies and convenience between our network and the Tokyo Monorail service, and the start of through services with Rinkai line. These initiatives can also be seen as part of our efforts to strengthen our network.

We plan to establish another new direct service similar to the Shonan-Shinjuku line. This line will also link southern and northern Tokyo, but through Tokyo station. That would eliminate the need for some trains to pull in and head back out in the opposite direction at current terminal stations, such as Tokyo and Ueno, and it will be possible to review train-yard sit-



Note: Rinkai line is operated by Tokyo Waterfront Area Rapid Transit Corporation.

> BALANCING ASSERTIVENESS AND DEFENSIVENESS

ing. One of our yards in the Tokyo metropolitan area currently cover around 200,000 square meters of prime real estate. A substantial part of that land would become surplus to requirements, and we are now considering alternative uses for the extra area, including its sale.

One of the stated aims of *New Frontier 21* is to seek to become the world's number-one railway. What are your specific thoughts on this?

Our system is already the biggest in the world. But scale alone is not enough. We want to build a system that will be the best in the world by every definition, including safety, speed, customer service and maintenance. As I have already stated, railway operations are the core activity of the JR East Group, and it is extremely important that we maximize quality in all aspects of that activity.

We have achieved full privatization. This is a good time to rid ourselves once more of the attitude that we have already accomplished enough. We must always search for new challenges. I believe absolutely that we need to examine our own performance carefully. Is our present speed good enough? How can we overcome environmental problems? In this sense, the goal of becoming number one in the world is a way of motivating ourselves to accept challenges. That attitude will lead to sustained improvement in our passenger services, and improved services will attract more passengers.

The development of new technology is crucial to our success in meeting these challenges. Historically, the Railway Technical Research

Institute has carried out technology development for the entire JR Group, but we also wanted to undertake a variety of technology development activities ourselves, and we therefore integrated and strengthened existing organizations and established the Research and Development Center of the JR East Group in December 2001. Areas of research include future railway concepts, safety improvement measures, enhanced maintenance systems, and customer services.

Another focus of *New Frontier 21* is the *Station Renaissance* program, the aim of which is to create the station environments for the 21st century. Public reaction to the development of Ueno station under that program appears to have been very positive.

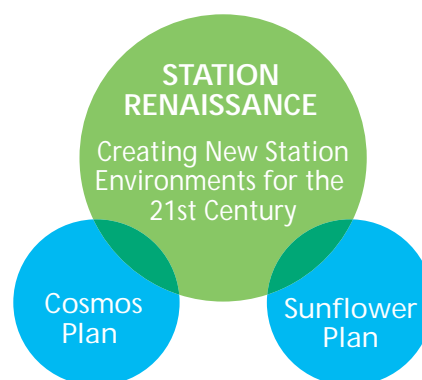
Yes, indeed. We opened the redeveloped Ueno station in February 2002. The aim of *Station Renaissance* is to develop stations not just as facilities for use by train passengers, but as places that will be used more by everyone. We want our stations to be places where people gather, visit and see or find something interesting. Our railway services are used by 16 million people everyday. If we can provide services that reflect the needs of these people, we will be able to enhance customer convenience while improving our earnings. Our aim when we started the program was to develop total station environments from this perspective.

Ueno station was the first major project to be redeveloped under this concept. We did not limit our plans solely to the development of

rows of attractive restaurants and shops. We wanted to turn the station into a place that could be enjoyed by all users, and by the local community as well. For example, we now have barrier-free facilities on all platforms. There are escalators and elevators everywhere, and we have also provided nursing rooms for mothers with babies.

We approached the renovation project as a community initiative. Ueno station is located close to Tokyo National University of Fine Arts and Music, one of the world's leading educational institutions in fine arts field. So we sought their advice in the development of designs for the station. We also invited some local merchants to establish stores in the station.

I have taken a close interest in this project, and I often go to Ueno station on Sunday. I am pleased to hear people saying that they have been impressed by the changes that we have made, and that they now find the station a very attractive and convenient place. I have also noticed that more young women are visiting the station now.



Ueno station was not very popular with young women in the past. Now that the station has changed, is the visitor profile also changing?

Indeed. There have been dramatic changes. As we develop other stations in the future, we may not necessarily use the same approach as we did at Ueno. What will be the same, however, will be our determination to turn the overall environment of each station into an exciting, attractive place to visit and spend time in, while enhancing its unique characteristics. That is the goal of the *Station Renaissance* program. We want our stations to be enjoyed by as broad a cross-section of society as possible. That is why we have improved our barrier-free facilities so that physically handicapped and aged people can visit our stations with confidence.

Am I right in thinking this is community development rather than just station development?

Yes. And when people come to our stations, we also benefit from business opportunities.

What effect has the station development had on operating revenues for non-transportation businesses throughout Ueno station?

It is too early to make any conclusions, because we just started operating the redeveloped station. However, the total number of people using Ueno station has risen, and the performance of our consumer service businesses is exceeding planned levels. We have achieved a synergy between our railway operations and our consumer service activities.



When people come to our stations, we also benefit from business opportunities. In Ueno, we have already achieved a synergy between our railway operations and our consumer service activities.

I see. Your aim is to turn stations into something that are not only facilities that people simply pass through, but places where people will congregate. Finally, I would like to hear your views on full privatization again. When you took office as President of JR East in June 2000, you said that you wanted to achieve full privatization as quickly as possible, and then to establish a clear direction and goals with strengthened group management. Would you like to reaffirm your determination to shareholders as you move into the second year of *New Frontier 21*?

I am very aware that full privatization means increased responsibilities for our management team. I am determined to achieve further improvement in our business performance, and to realize our *New Frontier 21* goals as far ahead of schedule as possible and surpass objectives.

The Japanese economy is not yet in recovery mode. Instead of taking a pessimistic view, however, I believe that we must work to maximize our results by using our resources to the

full. That is why I try to maintain a sense of speed as we implement various measures. We are determined to provide results that better reflect the expectations of our shareholders. I believe that all employees of JR East should make full privatization their opportunity to become true professionals.

JR East was established 15 years ago. Now we are making another new start. *New Frontier 21* is now in its second year. I want to use the successes of the first year to drive accelerated progress in the second.

Our basic policies call for the establishment of a sound management base and strengthening financial position, and for strategies that ensure that capital expenditures do not exceed the level of depreciation. While remaining faithful to these policies, I believe that we also need to meet new challenges aggressively. In addition, I want to start laying foundations for our activities in the medium- to long-term future. My aim is to maintain a balance between aggressive and defensive strategies.