

An Interview with the President



Q1

April 1, 2007, was the 20th anniversary of JR East's establishment. JR East's performance has been steadily improving over the years, with growth in revenue and profit again achieved in fiscal 2007. Could you give us your appraisal of JR East's first two decades?

A Looking back, it seems that those 20 years went by very quickly. I am extremely pleased that JR East has successfully developed into its current state, particularly in view of the challenges it has faced. For example, the Japanese National Railways, JR East's predecessor, fell into the red in 1964 and never returned to the black. Moreover, at the time JR East was established, railway transport's share of overall transportation services in Japan had been inexorably decreasing. Because of such factors, it did not seem likely that we could sustain our operations. In fact, we had such a feeling of crisis at that time that we actually feared that our railway business might not survive.

At that time, each individual employee's feeling of crisis provided the company with some extra dynamism. Our employees became highly motivated, and we concertedly worked to always "put ourselves in customers' shoes." Reflecting this, we were able to generate net income in our first fiscal year, and our business has developed smoothly since then. When JR East was first established, I don't think anyone imagined that it would now be so deftly generating earnings and paying taxes, not to mention recording considerable amounts of after-tax income. In fact, most of the media back then were

Q2

What is the significance of JR East's privatization?

A

Our full privatization in June 2002 was one of the most important turning points in our short history. It meant that we were finally standing on our own feet as an autonomous company both in name and in fact. Now, having begun its third decade of operations, I see JR East as making steady progress, step by step, toward a new stage in its corporate evolution.

Due to its basic characteristics, railway business is not amenable to dramatically rapid transformations. The new stage we are now approaching is the cumulative product of many years of persistent work. Every day, we serve about 16 million customers. We attentively listen to what they say and respond by gradually improving our operations in innumerable ways. Because of the fundamental nature and large physical scale of our railway operations, you may not see a big change in the space of a few days, but over 5 or 10 years the changes are huge. We are relentlessly innovating in line with the original objectives of the national railways' reforms. Highly conscious of our great responsibility as the stewards of a critical component of social infrastructure, we will continue meticulously moving forward with reform initiatives, one step at a time.

Q3

What is the most important thing to emphasize in the course of these reforms?

A

This is one thing that cannot be said too many times—our top priority is to still further increase the safety and reliability of our transportation services. In our core railway operations, our customers put their lives in our hands each time they use our services, and we are firmly committed to doing our utmost to ensure that their trust in us is well-founded. This is a fundamental and definitive responsibility of a railway company in my eyes.

When considering safety measures, I always have a vivid memory of the train collision that occurred at Higashi Nakano station in December 1988,* and I am unwavering in my conviction that there is nothing more important than ensuring that such an accident never recurs. This is why we have continually implemented safety-enhancing measures related to our physical facilities as well to our organizational and mental postures, but the tragic accident on the Uetsu Line in December 2005** is a painful reminder to us that there is no such thing as "absolute" safety. But while "absolute" safety may not be attainable in this world, it is still the goal that we are relentlessly striving for. What we are rigorously demanding of ourselves is that we always attain and maintain "extreme safety." We are taking thorough measures to realize this "extreme safety" throughout our operations.

* On December 5, 1988, a west-bound train on the Chuo Local Line proceeded despite a stop signal and collided with another west-bound train that was stopped at Higashi Nakano Station, causing the death of 1 passenger and injuries to 116 passengers. In addition, the driver of the latter train died.

** On December 25, 2005, the Inaho No. 14 limited express train on the Uetsu Line derailed, causing the death of 5 passengers and injuries to 31 passengers. In addition, the driver of the train and a refreshment vendor were injured.

Q4

What shape do you expect your railway business to take in the future? Also, what measures are you taking to attain your goals in this regard?



Concept illustration of the Tohoku Through Line, a new through route linking the Tokyo metropolitan area terminal stations of Ueno and Tokyo

Q5

How big is the role of technology in your operations?



Concept illustration of fuel cell railcars

Besides this, we recognize that the quality of railway service is principally measured in terms of reliability. After maintaining “extreme safety,” the next most important thing we can do to benefit our customers is to further increase the reliability of our services. We recognize that our customers are expecting greater reliability, and we are taking various measures to live up to their expectations.

A In our customers’ lives, railway service should be like air—something that is essential but easy to forget about. That is what ideal railway service should be. We want people to be able to take excellent railway service for granted, casually boarding trains and comfortably arriving at destinations without having to be very conscious of the process. Our constant efforts to further increase safety and reliability are designed to enable customers to take these qualities for granted. I often remind JR East employees that this is what we are striving to do through our conscientious day-to-day efforts, and I think we have a responsibility to society to provide this kind of service. Moreover, we see this kind of service as a prerequisite to our sustained corporate growth. We are hoping to inspire all our customers with rock-solid confidence in our services.

One of the assets we have obtained in the course of our privatization is a strong emphasis on putting ourselves in customers’ shoes. Our attention to the customer perspective is prompting us to take various steps to improve service, such as our recent moves to create the Shonan-Shinjuku line and to increase the number of *Green Cars* (first-class cars) on various lines. This emphasis on the customer perspective is a basic principle in our operations that we expect to remain firm over the long term.

We are moving ahead with a number of projects aimed at strengthening our network—such as the creation of the Tohoku Through Line linking northbound and southbound medium-distance services from Tokyo and the extension of the Tohoku and Hokuriku Shinkansen lines—and we are also assiduously responding to customer desires through such service enhancement initiatives as those to revise service timetables and introduce new kinds of railcars. In these ways, JR East intends to enhance its railway services in a sustained manner.

A I believe that the railway business is not only a service industry, but also a kind of technology industry. An interruption of technological progress would halt the industry’s progress and development. I think it would actually cause the industry to regress.

While some people said that there would be no new railway technologies other than those related to the linear motor car, we have developed automated ticket gates and introduced noncontact-type commuter passes incorporating IC chips and have been working on developing such recently introduced technologies as 360km/h Shinkansen trains and fuel cell railcars. These technologies were commercially applied only after years of sustained efforts.

In the future, our introduction of fuel cell railcars along with the wireless and GPS-based signaling equipment that we are currently developing will enable us to reduce the risk of accidents while minimizing the scale of our electric power generation and signaling facilities. Thus, technology development is an indispensable means of pursuing our goal of “absolute safety.”

Regarding our earthquake countermeasures, we have strengthened a growing number of our elevated track support pillars by cladding them in steel plates. Because it does not require rebuilding the pillars, the in-house developed cladding technology we are using is relatively inexpensive and quick. By using existing technologies or somewhat improving such technologies, we have been able to augment safety without incurring a high cost.

Q6

Do you expect Japan's demographic graying to create a harsh environment for JR East's railway business in the future?



Q7

What are your strategies for developing your non-transportation business?



Concept illustration of *ecute Tachikawa* shopping facility
* *ecute* is an acronym derived from *eki* (the Japanese word for station), center, universal, together, and enjoy

By sustaining the daily safety promotion exertions of each JR East employee as well as by developing break-through technologies with safety-enhancing features, we are confident that we can increase the safety of our operations still further.

A It is true that demographic trends are not expected to contribute to supportive conditions in our operating environment in the future. On the other hand, we are planning to respond to upcoming changes in our operating environment. In particular, to take advantage of opportunities presented by demographic changes, we are working to promote greater railway use by seniors.

Japan's baby boomer generation has begun retiring this year, presenting what is referred to as the "Year 2007 Problem." The JR East Group views the growing number of seniors as a particularly important part of its customer base, however, and it is undertaking various strategic initiatives to strengthen its relationship with seniors. The most prominent of these initiatives is our creation of the *Otona no Kyujitsu Club*, a membership club for baby boomers and seniors. The number of club members had reached approximately 660,000 as of June 2007, and we are continuing our efforts to further expand this membership in expectation that such members will make full use of our travel-related services.

Besides our campaign to create barrier-free stations through the installation of additional escalators and elevators, we are working hard to create conditions that facilitate convenient and pleasant railway use by seniors and other age groups through moves to create seamless transportation services. These moves include those to create limited express through services in cooperation with Tobu Railway Co., Ltd., to expand such direct through services as that of the Shonan-Shinjuku Line, and to enable *PASMO* IC cards to be used for JR East services as well as for most other types of railway, subway, and bus services in the Tokyo region.

The population of the Tokyo metropolitan area is actually expected to slightly increase for the time being, and the trend of Japanese moving to major urban areas is expected to continue. However, to counter the impact of the prospective drop in numbers of young people, I believe it is important to strengthen the bases of our non-transportation business and *Suica* business. Rather than taking our current business environment for granted, we are working to maintain a constructive sense of crisis while steadily implementing measures to prepare for future challenges.

A A main strategy in this regard is our *Station Renaissance* program, which is designed to maximize the appeal of railway stations—our most powerful and underutilized business resource. In the days of the Japanese National Railways, empty space within stations would sometimes be filled with kiosks or noodle stands, but there was no consistent strategy for utilizing station space, and stations did not have any distinctive styles. The main goal of the *Station Renaissance* program is to utilize 100% of the potential of station space for business development while also enhancing customer convenience.

Each day, roughly 16 million people pass through our stations, which can be so much more than simply places to pass through. Our growing number of *ecute* retailing facilities are designed to encourage some of those people to slow down a bit and do some convenient shopping while they are there. As a result of these *ecute* facilities and other station-space utilization business, our stations now look very different from the way they looked 20 years ago. Having established *ecute* facilities in Omiya and Shinagawa, we are preparing to open our third *ecute* facility—*ecute Tachikawa*—this October. And we are now considering the establishment of *ecute* facilities in other stations, including Nippori Station. Plans also call for additional commercial space to open this

Q8

Could you explain the progress you are making in your large-scale redevelopment project around Tokyo Station?



Concept illustration of Tokyo Station City

Q9

How is your Suica Business?



October in Tokyo Station. Called “*GranSta*,” this facility will have a different appearance than *ecute* facilities.

While transportation business will continue to be our core business, there are many synergies generated by our concurrent development of station-space utilization business. Our plans call for continuing to steadily develop station-space utilization business based on this strategy of seeking to generate synergies with core operations.

A We recently finished several parts of our *Tokyo Station City* project around Tokyo Station, including *Sapia Tower*, which was completed in March 2007, and *Hotel Metropolitan Marunouchi* and *Tokyo Station Conference*, which opened within *Sapia Tower* in May 2007. Plans call for finishing Phase I of *GranTokyo North Tower* by the station’s Yaesu exit and *GranTokyo South Tower* this October, and preservation and restoration work on the Marunouchi Station building—the symbol of the capital and an important cultural property designated by the national government—began this spring.

This is the first time JR East has ever undertaken such a large-scale development project, and I think the development is symbolic of the transition we are making between JR East’s first 20 years and the current era of JR East’s corporate evolution. Moving a step further ahead from our previous emphasis on constructing convenient stations, we have designed the project to virtually make the Tokyo Station area centered on the station building into a new city within a city. This year, we are reaping the fruits of diverse preparations made by our predecessors. In the same vein, I believe we must not fail to initiate additional long-term projects for subsequent JR East managers to enjoy bringing to fruition 10 or 20 years from now. At Shinjuku, Shibuya, and Yokohama stations as well as other principal stations, we need to transform station facilities in a manner that reflects the special nature of surrounding areas and makes those facilities symbolic landmarks in their respective areas. By planning these projects now and assiduously proceeding with project implementation, we can expect to see the projects bear impressive fruit in 10 or 20 years.

A Expecting *Suica* business to become the third main pillar of JR East’s operations—after railway business and such non-transportation business as station-space utilization operations—we are working to give *Suica* a solid position as Japan’s top IC card.

Since March 2007, *Suica* cards have been interchangeable with *PASMO* IC cards, enabling either of them to be used for all types of railway, subway, and bus services in the Tokyo region. People can use a single *Suica* card to obtain seamless transportation almost anywhere in greater Tokyo. The developments in March have given birth to what is believed to be the world’s largest IC card network, and the total number of *Suica* and *PASMO* cards in use is expected to surpass 30 million. Plans are being made for JR East, JR Central, and JR West to collaborate regarding IC card tickets to enable the provision of new kinds of services. While consideration of cooperation with these and other companies is ongoing, I think that the IC card tickets for use with Japanese transportation networks will have the same technology and functions of *Suica* IC cards, so it seems that it will become possible to use *Suica* IC cards throughout Japan at some time in the future. *Suica* IC cards have advantages over other IC cards in that they can be used as electronic tickets to pay for transportation services as well as being used as electronic money to pay for purchases in stores. We plan to fully leverage this advantage while providing such additional services as *Mobile Suica* (a *Suica* version introduced in January 2006 that integrates *Suica* IC card functions with mobile phones), arranging additional alliances with other companies, and otherwise making *Suica* IC cards the first choice of most Japanese.

Q10

Please explain the progress JR East has been making in implementing the *New Frontier 2008* medium-term management plan.



A

Fiscal 2007, the second year of the four-year period covered by the *New Frontier 2008* plan, was a year in which the firmness of economic conditions in Japan was clearly evident, particularly in the travel and spending behavior of people in the greater Tokyo region. This supportive operating environment had a positive influence on our performance during the year, as did uptrends in our transportation services and station-space utilization business as well as our efforts to expand *Suica* services. Reflecting these situations, we were able to attain record high levels of operating revenues and net income.

Currently, several months into fiscal 2008, we have already passed the halfway mark in the period allotted for implementing *New Frontier 2008*. Because our profitability and cash flow are exceeding our original projections, our cash flow and ROA are steadily rising toward the target levels. Our ratio of total long-term debt to shareholders' equity has smoothly decreased even as we implement a record high level of investments.

While we will naturally continue striving to further increase these quantitative indicators, we are also aiming to make steady progress regarding such difficult-to-quantify objectives as ensuring "extreme safety" throughout our operations, improving the quality of services we provide to customers, and upgrading employee training programs. As operators of key social infrastructure systems, we recognize that we bear a particularly great responsibility to society and must make ceaseless efforts to achieve additional improvements in our performance. We are committed to conscientiously making those efforts.

Our "next stage" of operations has just begun. Our operations will not undergo a sharp short-term change during the "next stage," but we are confident that JR East will dramatically change over the next decade or two in a manner similar to its successful evolution over the past two decades, which was very difficult for people to imagine 20 years ago. So it is that in fiscal 2008 we are taking the first steps toward another dramatic corporate transformation over the long term, but we will be taking those steps carefully to make sure that we have a solid footing.

JR EAST GROUP MEDIUM-TERM MANAGEMENT PLAN

New Frontier 2008: New Creation and Evolution (FY06-FY09)

