

Taking on the Challenge of Raising Corporate Value Further—*idomu*

JR East's Approach to Investment

Prepared in March 2008, *JR East 2020 Vision—idomu*—sets out an ambitious vision of the kind of company JR East wants to be in 10 years time and calls on JR East to take on the challenge of realizing this vision.

In accordance with the JR East's Group Philosophy of aiming to be a *Trusted Life-style Service Creating Group*, JR East will not stagnate or lose the drive to continue pursuing new goals. Specifically, JR East's Basic Management Policies are:

- Pursuing safety and customer satisfaction rigorously,
- Sustaining growth and pursuing initiatives for the next era,
- Meeting corporate social responsibilities,
- Building organizational strength and developing human resources.

Through those policies, JR East aims to increase corporate value from a long-term viewpoint.

To that end, *JR East 2020 Vision—idomu*—emphasizes pursuing initiatives that depart from previous approaches by Moving Up a Gear in Seven Areas. At the head of that list of initiatives is **Increasing focus on investment to raise corporate value.**

After its establishment, JR East sought to reduce total long-term debt as its highest-priority task. However, the *New Frontier 2008* medium-term management plan signaled a change toward the well-balanced allocation of operating cash flows among capital expenditure, debt reduction, and returns to shareholders.

JR East 2020 Vision—idomu—shifted the priority for the use of operating cash flows onto capital expenditure aimed at future growth, business expansion, and the strengthening of business foundations.

Positioning the *idomu* mindset, or appetite for challenges, at the core of business management, JR East will further increase corporate value through capital expenditure based on the following three investment strategies.

Investment for future growth or business expansion

- Assess using DCF method

Investment related to the environment or the introduction of new technology, investment to vitalize regions

- Implement strategically and aggressively

Investment needed for the continuance of railway operations, including the investment in safety and investment to increase the stability of transportation

- Implement within the scope of depreciation

Uses of Consolidated Cash Flows

Total of FY2011–2013

Cash flows from operating activities

¥1.7 trillion

Returns to shareholders
(Cash dividends, purchase of treasury stock, etc.)
– Targeting consolidated dividend payout ratio of 30%
Debt reduction
– Respond in light of cash flows

¥0.3 trillion

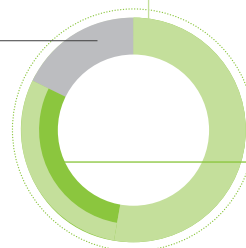
Capital expenditures

- Keep investment needed for continuing business operation within scope of depreciation
- Decide growth investment using DCF method

¥1.4 trillion

including Growth investment

¥0.5 trillion



Fiscal 2011 Capital Expenditure Plan

Although revenue trends in fiscal 2011 are challenging, JR East will secure cash flows by implementing various cost reductions in the operation of businesses. Accordingly, JR East has earmarked ¥380 billion for capital expenditure on a nonconsolidated basis and ¥472 billion on a consolidated basis.

The principal investment projects are as follows.

Moving up a gear in 7 areas

- 1 Increasing focus on investment to raise corporate value**
- 2 Opening the way to new business areas**
 - Develop WiMAX infrastructure
- 3 Taking a positive and long-term approach to global environmental problems**
 - Change over to highly efficient devices
 - Introduce panels for solar power generation at Tokyo Station
 - Build new waste treatment facility (scheduled to begin operations fall 2010)
- 4 Upgrading the Tokyo metropolitan area railway network to make line-side areas more attractive and convenient**
 - Introduce new E233 series railcar to the Keiyo Line
 - Develop facilities to support child rearing
 - Establish the Tohoku Through Line
- 5 Invigorating regional railway lines and interregional communications**
 - Develop facilities that enable train services to return from Shinagawa Station
- 6 Developing life-style businesses aggressively**
 - Introduce resort trains that incorporate hybrid systems
 - Restore C61 type steam locomotive
 - Develop area around Niigata Station
- 7 Establishing *Suica* operations as a third pillar of operations**
 - Advance the *Station Renaissance* program (Kichijoji, Nippori, and other railway stations)
 - Undertake large-scale development of terminal stations (Shinjuku, Chiba, and other railway stations)
 - Diversify the ways and situations in which people use *Suica*

5 ongoing efforts

- 1 Heightening customer satisfaction even further**
 - Upgrade signal equipment on the Shonan-Shinjuku Line, etc.
 - Renew obsolete Shinkansen equipment
 - Renew signal equipment, renew power generation facilities within 100 km of Tokyo
 - Develop Autonomous decentralized Transport Operation control System (ATOS) in Tokyo metropolitan area
 - Introduce E259 series to the Narita Express
 - Develop elevator facilities, develop multifunctional restrooms
- 2 Developing human resources**
 - Develop educational / training facilities
- 3 Advancing research and development aggressively**
 - Introduce Advanced Train Administration and Communication System (ATACS) to the Senseki Line
- 4 Expanding the Shinkansen (bullet train) network**
 - Extend the Tohoku Shinkansen Line to Shin-Aomori Station (December 2010)
 - Increase operational speed of the Tohoku Shinkansen
 - Build new mass production prototypes for E5 series and E6 series railcars
- 5 Expanding life-style businesses**
 - Develop railway station buildings (Akihabara, Hachioji (scheduled to begin operations in fiscal 2011))
 - Develop JR East Southern Shinjuku Building (provisional name)
 - Continue developing *Tokyo Station City*

Transportation

Reaching Destinations Near and Far

Expanding the Shinkansen Network

Extending the Tohoku Shinkansen Line to Shin-Aomori Station

The commencement of operations on the Hachinohe–Shin-Aomori segment of the Tohoku Shinkansen Line on December 4, 2010, will expand JR East’s Shinkansen network, realize through services between the Tokyo metropolitan area and Shin-Aomori, and significantly reduce journey times. As a result of the project, JR East expects to incur construction costs of ¥11 billion, arising from the building of E2 series Shinkansen railcars, which the current Tohoku Shinkansen *Hayate* service uses, the provision of operational equipment at new railway stations (Shichinohe-Towada Station and Shin-Aomori Station), the construction of stores within station concourses, and the founding of a maintenance workplace, in preparation for expansion of the Shinkansen network. After the launch of operations to Shin-Aomori Station, JR East will continue efforts to strengthen coordination with local communities, increase tourist numbers, and steadily attract greater numbers of business travelers.

Creating Faster Shinkansen 1: Unveiling E5 Series Railcars

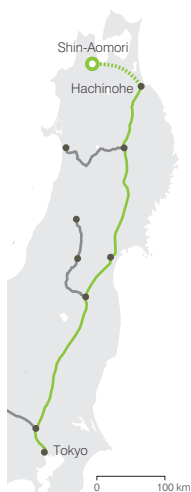
In preparation for the December 2010 beginning of operations to Shin-Aomori Station, JR East is moving forward with efforts to increase the operational speed of its Shinkansen services. Accordingly, it has earmarked ¥26 billion for capital expenditure related to raising the operational speed of Tohoku Shinkansen services in fiscal 2011. Specifically, 30 railcars

are due for completion in fiscal 2011. And, from March 2011, JR East will introduce the new high-speed E5 series railcars to Tohoku Shinkansen services between Tokyo and Shin-Aomori stations as *Hayabusa*, heralding the beginning of Japan’s fastest operational speed of 300 km/h. Moreover, plans call for the commencement of a 320 km/h operational speed from the end of fiscal 2013. As a result, the fastest service between Tokyo and Shin-Aomori stations is expected to take 3 hours and 5 minutes—about 50 minutes less than the 3 hours and 59 minutes journey time of the current service between these stations.

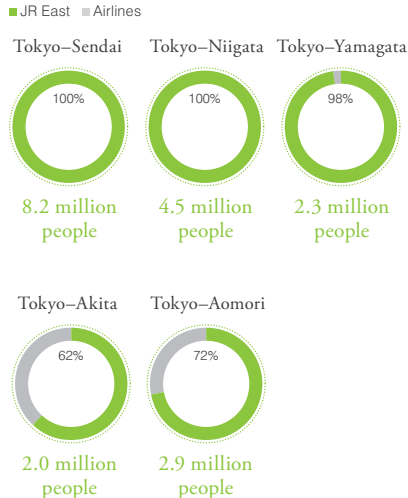
Creating Faster Shinkansen 2: Building a Prototype for E6 Series Railcars

For the Akita Shinkansen, JR East will build new E6 series railcars, which will couple with the Tohoku Shinkansen Line’s new high-speed E5 series railcars and have a maximum operational speed of 320 km/h. In July 2010, JR East will complete a seven-car mass production prototype for the new E6 series. Using that prototype, JR East will conduct performance and durability trials required for commercial operations, decide specifications, and reflect these specifications in mass production railcars going forward. The cost of building the mass production prototype railcars is expected to reach around ¥4.5 billion. Initially, from the end of fiscal 2013, the new E6 series will have a maximum operational speed of 300 km/h. Subsequently, one year later, it will begin commercial operations with a maximum operational speed of 320 km/h.

Extending Line



Competition with Airlines



Prototype for E5 series

Life-Style Businesses Making Railway Stations More Convenient and Attractive



Concept illustration of *Tokyo Station City* (left)
Concept illustration of the future business development of Chiba Station (above)
Concept illustration of the future business development of Shinjuku Station (right)

Completion of *Tokyo Station City*

The Yaesu exit of Tokyo Station is about to become Tokyo's "new face." At the north and south of the square at the Yaesu exit side (east side) of Tokyo Station, twin high-rise towers have been open since November 2007. Also, construction of additional floor space for *GranTokyo North Tower* will finish in summer 2012. Other plans call for the building of a ground-level pedestrian deck, with a large roof, connecting those twin towers. Moreover, as an integrated part of that plan JR East will develop the Yaesu exit square. Scheduled for completion in fiscal 2014, those initiatives will combine to create a new symbolic face for the nation's capital. In a further project that is part of efforts to develop Tokyo Station and its surrounding area, JR East will complete its restoration and preservation of the historic Tokyo Station Marunouchi redbrick building in fiscal 2011. → See page 32

Shinjuku Station Project / Building Development at New South Exit of Shinjuku Station

Elevating Shinjuku Station above the railway tracks will create approximately 1.47 hectares of artificial ground. JR East will then build a multilevel transportation facility in order to enable passengers to transfer more smoothly between trains, express busses, taxis, and private vehicles.

At the same time, JR East plans to construct a station building at the New South Exit of Shinjuku Station. Scheduled to open in spring 2016, the building will have two floors below ground, 32 floors above ground, and a total floor space of approximately 110,000 square meters.

Rebuilding of Chiba Station and the Main Station Building (*Perie 1*)

Chiba Station and the station building are set to change beyond recognition. Specifically, raising the station concourse three floors above the railway tracks will enable the creation of an open-plan, readily recognizable station area befitting the gateway to Chiba's prefectural capital, which has a population of 1 million. Rebuilding the station and the station building, JR East will help invigorate the area around the station by creating appealing commercial spaces that dovetail with the station. Combined, the station and the station building will include one underground floor, seven floors above ground, and a total floor space of approximately 70,000 square meters. Aiming to open the station concourse in fiscal 2016 and the railway station building in fiscal 2017 or fiscal 2018, JR East has begun preparatory work to remove obstructions from the site.

Other Development Projects

As well as the above projects, JR East is proceeding with building development plans that include the rebuilding of existing station buildings at the west and east exits of Yokohama Station and in the vicinity of Shibuya Station. Also, on a large developable area near Shinagawa Station, JR East will "develop a new town" through consultation and collaboration with related local authorities. JR East will create that area by integrating and transferring a train depot and changing the position of the railway lines.

Fiscal 2013 Numerical Targets

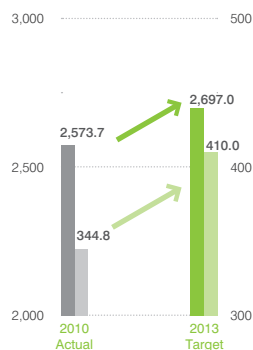
Fiscal 2013 Numerical Targets

Years ended March 31

Consolidated Operating Revenues / Consolidated Operating Income

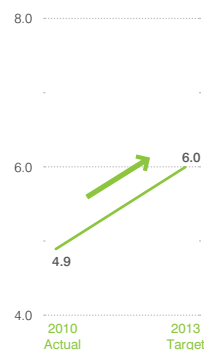
Billions of Yen

■ Operating Revenues
■ Operating Income



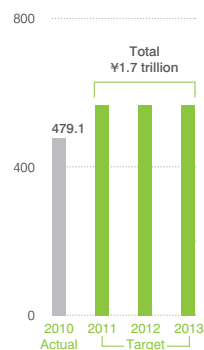
Consolidated ROA

%



Consolidated Cash Flows from Operating Activities

Billions of Yen



Fiscal 2013 Numerical Targets by Segment

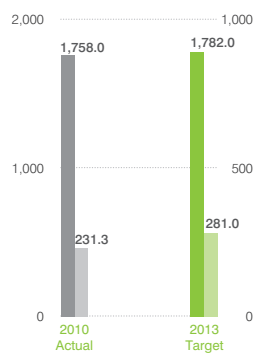
Years ended March 31

Operating Revenues / Operating Income

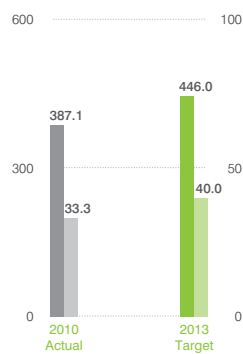
Billions of Yen

■ Operating Revenues ■ Operating Income

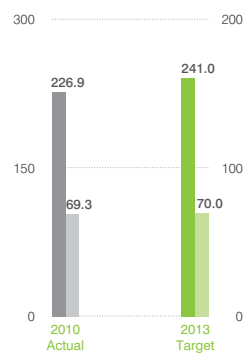
Transportation



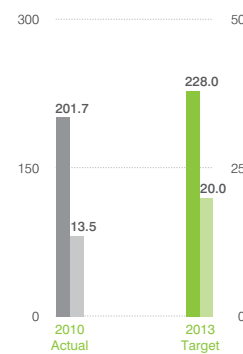
Station Space Utilization



Shopping Centers & Office Buildings



Other Services



(Reference) Fiscal 2018 Numerical Targets by Segment

Years ended March 31

	Billions of Yen		Billions of Yen	
Operating revenues	¥3,100.0		Operating income	¥670.0
Transportation	1,930.0		Transportation	480.0
Station Space Utilization	540.0		Station Space Utilization	50.0
Shopping Centers & Office Buildings	320.0		Shopping Centers & Office Buildings	100.0
Other Services	310.0		Other Services	40.0