An Interview with the President

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President and CEO

FISCAL 2004

Q. Looking back over fiscal 2004, ended March 31, 2004, how do you evaluate JR East’s performance and operational developments?

A. Fiscal 2004 was extremely significant as the pivotal year of JR East’s New Frontier 21 medium-term business plan. We began the year thinking our performance in the year ahead would enable us to determine how quickly we would be able to reach the targets of New Frontier 21, which is scheduled to end in fiscal 2006.

Unfortunately, the outbreak of SARS (severe acute respiratory syndrome) and geopolitical instability associated with the war in Iraq had a serious impact on revenues in April and May 2003. Recovering from that initial setback was a major challenge. However, through a concerted effort we attained revenues only marginally lower than in fiscal 2003. Moreover, given our second-half momentum, I think we performed solidly in fiscal 2004.

Meanwhile, we progressed with cost reductions by reforming cost structures, particularly those related to personnel, maintenance, and interest payments.

As a result of those initiatives, we recorded a year-on-year increase in operating income and a new high for net income.

Considering the factors I just mentioned and the strategic importance of the year, I am satisfied with our results for fiscal 2004.

In operational developments in fiscal 2004, we enhanced passenger convenience, focusing on the Shinkansen and Tokyo metropolitan area networks. In the Shinkansen network, growing numbers of tourists to the northern Tohoku region ensured continued demand for the Hayate service—launched to coincide with the extension of the Tohoku Shinkansen line to Hachinohe in December 2002. In the Tokyo metropolitan area network,
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short-distance passengers rose steadily on the back of Suica’s growing popularity.

In non-transportation businesses, major developments included the opening of the JR Shinagawa East Building in March 2004. Despite the current over-supply of office space in downtown Tokyo, tenants quickly filled the new building thanks to the convenience afforded by its prime location abutting Shinagawa station and other features, such as state-of-the-art office facilities. The building’s lower floors are devoted to shops and restaurants, which are outperforming initial expectations.

In February 2004, we unveiled Hotel Dream Gate Maihama, which has been built under elevated railway tracks at Maihama station, the entrance to Tokyo Disney Resort. In collaboration with Takenaka Corporation, we have developed new construction technology that enables the creation of a quiet environment on a par with conventional hotels under elevated railway tracks, an area normally regarded as unsuitable for such facilities. I believe this new technology will broaden the scope of our business development.

Also, the number of Suica holders is growing steadily. At the outset, we estimated there would be around five million holders after three years. Today, in only two and a half years since we launched the system, more than nine million passengers use Suica. From August 2004, it will be possible to use Suica on West Japan Railway Company’s network and vice versa. Furthermore, transportation companies in the Kanto region, which includes metropolitan Tokyo, plan the staged introduction of mutually usable IC cards in fiscal 2007. Therefore, I think that reaching 20 million users of such cards is no longer a dream.

Given those successes, I think the development of our operations during the fiscal year was favorable overall.

Unfortunately, however, a few incidents considerably inconvenienced our customers in fiscal 2004. Errors during engineering work to replace railway tracks on the Chuo line, in the Tokyo metropolitan area, forced JR East to halt trains on the line for several hours.

We thoroughly analyzed the causes of the incidents and immediately took appropriate countermeasures. Since then, all major engineering works for railway track replacement have been carried out according to plan as a result.

**TOWARD ENHANCED RELIABILITY**

Q. Could you talk in more detail about the backdrop of the Chuo line incident?

A. First, let me explain why we undertook such a large-scale engineering project. Normally, we split such large engineering works for railway track replacement into several parts. Admittedly, the resulting small-scale engineering projects are comparatively easy to manage and implement. On the other hand, numerous small projects increase the frequency of train stoppages, which leads to greater inconvenience for passengers.

With that in mind, we prepared and implemented a plan designed to lessen the burden placed on passengers and local communities by undertaking a one-time, large-scale engineering project. We deeply regret the considerable inconvenience that this incident caused.

To upgrade operations based on the lessons learned from this experience, we are leaving no stone unturned in our efforts to identify and deal with problem areas.

We operate more than 12,000 trains a day. Our basic mindset is that all of those trains must run without a second’s delay every day. To regain the trust of our customers, each one of our employees is committed to going back to operational basics and starting afresh.
New Frontier 21
Medium-Term Business Plan of JR East

Overview
In November 2000, JR East announced a medium-term business plan called New Frontier 21, which will cover the five-year period extending from fiscal 2002 to fiscal 2006. The plan targets a critical point in JR East’s development, setting forth a vision and a concrete action plan. All actions are aimed at withstanding the dramatic changes in the group’s highly competitive operating environment.

Group Vision
In this plan, our vision is to become a Trusted Life-Style Service Creating Group. We will strengthen our management base and push ahead with reforms to realize this vision. In particular, we will steer our operations to meet the following five criteria:

I. Creating Customer Value and Pursuing Customer Satisfaction
(Building a corporate group for providing customers with “trust,” “comfort” and “excitement.”)

II. Innovation of Business through the Creation of Technologies
(Building a corporate group for the integration of advanced technologies.)
JR East will integrate advanced technologies in order to create new added value and thereby refine our railway businesses. Our goal shall be to become the “World’s Number-one Railway” in terms of safety, convenience, promotion of advanced technologies, comfort and efficiency.

III. Harmony with Society and Coexistence with the Environment
(Building a corporate group which harmonizes with society and gains the respect of the global community.)
While pursuing social missions such as coping with global environmental problems and the rapid aging of society, we will also maintain a fair stance towards global competition. We will enhance management transparency and go forward as a corporate group open to the world.

IV. Creating Motivation and Vitality
(Building a corporate group offering a working motivation and a sense of accomplishment through a free and liberal approach to work.)
V. Raising Shareholder Value
(Building a corporate group meeting shareholder expectations through the improvement of consolidated performance.)
We have set our five numerical goals as above.

Strategies to Transform the Vision into Reality
We have formulated a number of business strategies for the purpose of fulfilling our New Frontier 21 vision. First is our Station Renaissance program, which aims to achieve the best possible allocation of group business activities at railway stations, our greatest business resource. Naturally, this requires that we conduct an exhaustive review of the layout of station facilities to open up new space for business activities. Another element of our Station Renaissance program is large-scale developments at main stations in the Tokyo metropolitan area.

Another strategy is to utilize IT and other new technologies. One example is the creation of a new railway operating system by drawing on a broad range of IT resources. The system will improve the safety and accuracy of our railway operations. Another is the creation of business models that give us a substantial advantage over competitors making the most of our infrastructure, which is ideally suited for IT-oriented businesses. As a central part of this drive, we will use our IC card, Suica, which was introduced in 2001, to offer cashless and ticketless transportation services. Many other new businesses are on the drawing board.

In transportation businesses, we will concentrate on making more gains in safety and service quality and on improving our operating system, such as by strengthening our service network. In non-transportation businesses, we will focus our resources on businesses where we can achieve synergies with our railway operations and where we have competitive superiority. Strategic alliances with partners outside JR East and the realignment of group companies will be central to this drive.
Q. What steps is JR East taking to enhance corporate governance and management speed?

A. Thanks to revisions of laws and ordinances, companies now have several corporate governance options. In addition to the traditional “auditor system” based on a structure of checks and balances among directors and auditors, companies can choose from a committee system form of governance or a system incorporating committees responsible for significant assets. In my view, none of those governance systems is definitively better than any other; each has strengths and weaknesses. Accordingly, I think that the focus of management should be on establishing structures that counterbalance each system’s demerits.

JR East’s mainstay railway operations have certain distinctive features. Returns on investments are extremely long term. Extensive experience is needed to ensure safety—our top operational priority. Accordingly, we believe that long-term employment is a precondition to ensure and improve safety. Given those characteristics, JR East encourages medium-to-long-term management thinking.

In light of the nature of its operations, I think that the auditor system of governance is best suited to JR East. However, that system is said to have two deficiencies: slow decision making and inadequate transparency.

Aiming to compensate for those shortcomings, JR East has sought to invigorate debate among its management team by streamlining its Board of Directors. JR East’s articles of incorporation allow for the appointment of 40 directors. At its largest, our Board of Directors reached 36 members. In recent years, however, we have been steadily reducing director numbers. In June 2004, the shareholders’ annual meeting downsized the board to 23 directors.

Moreover, JR East’s management team is actively incorporating the viewpoints of veteran managers from other business areas. Two outside corporate directors sit on the Board of Directors and four of JR East’s five corporate auditors are outside corporate auditors.

I am confident that this system offsets the commonly identified disadvantages of the auditor system by facilitating lively discussion, expeditious decision making, and high levels of transparency.

Q. How is the implementation of JR East’s New Frontier 21 medium-term business plan progressing?

A. When we prepared New Frontier 21, we faced two urgent issues. First, we had to achieve full privatization. Second, we needed to strengthen the cohesion of JR East as a group.

We realized full privatization in June 2002, soon after launching New Frontier 21. Also, we have successfully advanced toward the goals and numerical targets of New Frontier 21, provided additional railway services, and developed new businesses. In many cases, progress has been faster than anticipated.

We expect to reach several of New Frontier 21’s five numerical targets during fiscal 2005 and the remainder in fiscal 2006.

Given the imminent successful completion of the current medium-term business plan, I am concerned that we could become complacent. Before that happens, I have sought to reignite the group’s overall sense of urgency by bringing New Frontier 21 to an early conclusion and focusing our attention on the next plan.
OPERATIONAL OUTLOOK

Q. What business development plans does JR East have?

A. I believe that the best way to view JR East’s operational development is in three separate time frames. First, we have to think about how to meet the challenges of current and coming fiscal years. Second, we must consider optimal business strategies over a three-to-five-year term. We need to start formulating concrete measures for projects in that time frame. Last, a range of basic proposals is required to fuel visions and debate relating to where we want to be a decade from now.

With that in mind, I will outline specific operational plans based on the periods through fiscal 2006, fiscal 2011, and fiscal 2016.

In the period through fiscal 2006, we intend to substantially increase the frequency of services on the Shonan-Shinjuku line in autumn 2004, which will generate substantial revenues. Following the completion of a track overpass crossing at Ikebukuro station in June 2004, JR East will raise the number of trains operating on the Shonan-Shinjuku line from 38 to 64 round trips a day. Further, as part of efforts to enhance services, plans call for the introduction of Green Car (first class cars) services on the Takasaki, Utsunomiya, and Shonan-Shinjuku lines in autumn 2004.

Meanwhile, in fiscal 2006 large-scale developments currently under way within Omiya, Shinagawa, and other stations are due to be completed as part of JR East’s Station Renaissance business strategy. In the same fiscal year, a building that is being developed on the Marunouchi side of Tokyo station in collaboration with Mitsubishi Estate Co., Ltd., is slated for completion.

In the period through fiscal 2011, we will proceed with redevelopment plans that will transform the appearance of the area around Tokyo station. On the station’s Yaesu side, we will construct two 200-meter high-rise buildings, while on the Marunouchi side we will restore the station building to its original form. Also, we will undertake development projects to freshen up the look of squares on the Marunouchi and Yagami sides of the station.

Further, plans call for the completion of construction of a route that will join together the Ueno–Tokyo segment of the Tohoku line, the Takasaki line, and the Joban line with the Tokaido line in fiscal 2010. This new route, which we call the Tohoku through line, will enhance passenger convenience by linking the north and south of the Tokyo metropolitan area via a different route from the Shonan-Shinjuku line.

By fiscal 2016, we intend to free up an extensive area of land in the Shinagawa district of central Tokyo by reorganizing lines at our rail yard. Of course, this new project will require consultations with local governments and other procedures. However, redevelopment of the area will be possible in this way.

Also, we plan to strengthen our competitiveness with airlines by extending the Tohoku Shinkansen line to Shin-Aomori and the Hokuriku Shinkansen line to Toyama.

Q. JR East seems to have a very full business development schedule.

A. It certainly is intensive. However, from a longer-term perspective, we have to prepare to deal with such issues as falling birthrates and an aging population, which will affect Japan as a whole.

I want to leverage demographic trends to achieve positive changes in our railway and travel agency businesses. Japan’s baby boomer generation comprises roughly seven million people born between 1947 and 1949. And, a large proportion of that group will retire between 2007 and 2009. In other words, there will be a dramatic increase in the number of people with
abundant leisure time. Accordingly, we aim to trigger a travel boom by offering enjoyable travel packages that will appeal to such individuals. I see the graying of Japanese society as a new business chance rather than as a cause for concern.

SAFETY AND EFFICIENCY

**Q.** Which areas will JR East focus on with respect to enhancing safety and efficiency?

**A.** First of all, I would like to emphasize that it is possible to improve safety and efficiency at the same time. Occasionally, people mistakenly assume that advances in those two areas are mutually incompatible. We aim to simultaneously heighten levels of safety, comfort, and efficiency. And, we are confident that this is possible.

Of course, a sense of professional pride among employees underpins all efforts to enhancing safety. On the other hand, making mistakes is part of being human. For that reason, it is vital to thoroughly examine the kind of backup systems needed to preempt such errors.

With that in mind, JR East has consistently directed roughly 40% of its annual capital expenditures—between ¥80 billion and ¥90 billion—to ongoing investments in safety-related measures. In those investments, we develop fail-safe systems that automatically override operator mistakes. At the same time, we are also building fully automated systems. Thanks to those initiatives, the number of operational railway accidents has fallen in recent years. In fiscal 2004, there were about 75% fewer such accidents than in fiscal 1988, the year of JR East’s establishment.

As our first operational priority, safety is the keystone of our management philosophy. Eliminating negligence by approaching safety issues head on enables the sound development of JR East’s railway operations, which in turn lends impetus to the development of non-transportation operations. I want to further reinforce that cycle.

Enhancing operational efficiency is a constant management issue for companies. I have frequently stated that strengthening human resource and technology development as indispensable for the growth of JR East. Advances in technology development enhance safety and efficiency. As I stressed in my 2004 New Year’s address, we need to develop and apply technologies that contribute to safety and efficiency by bolstering the Research & Development Center of JR East Group.

Further, some aspects of JR East’s operations can be made much more convenient for customers by introducing IT-based automated systems; Suica is a representative example of such improvements. The introduction of ticket vending machines is another earlier example. Through such technologies, JR East is heightening customer convenience by automating manned operations wherever possible.

Meanwhile, by using personnel freed up by improvements in efficiency, JR East has increased the number of service managers at stations. Acting as troubleshooters, these managers take the initiative to provide customers with a range of services. Service managers patrol stations and offer assistance to customers that appear to be in difficulty because, for example, they are unsure how to operate ticket vending machines. Those managers also play an important role in contributing to safety and security in stations.

In essence, we aim to boost overall efficiency while raising service levels by allocating personnel to liaison services and by automating those services suited to mechanization.

**SUICA**

**Q.** How do you intend to develop Suica?

**A.** First and foremost, Suica has spread rapidly because it is very convenient. To be honest, passengers’ favorable response to Suica surpassed our initial expectations. Another factor is the reliability of the Suica system, which has
had almost no failures. We will take all possible measures to maintain that record.

When we launched Suica, I gave the Suica development team the task of adding at least one new function every year. In fact, Suica has evolved at a much higher pace than that. We have already expanded the coverage area of Suica and added credit card and electronic money functions. However, the evolution of Suica has just begun.

In March 2004, we broadened the applications of Suica by including an electronic money function. We are aggressively marketing Suica’s electronic money function, which is not limited to usage in stations. As the use of Suica’s electronic money function becomes more widespread, purchase-amount processing fees paid by downtown stores will steadily drive the growth of our electronic money related operations. The number of downtown stores that accept Suica purchases will determine the success or failure of the service. However, I am convinced that because Suica can be used for shopping and to ride on trains, it will have a clear competitive advantage over other electronic money cards.

FINANCIAL POLICY

Q. Could you outline JR East’s financial policy, particularly with regard to reducing total long-term debt?

A. JR East has strengthened its operating platform by steadily lowering total long-term debt. Furthermore, we have, as a general principle, kept capital expenditures within the bounds of depreciation, which has enabled us to reduce total long-term debt to less than ¥4 trillion. While adhering to its core policy of keeping adequate retained earnings, JR East has continued stable dividend payments.

Nevertheless, ¥3.9 trillion is still a high level of total long-term debt. Accordingly, reducing total long-term debt will remain JR East’s first priority in financial policy. However, I think we have reached a juncture where we can and should consider a slightly wider range of options with respect to capital expenditures, dividends, and capital policy.

For fiscal 2003, although JR East paid a special dividend to commemorate the completion of full privatization, the ordinary dividend was ¥5,000 per share. JR East raised the ordinary dividend from ¥5,000 per share to ¥6,000 for fiscal 2004. And, we plan to maintain the ordinary dividend at ¥6,000 per share for fiscal 2005. We are dedicated to meeting shareholders’ expectations while steadily enhancing our performance and reducing debt.

GOALS

Q. Lastly, what are JR East’s plans for the future?

A. While some projects have already been made public, internally we are carefully assessing a considerable number of projects. We will steadily cultivate and bring to fruition those projects that will contribute to JR East’s revenues and growth.

Also, we still have many ideas for unlocking Suica’s potential. The convenience offered by Suica will increase further as we fully leverage it as a strategic tool to organically link transportation and non-transportation operations.

We will continue striving to realize the targets of New Frontier 21. At the same time, we will consider how to coordinate operational strategies with optimal capital structures and dividend policies. We are committed to sufficiently reflecting the expectations of our shareholders and other investors as we prepare our next medium-term business plan, which is scheduled to start from fiscal 2006.

In closing, I would like to take the opportunity to ask all of our stakeholders for continued support and understanding.