



An Interview with the President



Q1. Having just been promoted to the position of president and CEO, could you tell us about your goals and ambitions?

A. I became president at the start of JR East's 20th year of operations, a major turning point in the Company's development. Following the major reform measures that created JR East and other companies from what had been the Japanese National Railways, JR East's top executives relentlessly promoted consciousness and management reforms designed to foster an autonomous management spirit throughout the Company. One of the major successes of my predecessor, Mutsutake Otsuka, was completing the Company's privatization. Having realized its earnest desire, JR East is now moving into a new era of corporate development, and I keenly feel the weight of responsibility for guiding the Company during this momentous period.

I believe my main mission is to prepare a strong foundation for the newly privatized company's next stage of development. When JR East was established, its first main management goal was simply to become profitable. It seems hard to believe at this

point, but the initial management goal was quite simple and focused on the short term. However, a positive approach to reform on the parts of individual employees as well as the autonomous efforts of employees to improve the services we offer to customers have progressively increased customers' confidence in JR East. By conscientiously serving a huge number of individual customers, with the base fares as low as ¥130, we have increased our annual revenues to approximately ¥2.6 trillion. We have moved forward to our current situation because each of our managers and other employees has a good grasp of our corporate goals and makes daily efforts to achieve those goals. All of us at JR East are striving, with confidence tempered by humility, to steadily move the Company ahead, step-by-step. Continuing to do this will naturally lead JR East into the next stage of its corporate development.

Q2. Now that JR East has completed its conversion into a private-sector company, what is the next stage of the Company's development?

A. Of the approximately ¥2.6 trillion in annual consolidated operating revenues recorded by the Company, roughly ¥1.7 trillion is from railway transportation business, which is still JR East's mainstay business. Fundamentally speaking, railway transportation operations are not operations subject to sharp, major changes. We sometimes receive somewhat critical comments on this account, such as complaints that there are no surprises in our operations, but I do not mind this situation. We are not seeking to provide "surprises" during individual fiscal years, but we do intend to be a company that displays a surprising degree of corporate evolution during individual decades.

For example, 10 years ago, nobody would have imagined that JR East would have improved its train service through initiatives such as the creation of the Shonan-Shinjuku Line. I don't think people a decade ago could have imagined how big our station-space utilization business would become at such locations as Ueno and Shinagawa stations. All these kinds of business development initiatives started from our consideration of what customers would want, and completing those initiatives required the surmounting of diverse challenges. They were not the kind of projects that could be completed in a short period of time.

When I refer to the “next stage” of corporate development, I am not referring to a specific project or a specific kind of project. What I mean is that we will build on and strengthen what we have achieved so far. We will relentlessly and progressively

undertake diverse projects that promote our corporate development, aiming to realize noteworthy changes over a period of 10 years. That is our fundamental approach.

Q3. Will you be changing JR East’s fundamental strategies regarding safety and service?

A. As I said in my first message to JR East employees after becoming president, JR East will continue giving top priority to safety as well as to ensuring “*anshin*” for customers (securing a feeling of ease and peace of mind) regarding the safety of our services. The confidence and peace of mind we are aiming to provide is a goal that takes our traditional goal of safety an important step further. We are firmly committed to attaining this goal, which we anticipate will become a key corporate strength.

In our railway transportation operations, we are very conscious that customers are entrusting their lives to us, so it is natural that we give top priority to safety, and we also strongly emphasize dependability with regard to operating trains on schedule. These are our most fundamental objectives. As railway operators, we have a long tradition of being uncompromising in our efforts to ensure safety and dependability. We will naturally continue this tradition, while supplementing it with additional efforts to provide “*anshin*.” We are intent on ensuring that customers have “*anshin*” and can fully enjoy our services based on their strong confidence that our services are consistently safe and dependable.

It would not be an exaggeration to say that our main mission—in railway transportation operations as well as operations in such fields as hotels, restaurants, and shopping centers—is to provide each and every one of our customers with “*anshin*.” As we continuously seek to optimize our operational processes and the work methods of each employee, we are using the approach of first putting ourselves in our customers’ shoes and then considering the best ways of ensuring safety and of going a step further to offer services that inspire strong confidence and provide “*anshin*.” This is the JR East Group’s fundamental strategy and we want to make sure each and every employee increases his or her contribution to the success of this strategy.

While there may be a growing number of causes for concern and distrust in the world today, JR East is intent on belying this trend by increasing the safety and dependability of its services to unprecedented levels. All Group employees are sincerely and concertedly working on a day-to-day basis to give customers good cause to refer to JR East as a company that provides exceptional “*anshin*.”

Q4. With respect to safety, there was a tragic accident on the Uetsu Line last December. What are your feelings about that accident?

A. Words cannot express the deep regret and great sorrow I feel for the victims and their families and friends. My thoughts and prayers are with them. I would like to convey my sincere apologies to all those affected by this tragic accident, and I hope that those who are injured will quickly make a full recovery.

Ever since its founding, JR East has given top priority to safety. In line with this approach, the Company has completed three ambitious five-year safety plans and is currently in the midst of its fourth—*Safety Plan 2008*—which ends in March 2009. These plans have entailed safety-related investments with a cumulative

value in excess of ¥1.7 trillion. Such investments account for over 40% of the parent company’s total capital investments. Moreover, we have established our Safety Research Laboratory, which is moving forward with basic research programs, and we have for many years sustained programs that encourage employees to participate in discussions about safety issues. As a result, the number of accidents has been greatly reduced. In fiscal 2006, the number was less than 40% of the level in fiscal 1988, the first year of JR East’s operations.

SAFETY-RELATED INVESTMENT (Nonconsolidated)
(Billions of Yen)





Despite these measures, the tragic accident on the Uetsu Line last year did occur. Having long given top priority to safety and made relentless efforts to ensure safety, we are extremely heartbroken and regretful regarding that tragedy. The Aircraft and Railway Accidents Investigation Commission of the Ministry of Land, Infrastructure and Transport (MLIT) has been conducting a thorough investigation of the accident's causes, and there have been reports that local wind conditions are the primary cause. However, we are not in a position to be totally sure of this diagnosis. The one thing that we can say with certainty is that some of our customers trusted our train service, rode on one of our trains, and were involved in an accident that resulted in their decease or injury. As these are the simple, harsh facts that we must face up to, we at JR East are doing our best to convey our deepest regrets and offer heartfelt apologies to the bereaved

families of the victims as well as the survivors and their families. At the same time, we are renewing our commitment to making the efforts needed to further increase the safety of our railway operations. This is a top-priority corporate mission. Having visited the site of the accident and inspected the derailed cars, I personally feel a very strong commitment to doing whatever it takes to ensure that such an accident never happens again. Safety is much more than just one of our management goals, it stands in a category all by itself. To do whatever we can to prevent the recurrence of such an accident, we are humbly reassessing all the safety measures that we have taken previously and have redefined our objective as achieving "extreme safety." In line with this ambitious objective, we will be taking innumerable safety-boosting measures with respect to both equipment and personnel.

Q5. What concrete measures do you plan to take to expand JR East's operations?

A. JR East's business model is to expand various types of non-transportation businesses that are synergistically compatible with our core railway transportation operations and thereby maximize our cash flow. In expanding our operations, we are naturally making an emphasis on customers' perspectives our starting point. In both core railway operations and rapidly growing non-transportation operations, we must sustain continuous efforts to accurately grasp and respond to customer needs. That is the only way to earn our customers' trust.

In railway operations, we will maintain our commitment to achieving "extreme safety," and we will concurrently sustain a fundamental emphasis on efforts to eliminate barriers that prevent customers from enjoying our services. In addition to installing such equipment as elevators and escalators to create facilities that are physically barrier-free, we are striving to eliminate intangible barriers by taking such initiatives as those to set service timetables that increase customer convenience and create train services that eliminate the need for transfers. JR East is

currently moving ahead with projects related to the Shonan-Shinjuku Line and to cooperation with Tobu Railway Company to augment limited express through services from JR Shinjuku Station to Tobu-Nikko and Kinugawa-onsen stations, and these projects are an important part of our barrier-free strategy. By continuously eliminating barriers, we intend to progressively reinforce our position as a railway that proactively earns customers' trust and patronage.

Regarding non-transportation businesses, JR East is creating and providing new services that match customer needs. A central strategy in this regard is our *Station Renaissance* program, which is designed to maximize the appeal of railway stations—our most powerful underutilized business resource. During 2005, we opened *ecute* retailing facilities at Omiya and Shinagawa stations, and those facilities have proven to be highly popular. In the future, we will continue seeking to accurately address customer needs with new services that also increase the overall appeal of our railway station complexes.



Shonan-Shinjuku Line



Green Cars



ecute Shinagawa



Q6. Earlier, you mentioned transforming JR East over the next 10 years to a surprising degree. What are your thoughts regarding the Company's development over the medium-to-long term?

A. As I mentioned, JR East may not offer big surprises on a year-to-year basis, but it can be expected to realize easily perceptible and highly significant changes over the span of a decade. I anticipate that the decade from 2006 will not be an exception to this pattern. In railway operations, we are planning to realize the Tohoku Through Line linking northbound and southbound medium-distance services from Tokyo and the extension of the Tohoku Shinkansen to Shin-Aomori and the Hokuriku Shinkansen to Kanazawa will be completed. In non-transportation operations, we are planning the full-scale opening of *Tokyo Station City*, centered on Tokyo Station, as well as large-scale redevelopment projects at Shinjuku and Shibuya stations. Completing these projects will take considerable time, but they will present observers with major and highly evident changes over the next decade. We are moving ahead with such changes, step-by-step.

Moreover, we are expecting major changes in Japan's society and economy over the upcoming decade. In particular, Japan's rapid demographic graying can be expected to become an

increasingly serious problem. JR East believes it must anticipate and begin taking countermeasures to such structural changes in society before they actually occur. Our campaign to make our railway stations barrier-free is just one of our responses to future societal trends. By eliminating diverse kinds of barriers, we are seeking to promote comfortable rail transportation options for the future senior citizens with considerable discretionary time and financial resources, even increasing the appeal of railway travel to people who had previously used railways only infrequently other than commuting to work. At the same time, we are planning to steadily augment the services offered to members of our *Otona no Kyujitsu Club* membership clubs. I also consider our *Suica* services to be a part of our barrier-free strategy. From March 2007, *Suica* will be interchangeable with *PASMO* IC cards, enabling them to be used for all types of railway services as well as bus services in the Tokyo region. People can use a single *Suica* card to go almost wherever they wish within the greater Tokyo region.

Q7. Could you explain a bit more about the rapid growth in *Suica* business you are anticipating?

A. Thanks to the support of our customers, the *Suica* IC cards we launched in November 2001, as a means of more conveniently paying for transportation services, have been highly popular. The number of such cards issued has increased smoothly over the past four and a half years, to the current level of approximately 17,000,000 (as of July 2006). The applications of the cards have shown a similar steady expansion. From March 2007, *Suica* cards will be interchangeable with *PASMO* IC cards, which will be introduced at the same time, and I anticipate that such improvements in services will boost the number of *Suica* cards issued to above the 30,000,000 mark.

Suica cards can also be used as electronic money in stores within our railway stations as well as at a growing number of convenience stores, restaurants, supermarkets, and other commercial facilities located outside of stations. We plan to increase the card's electronic money applications at all private railway stations in the greater Tokyo region. In sum, we are aiming to enable the use of a single *Suica* card for the use of diverse transportation modes and the purchase of various other types of goods and services throughout greater Tokyo.

JR East is taking various measures to expand *Suica's* functionality, such as the January 2006 introduction of the *Mobile Suica* service—a more sophisticated version of *Suica* in that it integrates electronic money with mobile phones. From October 2006, we will begin offering a new “charging” (this refers to loading up cards with “stored fares” or electronic money) service that enables *Suica* to be automatically charged from credit cards as soon as a *Suica* transaction exceeds the sum already charged into the card when passing it over an automatic ticket gate sensor. These additional functions represent new kinds of services, and we intend to further broaden *Suica's* functionality while taking appropriate measures to ensure the safety of the systems.

Suica is distinguished from other forms of electronic money in that it can be used for railway transportation services. To ensure that *Suica* has a solid position among the top IC cards in the future, JR East is taking steps to expand the coverage area and support additional functions that enable *Suica* to offer indispensable utility in customers' daily lives. In this way, we are seeking to make *Suica* business an additional main pillar of the JR East Group's operations.



Concept illustration of the Tohoku Through Line



Mobile Suica



Q8. The success of these corporate development initiatives will depend on the capabilities of the JR East employees implementing them. What are your ideas about human resource development?

A. One of a company’s top missions is ensuring the sustainability of its operations. Because of the age structure of its workforce, JR East will soon undergo a period of elevated employee retirement rates, and this makes it extremely important that the Company quickly fosters the development of its next generation of leaders. In view of this, we established one of Japan’s largest personnel training centers in Japan—the JR East General Education Center—in April 2000, and we have initiated diverse kinds of training programs at that facility. The annual number of people participating in those programs has risen to approximately 90,000. This figure means that, on average, each of our employees participates in at least one program every year.

Naturally, it is important to supplement the courses at the training center with on-the-job training programs that promote the direct transferal of methodology and technology from

veteran employees to newcomers. On the other hand, we are introducing new, more-advanced technologies on a day-to-day basis, particularly with regard to such IT technologies as those used in signaling and communications systems. To keep up with the pace of progress in such sophisticated technological fields, we have taken a trial-and-error approach in continually organizing experimental training programs, including those involving the temporary assignment of our young employees to work at the facilities of electronics companies and participate in cooperative technology development programs. While we must work to increase our operational efficiency in the near term, it is equally important from a long-term sustainability perspective to proactively invest in various complementary kinds of classroom and on-the-job training programs.

Q9. Could you explain JR East’s CSR initiatives?

A. By their nature, JR East’s operations are very tightly linked with society at large and local communities, and we cannot develop our operations without constantly keeping that linkage in mind. Given this situation, it is clear that CSR efforts must be an integral part of our strategy for realizing sustained business development.

Regarding environmental protection, we are proactively working to meet the CO₂ emission reduction goals and other environmental protection index targets included in our *New Frontier 2008* medium-term management plan. One example of an initiative in this area is the autumn commencement of commercial services using hybrid railcars equipped with power-generating diesel engines, which store electricity in batteries for motive force. In the current fiscal year, we will begin experimental use of

a more advanced fuel cell hybrid railcar. If our research is successful, we will ultimately be able to operate zero-emission electric trains that eliminate overhead electric power lines simply by using a combination of energy obtained from recharging train batteries overnight at rail yard bases and supplementary energy from fuel cells.

Moreover, JR East can help reduce society’s overall emission of CO₂ by encouraging people to make use of rail transportation, which has less environmental impact than other transportation modes. To do this, we must strive to improve our services in ways that attract additional customers. This kind of approach to concurrently expanding our operations and contributing to society is the foundation of most of our CSR activities.



JR East General Education Center



Hybrid railcars that employ fuel cells



Q10. In conclusion, please tell us about your progress in implementing the *New Frontier 2008* medium-term management plan and your goals for fiscal 2007.

A. JR East began implementing *New Frontier 2008* in fiscal 2006, and we made steady and clearly evident progress during the year in attaining various service improvement objectives based on that plan. Examples include our moves to increase the number of trains running on the Shonan-Shinjuku Line, increase the number of *Green Cars* on various lines, develop additional station-space utilization business, and increase the functions and applications of *Suica*. We also made smooth progress toward our three main numerical targets, which focus on debt reduction, capital investments, and shareholder returns. Moreover, the fiscal 2006 levels of operating revenues and net income were the highest recorded since JR East began preparing consolidated accounts in fiscal 1991.

In fiscal 2007, the second year of *New Frontier 2008*, we do not plan to complete any megaprojects but will focus mainly on building a solid foundation for projects designed to create major sources of profitability in the future. I intend to make this year one in which we effectively make the right initial moves toward key medium- and long-term objectives, such as the redevelopment of the Tokyo Station district and the strengthening of our railway network. At the same time, we will naturally be working

to strengthen our operating base and further enhancing profitability by selectively concentrating resources in strategic fields as well as by relentless cost-cutting. Regarding dividends, we have a policy of seeking to keep our consolidated dividend payout ratio above 20%, and we are aiming to set dividends applicable to fiscal 2007 at ¥9,000 per share.

Fiscal 2007 is a highly significant year in that it is the 20th year of JR East's operations and in that we are positioning it as a year in which we prepare a solid foundation for a future surge in corporate development. We are naturally busy with the preparation of numerous business development projects, and we are equally intent on enhancing our capabilities with respect to safety, service quality, and human resources, as these factors are integral parts of our foundation for future business growth. In particular, we are energetically marshalling all the JR East Group's resources in a concerted effort to ensure "extreme safety." We intend to build a Group structure with outstanding capabilities for providing "*anshin*," and we recognize that this project is one that will require us to make sustained efforts to overcome all types of challenges.

JR EAST GROUP MEDIUM-TERM MANAGEMENT PLAN

New Frontier 2008: New Creation and Evolution (2005-2008)

