

## GROUP STRATEGY

## An Interview with the President



Satoshi Seino, President and CEO

**Can you please summarize once again the distinctive features of *JR East 2020 Vision—idomu*—which was announced at the end of March 2008?**

One noteworthy aspect of the plan we prepared in March last year is the long period it covers—10 years. Previously, we prepared medium-term management plans covering periods of four or five years. However, the particular characteristics of railway operations make it preferable to work with timeframes that give us enough time to move initiatives forward, slowly but surely, to become the kind of company we want to be. Accordingly, we took a long-term view, looking 10 years, or in some cases even 15 years, ahead, and, within this timeframe, considered the corporate profile we aspire to and the measures needed to that end.

Another feature of the plan is the key theme: *idomu*, which means “challenge” in Japanese. That theme reflects the fact that, in response to tough business conditions characterized by an aging population and general market volatility, we must adopt methods that depart from previous approaches, set ourselves ambitious goals, and boldly take on the challenge of reaching them.

In other words, *JR East 2020 Vision—idomu*—calls on us to take on the challenge of meeting ambitious long-term goals.

To be a little more specific, under the heading of “things that must change,” the plan urges us to take on the challenge of initiatives that transcend previous frameworks by “Moving Up a Gear in Seven Areas,” which relates to our core railway operations; life-style businesses, the second major pillar of our operations; and the future status of *Suica* operations as a third pillar. At the same time, the plan identifies as “things that must not change” the “JNR reform” mindset that is part of our organizational DNA and the distinctive JR East dedication to safety as a management priority.



**Looking back over fiscal 2009, did JR East make good progress under *JR East 2020 Vision*? Also, what measures will you advance in fiscal 2010?**

In fiscal 2009, ended March 31, 2009, the global financial crisis triggered a rapid economic recession that had a fairly significant effect on JR East’s business results. Despite those tough business conditions, respective businesses made steady progress toward the corporate profile set out in *JR East 2020 Vision*. However, we have only completed one year under the plan, so concrete results will not emerge until later.

In transportation operations, in the Tokyo metropolitan area, as part of efforts to make line-side areas more attractive and convenient, we advanced construction for the opening of Musashi-Kosugi Station on the Yokosuka Line, which is scheduled for the end of fiscal 2010. In initiatives to expand our through-service network, we began construction work to lay additional tracks between Ueno and Tokyo stations to enable operations of the Tohoku Through Line, slated to begin operations in fiscal 2014. And, we prepared for mutual through services with Sotetsu, which will start from fiscal 2015.

As for railcars, fall 2009 will see the introduction of a new-type railcar to the Narita Express. In addition, we moved forward steadily with preparation for the introduction of high-speed E5 series railcars to coincide with the extension of the Tohoku Shinkansen Line to Shin-Aomori Station, planned for December 2010.

In life-style businesses, JR East stepped up initiatives to increase non-transportation operating revenues to approximately 40% of total operating revenues by fiscal 2018. Also, in fiscal 2009 we undertook medium-scale development at Tachikawa Station, Tabata Station, and other railway stations. Looking ahead to the concentration of large-scale development projects for terminal stations, including the upgrading of railway facilities, in the second half of the *JR East 2020 Vision* period, we readied our in-house organization by establishing the new Station Development Planning Department in June 2008. Further, we are carrying out plans for projects that combine the enhancement of railway stations with the large-scale development of shopping centers, office buildings, and other facilities at the new south exit of Shinjuku Station, Chiba Station, the west and east exits of Yokohama Station, and Shibuya Station. In addition, we are furthering a project to create a large developable area of land by reorganizing and downsizing facilities at the Shinagawa rail yard.

For *Suica*, we aim to make it the de facto standard IC passenger ticket by enabling its use in railway networks throughout Japan. At the same time, we also want to make *Suica* the number one form of electronic money. Regarding *Suica* as an IC passenger ticket, commencement of mutual use with transportation companies in Kyushu in spring 2010 will enable the use of *Suica* in most of Japan’s major cities, such as Tokyo, Osaka, Nagoya, Sapporo, and Fukuoka. Regarding *Suica* as electronic money, it is becoming ever more convenient with its acceptance at an increasing number of convenience stores and restaurants throughout Japan. Daily *Suica* transactions reached a high-water mark of 1.42 million during fiscal 2009. With a view to reaching 8 million transactions by fiscal 2011, we will strengthen related measures.

Operating Revenues



Operating Revenues	Millions of Yen
Transportation	¥1,831,933
Station Space Utilization	415,020
Shopping Centers & Office Buildings	222,628
Other Services	227,419

Operating Income



Operating Income	Millions of Yen
Transportation	¥309,219
Station Space Utilization	38,159
Shopping Centers & Office Buildings	70,038
Other Services	17,261

- Transportation
- Station Space Utilization
- Shopping Centers & Office Buildings
- Other Services

Our initiatives to enter new business areas included forming a new in-house taskforce for overseas railway operations, which has begun examining possibilities and frameworks for the development of overseas operations. As worsening global environmental problems cause mounting concern, countries around the world are reassessing railways as environment-friendly mass transportation systems, and an array of railway construction projects are in the pipeline. Our first step in overseas operations will be to draw on the expertise of JR East and its Group companies in such areas as railway operations and maintenance to provide consulting services for those projects.

Additionally, we intend to actively tackle environmental problems. In order to conduct specialized research on railway-related technology themes that will help address global environmental problems, we established the Environmental Technology Research Center in April 2009. Also, looking at possible tie-ups with universities and manufacturers, we want to become the world leader in environmental technology for railways.

In other environmental preservation efforts, for *ecoste*—railway stations that incorporate a wide variety of environmental technologies such as solar power generation and LED lighting—we are considering designating one railway station in the service area of each of our 12 branch offices as a model railway station. As far as possible we will power those railway stations using solar and wind power generation.

Also, having begun operating the world's first commercial hybrid railcars on the Koumi Line, we will introduce new-type resort trains incorporating the same technology. We plan to introduce a total of 10 railcars to three regions: the Aomori region, to coincide with the extension of the Tohoku Shinkansen Line to Shin-Aomori Station; the Akita region, to replace existing resort trains that have become obsolete; and the Nagano region. Compared with diesel railcars currently in service, railcars that incorporate hybrid systems realize a 20%\* reduction in fuel consumption and a 60% reduction in nitrogen oxide emissions. As diesel railcars become obsolete, we will replace a considerable portion of them with hybrid railcars. At present, the cost of producing hybrid railcars is relatively high. However, I think it will be possible to lower that cost through mass production.

\* An approximately 10% reduction on the Koumi Line because it has significant differences in elevation

Regarding investment, we are shifting from our former approach, which sought to balance the allocation of net cash provided by operating activities among capital expenditures, debt reduction, and returns to shareholders, to one that places greater emphasis on investment for growth to ensure the continuation and development of JR East as a company. As a result of heightening the priority of investment, we realized capital expenditures of ¥402.6 billion in fiscal 2009, and we plan to invest ¥455.0 billion in fiscal 2010.

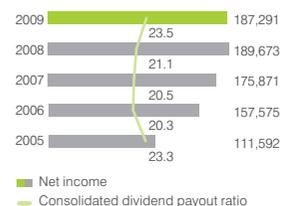
As for increasing returns to shareholders, our dividend policy is to raise dividends in stages toward the target for the consolidated dividend payout ratio of 30%. For fiscal 2009, we paid cash dividends of ¥110 per share, which would be a ¥10 increase if the Company had executed the stock split that has an effective date of January 4, 2009, at the beginning of the previous fiscal year, and the consolidated dividend payout ratio was 23.5%. For fiscal 2010, in light of expected decreases in earnings and revenues, we plan to keep cash dividends at the same level as that for fiscal 2009. Further, in April and May 2009, JR East acquired 4 million shares of treasury stock, which represents 1% of total issued and outstanding shares of common stock. We have not retired the acquired shares, which we intend to hold as treasury stock. We will consider a range of options for increasing corporate value.

In fiscal 2009, we reduced total long-term debt by approximately ¥70 billion on a consolidated basis. Although the size of the reduction was smaller than in previous fiscal years, we will continue working to strengthen our financial position.

Note: JR East implemented a stock split at a ratio of 100 shares for 1 share of common stock with an effective date of January 4, 2009.

→ P41

Net Income and Consolidated Dividend Payout Ratio  
Millions of Yen/%



*JR East 2020 Vision* includes numerical targets for fiscal 2011. However, I think achieving those targets will be difficult, based on consideration of the effect that significant changes in business conditions have had on fiscal 2009 business results and the fiscal 2010 business results outlook. Although revision of medium-term numerical targets will become necessary, for the time being, we will not revise them because I think we need time to carefully assess outside conditions that are opaque at the moment. As an immediate goal, I want to make sure that we achieve the business results that we forecast for fiscal 2010. Further, refraining from revising fiscal 2018 targets, we will continue working to raise corporate value from a long-term standpoint that looks to the coming decade.

### What kind of compensatory measures did you take in response to the tough business conditions in fiscal 2009? Further, how do you view business results figures?

Looking back over fiscal 2009, in the first half of the year business results were at roughly the same level as those of the previous fiscal year. Although there is traditionally a lag before economic fluctuations affect railway operations, we began to see the effects from around November, mainly in revenues from medium-to-long-distance services, including Shinkansen services and other services. We believe that a downturn in business trips and other business demand was a major factor. As countermeasures, we created products to suit customers' individual needs and encouraged tourism through a variety of campaigns. Thanks to close collaboration with local parties to aggressively promote such campaigns as the *Sendai / Miyagi Destination Campaign* as well as a concerted and concentrated Companywide effort to provide customers with transportation services, the number of destination campaign customers surpassed our target for fiscal 2009.

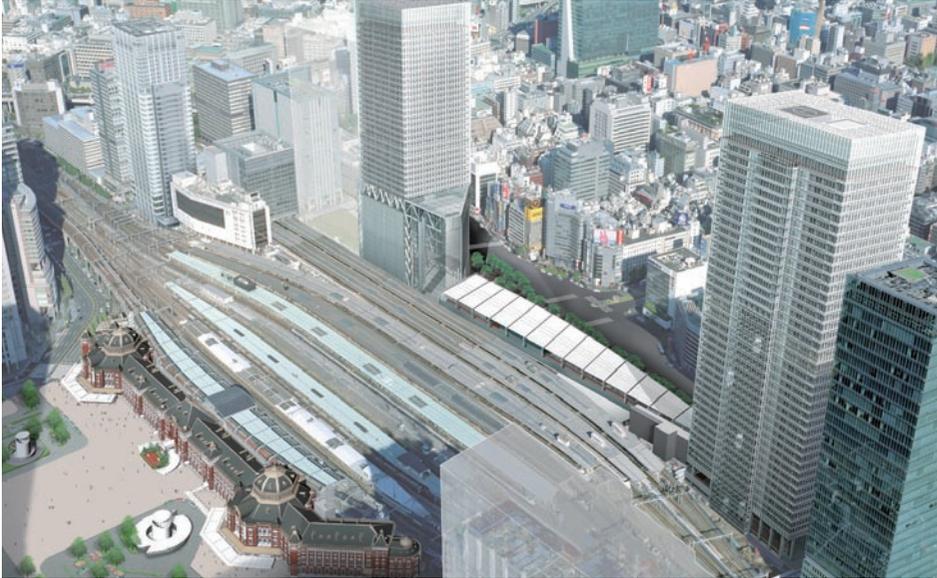
Meanwhile, to mitigate lower revenues, we made rigorous cost reductions that included reviewing the timing of renovation work and operational processes. However, those efforts did not fully offset the decrease in revenues, and transportation operations recorded a decline in revenues and earnings.

By contrast, in life-style businesses, station space utilization operations and shopping centers & office buildings operations posted higher revenues and earnings as a result of the full-fiscal-year operations facilities that opened in the previous fiscal year, including the commercial facility *GranSta* and the office building *GranTokyo*, as well as contributions from facilities that began operations in fiscal 2009. Although competitors throughout the department store sector saw sales plunge due to the steep decrease in consumer spending that came with the recession, JR East's existing stores performed well. Rather than feeling complacent about the advantages of their railway station locations, our shopping centers remodeled and brought in major tenants based on marketing strategies to earn unequivocal customer endorsement. For example, *LUMINE* achieved record revenues in the year under review.

Despite those initiatives, however, revenues and earnings declined for the first time in four years. Nevertheless, I think we performed solidly at a time when Japanese companies across the board are reporting large drops in revenues and earnings or alternatively recognizing outright losses. JR East only saw modest decreases of 0.2% in operating revenues and 1.3% in net income. Moreover, we posted our highest-ever net cash provided by operating activities.

### How do you intend to overcome the challenging business conditions that are likely to continue in fiscal 2010?

For fiscal 2010, we are preparing business results forecasts assuming a 6% decrease in the real gross domestic product growth rate, which is the base of our revenues. Until October 2009, when the recession will have been affecting us for one year, we expect that business results will trend



Concept illustration of Tokyo Station City

downward at a rate that is the same as, or possibly slightly more pronounced than, the rate so far. For the full year, we anticipate an approximately 3%, or ¥61.9 billion, year-on-year decrease in operating revenues. However that forecast is not a sign of resignation, we will strive just as hard to earn even one extra yen or carry even one more passenger.

One such drive will involve working in partnership with local tourism associations and local authorities to bring to light tourism resources and attractions relating to the natural beauty, cuisine, and culture of regions in the JR East service area such as Tohoku and Joetsu. To take two examples, the *Yokohama / Kanagawa Destination Campaign* began in June and will end in August, and we plan to achieve further success with the *Niigata Destination Campaign* from October to December. Through such initiatives, we will further invigorate tourism and encourage use of our train services.

Coordinating with those efforts, we will secure revenues through steady low-key efforts to expand and enhance the services of the *Otona no Kyujitsu Club*, which now has more than 1 million members.

As for medium-sized development projects in life-style businesses, we are planning *ekinaka* ("spaces inside railway stations") stores at Gotanda Station, Mitaka Station, and other railway stations, as well as openings of railway station buildings at Higashi-Kanagawa Station and other locations. Further, we will vitalize existing stores by repositioning them or changing their business formats.

**As part of its pursuit of "extreme safety levels" as its highest priority, JR East began 2013 Safety Vision in March 2009. As well as summarizing the background of the plan's preparation, could you explain your approach to safety?**

At the time of the privatization of Japanese National Railways, some expressed concern that as a private-sector company JR East would give priority to profit at the expense of safety. However, in fact, since its founding JR East has reduced operational railway accidents by roughly three-quarters. Taking safety lightly would lose the trust of passengers and endanger our survival as a company. As a railway operator, earning the trust of passengers is paramount, and, ultimately, that trust is founded on safety.

Trends in Railway Accidents  
(Years ended March 31)



Identifying safety as one of the “things that must not change,” *JR East 2020 Vision* reaffirms that safety is JR East’s highest priority and the focus of an “unflagging commitment.”

Under the slogan of “extreme safety levels,” we will take a wide variety of measures to improve employee training and facilities. In recent years, serious accidents have occurred, such as the accident on the Uetsu Line in 2005 in which five passengers lost their lives. We vow to avoid the recurrence of such an accident, and we will pursue the goal of eliminating accidents that result in the death or injury of passengers or the death of employees.

Here I would like to explain four important focuses of the *2013 Safety Vision* prepared in March 2009.

First, let me explain the “three actualities principle”—“actual location,” “actual object,” and “actual people”—which we elucidated upon to create action guidelines. Safety problems happen in frontline operations, therefore the answers to such problems are found in frontline operations. Taking the initiative in resolving problems by visiting sites, examining actual items, and meeting with those involved is critical. By following those action guidelines, we will steadily heighten the safety awareness of individual employees, who underpin the safety of JR East, and create an even more robust safety culture within JR East.

The second focus is on safety education for employees. Given the current rapid changeover to a new generation of employees that shoulder responsibility for safety in frontline operations, at worksites and branch offices we will foster key employees that have safety-related knowledge, teaching skills, and technical capabilities. In another initiative to pass on safety-related skills, we will create a system based on former employees and other safety veterans with large stores of knowledge who will recount their experiences at roundtable discussions and lectures.

Third, JR East will undertake initiatives based on new risk evaluations. Before, our accident countermeasures mainly concentrated on preventing accidents from recurring. As an addition to those activities, we will take preventative measures that will begin by addressing high-priority risks as identified by a new evaluation method.

The fourth focus of the plan is on capital expenditures for safety countermeasures. Since our founding, we have invested more than ¥2.2 trillion in safety. Continuing to invest in safety equipment, we have earmarked ¥750 billion for investment in safety over the coming five years.

Setting its sights on “extreme safety levels,” JR East will conscientiously and steadily advance initiatives to further enhance safety awareness and infrastructure.



**As a result of improper water intakes at its hydroelectric power plants on the Shinano River (“the Shinanogawa Power Plant”), JR East lost its water usage rights. How will this affect JR East’s operations, earnings, and expenses? Also, what measures are you taking to prevent the recurrence of this type of problem?**

In March 2009, the Ministry of Land, Infrastructure, Transport and Tourism ordered administrative measures cancelling JR East’s water usage rights in response to improper water intakes by the Shinanogawa Power Plant. I would like to apologize sincerely for seriously undermining the trust of the local community and other related parties as well as greatly inconveniencing them. I regret our insufficient appreciation of the preciousness of the water we were using and the special importance that the Shinano River and water have for those living in the Shinano River basin.

We will compensate for the shortfall in electric power resulting from the halting of operations at the Shinanogawa Power Plant through operations of a thermal power plant, the Kawasaki Power Plant. Because a range of variable factors are involved, including river water volumes, crude oil prices, foreign exchange rates, and electric power usage volumes, it is difficult to put an exact figure on the effect on earnings and expenses in fiscal 2010. However, we are preparing business results

forecasts based on certain assumptions. Further, we expect the present situation will affect our CO<sub>2</sub> emission volumes.

As measures to prevent a recurrence of such problems, we will improve the operational frameworks and systems for power generation operations and power plants. Also, we will strengthen education for employees relating to statutory laws and regulations. At the same time, JR East intends to advance compliance management further by conducting a comprehensive inspection of the compliance status of overall operations. In addition, we will work wholeheartedly to regain the trust of all parties concerned.

### Lastly, looking ahead, what kind of corporate profile do you think JR East should aspire to?

JR East's philosophy states that its mission is to become a *Trusted Life-style Service Creating Group*. Accordingly, I want JR East to be a company that gives customers peace of mind when they hear our name. With safety as an overriding precondition, by providing reliable transportation services and easing crowding to increase comfort as a matter of course, I want us to be an entity that people do not normally think about but one that they need for everyday life, like oxygen.

I want local communities and society at large to value JR East as a company that, through sound management, contributes to the convenience of towns by functioning reliably as an important part of the infrastructure that underpins everyday life. For example, I want JR East to meet a range of expectations as a corporate group rooted in regions, such as playing an even more active role in stimulating interregional exchanges, including those between the Tokyo metropolitan area and regional areas. In that role, when developing tourism and other projects, rather than imposing our ideas from above, we will collaborate with local authorities and tourism associations to realize proposals from local residents. The resulting initiatives may need time to become established. However, growing numbers of tourists will energize communities and engender regional pride and confidence. Moreover, the economic benefits will give communities a new vitality. Those are the kinds of dynamics that I want to create.

Further, I would like shareholders and other investors to feel confident that JR East is a company that will tirelessly take on challenges and continue to grow sustainably.

For employees, I want JR East to provide a workplace that encourages them to take on challenges and work enthusiastically toward realization of their ambitions.

That is my ideal company.

