An Interview with the President

Satoshi Seino, President and CEO

Q: In fiscal 2010, Japanese companies faced tough business conditions. What kind of year was it for JR East?

A: Fiscal 2010 was the second year of *JR East 2020 Vision—idomu—*, and as such we viewed it as an important year for consolidating our foundations in preparation for growth in the coming period. Conditions remained tough in Japan's economy. Although there were signs of recovery in some sectors, the employment market remained unfavorable, while a slight deflationary trend emerged. As well as the effect of the recession, the government introduced an upper limit of ¥1,000 for expressway tolls on weekends and public holidays, and there was concern over a new influenza virus. As a result, revenues from passenger tickets declined year on year for 17 consecutive months through March 2010, falling to the level of 20 years ago on a full-year basis. JR East recorded decreases in revenues and earnings for the second consecutive fiscal year as well as the biggest year-on-year decreases in revenues and earnings in its history. Further, business demand remained lackluster. Also, because people tended to make fewer excursions, we posted unfavorable performances not only for busy periods such as the Golden Week spring holiday, the *Bon* Festival summer vacation period, and the New Year period but also for three-day weekends in summer, fall, and at the beginning of the year. Meanwhile in life-style businesses, the downturn in consumer spending hit existing store sales particularly hard. In a word, the year was tough.

Fiscal 2010 Results

	Billions of Yen
Operating revenues	¥2,573.7
Transportation	1,758.0
Station Space Utilization	387.1
Shopping Centers & Office Buildings	226.9
Other Services	201.7
Operating income	¥344.8
Transportation	231.3
Station Space Utilization	33.3
Shopping Centers & Office Buildings	69.3
Other Services	13.5

Q: Faced with such difficult business conditions, what concrete measures did you take, including additional measures not initially planned, and what results did they produce?

A: Because we have a revenue and expenditure structure in which there is a close correlation between revenue and such outside conditions as economic and population trends, and given that railway operation is a labor-intensive industry that requires large amounts of facilities and equipment, long-term measures are both numerous and important. Also, the majority of our expenses are fixed costs. So, lower revenue basically leads to a decrease in earnings.

Accordingly, in response to the current major recession, in fiscal 2010 we took measures based on the following two strategies. First, we focused strongly on revenue, and took emergency measures to increase revenues accordingly. Second, mindful of the commitment we made to shareholders and other investors to meet earnings targets, we took a range of steps to revise and reduce costs. As a result, we outperformed the revised earnings targets released in January for revenues from passenger tickets as well as consolidated operating income, ordinary income, and net income, with operating income and ordinary income both surpassing the targets by more than ¥10 billion.

In railway operations, as well as measures that we had planned from the outset, such as launching *Destination Campaigns* for Niigata and Yokohama in order to increase tourist numbers and stepping up online ticket sales, we took concerted emergency measures involving all employees and as a result produced positive results. Specifically, aiming to stimulate travel demand and respond to the lowering of expressway tolls, we launched such promotional passenger tickets as the *Two-Day Pass* and the *Weekend Day Trip Pass* as well as created and marketed affordable products combining rent-a-car services and railway services. In another initiative, we responded to the tendency for people to travel more on weekends due to the introduction of an upper limit of ¥1,000 for expressway tolls on weekends and public holidays by establishing weekday discount products to stimulate travel demand for train services during the week.

By rescheduling maintenance work that has little effect on safety and rigorously reducing operating expenses throughout the Company, we increased earnings.

Meanwhile in life-style businesses, in addition to measures based on the *Station Renaissance* program, the Group united in a variety of efforts to increase revenues. For example, railway stations and Group companies worked together to promote sales. Even though existing stores faced an uphill battle, *GranSta* at Tokyo Station posted a year-on-year increase in sales thanks to remodeling and the planning and launch of products exclusive for *GranSta*. Also, while downtown department stores saw revenues plummet, existing stores in railway station buildings performed comparatively well.

Even in these tough business conditions, however, our long-term business management stance and *idomu* mindset, or our appetite for challenges, were unwavering. In line with initial plans, we implemented our largest ever capital expenditures: more than ¥430 billion on a consolidated basis and more than ¥360 billion on a nonconsolidated basis. In railway operations, we opened Musashi-Kosugi Station on the Yokosuka Line / Shonan-Shinjuku Line, introduced new-type railcars to the Narita Express, and took steps toward increasing the operational speed of Tohoku Shinkansen services. At the same time, life-style businesses advanced the *Station Renaissance* program and opened new stores and railway station buildings.

We oppose the introduction of an upper limit for expressway tolls and toll-free expressways for three reasons. First, the serious effect on the business management of railways, ferries, buses, and other public transportation systems could significantly upset the balance of Japan's overall transportation system. Second, although the benefits of the new system are limited to users of expressways, it is the Japanese public that shoulders its cost. This is unfair because it runs counter to

Fiscal 2010: Tough Business Conditions

- Recession
  - Unfavorable Business Demand Trends
  - Tendency to Make Fewer Excursions
  - Downturn in Consumer Spending
- Upper Limit of ¥1,000 for Expressway Tolls on Weekends and Public Holidays
- New Influenza Virus

Measures Responding to the Tough Business Conditions

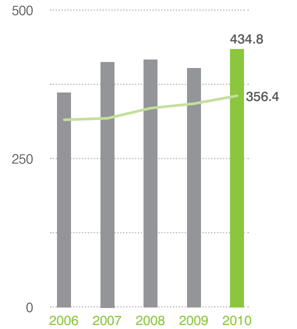
- Stimulating Travel Demand
- Responding to the Lowering of Expressway Tolls
  - Promotional Passenger Tickets: *Two-Day Pass*, *Weekend Day Trip Pass*, etc.
  - Affordable Products Combining Rent-a-Car Services and Railway Services
  - Weekday Discount Travel Products by Train

the principle of beneficiaries shouldering the burden. Third, the new system is incompatible with environmental policies that set out very ambitious targets for reducing CO_2 emissions and call for further modal shift. Seven JR Companies including JR East have expressed their opposition to the Ministry of Land, Infrastructure, Transport and Tourism and requested postponement of the system. We estimate the introduction of an upper limit of ¥1,000 for expressway tolls on weekends and public holidays resulted in around ¥9 billion decrease in revenue in fiscal 2010.

Q: Fiscal 2011 is the third year of *JR East 2020 Vision—idomu—*, what kind of business conditions do you expect, and what management strategies and measures will you implement?

A: I feel the decline in revenues from railway operations is likely to bottom out. Year-on-year revenue decreases began shrinking from November 2009. By April 2010, revenue was almost unchanged year on year. Promising signs in this regard are appearing. As for multiple-trip tickets for Shinkansen line segments, which we use as an indicator for business demand trends, sales were down about 20% year on year during fiscal 2010. By March and April 2010, however, sales had recovered to around the level of the previous fiscal year. On the other hand, there are many uncertainties in the economic situation as a whole, and competition is becoming fiercer. Viewing such adversity as an opportunity, the Group will work in unison to take on the challenge of securing revenue and revising its cost structure drastically through strategic downsizing. Of course in those efforts, ensuring safety and increasing customer satisfaction will be overriding imperatives.

Capital Expenditures and Depreciation
Billions of Yen
Capital Expenditures
Depreciation



In railway operations, *2013 Safety Vision,* which we began from fiscal 2010, calls on JR East to maintain an unflagging commitment to pursuing "extreme safety levels." Guided by that vision, we will adhere rigorously to the "three actualities principle," which require us to grasp situations correctly and respond to them correctly by addressing "actual location," "actual object," and "actual people." Our investment in safety will focus on such areas as preventing train collisions and preventing excessive train speeds through ATS-P and ATS-Ps systems as well as increasing and improving facilities for coping with natural disasters, including windbreak fences and gale warning systems.

The extension of the Tohoku Shinkansen Line to Shin-Aomori Station on December 4, 2010, will be a historic event marking the completion of all segments of the Tohoku Shinkansen Line. We plan to leverage that extension through a range of initiatives. To begin with, the journey from Tokyo Station to Shin-Aomori Station will take about 3 hours and 20 minutes, roughly 40 minutes less than it does now. However, the March 2011 introduction of the E5 series railcars, or *Hayabusa*, will enable operational speeds of 300 km/h and shorten the journey to about 3 hours and 10 minutes. We will then increase operational speeds in stages in order to reach 320 km/h by the end of fiscal 2014, shortening the journey to Shin-Aomori Station by about a further 5 minutes. Increasing the speed of Shinkansen services in this way will enable us to claim an even larger share of the market for travel between Tokyo and Aomori in relation to airline services. At the moment, we account for roughly 70% of that market.

In a related initiative, we will introduce first class to Shinkansen services, named *GranClass*, for the E5 series *Hayabusa*. By focusing on comfort and quietness, we will provide a travel environment with a high-end, relaxing atmosphere and services previously unseen in Japanese railway services.

Aiming to increase tourist numbers, we will work in partnership with local communities to develop tourism and encourage more customers to travel to Aomori and Shinshu, for which we will implement a *Destination Campaign*. Also, to coincide with the extension of the Tohoku Shinkansen Line to Shin-Aomori Station, we will introduce new-type resort trains. Further, under our new *Tabi-Ichi* brand we will develop appealing travel products based on local people's ideas.

In life-style businesses, we will advance the *Station Renaissance* program at Tokyo Station while developing the Hachioji Station South Exit Building (provisional name) and the Akihabara Denkigai-guchi Building (provisional name). Further, we will move forward with the large-scale development of terminal stations, including *Tokyo Station City* at Tokyo Station, Shinjuku Station, and Chiba Station.

Another focus of efforts will be advertising operations. We intend to exploit such new technologies as WiMAX to develop digital signage, thereby boosting the appeal of transportation advertising media. An example of our ground-breaking advertising media is *J-AD Vision*, which is a single large LCD display that can switch among multiple advertisement videos. We are currently installing *J-AD Vision* in the station concourses of Tokyo Station, Yokohama Station, and Shinagawa Station, and we plan to install it in an increasing number of railway stations going forward.

Regarding the development of railway systems overseas, the adoption of Japan's famous advanced Shinkansen technology in the United States and other countries would benefit Japanese industry in general. With that in mind, against a backdrop of increased public and private sector collaboration to promote such development, we intend to work with railway-related manufacturers to tackle projects relating to the United States, Vietnam, and other countries proactively.

Our efforts to drastically reform our cost structure through strategic downsizing will not only involve streamlining existing facilities but also revising specifications and performance levels when implementing capital expenditures, revising maintenance methods for equipment and railcars, reducing costs by encouraging competition when making orders and concluding contracts, and revising work methods in order to reduce maintenance and construction work costs.

Q: How do you expect fiscal 2011 business results will reflect the cumulative effect of such measures?

A: Through those initiatives, for fiscal 2011 we are targeting higher earnings and revenues for the first time in three fiscal years. We aim to record operating revenues of ¥2,585 billion and operating income of ¥352 billion.

In transportation operations, although we will likely see the effect of the new toll system for expressways, we anticipate revenues from passenger tickets will edge up slightly year on year due to such factors as a pickup in business demand. In addition, operating income is likely to rise thanks to a significant ¥48.4 billion reduction in personnel expenses accompanying the completion of the amortization of differences arising from a change of accounting standards for retirement benefit obligations.

In both station space utilization operations and shopping centers & office buildings operations, we expect to see higher revenues and lower earnings due to an increase in depreciation associated with large-scale investments in systems as well as expenses stemming from the remodeling of railway station buildings. Overall, these figures may seem a little conservative, but store closures during the rebuilding of railway station buildings will also affect results. However, if we reach the fiscal 2013 numerical targets, released when we announced our business results for the fiscal year under review, all business segments will see increases in revenues and earnings in fiscal 2013. The benefits of new business launches will likely underpin that improvement.

Taking those positive and negative factors into account, we will implement a range of measures to increase revenues and reduce costs in order to ensure that we reach the targets for the current fiscal year.

Fiscal 2011 Targets

	Billions of Yen
Operating revenues	¥2,585.0
Transportation	1,757.0
Station Space Utilization	399.0
Shopping Centers & Office Buildings	228.0
Other Services	201.0
Operating income	¥352.0
Transportation	240.0
Station Space Utilization	32.0
Shopping Centers & Office Buildings	66.0
Other Services	15.0

Regarding investment plans, despite the ongoing severity of business conditions, based on *JR East 2020 Vision—idomu—*, we have earmarked ¥380 billion on a nonconsolidated basis and ¥472 billion on a consolidated basis for investment—both record highs. It is sometimes pointed out that JR East does not generate enough revenues and earnings for such investment amounts. However, many of JR East's capital expenditure projects require long construction periods before completion. If we take a long-term perspective, such investments will contribute to revenues and earnings. Through the accumulation of these projects, by fiscal 2018 non-transportation operations will account for approximately 40% of consolidated operating revenues, up from about 30% at present.

* In Japan, the introduction of a new toll system for expressways is planned, including the setting of an upper limit of ¥2,000 and the establishment of toll-free expressways in certain areas. Based on an analysis by the Institute of Transportation Economics using its transportation volume analysis model, the effect of that new system on JR East in fiscal 2011 will be approximately ¥9 billion. Forecasts of our business results consequently reflect that figure.
* JR East is currently in the midst of making calculations and holding discussions with related parties regarding the incurrence of new usage fees due to higher demand resulting from the extension of the Tohoku Shinkansen Line to Shin-Aomori Station. Consequently, forecasts of business results do not reflect such factors.

Q: Can you please explain what led you to set out the numerical targets for the coming three years that you announced?

A: Given the volatility of economic conditions, I think that it will be very difficult to reach the numerical targets we set out for fiscal 2011 as the final year of the three-year targets, announced at the same time as *JR East 2020 Vision—idomu—*. Given that signs of economic recovery are appearing at last and enabling us to look several years ahead, we decided to establish new three-year targets at this juncture. Assuming GDP growth, and allowing for a variety of factors that will contribute to higher earnings, such as new development projects in life-style businesses and cost reduction measures, for fiscal 2013 we are targeting consolidated operating revenues of ¥2,697 billion, operating income of ¥410 billion, and ROA of 6%. → See page 20

However, there will be no change to the emphasis on increasing operating cash flows stated in *JR East 2020 Vision—idomu—*. Over the three-year period from the current fiscal year, we aim to generate consolidated operating cash flows of ¥1,700 billion. As for the use of operating cash flows, we have heightened the priority of investments for future growth, business expansion, and the strengthening of operational foundations. Accordingly, we will deploy ¥1,400 billion to these areas over the next three years. Regarding dividends, we are aiming for a consolidated dividend payout ratio of 30% as an immediate target. Meanwhile, we will continue reducing total long-term debt. However, we will review the scale of that reduction going forward.

Further, *JR East 2020 Vision—idomu—* is a medium-to-long-term plan that looks 10 years ahead. Following its basic strategies, we will continue tirelessly pursuing fiscal 2018 numerical targets—operating revenues of ¥3,100 billion and operating income of ¥670 billion—as ambitious goals befitting the *idomu* mindset.

Q: One year has passed since the cancellation of the water usage rights of the Shinano River power plants. What has been the situation since then, and has it affected business results?

A: On March 10, 2009, JR East became subject to administrative measures under the River Law that cancelled its permit to possess running water for its Shinano River power plants because water intake at the plants had exceeded the maximum permitted. Since then, we have taken corrective action in adherence with the administrative measures, established measures to prevent a recurrence, and worked to realize close collaboration with local communities.

Based on the agreement of all related parties, on April 2, 2010, we filed an application for a permit to possess running water with the Director General of the Hokuriku Regional Development Bureau of the Ministry of Land, Infrastructure, Transport and Tourism. As a result, we received a permit on June 9, 2010.

The hydroelectric power plants have already resumed operations. We intend to manage river flow volumes and water intake volumes in stringent adherence with statutory laws and regulations as a matter of course. Furthermore, we want to make wholehearted efforts to operate in harmony with the river environment of the Shinano River and coexist with local communities.

As for the impact on fiscal 2010 business results, I cannot give exact figures because the flow volume of the river varies greatly from year to year, making it difficult to verify how much hydroelectric power we would have generated if we had not been subject to administrative measures that cancelled our permit to possess running water. Further, because when we were preparing targets it was not clear when we could resume hydroelectric power generation, we have set our fiscal 2011 target for energy expenses at the same level as that of fiscal 2010.

Q: In closing, what kind of company do you want JR East to become?

A: JR East's philosophy is to become a *Trusted Life-style Service Creating Group*. In order to realize that philosophy, we have to think about what JR East should mean to customers, regions, and employees.

For customers that use railway services everyday to commute to work or school, JR East's services are indispensable in their daily lives as well as something they take for granted. By providing safety and comfort as a matter of course and enabling customers to use our services with peace of mind, I want us to be an entity like oxygen—a necessity in our daily lives but not something that we are consciously aware of. At the same time, I want us to be the natural choice of customers when they are selecting a means of transportation.

In addition, I want JR East, as a corporate group rooted in regions, to play an even more active role in stimulating exchanges between the Tokyo metropolitan area and regional areas through its business activities. JR East's service area comprises a diversity of regions such as the Kanto area, the Tohoku region, and the Joshinetsu region, each of which has outstanding attractions. Some of those attractions remain relatively unknown. By unearthing and advertising them, we aim to give customers a real sense of the appeal of JR East's service area and ensure they are fully satisfied with their trips. In this way, we will help invigorate regions. That is the kind of role I want JR East to play.

With respect to shareholders, I want us to be trusted, and I want us to be a corporate group that is always taking on challenges, that is not content with balanced contraction even though the population is declining, and that aims for sustainable growth.

For employees, I want JR East to give a great deal of professional fulfillment. At the same time, I want them to feel proud of JR East as a company that is an indispensable part of society.

That is the kind of company I want us to become.