

Corporate Governance

JR East's Basic Corporate Governance Philosophy

Corporate Governance Guidelines (Article 2)

The Company aims to meet the expectations of its stakeholders, including shareholders, customers, and communities, by making transparent, fair, and prompt decisions in addressing its challenges, such as ensuring safe and reliable transportation services and implementing service quality reforms. JR East thereby works toward its goals of achieving sustainable growth in its business centered on train stations and railway facilities and improvements in corporate value over the medium to long term.

Because of the special characteristics of JR East's mainstay railway transportation operations, the Company emphasizes making management decisions based on a long-term perspective. Accordingly, JR East believes the most appropriate course is to enhance corporate governance based on its current auditor system of governance.

Corporate Governance Guidelines (Established November 25, 2015)
http://www.jreast.co.jp/e/data/pdf/20151125_guidelines.pdf

Current Status of Corporate Governance Systems

Reason for Adopting Current Corporate Governance System

Corporate Governance Guidelines (Article 16)

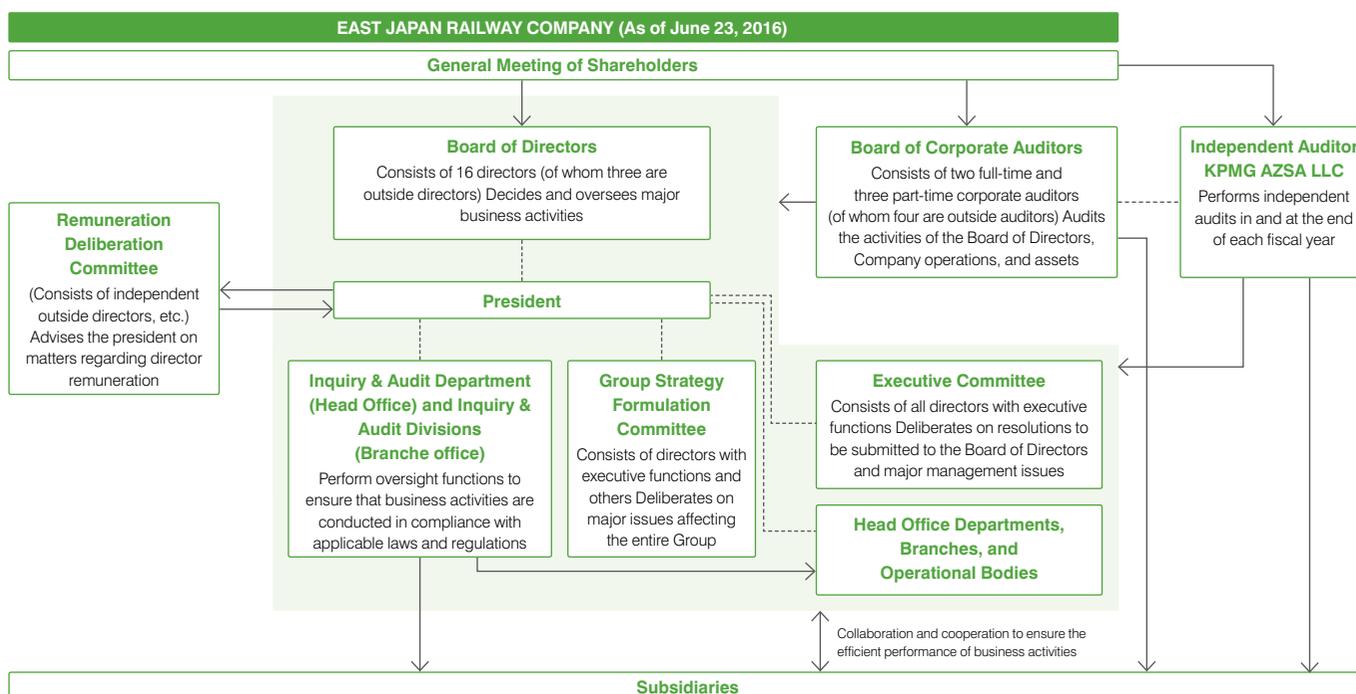
As a range of knowledge and experience on safety maintenance and other matters, combined with decision-making from a medium- to long-term perspective, is necessary for JR East's primary business—railway transportation operations—the Company has established a Board of Directors and also a Board of Corporate Auditors composed of corporate auditors that are independent from the Board of Directors.

Overview of Corporate Governance Units

JR East's Board of Directors comprised 16 directors, including three outside corporate directors as of June 23, 2016. Meeting once a month in principle, the Board of Directors decides on key operational issues relating to statutory requirements and other matters and supervises overall operations. Created by the Board of Directors, the Executive Committee includes all directors with executive functions. Meeting once a week in principle, the Executive Committee deliberates on matters to be decided by the Board of Directors and other important management issues. In addition, the Group Strategy Formulation Committee, which mainly consists of directors with executive functions, convenes as required and considers management strategy for respective operational areas and other significant Group issues with a view to developing the JR East Group as a whole.

Meeting once a month in principle, the Board of Corporate Auditors comprises five corporate auditors, including two full-time and three part-time corporate auditors, of whom four are outside auditors. In accordance with guidelines established by the Board of Corporate Auditors, the corporate auditors supervise the directors' implementation of operations by attending meetings of the Board of Directors, the Executive Committee, and other committees as well as by making inquiries regarding JR East's operations and assets.

Conceptual Diagram of Corporate Governance



Evaluation of the Effectiveness of the Board of Directors

Corporate Governance Guidelines (Article 25)

An analysis and evaluation of the effectiveness of the Board of Directors was conducted at a meeting of the Board of Directors convened on March 15, 2016. The results were as follows.

The Board of Directors is sufficiently fulfilling its role and duties and has been judged to be effective. Specifically, the Board of Directors conducts appropriate discussions regarding agenda items and makes reports sufficient for use in supervising the execution of business duties. In addition, it was confirmed that compliance and other systems had been effectively put in place.

In order to improve effectiveness of the Board of Directors, the standards for submitting matters for discussion by the Board of Directors were partially revised to allow for discussions to be focused more on important matters to facilitate more in-depth examination. Furthermore, based on input from independent outside directors, the Company also decided to begin providing opportunities for discussions to be held with such directors in regard to strategically important tasks for the Company.

Basic Internal Control Policy for Financial Reports

JR East's basic internal control policy for financial reports is as follows:

- 1) JR East will establish and operate systems required to ensure the appropriateness of documents relating to the financial statements and other information.
- 2) Regarding the establishment and operation of the systems indicated in the previous item, JR East will adhere to generally accepted standards for the evaluation of internal controls in relation to financial reports and evaluate internal controls each fiscal year.

Current State of Risk Management Systems

JR East has established the Transportation Operations Center, which operates 24 hours a day and has the task of ensuring rapid and appropriate responses in the event of an accident or disaster affecting railway operations. JR East has also established two specialized internal committees, the Railway Safety Promotion Committee and the Customer Comments Committee. The former stresses the prompt review, effective formulation, and promotion of measures for preventing railway operation accidents and accidents involving injury and death. The latter focuses on the effective formulation and promotion of measures for preventing the malfunction of railway cars, facilities, and equipment, and improving the response to service disruptions once a transportation malfunction occurs, with the aim of enhancing transportation service quality. In addition, the Railway-Related Risk Mitigation Committee was formed to facilitate the pursuit of higher levels of transportation safety and reliability through measures to prevent reoccurrence of transportation-related accidents and disruptions and to avoid such incidents altogether by maintaining an understanding of the risks and vulnerabilities faced by the Company.

With regard to the risk of a significant adverse influence on corporate operations due to such incidents as external offenses or internal misconduct and legal violations by JR East or its subsidiaries, all JR East departments undertake risk management activities. In addition, JR East has established the Crisis Management Headquarters based around

departments responsible for risk management, as well as implemented crisis management-related internal regulations. In the event of a problem, JR East's crisis management system calls for top management to participate in the immediate establishment of a preliminary task force that rapidly undertakes such actions as gathering the relevant information and implementing countermeasures.

Current State of Internal Audits, Corporate Audits, and Accounting Audits (Systems for Internal Audits, Corporate Audits, and Accounting Audits)

Regarding internal audits, JR East has established an internal auditing system involving approximately 100 full-time employees in the Inquiry & Audit Department at the Head Office and Inquiry & Audit divisions at branch offices, and together they work to ensure that corporate operations are executed lawfully and efficiently. Audits of the business execution status of the Head Office, Branch Offices, Operational Body, and other entities are performed according to an audit plan, and requests are made for the submission of progress updates for items requiring improvement. The audit results are reported to representative directors at the end of each accounting period and at other times deemed necessary. In addition, the Inquiry & Audit Department audits subsidiaries.

Regarding corporate audits, corporate auditors exchange information at monthly meetings of the Board of Corporate Auditors, and they also exchange auditing information with corporate auditors of subsidiaries at liaison meetings held at regular intervals. The audits of corporate auditors are supported by approximately 10 specialized staff. The system for the oversight of the implementation of operations by directors, carried out in accordance with the rules established by the Board of Corporate Auditors, centers on full-time corporate auditors who attend meetings of the Board of Directors, the Executive Committee, and other important in-house meetings as well as investigate financial situations and other items. Further, corporate auditor Toshiaki Yamaguchi is a certified public accountant and has extensive expertise with regard to finance and accounting.

Regarding accounting audits, the consolidated accounts of JR East are audited under contract by an independent auditor (accounting auditor), KPMG AZSA LLC, in and at the end of each fiscal year. The following is a breakdown of the certified public accountants who conducted accounting audits in the fiscal year under review as well as their auditing assistants.

- Designated certified public accountants:
Shozo Tokuda, Kazuhiko Azami, and Mamoru Ando
- Breakdown of auditing assistants:
Certified public accountants 17
Other 20

JR East facilitates coordination and information sharing to promote efficient and effective auditing. For example, full-time corporate auditors and the director responsible for internal auditing units hold liaison meetings, and full-time corporate auditors receive regular updates on audit implementation from the accounting auditor five times a year and at any other time deemed necessary.

Outside Directors and Outside Corporate Auditors

Corporate Governance Guidelines (Article 17)

The Company has three outside directors and four outside corporate auditors.

There is no conflict of interest between these outside directors, outside corporate auditors, and JR East with regard to personal relationships, capital relationships, business relationships, or other potentially conflicting interests the Company is obliged to disclose.

In addition to overseeing the business from an independent perspective, outside directors will be appointed with the goal of taking advantage of their significant knowledge and experience in the Company's business. The Company will appoint such directors from a variety of areas in the interest of management diversity.

In order for corporate auditors to audit the execution of duties by directors from a perspective independent from that of the Board of Directors, the Company will nominate corporate auditors that have significant knowledge and experience in a variety of areas, including one or more persons that have expert knowledge in financing and accounting. Of the Company's five corporate auditors, four are outside corporate auditors.

Principal Activities of Outside Directors and Outside Corporate Auditors

Title	Name	Principal activities
Outside Director	Takeshi Sasaki	Attended all 16 meetings of the Board of Directors during this fiscal year (attendance rate 100%) and spoke on the Company's management issues based on his wide experience as an expert.
Outside Director	Tomokazu Hamaguchi	Attended all 16 meetings of the Board of Directors during this fiscal year (attendance rate 100%) and spoke on the Company's management issues based on his wide experience as a top executive.
Outside Director	Motoshige Itoh	Attended all 12 meetings of the Board of Directors held during this fiscal year during his tenure (attendance rate 100%) and spoke on the Company's management issues based on his wide experience as an expert.
Outside Corporate Auditor	Shigeo Hoshino	Attended 15 out of 16 meetings of the Board of Directors held during this fiscal year (attendance rate 94%) and 15 out of 16 meetings of the Board of Corporate Auditors held during this fiscal year (attendance rate 94%) and spoke on the Company's management issues based on his wide experience in government.
Outside Corporate Auditor	Hajime Higashikawa	Attended all 16 meetings of the Board of Directors held during this fiscal year (attendance rate 100%) and all 16 meetings of the Board of Corporate Auditors held during this fiscal year (attendance rate 100%) and spoke on the Company's management issues based on his wide experience in government.
Outside Corporate Auditor	Toshiaki Yamaguchi	Attended all 16 meetings of the Board of Directors during this fiscal year (attendance rate 100%) and all 16 meetings of the Board of Corporate Auditors during this fiscal year (attendance rate 100%) and spoke on the Company's management issues based on his wide experience as a certified public accountant.
Outside Corporate Auditor	Mutsuo Nitta	Attended 8 out of 10 meetings of the Board of Directors held during this fiscal year until retirement due to decease on November 2, 2015 (attendance rate 80%) and 8 meetings out of all 10 meetings of the Board of Corporate Auditors held until retirement during this fiscal year (attendance rate 80%) and spoke on the Company's management issues based on his wide experience as an attorney-at-law.

In order to enable independent outside directors to effectively fulfill their roles, the Company provides the following support:

[Corporate Governance Guidelines \(Article 23\)](#)

- (1) Opportunities for independent outside directors to mutually exchange opinions
- (2) Opportunities for independent outside directors to exchange opinions with the representative director and other individuals
- (3) Opportunities for independent outside directors to exchange opinions with corporate auditors
- (4) Opportunities for independent outside directors to exchange opinions with the independent auditor (accounting auditor)
- (5) Provision of sufficient information to independent outside directors such as by supplying them with explanations of agendas of Board of Directors' meetings in advance

Appointment Status of Outside Directors (As of July 2016)

Name	Positions at other entities	Reasons for election
Tomokazu Hamaguchi	Director of IHI Corporation Director of KURARAY CO., LTD. Director of FPT CORPORATION	Mr. Tomokazu Hamaguchi has experience as President and Representative Director of NTT DATA Corporation among other experiences. He is suitable as an outside director based on his sound judgment and insight necessary for company management and his ability to supervise and advise on the Company's management.
Motoshige Itoh	Professor of Gakushuin University, Faculty of International Social Sciences	Mr. Motoshige Itoh has experience as Dean of the Graduate School of Economics and Faculty of Economics of the University of Tokyo. He is suitable as an outside director based on his sound judgment and insight necessary for company management and his ability to supervise and advise on the Company's management.
Reiko Amano	Executive Director of National Research Institute for Earth Science and Disaster Resilience	Ms. Reiko Amano held important offices at Kajima Corporation and the National Research Institute for Earth Science and Disaster Resilience. She is suitable as an outside director based on her sound judgment and insight necessary for company management and her ability to supervise and advise on the Company's management.

Compensation of Directors and Corporate Auditors

JR East's Total Remuneration of Directors and Corporate Auditors by Classification, Total Remuneration by Type, and Number of Directors and Corporate Auditors Receiving Remuneration

Position	Total Amount of Remuneration (¥ Million)	Total Amount of Remuneration by Type (¥ Million)		Number of Recipients
		Basic Remuneration	Bonuses	
Directors (not including outside directors)	723	558	165	16
Corporate auditors (not including outside corporate auditors)	10	8	2	1
Outside directors and outside corporate auditors	109	87	21	7
Total	843	654	189	24

The amount of remuneration, etc., includes the amount paid to two directors that resigned as of the conclusion of the 28th Ordinary General Meeting of Shareholders held on June 23, 2015, and one outside director that resigned on November 2, 2015.

Total Remuneration of Individual JR East Directors

Not recorded because no individual received total consolidated remuneration of ¥100 million or more.

Policies for Determining Remuneration and Calculation Method for Remuneration of Directors and Corporate Auditors**Corporate Governance Guidelines (Article 18)**

The Company pays directors other than outside directors, as consideration for their daily execution of business, monthly remuneration based on their positions, within the limit on remuneration as determined by resolution of the general meeting of shareholders, and performance-based remuneration, in lieu of bonuses, upon consideration of the operating results, dividends paid to shareholders and their contribution to the results for the applicable term as well as the degree of their contribution toward the achievement of targets established in the medium-term management plan and other factors. The Company pays to outside directors and corporate auditors, as consideration for their execution of business, monthly remuneration within the limit on remuneration as determined by resolution of the general meeting of shareholders, but no performance-based remuneration is in consideration of the nature of their position.

To ensure the transparency and fairness of the decision-making procedures for director remuneration, a remuneration deliberation committee composed of independent outside directors and other directors discuss remuneration levels prior to the finalization of decisions.

Furthermore, as of fiscal 2016, payments of bonuses were discontinued for directors, other than outside directors, in light of the introduction of performance-based remuneration and for outside directors and corporate auditors in consideration of the nature of their position.

Shareholdings in Selected Companies**Corporate Governance Guidelines (Article 5)**

The Company holds shares in selected companies that contributes to its corporate value, in order to maintain and strengthen stable business relationships and close cooperative relationships with such companies over the medium to long term.

The Company examines the medium- to long-term economic rationale and future outlook of major shareholdings on an annual basis at the Board of Directors, and disclose the objectives therefor and other matters in the annual securities report.

The Company evaluated the medium- to long-term economic rationale and future outlook of such holdings at the Board of Directors' meeting held on May 17, 2016. This evaluation deemed these holdings rational.

The Company exercises its rights as a shareholder of a company by examining the details of proposals for each general meeting of shareholders of such company and requesting any explanation therefor, as necessary, in consideration of its objectives and other factors for such shareholdings.

Remuneration for Auditing Services**Remuneration for Independent Auditors**

Classification	(¥ Million)			
	Fiscal 2015		Fiscal 2016	
	Remuneration for Auditing Services	Remuneration for Non-auditing Services	Remuneration for Auditing Services	Remuneration for Non-auditing Services
JR East	245	8	245	2
Consolidated subsidiaries	478	3	466	1
Total	723	11	711	3