

## Interview with the President



**TETSURO TOMITA**  
President and CEO

We will achieve tangible results by continuing concerted efforts focused on two important management pillars: realizing our “Eternal Mission” and “Pursuing Unlimited Potential” in accordance with “JR East Group Management Vision V.”

Also, through the concrete action of each employee as well as teamwork, we aim to realize our commitment to “Thriving with Communities, Growing Globally.”

## Question 1

**Looking back to the restructuring of Japanese National Railways (JNR) that led to the establishment of JR East, what have the Company's achievements been in the 30 years since then, and what are the tasks going forward?**

- > JR East has rehabilitated and revitalized railways based on a commitment to being autonomous, customer focused, and regionally rooted, which were the starting points of the Company's establishment.
- > To continue responding appropriately to changes in business conditions, we will advance concrete measures based on the priority Groupwide tasks of improving the safety and reliability of transportation, taking on the challenge of enhancing profitability, and advancing "TICKET TO TOMORROW" initiatives.

It feels as if 30 years have passed in an instant. I worked at JNR at the time, so I remember it well. In the period just before it was restructured, repeated strikes and fare increases had lowered customers' trust in the company. JNR was recording huge losses year after year. Financially, there seemed to be absolutely no prospect of moving out of indebtedness. It was especially tough for employees because no matter how hard they worked, light never appeared at the end of the tunnel. Without the prospect of improvement, organizations lose vitality. I remember that even though we were frustrated at being unable to exercise our abilities, we felt strongly that we could do better.

I joined JNR in 1974. At the time, Japan's transportation market was undergoing a major period of transition. With advances in motorization and the development of expressways, automobiles, mainly private cars, were claiming an increasingly large share of passenger transportation. Also, progress in developing airports was popularizing air transportation. Unable to adapt sufficiently to these changes in business conditions, JNR slipped into the red in fiscal 1965 and saw its business results and financial position worsen with each passing year thereafter.

JNR was a public corporation that was tasked with running the country's railways—a critical public service—with a private company's efficiency. However, management responsibility was unclear, and the management team lacked autonomy. As a result, the company failed to perform adequately from the

viewpoints of both public service and efficiency. Further, while many employees worked hard to preserve local transportation services, employee morale dwindled amid confrontations between management and labor.

JNR collapsed as a result of being unable to adapt to changes in business conditions. A monolithic nationwide organization, the company and its business management were unable to reflect each region's characteristics. As well, the company was unable to fine-tune services to meet specific customer needs. As a public corporation, the company did not have autonomy over management, on the one hand, or clear management responsibility on the other. Solving these problems and rehabilitating and revitalizing railways called for drastic restructuring that would break completely with the past. This realization led to the division and privatization of JNR. I think restructuring released the pent up energy of employees, which manifested as a sense of mission and a commitment to taking charge of creating their own future.

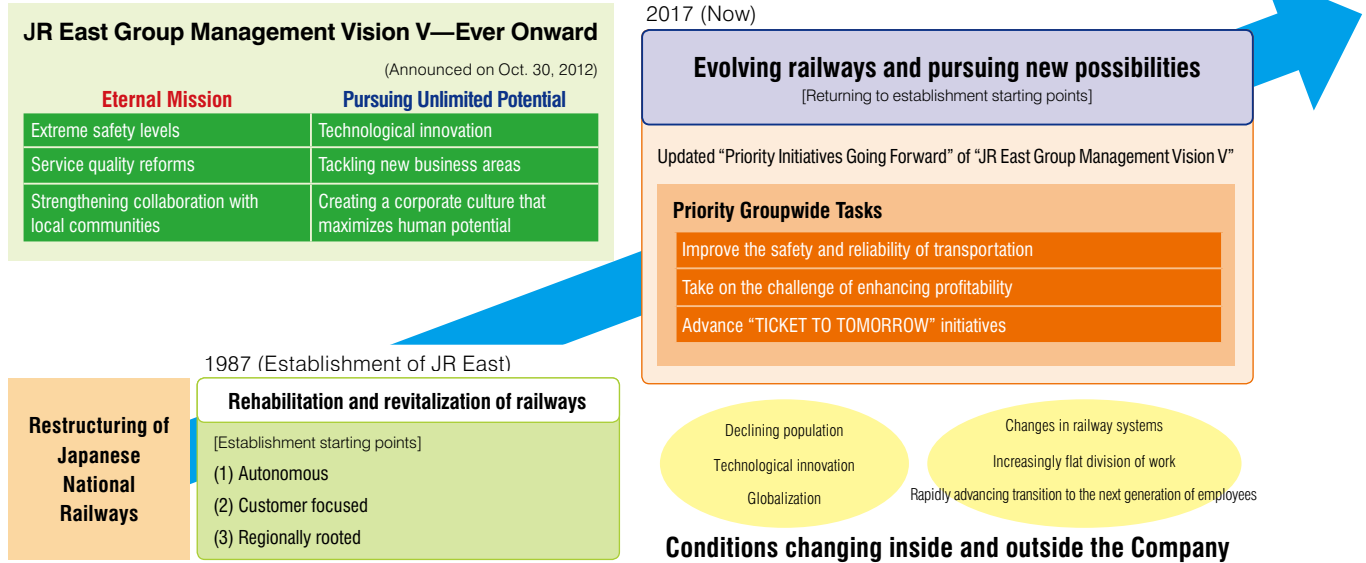
Since the restructuring of JNR, more than anything, the change in employees' attitude has been the biggest factor driving continued and steady growth. The systemic reform resulting from the division and privatization of JNR only produced benefits because employees adopted a new attitude. Reflecting the starting points of JR East's establishment—in other words, a commitment to being autonomous, customer focused, and regionally rooted—each employee moved away from the JNR attitude of "getting people on trains" to one of

focusing on "creating train services for customers." This new attitude motivated us to elevate the quality of transportation services. Moreover, the shift from being a JNR employee to being a private company employee led employees to work with an awareness of their dependence on customers for their wages. In addition, we must not forget that the endorsement and support of customers and local communities allowed JR East employees to advance corporate policies.

In 1987, when JR East was established, the economy was booming, and Japan was brimming with vitality. For the next five years, JR East grew revenues steadily. I think it was very significant that we were able to win customers back in such a short period. Meanwhile, as Japan entered the 1990s its economy flagged and interest rates declined. When it was established, JR East had revenues of roughly ¥1.5 trillion and real debt of more than ¥6 trillion. Consequently, the annual interest burden was fairly hefty, reaching about ¥400 billion. In response, we reduced the interest burden by refinancing to access lower interest rates, and minimizing capital investment. Low interest rates have continued to this day, creating favorable business conditions for JR East.

We have been able to leverage this good fortune thanks not only to the efforts of individual employees but also the support and endorsement of customers and local communities. Neither will we forget the significant help we received from national and regional governments and private companies in

The JR East Group's 30th anniversary



processing JNR's long-term debt and dealing with the issue of personnel reemployment. It would be arrogant for us to think we came this far entirely through our own efforts.

In addition, as JR East's management position has improved, the Company has been able to invest cash flows in enhancing safety



and improving service quality. Specifically, in railway operations we have boosted inter-regional railway travel by expanding and raising the operating speeds in the Shinkansen network. At the same time, the Company has focused efforts on strengthening services through such initiatives as increasing transportation capabilities in the Tokyo metropolitan area to mitigate congestion. As for safety, we have invested more than ¥3 trillion in such

safety measures as seismic reinforcement over the past three decades. From a long-term viewpoint, the number of accidents has decreased, and safety has improved. In recent years, however, there have been major incidents and transportation service disruptions. We need to remain ever vigilant. Also, revenues from non-transportation operations, in such areas as station concourses, shopping centers, and offices, have been growing steadily. The IT & *Suica* business, which we view as our third pillar, has enhanced services and promoted changes in customers' lifestyles. In conjunction with these efforts, we have reduced equipment maintenance costs and realized more-efficient usage of space in railway stations. As Japan's population will decline over the medium-to-long term, we have to create foundations for the steady growth of businesses in fields beyond railways.

At present, the JR East Group is approaching a major period of transition internally and externally. Externally, we are likely to see advances in population decline, the aging of society, population concentration in the Tokyo metropolitan area, technological innovation, and economic globalization. Internally, railway

systems will evolve, and a new generation of employees will take over from the current generation. To respond appropriately to these changes, in October 2016 the JR East Group set out three priority Groupwide tasks: improving the safety and reliability of transportation, taking on the challenge of enhancing profitability, and advancing initiatives for the Tokyo 2020 Olympic and Paralympic Games under the "TICKET TO TOMORROW" slogan.

We will take measures focused on improving the safety and reliability of transportation to entrench the trust that customers and local communities place in the Company. At the same time, we will sustain growth and ensure autonomous business management going forward by taking on the challenge of enhancing profitability and advancing "TICKET TO TOMORROW" initiatives. The aim of setting these three priority Groupwide tasks is to return to our starting points directly after the restructuring of JNR. In terms that reflect society today, the tasks express a commitment to being autonomous, customer focused, and regionally rooted.

## Question 2

**What measures is JR East taking with respect to its highest priority task of improving the safety and reliability of transportation, and what are the tasks for the future?**

- > We will take measures aimed at improving the safety and reliability of transportation, thereby providing customers and local communities with peace of mind based on assured safety.
- > We will steadily upgrade personnel development, management, equipment, and facilities through continuous plan-do-check-act (PDCA) cycles.

The trust of customers and local communities is the bedrock of the JR East Group's business management. To reinforce this trust, we must take measures aimed at improving the safety and reliability of transportation from a customer-focused perspective and thereby provide customers and local communities with peace of mind based on assured safety.

Safety is not a given. Moreover, we cannot achieve safety solely through the application of systems and machines. Each employee's consistent performance of basic actions creates safety. In other words, safety is established through the "multiplication" of each employee's performance of duties. If the contribution of even one person's work is "zero," this could lead to a major accident. Keeping this fact firmly

at the forefront of our minds, we will continue to embrace the challenge of pursuing "extreme safety levels."

In ensuring safety, it is indispensable to increase practicality of education and training so that each employee understands the nature of their job and internalizes basic procedures. However, because safety has improved since JR East's establishment, young employees have little experience of serious accidents. Therefore, we use simulators to mimic the experience of accidents involving train collisions, electrocution, falls, and other events. The aim of this type of training is not simply to ingrain basic procedures but also to give employees a sense of their own role, which will motivate them to consciously take the initiative

in performing duties thoroughly.

Further, the division of responsibilities and roles among JR East, Group companies, and partner companies is becoming increasingly flat. As a result, Group companies and partner companies are responsible for maintenance operations for railcars, railway tracks, and electrical equipment. For this reason, JR East needs to continue personnel exchanges among the Company, Group companies, and partner companies through personnel reassignment. We also need to continue concerted Groupwide efforts focused on identifying risks and vulnerabilities and raising the level of safety and services even further. Nobody is more familiar with the type of underlying risks that exist as well as where they are located than Group

### Improve the safety and reliability of transportation

#### Make safety training more practical



Emphasizing practical experience in training

#### Enhance technology Groupwide



Exchanging opinions with partner companies

#### Strengthen physical infrastructure (equipment and railcars)



Implementing seismic reinforcement



Strengthening Shinkansen equipment and railcars



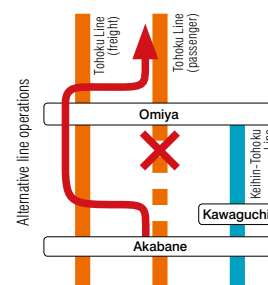
Installing automatic platform gates

#### Improve transportation quality

Minimizing impact of transportation service disruptions

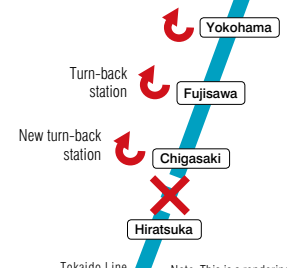
##### Alternative line operations

Using operational lines to continue operations



##### Shuttle operations

Using railway stations with turn-back facilities to continue operations on operational segments



Tokaido Line Note: This is a rendering.

### Improve the Safety and Reliability of Transportation

companies and partner companies. Therefore, to ensure that their opinions are properly heard, I think it is important to establish an open corporate culture in the JR East Group.

Another imperative is to strengthen equipment, facilities, railcars, and other physical infrastructure. To date, JR East has taken many different measures in this regard. It has introduced systems that automatically control train speeds to prevent train collisions and installed automatic platform gates to prevent accidents on station platforms. Recently, the increased operating speeds of Shinkansen has caused new problems, such as overhead wires severing more readily and the window of a Shinkansen being cracked by a component that had been installed under rail tracks but was loosened due to wind pressure from the train. In response, we have reinforced equipment and stepped-up the management of components. In addition, to prevent the incineration of communication cables by malicious third parties,

we have encased them in metal tubing or separately installed dual cables as a redundancy measure. Also, we are developing image detection technology that ensures nobody is accidentally left inside the gates of railway crossings.

Realizing reliable transportation is similar to ensuring safety in that it is fundamentally based on each employee performing their day-to-day duties properly and the provision of railcars and equipment that do not fail. Every aspect of our work, including the work of divisions that do not have direct contact with customers, is connected to providing customers with services. We must never forget that our day-to-day work underpins service quality.

Customers' expectations of services have increased significantly over the past 30 years. Of course, safety is the major premise of services. In addition, however, employees need to take a proactive approach to tackling issues so that we can pursue and realize higher levels of service

quality with respect to the reliability, comfort, speed, and convenience of transportation.

In this way, improving the safety and reliability of transportation calls for addressing issues from the viewpoints of personnel development, management, and equipment and facility improvement. Therefore, we will steadily upgrade these three elements as we proceed through PDCA cycles. There is no finishing line for efforts to improve the safety and reliability of transportation. Without complacency, we have to continue setting ourselves ambitious goals.



### Question 3

**Given that taking on the challenge of enhancing profitability is a priority Groupwide task, what concrete measures will the JR East Group take in this regard?**

- > In railway operations, we will leverage an expanded Shinkansen network to create new passenger flows and take on the challenge of capturing demand from visitors to Japan.
- > In the life-style service business, the JR East Group will focus on town development centered on railway stations. At the same time, the IT & Suica business will take on new businesses that use big data and create synergies among respective businesses.

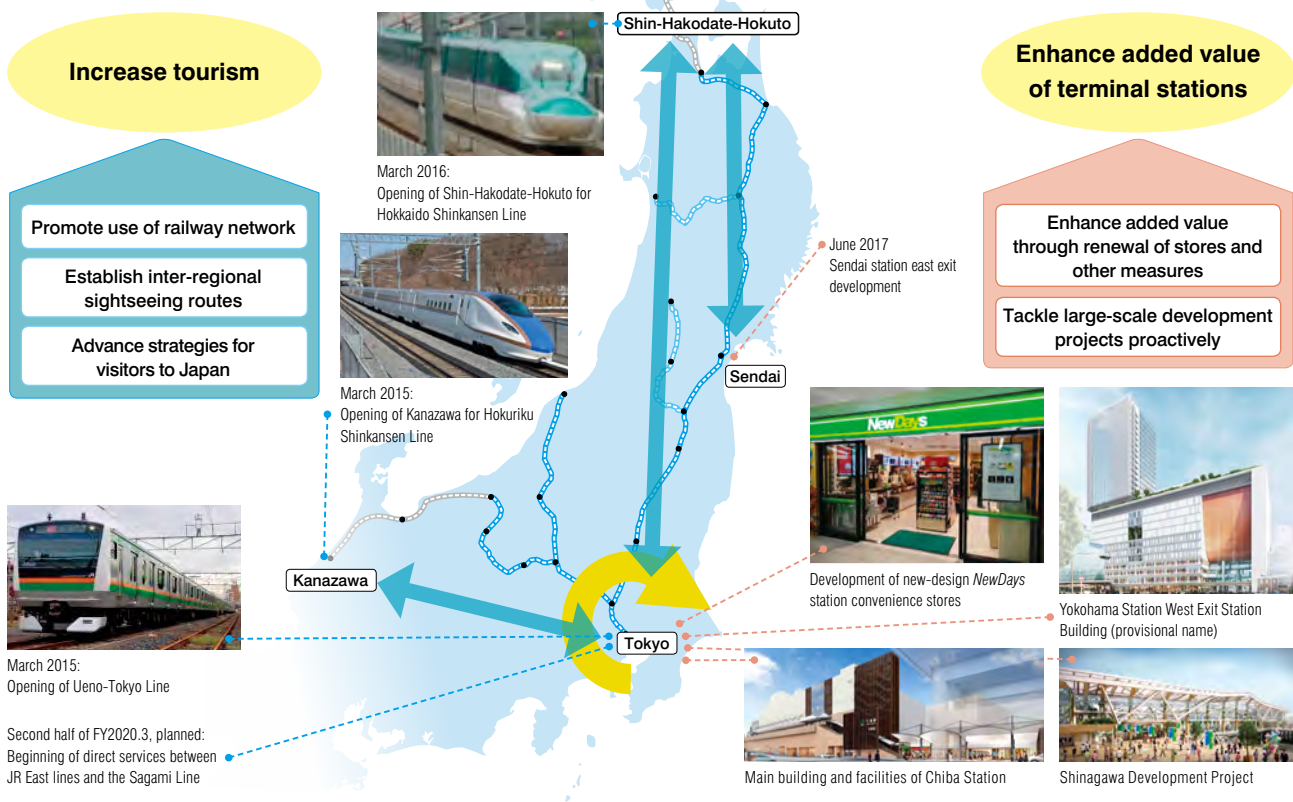
The aim of taking on the challenge of enhancing profitability is to entrench autonomous business management. By unearthing new business opportunities in a variety of fields and maximizing operating revenues, we will sustain growth as a private company. Establishing such foundations will fulfill our corporate social responsibility as a company responsible for railways, which form part of society's infrastructure, and realize our commitment to being regionally rooted.

Currently, JR East's transportation revenues are approximately ¥1,800 billion. Conventional lines in the Kanto area generate roughly two-thirds of this, and Shinkansen lines account for approximately one-third. Bearing this in mind, I repeatedly emphasize to employees that ensuring safe and reliable transportation centered on conventional lines in the Kanto area is the most effective way of increasing revenues. Not only employees who have direct contact with customers, such as those working

at railway stations and travel centers, but employees in all positions, including drivers, conductors, and construction and maintenance personnel, must be strongly focused on improving profitability and take on the challenge of unearthing revenue sources.

In addition, the Shinkansen network presents opportunities for taking on challenges. In light of the openings of the Hokkaido Shinkansen to Shin-Hakodate-Hokuto and the Hokuriku Shinkansen Line to Kanazawa, I want

Take on the challenge of enhancing profitability



to fully leverage this expanded Shinkansen network to create new passenger flows. In comparison with the Tokaido Shinkansen Line, the Tohoku Shinkansen and Hokuriku Shinkansen lines carry fewer business passengers. Therefore, the extent to which we can encourage new tourism is crucial. We have established initiatives targeting active seniors, such as *Otona no Kyujitsu Club*, but I would also like to target young people and encourage them to enjoy railway excursions. Accordingly, for the 2017 summer vacation period we launched *Fretemina* experience-type travel products, which allow customers to experience fishing onboard a fishing boat or farming and to take part in recreational activities in woodlands and rivers or at ranches. I want children to experience new kinds of trips that involve staying in farmers' homes or in fishing villages. Our aim is to broaden demand for railway-based tourism to include younger generations as well as active seniors.

Tourism is very important for the revitalization of regions. Domestic tourists account for roughly 90% of Japan's tourism industry. In the Tohoku region, tourism demand has been low since the Great East Japan Earthquake. Through collaborative efforts with this region, we intend to unearth, enhance, and publicize unique tourism resources. In May 2017, the "cruise train" *TRAIN SUITE SHIKI-SHIMA* began operating. Taking advantage of the tourism resources of eastern Japan's regions, we will invite passengers to enjoy time spent amid out-of-the-ordinary luxury while journeying by railway. I want to use such initiatives as "seeds" that help create new passenger flows.

Recently, tourism has seen "kids week" emerge as an idea. The aim is to stagger part of elementary and junior high school students' summer vacation periods. In Japan's tourism industry, demand is heavily skewed toward the summer vacation period and the Golden Week spring vacation. Inevitably, this bias lowers

productivity. However, staggering summer vacation periods would eliminate congestion for tourists and increase the tourism industry's productivity. If people were able to take advantage of the new flexibility resulting from work-style reform and stagger their vacations effectively, I think it would generate new employment and growth in regions.

Another major task is to capture demand from visitors to Japan. On an upswing, the number of visitors to Japan reached 24 million in 2016. Moreover, the government aims to attract 40 million visitors to Japan by 2020 and 60 million by 2030. Unfortunately, only around 1% of visitors to Japan travel to the Tohoku region. On the other hand, this figure shows how large the potential is. We want to work in partnership with local communities with a view to having even just 5% or 10% of visitors to Japan include the Tohoku region in their itineraries. Through these efforts, in fiscal 2018 we aim to increase revenues from visitors to

Japan (passenger revenues) 20% year on year, to ¥24 billion.

Of course, as well as in railway operations we have to boost the earning power of the life-style service business. Specifically, the development of areas in and around railway stations is an important theme. Until now, the JR East Group has concentrated on developing station concourses. Going forward, however, the Group will focus on town development centered on railway stations. In particular, we will advance town development plans to create a new hub of international exchanges in the area that is around Tamachi and Shinagawa stations and centered on Shinagawa New Station (provisional name), which we aim to provisionally open in spring 2020. By incorporating the very best of Japan's technology and culture into the town, we want to create a new symbol of international towns and of Japan that serves as a gateway to Japan for visitors from overseas as well as a gateway to the world for domestic customers. While advancing this initiative, the Group is also developing towns centered on such terminal stations as Tokyo, Shibuya, Shinjuku, Yokohama, Chiba, and Sendai stations. In the area surrounding Chiba Station, we opened some reconstructed station buildings in spring 2017. Redesigning the

railway station and its surrounding area has markedly changed foot traffic flows in the town.

As well as developing towns in the Tokyo metropolitan area, the Group is developing towns centered on regional core railway stations. With reference to regional municipal authorities' efforts based on the "compact cities" concept, we are creating railway stations that have better coordinated intermodal passenger transportation, serve as exchange hubs for regions, and provide such amenities as childcare, nursing care, medical, health, educational, and cultural services. Through these initiatives, the JR East Group will revitalize regions and increase passenger traffic. We see railway stations not simply as places where people get on and off trains but as important hubs that determine towns' foot traffic flows. I want to continue joining forces with local communities to develop attractive towns centered on railway stations.

In the IT & *Suica* business, which we regard as a third pillar of operations alongside railway operations and the life-style service business, electronic money settlement services are the mainstay of earnings at present. However, I think adding value to *Suica* system usage by extending cloud *Suica* systems into the sphere of public services is possible. In October 2016,

we began offering settlement services compatible with Apple Pay. However, this is only one step. We can introduce *Suica* settlement services into many different situations by integrating them with social networking services (SNS) and a range of other outside information systems. Moreover, we can exploit the big data obtained from *Suica* to create new businesses and heighten the level of services for customers. The JR East Group has information about customers' movements and purchases, including the type of customers that come to railway stations, how customers behave at different times of the day, and the types of places they go to afterwards. We want to make effective use of this information. By unearthing new sources of earnings in the IT & *Suica* business, the Group will generate synergies among businesses, improve railway services, increase passenger flows, and create new services.

Through the initiatives I have mentioned so far, we will further heighten the earning power of each business, thereby enhancing our business results steadily. Three years from now, in fiscal 2020, we aim to reach operating revenues of approximately ¥3 trillion and operating income of roughly ¥500.0 billion.

## Question 4

### Could you please outline initiatives for raising corporate value over the medium-to-long term?

> Under the "TICKET TO TOMORROW" slogan, we will provide high-quality services in all business fields and create the JR East Group of the next generation by "Pursuing Unlimited Potential." The Group will focus on the advancement of technological innovation, globalization, and the creation of opportunities for employees to play satisfying roles.

The JR East Group has set out promoting initiatives for the Tokyo 2020 Olympic and Paralympic Games under the "TICKET TO TOMORROW" slogan as a priority Groupwide task. Accordingly, we will provide high-quality services in all business fields with a view to meeting customer expectations and to creating

a legacy for society and the JR East Group beyond 2020. As well as a declaration to customers, the "TICKET TO TOMORROW" slogan is a message designed to motivate employees to elevate the level of operations in all areas. To create the JR East Group of the next generation, we will take measures aimed at "Pursuing Unlimited

Potential." Specifically, the Group will focus on the advancement of technological innovation, globalization, and the creation of opportunities for employees to play satisfying roles.

Railway operations are still dependent on manpower in many areas. However, if technological innovation progresses, I think we will be

able to offer services that are truly ground breaking. For example, automated driving technology for cars has been attracting publicity recently. In fact, railway operations are better suited to automated driving technology because they use dedicated lines. Further, until now we have conducted maintenance by replacing components periodically. However, we plan to introduce technology for condition-based maintenance, which involves checking the condition of components and systems and making replacements as needed. We want to proactively incorporate the benefits of technological innovation, including the Internet of Things (IoT), artificial intelligence (AI), and big data.

Another aspect of the JR East Group's progressiveness is stepped-up globalization. There is a growing number of countries where JR East Group personnel can contribute, such as India, Thailand, and Indonesia. Actually going overseas often brings us face to face with our weaknesses. While Japan is renowned for railway technology, its related products and



services can have excessive quality and high costs. As a result, we sometimes have to customize railway technology. Also, railway companies have a tendency to become inward looking. However, I believe the time has come for Group employees to look outward.

Lastly, the JR East Group's greatest asset is its employees. Female employees represent a growing percentage of our workforce, and women account for roughly 30% of new hires. As a result, the atmosphere of workplaces has changed greatly, and we have become more attentive to detail in our provision of railway

services. In the life-style service business, female viewpoints determine the Group's choice of stores and product lineups for station concourses and station buildings, which makes them highly appealing, particularly for young customers. I am certain that incorporating this type of sensitivity into town development centered on railway stations can open up an array of new possibilities for the JR East Group. From the perspective of increasing diversity, we need to hire more women and welcome talented non-Japanese personnel into our ranks. I expect to see a big increase in mutual exchanges where non-Japanese people come to Japan to work with us or, conversely, where we venture overseas to introduce Japan's railway technology and pass on experience. With this in mind, throughout the JR East Group, I want to create an environment in which Japanese and non-Japanese personnel can easily work together.

Advance "TICKET TO TOMORROW" initiatives

