May 2, 2016

East Japan Railway Company

Condensed Transcript from Q&A Session of Financial Results Presentation for Fiscal 2016

［Hokkaido Shinkansen］

Q. Revenue increases from the Hokkaido Shinkansen are forecast to amount to ¥4.5 billion in fiscal 2017. However, reports from newspapers and other media outlets suggest that passenger turnout may be slightly low. At this point in time, how confident are you that this forecast will be achieved?

A. With regard to the Hokkaido Shinkansen, while we expect Shinkansen revenues to rise by ¥4.5 billion, we are also projecting a decrease in revenues from conventional lines, making for a net increase of ¥3.5 billion in revenues. Looking at trends over the month since the March 26, 2016, opening of this line, we witnessed a 20% increase in traffic volume on the Morioka– Hachinohe segment of the Tohoku Shinkansen. We believe that a large portion of this increase is attributable to passengers crossing the Tsugaru Strait to travel to Hakodate. Recent trends have been slightly more favorable than initially anticipated, and we therefore have no concern with regard to performance nor do we feel that turnout is low.

Prior to the opening of the Hokkaido Shinkansen, only 12% of people traveling between Tokyo and Hakodate used trains, with the remainder going by airplane. However, our demand forecasts project that this figure will grow to 30% going forward. Also, based on our experience with previous Shinkansen openings, we anticipate a rise in new travelers to be stimulated by the opening of this line.

Q. The ¥2.2 billion in usage fees recorded in relation to the Hokkaido Shinkansen seems to imply that the Company is incurring expenses in place of Hokkaido Railway Company. Is this the case?

A. The usage fees paid in conjunction with the opening of the Hokkaido Shinkansen were decided based on variety of factors. These factors include the particulars of discussions conducted to date, the fact that the segment opened neighbors Shin-Aomori Station, and the level of income benefits assumed to be realistic. In consideration of these factors, it was decided that additional usage fees would be paid on top of the fees presently paid for the Hachinohe–Shin-Aomori segment within the scope of the actual income benefits received. Accordingly, these usage fees are not paid as a form of support for Hokkaido Railway Company.

Q. Sendai Airport is slated to become privately operated by Tokyu Corporation among other companies. With this regard, what type of initiatives do you plan to implement together with Tokyu Corporation, other associated companies, and the related municipal government agencies?

A. No concrete initiatives are underway at the moment, but we do plan to collaborate in relation to timetables and other aspects of operations. Moreover, such collaboration will not be limited to railways. Rather, we hope to work together with providers of other forms of transportation to make sure that the entire Tohoku region feels the benefits of shift to private operation at Sendai Airport. For example, we will conduct an Aomori Prefecture and Hakodate Destination Campaign over the period from July to September 2016, and we anticipate that this campaign will prove highly beneficial to promoting tourism in the Tohoku region.

［Hokuriku Shinkansen］

Q. In fiscal 2017, revenues from the Hokuriku Shinkansen are expected to decline ¥2.5 billion due to the rebound from the strong performance stimulated by the extension of this line in fiscal 2016. What is the basis for this figure?

A. We project that revenues from the Hokuriku Shinkansen will decline by around 5% based on the performance of this line during the third and fourth quarters of fiscal 2016 as well as customer trends seen on other Shinkansen in the year after a segment opening. As revenues from the Hokuriku Shinkansen amounted to roughly ¥50.0 billion in fiscal 2016, this will make for a year-on-year decrease of approximately ¥2.5 billion in fiscal 2017. We view this year as a time to dig in our heels and persevere, and we will thus remain steadfast in our efforts to establish strategic products and address inbound travel demand, collaborating with West Japan Railway Company while advancing these efforts. The projected decline of ¥2.5 billion in revenues also represents the maximum decrease that we plan to allow as we are committed to limiting decreases through our devoted sales initiatives. We feel that recent trends are unfolding as we had anticipated with this regard.

［Inbound Travel］

Q. What has been the situation regarding duty-free sales at hotels and LUMINE and in other operations of life-style businesses?

A. In terms of shopping, we have begun establishing duty-free counters at the various facilities operated in life-style businesses. Currently, only less than 1% of revenues are from sales through duty-free counters, but we expect such sales to grow going forward. In addition, in fiscal 2016, foreign visitors to our hotels represented roughly 5% more of total hotel guests than in fiscal 2015, thereby supporting the strong performance in our hotel operations. Of particular note is GALA Yuzawa, where, in the most recent ski season, we saw an increase of more than twofold in the number of foreign visitors over the previous season, with this number rising to approximately 42,000. In this manner, inbound travel demand is supporting strong performance in our life-style businesses as well as in our railway operations.

［Expenses］

Q. With regard to other under non-personnel expenses, it would seem that miscellaneous expenses or IT-related expenses, those not counted as outsourcing expenses or railcar usage expenses, are set to increase. What trends are you expecting with regard to these expenses over the next three years?

A. Looking at the components of other under non-personnel expenses, we aim to decrease total personnel expenses and business consignment expenses while also continuing to prioritize and manage costs categorized under other. In addition, we anticipate that business-related fuel costs will show a year-on-year increase due to the fact that the winter of fiscal 2016 was unusually warm.

Q. The fiscal 2017 target for total business consignment expenses and personnel expenses is set at ¥670.0 billion. To what extent do you expect the combined total of these expenses to decrease going forward? Also, what degree of reduction in employee numbers and what sort of productivity improvement do you assume will be necessary to achieve this target?

A. While employee numbers are dependent on the number of new hires, we do expect the overall rate of decrease to grow larger due to a rise in the number of people retiring. Specifically, we project that employee numbers will decline by a bit more than 1,000 people over the next three years, a figure higher than the decrease of approximately 900 people seen in fiscal 2016. For this reason, we believe that we should be able to accomplish the aforementioned expense target by limiting the number of new hires and by preventing increases in business consignment expenses through improved productivity.

Q. I see that the three-year targets include additional safety measures. Are these safety measures to be limited to this three-year period?

A. The additional safety measures refer to measures that will be instituted in a concentrated manner over the next three years in response to actual accidents that have occurred. We intend to control maintenance expenses related to these measures in order to prevent such expenses from increasing to an extent that will entail ongoing payments lingering into the future.

〔Capital Expenditures〕

Q. The three-year targets project capital expenditures roughly in the area of ¥550.0 billion to be conducted each year. Is it possible that the priority budget allocation portion of this amount will increase or that expenditures will rise above ¥600.0 billion in the medium term?

A. We have been conducting seismic reinforcement measures to prepare for major earthquakes, and the total planned amount for all such measures is ¥300.0 billion. However, as these measures are slated to be concentrated over a period ending with fiscal 2017, approximately 80% of the related work should be finished by the end of this fiscal year. In this manner, we are already conducting a significant amount of capital expenditures, and we have no intention of increasing expenditures to any large degree. Investments in the Shinagawa development project will come into full swing later.

〔Shinagawa Development Project〕

Q. Do you have any updates with regard to the Shinagawa development project?

A. Operations will commence at a new station between Shinagawa Station and Tamachi Station prior to the Tokyo 2020 Olympic and Paralympic Games, and we expect to open a large portion of the new “town” surrounding the station sometime around 2024. The entire “town” is expected to be completed in the 2030s. Moreover, on April 13, 2016, this development plan was certified as a zone development plan for special national strategic zones in the Tokyo metropolitan area. Going forward, we aim to fully leverage the benefits of this area being classified as a special national strategic zone.

［Shareholder Returns］

Q. What are your policies for balancing dividends and share buybacks?

A. Our basic policy is to continue issuing stable dividend payments. For this reason, if we judge that a higher level of dividend payments can be stably maintained into the future, we will not hesitate to raise dividends.
For shareholder returns, we target a total return ratio of 33%, which we intend to achieve in fiscal 2017 by conducting share buybacks with an upper limit of either ¥30.0 billion or 3.3 million shares.