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East Japan Railway Company

Condensed Transcript from Q&A Session of Financial Results Presentation for the  
Second Quarter of Fiscal 2017

[Hokkaido Shinkansen]

Q. The Hokkaido Shinkansen is performing steadily. In the coming fiscal year, what type of countermeasures will you take to curb the decrease due to the rebound from the opening of the Hokkaido Shinkansen?

A. With a view to the coming fiscal year, analyzing the reasons for the Hokkaido Shinkansen's steady performance is important. We should look at whether we are increasing market share versus airlines between Tokyo and Hakodate or whether the overall market is expanding. In particular, travel times from Sendai or Morioka to Hakodate are well suited to Shinkansen services. If passenger traffic increases between these regions, we believe that it will make a solid contribution. In the coming fiscal year, we want to take measures to entrench the benefits of opening the Hokkaido Shinkansen.

Q. Can you explain in a little more detail why the Hokkaido Shinkansen surpassed targets?

A. We have not yet completely analyzed all of the factors in the first half. However, according to OD data (passenger numbers based on the combination of origin and destination), passenger traffic increased significantly between Sendai and Hokkaido compared with that of fiscal 2016. Going forward, we want to grow this even further.

Q. Has your support system for JR Hokkaido changed?

A. We are currently providing support to JR Hokkaido under a framework, which comprises support in relation to personnel and technology. We have sent several personnel to JR Hokkaido. As for JR Hokkaido's management issues, we believe these are issues for JR Hokkaido to address.

[Visitors to Japan]

Q. For visitors to Japan, have you been able to establish a link between Sendai Airport and use of the Hokkaido Shinkansen?

A. In 2015, the total number of non-Japanese guests staying at hotels in the Tohoku region remained at approximately 600,000. We believe that the number of non-Japanese visitors to the Tohoku region will increase going forward. Recently, the governors of

prefectures in the Tohoku region and Tohoku Tourism Promotion Organization have been working in unison to advance initiatives, including a visit to Taiwan to conduct a promotional campaign. We intend to analyze demand trends among visitors to Japan, establish products that reflect these trends, and increase the number of non-Japanese tourists who visit the Tohoku region.

Q. In the three-year plan, how do you see revenues from visitors to Japan increasing in railway operations?

A. In fiscal 2017, we expect an approximately ¥4 billion year-on-year increase in revenues from visitors to Japan in railway operations. Although the first half was slightly below target, we have not changed our target for the full fiscal year. We want to promote “air and land” travel packages that use Sendai Airport as a gateway while conducting promotions of the Tohoku region’s winter festivals and the Hokuriku region’s winter culinary delights in a way that encompasses visitors to Japan. Further, in fiscal 2018 and fiscal 2019, we expect year-on-year increases in revenues from visitors to Japan in railway operations of about ¥3 billion in each fiscal year.

[Expenses]

Q. How is condition-based maintenance (CBM) progressing?

A. We expect to be able to achieve a certain level of cost reduction by changing from time-based maintenance (TBM), which entails replacement after a certain period has elapsed, to CBM, which entails replacement based on the condition of equipment. We are still at the initial stage of collecting data. We are using new Series E235 railcars, which have been introduced to the Yamanote Line, to analyze ground equipment, electric facilities, and the behavior of railcars. We want to realize benefits as soon as possible, with around 2020 as a target.

[Medium-Term Outlook]

Q. Regarding the plan for the coming three years, what kind of new factors do you see as likely to make contributions?

A. Large-scale projects are one factor. Our plan for the coming three years (fiscal 2020) reflects the *Shibuya Station Development*. Further, for the following year, fiscal 2021, we are targeting the *Development of area in and around north passage of Tokyo Station*, the *Yokohama Station West Exit Station Development Building*, and the *Takeshiba Waterfront Development Project* as well as the provisional use of Shinagawa New Station. We think such projects will produce significant changes.

Another factor will be efforts to steadily increase earnings in the Kanto area network of conventional lines. In our view, analyzing customers’ needs while heightening the network’s appeal through such efforts as ensuring improvement of the direct services of the Ueno-Tokyo Line and other lines is extremely important.

[Shinagawa Development Project]

Q. What is your approach to the investment amount in relation to the Shinagawa development project?

A. I think there will be further adjustments to various elements as we submit town plans relating to plans for buildings from the coming fiscal year onward. At this point, however, we are anticipating an investment of about ¥500 billion in relation to town development.

Further, we envision roughly 60% of the new town being completed overall when we open it around 2024. This is because the area surrounding Shinagawa Station includes such initiatives as the development of Shinagawa Station's square and upgrading of the railway station, which we plan to complete after opening the town.

Q. In relation to fund raising, can you cover the amount through current cash flows or will you cover the amount through borrowings that include bonds?

A. I think the amount is within a range that can be covered using JR East's cash flows. However, regarding cooperation with other companies and fund-raising methods, we want to explore which method is best.