October 31, 2017
East Japan Railway Company

Summary of Telephone Interviews about Financial Results in the Second Quarter of Fiscal 2018

[Passenger Revenues, Basic Trend]

Q. As the basis of revenues for non-commuter passes (ordinary tickets), Shinkansen revenues were below your forecasts. However, revenues on the Kanto area network of conventional lines were above forecasts. How would you analyze the reasons for this situation?

A. Shinkansen transportation results were up year on year in all directions, as well as being up year on year for both weekdays and holidays. However, performance fell short of our target for a 0.9% year-on-year increase.

Although we have not conducted a quantitative analysis, we believe there are two reasons for the basis on Shinkansen revenues from non-commuter passes (ordinary tickets) falling below our forecast. First, reconstruction demand following the Great East Japan Earthquake is dropping off. Second, demand in our region may have risen due to the Kumamoto earthquakes in 2016. Demand may have fallen off in comparison to this upsurge.

There are two reasons for the favorable basis for revenues on non-commuter passes (ordinary tickets) on the Kanto area network of conventional lines. First, use of the Green cars (upper grade) on regular trains was positive. In the first half, this factor produced a ¥0.5 billion positive effect year on year compared with our forecasts. Second, events and various rally-related measures were instrumental in attracting travelers to various parts of the Tokyo metropolitan area.

[Expenses]

Q. In the first half, non-consolidated operating expenses were up ¥2.9 billion compared with our forecast. Would you provide a breakdown by expense category?

A. Although we have not disclosed detailed forecasts of non-consolidated operating expenses for the first half, personnel expenses and other non-personnel expenses, usage fees to JRTT, etc., taxes, and depreciation were generally in line with our expectations.

On the other hand, energy expenses were slightly lower than we had forecast. For maintenance expenses, construction supplementary maintenance expenses rose in relation to construction stemming from capital expenditures during the first half. We also expect construction supplementary maintenance expenses to rise to some extent in the second half, partly because we intend to undertake construction for development of the area in and around the north passage of Tokyo Station.

Q. In operating expenses, within other non-personnel expenses, railcar usage expenses were down ¥1.5 billion year on year. Why was that?

A. The other non-personnel expense category of railcar usage expenses decreased partly as the result of a unit price revision in October 2016 that reduced the railcar usage expenses we pay to other rail operators for the use of their railcars.

As the railcar usage revenue paid to us when other operators use our railcars (our "miscellaneous income of transportation") also decreased, there was no impact on operating income.

[Safety and Reliability of Transportation]

Q. You have indicated "improving the safety and reliability of transportation" as one of your priority initiatives going forward. What sort of expenses do you anticipate in this category in relation to recent incidents?

A. Recently, transportation troubles have arisen that have inconvenienced a large number of passengers, and we offer our sincere apologies for this. We are currently analyzing this transportation trouble and drawing up countermeasures. At present, we do not expect these measures to have a major impact on our operating performance forecasts.

[Winning Bidder for UK Passenger Rail Franchise]

Q. You have indicated "participate in the West Midlands Franchise, a passenger rail franchise in the United Kingdom" as one of your priority initiatives going forward. What will be the impact on revenues and expenses?

A. We are one of three companies participating in the West Midlands passenger rail franchise, along with Abellio UK and Mitsui & Co., Ltd. Operations will begin on December 10, 2017. We will draw up a forecast of revenues and expenses, but detailed information has not yet been determined. That being said, the passenger rail franchise business is not of a scale that would have a major impact on the Group's operating performance.

Q. What added value do you propose to provide by participating in the West Midlands passenger rail franchise?

A. We plan to leverage the technical capabilities we have accumulated in our domestic railway operations, such as in railcars and travel timetables. We expect to take advantage of the expertise we gain by participating in the West Midlands passenger rail franchise to expand our overseas operations going forward.