January 31, 2018

East Japan Railway Company

Summary of Telephone Interviews about Financial Results for the Nine Months Ended December 31, 2017

1. Matters Covered at Beginning

・Explanations were based on the explanatory materials regarding financial results for the nine months ended December 31, 2017.

・The following matters pertaining to the revision of labor conditions for employees that choose to work past the mandatory retirement age ("elder employees" hereinafter) were explained.

1. Overview of Revision of Elder Employee System

- ○ The elder employee system allows those employees who have reached the mandatory retirement age of 60 and who seek reemployment to be rehired for an additional five years.
- ○ In April 2018, we intend to expand the range of duties that are assigned to elder employees at East Japan Railway Company and revise certain relevant labor conditions. The goal of this revision is to better utilize the expertise of elder employees for operating the business of the Company, cultivating human resources, and transferring techniques.

2. Impact of Revision of Elder Employee System on Performance

- ○ The revisions to labor conditions are anticipated to create a need for approximately ¥10.0 billion in funds in fiscal 2019. Even if included in this amount, non-consolidated personnel expenses are expected to decline over the foreseeable future after fiscal 2019 due to differences between the numbers of new hires and retirees as well as the differences in wages resulted from the increasingly low average age of our employee base.
- ○ Non-consolidated personnel expenses accounted for more than 60% of consolidated personnel expenses. Given that the downward trend in non-consolidated personnel expenses is expected to continue, we anticipate that consolidated personnel expenses will not increase to the extent of ¥10.0 billion each year, even when considering the expansion of the scope of duties of consolidated subsidiaries and other potential causes of increases.

2. Major Questions and Answers

[Revision of Elder Employee System]

Q. There was a newspaper article stating that elder employees receive around 50% of what their salary was prior to retirement and that this amount will be increased to roughly 60%. Is this information accurate?

A. The annual income of elder employees is currently less than 50% of what their salary was prior to retirement when including public pension and other income sources. The revision to the elder employee system will raise this level to less than 60%.

Q. Will the amount required to support the revised elder employee system be in the area of ¥10.0 billion each year?

A. The amount required to support the revised elder employee system is expected to be around ¥10.0 billion in fiscal 2019 and approximately ¥15.0 billion each year on average over the decade following fiscal 2019.
Meanwhile, non-consolidated personnel expenses are anticipated to continue declining in fiscal 2019 and beyond due to differences between the numbers of new hires and retirees as well as the differences in wages resulted from the increasingly low average age of our employee base.

Q. What impact will the revision of the elder employee system have on the Company in the fourth quarter of fiscal 2018?

A. It is possible that non-consolidated personnel expenses may be impacted during the fourth quarter of fiscal 2018 due to a rise in full attendance allowances and other benefits to be paid next summer, which will be recorded as additional expenses during the fourth quarter of fiscal 2018, as a result of the revision of labor conditions for elder employees.
We are currently in the process of fine-tuning the details of the revised elder employee system and are therefore unable to put forth a concrete figure for the impact of the system revision. However, it is possible that non-consolidated personnel expenses may increase from our initial forecast during the fourth quarter.

Q. Aside from the revision to labor conditions for elder employees, will any other measures be implemented with the potential to increase personnel expenses?

A. At the moment, we are not considering any measures with the potential to increase personnel expenses other than the revision to labor conditions for elder employees.

[Transportation Revenues]

Q. Why did non-commuter pass (ordinary ticket) Shinkansen revenues decrease year on year in the third quarter of fiscal 2018?

A. In the third quarter of fiscal 2018, non-commuter pass (ordinary ticket) Shinkansen revenues were down ¥0.8 billion year on year. The main extraordinary factors behind this decline included decreases in revenues of ¥1.5 billion resulted from differences between the periods set for the *Otona no Kyujitsu Club Pass* in fiscal 2017 and fiscal 2018, ¥0.5 billion attributable to typhoons and rainy weekends in October 2017, and ¥0.5 billion due to the rebound from the prior benefits of the opening of the Hokkaido Shinkansen Line. However, revenues from the Hokkaido Shinkansen Line seem to have bottomed out, and performance in the third quarter has been more or less as anticipated.

Other factors behind the decrease in non-commuter pass (ordinary ticket) Shinkansen revenues included the dissipation of special demand associated with the drive to help reconstruct from the impacts of the Great East Japan Earthquake, a factor that also impacted performance in the second quarter and earlier. We also suspect that revenues may have been impacted by the rebound from a hike in demand for travel to the Company's service area stimulated by the Kumamoto earthquakes. We will continue to examine the reasons behind this decline going forward.

Q. What do you see as the reasons why the basic trend in non-commuter pass (ordinary ticket) revenues on the Kanto area network of conventional lines was higher than projected?

A. Similar to the second quarter of fiscal 2018 and earlier, use of *Green Cars* (upper grade) on regular trains was strong and customers were very proactive in taking advantage of events and rally-related measures in various parts of the Tokyo metropolitan area. We plan to continue investigating the causes of this trend going forward.

Q. I understand that there is a risk of a downturn in transportation revenues occurring during the fourth quarter of fiscal 2018. Specifically, from what factors is this risk arising?

A. A year-on-year increase of 0.8% was seen in transportation revenues during the fourth quarter of fiscal 2017. However, given that fiscal 2016 was a leap year, this increase was effectively around 1.5%, a very impressive figure. Accordingly, the hurdle for achieving our targets in the fourth quarter of fiscal 2018 is quite high. In addition, we expect performance to be impacted by the heavy snowfall, among other factors. For these reasons, there is a need to examine the risks of downturns in transportation revenues.