May 2, 2018
East Japan Railway Company

Summary of Telephone Interviews about Financial Results for Fiscal 2018

［Passenger Revenues］

Q. Can you give a breakdown of inbound revenue (revenue from visitors to Japan) in fiscal 2018? Also, why was it lower than the plan?

A. In fiscal 2018, inbound revenue was ¥23.5 billion. This comprised discount railway tickets of ¥13 billion and regular tickets of ¥10.5 billion. Our analysis of the reason why inbound revenue was lower than the plan is that use of JAPAN RAIL PASS was below target, even though the number of visitors to Japan grew by 20% year on year in fiscal 2018, which was above the 12% on which the plan was premised.

Q. What is your approach to the basic trend in passenger revenues in fiscal 2019?

A. In light of the economic outlook for the private sector, we are using a real GDP growth rate outlook of plus 1.3%. Regarding passenger revenues in fiscal 2019, for conventional lines in the Kanto area and Shinkansen, we have applied a 60% degree of sensitivity of the real GDP growth rate in relationship to the basic trend. With respect to the degree of sensitivity of the real GDP growth rate in relationship to the basic trend, we previously calculated by using the relationship between the growth rate of the basic trend in the past five years and the real GDP growth rate. However, due to cases of significant differences between plans and results, this time we calculated by using the relationship between the growth rate of the basic trend in the past two years and real GDP.

［Operating Expenses (non-consolidated)］

Q. In other non-personnel expenses, are business consignment expenses expected to continue trending upward from fiscal 2019 onward?

A. In fiscal 2019, we expect a ¥7 billion year-on-year increase in business consignment expenses. The main factors in the increase include expectations of an approximately ¥1.9 billion rise due to increased business consignment for railway stations and an approximately ¥1.4 billion rise due to the higher unit cost of labor. As for the business consignment expenses that we expect going forward, we would like to present this in the new Group management vision that we are currently preparing.

［Other Businesses］

Q. With respect to other businesses, why did operating income increase significantly year on year in fiscal 2018? Further, why is operating income flat year on year in fiscal 2019?

A. In fiscal 2018, operating income increased ¥6 billion due to such factors as the contract work (automatic platform gates) of JR East Mechatronics Co., Ltd., the “General Consultancy of The Mumbai-Ahmedabad High Speed Railway Project” of Japan International Consultants for Transportation Co., Ltd., and the systems contract revenues of JR East Information Systems Company.

Meanwhile as for fiscal 2019, although an increase in revenues is expected from the “General Consultancy of The Mumbai-Ahmedabad High Speed Railway Project” of Japan International Consultants for Transportation Co., Ltd., we expect that the profit margin for the whole term of this project will not be that high, and we have set out a plan for a ¥0.4 billion year-on-year increase in operating income.

［Capital Expenditure］

Q. With respect to the capital expenditure plan for fiscal 2019, how much are year-on-year increases by investment category?

A. There will be a ¥41.2 billion year-on-year increase in investment needed for the continuous operation of business, a ¥29.6 billion year-on-year increase in growth investment, and a ¥23.6 billion year-on-year increase in priority budget allocation (investment in innovation, etc.). The plan is for a total year-on-year increase of ¥94.5 billion.

Q. Is investment for the establishment of automatic platform gates categorized as investment needed for the continuous operation of business?

A. Investment for the establishment of automatic platform gates is categorized as investment needed for the continuous operation of business, and the plan for fiscal 2019 is approximately ¥12 billion.

［Consolidated Non-Operating Income］

Q. Why did equity in net income of affiliated companies increase significantly?

A. Equity in net income of affiliated companies increased in relation to UQ Communications Inc. This is because equity in net income of affiliated companies was newly recognized due to elimination of accumulated losses that exceeded cost of investment.