

MESSAGE FROM THE MANAGEMENT



In the 12 years since the April 1987 inception of JR East, we have relentlessly worked on our own to establish a sound and stable management base in accordance with the spirit of the Japanese National Railways (JNR) restructuring, enabling the management of the Company in an independent, self-reliant manner. In August 1999, the second public sale of one million shares held by a government agency was conducted. Following this sale, the agency holds 500 thousands shares, which is 12.5% of the 4 million issued and outstanding shares. JR East will continue to concentrate all of its resources on attaining full private-sector ownership, the final objective of the JNR restructuring and the most critical issue for this company, as soon as possible. We will make a concerted effort to gain complete freedom and adhere to a policy that prioritizes shareholder value in the years ahead.

FISCAL 1999 RESULTS

Despite a limited uplift from enormous public works investments late in the fiscal year that ended March 31, 1999, clear prospects for economic recovery in Japan were clouded by a substantial drop in domestic demand such as lower private sector capital investment and consumer spending.

Facing this extremely difficult environment, in which Japan's economy is suffering negative growth, JR East and its consolidated subsidiaries redoubled their efforts to increase revenues and focused on improving operating efficiency, such as by cutting costs and improving their financial position.

In transportation, operating revenues were down 1.5% to ¥1,857.5 billion (\$15,351 million) because of another year of decline in passenger volume. Operating income decreased 11.7% to ¥294.1 billion (\$2,431 million) due to an increase in depreciation expenses that was the result of a change in accounting for depreciation of Shinkansen railway fixtures from the straight-line to the declining balance method, and the first full year of usage fees for the Nagano Shinkansen.

In merchandise sales, a low level of consumer spending and the closing of underperforming stores and restaurants caused operating revenues to fall 2.6% to ¥356.8 billion (\$2,949 million). However, increased profitability at stores and restaurants produced the segment's first ever profitable year; operating income of ¥3.6 billion (\$30 million) was recorded, after a loss of ¥0.6 billion last year.

In real estate leasing, operating revenues rose 2.6% to ¥165.0 billion (\$1,364 million), mainly as a result of openings of new station buildings. Operating income rose 9.8% to ¥30.4 billion (\$252 million).

In other services, operating revenues were up 0.2% to ¥169.8 billion (\$1,403 million), but operating income fell 18.0% to ¥6.1 billion (\$49 million) on account of rising costs.

As a result, consolidated operating revenues decreased 1.2% to ¥2,483.6 billion (\$20,526 million). Regarding earnings, although there was a decline in interest expense and other items, results were significantly affected by the additional burden of pension liabilities to be transferred to the Welfare Pension (national pension) and to a tax system amendment for the allowance for retirement and bonuses payable. This caused net income to fall 66.9% to ¥21.9 billion (\$181 million).

The "Law for Disposal of Debts and Liabilities of the Japanese National Railways Settlement Corporation," was enforced on October 22, 1998. This law includes an article that places on the JR Companies an additional burden of pension transfer liabilities. The additional burden of ¥70.5 billion (\$582 million), including the interest portion, was paid by the Company in a lump sum and was accounted for in other expense (see page 45).

With regard to nonconsolidated results, operating revenues decreased 1.9% to ¥1,909.4 billion (\$15,780 million) and net income was down 76.3% to ¥11.9 billion (\$98 million).

Cash dividends per share applicable to the year were ¥5,000 (\$41.32), the same as in the previous fiscal year.

BASIC MANAGEMENT POLICIES

Our operations are based on the premise of maintaining the highest levels of safety and service, and making improvements wherever possible. Regarding safety, we are acutely aware that as a provider of railway transportation the provision



Shuichiro Yamanouchi, Chairman (left), and Masatake Matsuda, President and CEO

of safe and stable transportation services is the very basis of our operations. In line with this belief, we initiated a five-year plan called *Safety Plan 21* in April 1999. Implementation of this plan will lead to a railway system with an even higher degree of safety. We will also upgrade education and training programs for employees and more closely integrate railway equipment with train operations to achieve further improvements in safety.

While placing safety above all else, our operations are guided by the following policies:

➔ **Maximize cash flows to reduce total long-term debt**—Reducing total long-term debt has been a central objective of JR East since our inception. Since the Company was formed in 1987, nonconsolidated total long-term debt has fallen by more than ¥1.6 trillion. The consolidated balance of about ¥5 trillion as of March 31, 1999 is considerable; further reductions therefore remain a top priority. To achieve these reductions, JR East will continue to work to maximize cash flows. To ensure sufficient funds for debt reductions and other requirements, we have been conducting capital expenditures within the bounds of depreciation. We intend to continue to adhere to this policy.

➔ **Make only investments that best serve JR East**—Capital expenditures are approved only after a careful examination regarding their future contribution to JR East's operations. The government is moving ahead with the planning and construction of Seibi Shinkansen lines (see page 17) to upgrade the nation's transportation infrastructure. As an independent, investor-owned company, we will operate new Shinkansen lines under the condition that they do not have any adverse effect on our performance. Under no circumstances, and regardless of any pressure to the contrary, will we compromise this position.

➔ **Maintain consistent earnings and appropriate dividends**—Management is committed to generating a consistently high level of earnings. We will also maintain an appropriate dividend payment so that shareholders can benefit directly from our performance.

BOND ISSUES TO REFINANCE DEBT

While the Company continues to place priority on reducing debt, total long-term debt nevertheless remains at a high level. As this debt reaches maturity periodically, we conduct an enormous volume of refinancing activities. In February 1999, we completed two issues of straight bonds in Japan that raised a total of ¥70.0 billion (\$579 million). Both issues were well received by investors. Bond issues in Japan and overseas will continue to be a vital source of funds for the Company. We look forward to conducting these bond issues.

POLICY REGARDING CONSOLIDATED MANAGEMENT

Nonconsolidated financial statements generally have been regarded as the primary means of financial disclosure in Japan. Consolidated figures were provided only as supplementary information. This system is set to change in the fiscal year ending on March 31, 2000 to one in which consolidated results take precedence. In response, JR East is currently shifting

to a system under which strategies and management plans are formulated and implemented on a group-wide basis. To lay the groundwork for this move, we established JR East Management Service Co., Ltd. in April 1998 as a subsidiary to conduct accounting, consulting and other related services. JR East intends to conduct financial disclosure in an appropriate and timely fashion and to place even more emphasis on the development of the entire JR East group of companies.

MAJOR ISSUES IN THE FUTURE

Japan's economy is likely to remain weak for the time being. Birth rates are declining and the population is aging, leading to a smaller number of people in their productive years. This points to a decline in Japan's population over the medium and long term and other fundamental transformations in our operating environment.

Since JR East's inception, we have focused on bolstering the railway operating base while rigorously reducing total long-term debt. For example, the Shinkansen network was expanded, and we improved safety and developed technology to hold down costs. We will now be placing more emphasis on the development of life-style services. In particular, JR East remains dedicated to making effective use of its greatest resource: our stations, which serve more than 16 million passengers daily. We plan to continue to develop shopping centers, hotels and other facilities, mainly in the Tokyo area, where the concentration of passengers is greatest. Due to the current uncertain economic outlook, we are currently focusing on projects where investments can be recovered over a short period of time and contribute to earnings.

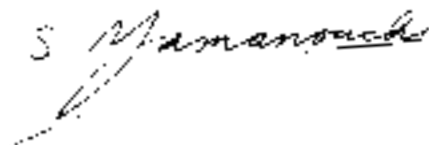
In railway operations, now that certain public holidays will be shifted by law to create three-day weekends, we will continue to place emphasis on conducting campaigns that promote the benefits and attractiveness of rail travel. We will also further enhance our Shinkansen network, which is now much more competitive because it has a total of five routes, including through service. Travel packages that link rail travel with reduced-rate rental cars and/or lodging facilities designed for multi-night stays represent another means of stimulating demand for trips using JR East trains. To serve the rising number of older passengers, we are investing in information boards, escalators and other facilities to make our stations more user friendly and make railway services more competitive against other forms of transportation. Additionally, we are taking rigorous measures to cut costs in railway operations by enhancing efficiency.

JR East is now making a concerted effort to establish a completely self-reliant operating base in the hope of achieving full private-sector ownership as quickly as possible. In preparation for this day, we are reexamining the allocation of all of our resources and taking steps to use them in the most efficient manner to improve operating results. We are also building the streamlined and effective management systems needed to respond quickly to unforeseen shifts in our markets.

Regarding the Year 2000 compliance issue, we are taking all conceivable measures, including the formulation of a contingency plan, in readiness for unexpected problems (see page 18).

We envision JR East becoming an organization that can offer a comprehensive line of life-style services in the 21st century. As such, our goals are to be a provider of safe and stable railway services and appealing life-style services. One more theme is fulfilling our responsibilities as a corporate citizen by maintaining close relationships with localities to support cultural activities and by aggressively addressing global environmental issues.

August 1999



Shuichiro Yamanouchi
Chairman



Masatake Matsuda
President and CEO