



Message From the Management

Since its inception in April 1987, East Japan Railway Company (JR East) has remained focused on the task of establishing an independent, self-reliant management base in accordance with the spirit of the Japanese National Railways (JNR) restructuring, thereby fulfilling its obligations to shareholders and investors. The Company will continue to concentrate all of its resources on achieving a strong management base that embodies stability and growth, one that can adapt to the rapid changes taking place in the operating environment as the new century dawns.

To this end, the Company will aggressively promote life-style businesses that hold the potential of future growth and will, of course, work to improve safety and services. JR East will also continuously implement steps to make operations more efficient and reduce total long-term debt to improve its financial position. Moreover, the Company will disclose information in a timely and appropriate manner and aim for management with a high degree of transparency for shareholders and investors.

Interim Results

Japan's economic downturn was brought to a halt by various actions by the national government. However, there were still no clear signs of a self-sustaining recovery in consumer spending or private-sector capital investment. Adverse economic conditions thus continued in Japan during the first half of the fiscal year ending March 31, 2000. In this environment, passenger volume at JR East declined compared with the same period a year earlier.

The decline in passenger volume caused railway operating revenues to decrease. Furthermore, the transfer of certain directly operated stores and restaurants to JR East's subsidiaries and other items brought down operating revenues in other operations. The result was a 1.4% decrease in total operating revenues to ¥949.6 billion (\$8,875 million). Operating expenses decreased mainly due to efforts to reduce costs and a change in the method for recording maintenance expenses (see notes to nonconsolidated semi-annual financial statements). Other expense decreased as interest expense was lower. As a result, income before income taxes increased 12.4% to ¥75.1 billion (\$702 million). These factors, along with the adoption of tax effect accounting practices, caused net income to rise 79.6% to ¥43.7 billion (\$408 million). Interim cash dividends per share applicable to the period were maintained at ¥2,500 (\$23.36).

In anticipation of the disclosure of consolidated interim results beginning with the fiscal year ending March 31, 2001, JR East is releasing a set of consolidated financial information for the current interim period (refer to supplementary information). Consolidated operating revenues for the first half of the fiscal year ending March 31, 2000 were ¥1,245.8 billion (\$11,643 million), income before income taxes was ¥92.6 billion (\$865 million) and net income was ¥51.4 billion (\$480 million).

In Japan, companies will be required to accrue a shortfall of the amount of a liability calculated based on the present value of future payment upon retirement obligations beginning with the fiscal year ending March 31, 2001. Such shortfall could be ¥487 billion on a nonconsolidated basis and ¥517 billion on a consolidated basis in accordance with the present retirement system. This is calculated based on a discount rate of 3.0%. The Company will charge this shortfall to income over a period of 10 years.

Major Issues in the Future

Railway operations—In railway operations, now that certain public holidays will be shifted by law to create three-day weekends in 2000, we will continue to place emphasis on conducting campaigns that promote the benefits and attractiveness of rail travel. We will also further utilize our Shinkansen network, which now has a total of five routes including hybrid through service, and is even more competitive following the December 1999 extension of the Yamagata hybrid Shinkansen (see Corporate News).

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.

Life-style services—JR East remains dedicated to making effective use of its greatest resource, our stations that serve more than 16 million passengers daily. JR East plans to continue to proceed aggressively with numerous developments at suitable stations, a program called The Sunflower Plan, primarily in the Tokyo area where the concentration of passengers is greatest, by using space opened by the alteration of station facility layouts. We also plan to continue to develop more shopping centers, hotels and other facilities. Due to the current uncertain economic outlook, we are focusing on projects where investments can be recovered over a short period of time and contribute to earnings.

Total long-term debt—Total long-term debt as of September 30, 1999 was ¥4.7 trillion (nearly ¥4.9 trillion on a consolidated basis). Since the Company was formed in 1987, nonconsolidated total long-term debt has fallen by ¥1.7 trillion. The Company will continue to focus on reducing total long-term debt. 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 intend to adhere to the policy of conducting capital expenditures efficiently within the bounds of depreciation.

As the total long-term debt reaches maturity periodically, we conduct an enormous volume of refinancing activities. Bond issues in Japan and overseas will continue to be a vital source of funds for the Company.

Full private-sector ownership—The greatest and most pressing issue for JR East's management is achieving full private-sector ownership, the final objective of the JNR restructuring, as soon as possible. This would enable the Company to gain complete freedom and adhere to a policy that prioritizes shareholder value in the years ahead. In August 1999, the second public sale of one million shares of JR East stock held by Japan Railway Construction Public Corporation (JRCC) was conducted. Following this sale, JRCC holds 500,000 shares, which is 12.5% of the 4 million issued and outstanding shares. JR East will strive to continue to provide safe and stable transportation and higher quality services as well as to improve operating results. In this manner, the Company will focus all its resources on achieving full private-sector ownership.

Year 2000 Readiness

All remedial measures and tests to confirm Year 2000 readiness have been completed for all of JR East's systems to ensure that this issue causes no annoyance to customers and does not disrupt any of our business operations. To further enhance our readiness, a contingency plan has been formulated to prepare for any unforeseen events.

Outlook

For the second half of the fiscal year, the outlook is for uncertainty about the direction of Japan's economy. Furthermore, the declining of birth rates and aging of Japan's population point to dramatic changes in the operating environment in the future. JR East is committed to offering safe and stable railway transportation service and aggressively expanding life-style services while enhancing efficiency by conducting an exhaustive cost containment program. Through these efforts, we will strive to make our operations more efficient and build an even more sound and stable management base.

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