

### **FISCAL 2000 RESULTS**

During the fiscal year ended March 31, 2000 (fiscal 2000), JR East took many actions to increase revenues and cut costs in the midst of a time when the outlook for Japan's economy remained unclear. As a result, consolidated operating revenues increased 0.8% to ¥2,502.9 billion (\$23,612 million) and operating income rose 2.2% to ¥342.0 billion (\$3,226 million). Net income was up significantly, rising 205.4% to ¥67.0 billion (\$632 million), mainly due to a decline in interest expenses, the absence in fiscal 2000 of an additional obligation related to transfer to Welfare Pension of ¥70.5 billion and the adoption of tax effect accounting in fiscal 2000.

By segment, transportation posted lower operating revenues as Japan's economy remained weak. Revenues in merchandise sales and in other business segments increased, however, as JR East developed new stores and made improvements to existing ones and newly consolidated subsidiaries were included. Total operating revenues thus increased. Operating income was higher in all business segments, chiefly because of improvements in operating efficiency and the scrapping and rebuilding of existing stores.

We are projecting declines in operating results for the fiscal year ending March 31, 2001. The primary cause is the adoption in Japan of a new accounting standard for the recognition of a shortfall in obligations for severance and retirement benefits. Based on a discount rate of 3.0%, we currently estimate that our shortfall in such obligations will be ¥507.0 billion. As this shortfall will be charged to income over a period of ten years, a substantial impact on our results for accounting purposes is unavoidable. JR East will make every effort to rapidly restore earnings by using synergies among transportation and life-style businesses to raise revenues as well as by continuing to reduce expenses and improve our financial position.

### **STRENGTHENING MANAGEMENT OF THE JR EAST GROUP**

Upgrading our group management practices is an issue of the highest priority for JR East's new top management team. In 1999, a Group Strategy Formulation Committee was formed with the president as its chairman and selected directors as members. At this time, the committee is working on strategies that can maximize the value of the JR East Group. As we undertake this process, we believe that the role of management is to generate as much earnings as possible from the tangible and intangible resources at our disposal. Since JR East's inception, we have grown steadily on our powerful railway operations base. And we will continue to grow steadily by maintaining these operations as the core of the JR East Group, and we remain fully committed to making more refinements in safety and services. At the same time, expanding life-style businesses that draw on mutual benefits with railway operations is another issue of great importance. Our railway operations serve more than 16 million people every day. In addition, our businesses cover the Tokyo area, home to about one-fourth of Japan's population and one of the world's largest commercial zones. We will be exploring all kinds of pathways for growth, including alliances with other companies, to take full advantage of the massive potential that our resources hold.

Of course, as we take these actions, we will adhere to our long-standing management policy of reducing the huge amount of total long-term debt by generating the necessary free cash flows. Our basic policy is to conduct capital expenditures, including investments in life-style businesses, within the bounds of depreciation and to continue to concentrate capital expenditures on projects where the benefits are the greatest.

### **A CHALLENGING OPERATING ENVIRONMENT**

We expect that our operating environment will become even more challenging. Japan's economy still shows no definite signs of a full-scale recovery and we are seeing declines in the number of children as the population ages and in the size of the productive population. We have already embarked on the process of creating a management



Masatake Matsuda, *Chairman (left)*  
Mutsutake Otsuka, *President and CEO*

system that can withstand these difficulties. One example is cost reductions by applying new technology in our railway operations to raise efficiency and reducing employment. In railway operations, even if the operating environment presents no prospects for revenue growth, we intend to preserve a steady level of earnings by implementing rigorous cost control programs, mainly for personnel and maintenance expenses. In life-style businesses, we will utilize our tangible and intangible resources effectively to achieve growth in earnings.

Adapting to an increasingly information-centric society is one more theme that we must tackle as our operating environment evolves in the future. We firmly believe that our railway network, and especially stations, can function as a core element of our information society. Right now, customers can pick up merchandise ordered over the Internet at our stations. In 2001, we plan to begin introducing a new type of contactless IC card. At first, we plan to use these cards for commuter passes and prepaid transactions. Later, more functions will be added to provide users with a broad range of services.

### **LOOKING AHEAD TO A NEW CENTURY**

As we stand on the doorstep of the 21<sup>st</sup> century, the JR East Group is looking in new directions for its future development. Our most pressing task is to determine how to expand life-style services having high potential for growth by making the best use of our stable railway operations. The management of JR East will retain an intent focus on using our resources to the maximum advantage so as to create the most value possible across the entire group. As we do so, we ask for the continued understanding and support of our investors and customers.

July 2000

*Masatake Matsuda*

Masatake Matsuda  
*Chairman*

*Mutsutake Otsuka*

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*President and CEO*