

Message From the Management

■ Overview of Operating Results

While there was a slight improvement in Japan's economy during the interim period ended September 30, 2000, there were few signs of a sustainable recovery in consumer spending. The East Japan Railway Company (JR East) Group took numerous measures to generate higher revenues in this difficult environment. Due to the group's efforts, consolidated operating revenues increased 1.2% to ¥1,260.2 billion (\$11,668 million) compared with the same period a year earlier. However, operating income declined 8.5% to ¥174.5 billion (\$1,615 million), as an expense for severance and retirement benefits increased ¥28.1 billion (\$260 million) due to the adoption in the first half of the current fiscal year of a new accounting standard for these benefits. This expense was also responsible for bringing down net income by 26.6% to ¥37.7 billion (\$349 million).

In transportation, although commuter pass revenues declined because of a decrease in Japan's student and working populations, non-commuter revenues increased due to extension of the Yamagata hybrid Shinkansen to Shinjo in December 1999 and signs of a slight recovery in Japan's economy. Segment revenues, including inter-segment transactions, increased 0.5% to ¥938.2 billion (\$8,687 million) and operating income decreased 12.6% to ¥148.1 billion (\$1,371 million).

In merchandise sales, results benefited from the development of new retail facilities and the creation of new retailing formats in line with alliances with companies outside the JR East Group. As a result, segment revenues, including intersegment transactions, increased 1.3% to ¥221.1 billion (\$2,047 million) and operating income was up 79.4% to ¥4.3 billion (\$40 million).

In real estate leasing (shopping centers), growth was driven by newly completed station buildings and concerted efforts to attract higher profile tenants to existing facilities. The result was a 5.7% increase in segment revenues, including intersegment transactions, to ¥81.0 billion (\$750 million) and a 7.4% increase in operating income to ¥17.2 billion (\$160 million).

In other services, newly opened hotels, the development of new advertising formats and steps to make the *View Card* still easier to use, such as adding a VISA function, all contributed to a strong performance. Segment revenues, including intersegment transactions, rose 10.3% to ¥166.2 billion (\$1,538 million) and operating income was up 104.4% to ¥5.3 billion (\$48 million).

Net cash provided by operating activities decreased 2.4% compared with the first half of the previous fiscal year to ¥220.5 billion (\$2,042 million). The JR East Group began amortizing the shortfall in obligations for severance and retirement benefits in this fiscal year, but payments of income taxes increased. Net cash used in investing activities decreased 1.6% to ¥142.2 billion (\$1,317 million). This included capital expenditures for transportation services to improve safety and stability and increase capacity, and for station buildings, hotels and other facilities. Net cash used in financing activities increased 3.8% to ¥102.1 billion (\$945 million). The primary uses of cash were payments for cash dividends and a net reduction of ¥76.7 billion (\$711 million) in total long-term debt. Due to these factors, cash and cash equivalents decreased by ¥23.8 billion (\$220 million) compared with the beginning of the period to ¥232.0 billion (\$2,148 million).

As of September 30, 2000, the JR East Group's total long-term debt amounted to ¥4,741.9 billion (\$43,907 million).

On a nonconsolidated basis, operating revenues increased 0.4% to ¥953.5 billion (\$8,829 million), operating income decreased 11.7% to ¥158.9 billion (\$1,471 million) and net income fell 25.1% to ¥32.7 billion (\$303 million).

Interim cash dividends per share applicable to the interim period were maintained at ¥2,500 (\$23.15).

■ **The New Frontier 21 Medium Term Business Plan**

JR East recently announced a medium term business plan called *New Frontier 21*, which will cover the five-year period extending from April 2001 through March 2006. The plan targets a critical point in JR East Group's development, setting forth a vision and a concrete action plan as the group enters a new century and stands on the verge of full private-sector ownership. All actions are aimed at withstanding the dramatic changes that are foreseen in the group's highly competitive operating environment.

■ **Group Vision**

In this medium term business plan, our vision is to become "a trusted life-style services creating group." As we stand at the beginning of the 21st century, we will strengthen our management base and push ahead with reforms to realize this vision. In particular, we will steer our operations to meet the following five criteria:

1. Creating Customer Value and Pursuing Customer Satisfaction

(Building a corporate group for providing customers with "trust," "comfort" and "excitement.")

The starting point for the development of the JR East Group is the customer. Based on this awareness, we will commit ourselves thoroughly to a customer orientation, unite in the creation of new customer value and seek to gain a higher level of appreciation from our customers.

Before all else, we will endeavor to develop the service-oriented mentality of taking the initiative to share our joy with our customers. We will further burnish the JR East Group brand to project the image of an organization that is "steady," "trustworthy" and "reliable." We will fundamentally revise our view of the "station" from the perspective of the customer and create a concept, *Station Renaissance* to develop a new type of stations for the 21st century. Through these efforts, we will develop a progressive and high quality brand image featuring "comfort" and "excitement," and will strive to be the first choice of the customer.

2. Innovation of Business through the Creation of Technologies

(Building a corporate group for the integration of advanced technologies.)

The JR East Group will integrate advanced technologies in order to create new added value and thereby refine our railway businesses. Our goal shall be to become the "world's number one railway" in terms of safety, convenience, promotion of advanced technologies, comfort and efficiency.

3. Harmony with Society and Coexistence with the Environment

(Building a corporate group which harmonizes with society and gains the respect of global community.)

While pursuing social missions such as coping with global environmental problems and the rapid aging of society, we will also maintain a fair stance towards global competition. We will enhance management transparency and go forward as a corporate group open to the world.

4. Creating Motivation and Vitality

(Building a corporate group offering a working motivation and a sense of accomplishment through a free and liberal approach to work.)

5. Raising Shareholder Values

(Building a corporate group meeting shareholder expectations through the improvement of consolidated performance.)

To maximize group value and to improve group performance, the JR East Group will not only work to increase free cash flows and improve ROE and ROA, but also reduce the amount of total long-term debt and the number of employees.

■ Strategies to Transform the Vision into Reality

We have formulated a number of business strategies for the purpose of fulfilling our *New Frontier 21* vision. First is our *Station Renaissance*, which aims to achieve the best possible allocation of group business activities at railway stations, our greatest asset. Naturally, this requires that we conduct an exhaustive review of the layout of station facilities to open up new space for business activities. We also plan to construct decks above existing tracks and take other steps to create the necessary space. Another element of our *Station Renaissance* is large-scale developments at main stations in the Tokyo metropolitan area.

Another strategy is to utilize IT and other new technologies. One example is the creation of a new railway operating system by drawing on a broad range of IT resources. The system will improve the safety and accuracy of our railway operations. Another is the creation of business models that give us a substantial advantage over competitors making the most of our infrastructure, which is ideally suited for IT-oriented businesses. As a central part of this drive, we will use our *Suica* IC card, which we will begin introducing in 2001, to offer cashless and ticketless transportation services. Many other new businesses are on the drawing board.

In railway operations, we will concentrate on making more gains in safety and service quality and on improving our operating system, such as by strengthening our service network. In life-style businesses, we will focus our resources on businesses where we can achieve synergies with our railway operations and where we have competitive superiority. Strategic alliances with partners outside the JR East Group and the realignment of group companies will be central to this drive.

By pursuing this vision through the strategies outlined above, the JR East Group will bring about continuous change to maximize value across the entire group and create greater value for shareholders. We ask for your continued support and understanding as we take on the challenges of *New Frontier 21*.

December 2000



Mutsutake Otsuka
President and CEO