The year ended March 31, 2001 (fiscal 2001) was a new start for JR East. With new faces in the top management team including the President, JR East took some initial steps in line with the start of the new century by announcing "*New Frontier 21,*" the first medium-term plan after the stock listing.

Fiscal 2001 Results

During fiscal 2001, JR East worked to establish a sound and stable management base by improving management efficiency through cost cuts and steps to bolster financial position, while making efforts to generate higher revenues amid a difficult business environment. As a result, operating revenues increased 1.7% to ¥2,546.0 billion ($20,869 million), while operating income decreased 5.3% to ¥323.8 billion ($2,654 million) due to the introduction of the accounting standard for retirement benefits. However, net income increased 3.3% to ¥69.2 billion ($567 million) as a result of a decrease of interest payment due to the reduction of total long-term debt.

By segment, in transportation, operating revenues increased 0.5% to ¥1,873.7 billion ($15,358 million), supported by an increase in non-commuter pass revenues. However, operating expenses increased due to the introduction of the retirement benefits accounting. As a result, operating income decreased 10.5% to ¥264.0 billion ($2,164 million). In merchandise sales, operating revenues and operating income increased 0.2% to ¥449.0 billion ($3,681 million) and 55.3% to ¥9.0 billion ($74 million), respectively, because of further implementation of *Sunflower Plan* which aims to make efficient use of space at or around stations and because of opening stores in association with companies outside the Group. In real estate leasing, operating revenues and operating income rose 5.4% to ¥163.6 billion ($1,341 million) and 8.9% to ¥35.4 billion ($291 million), respectively, by launching shopping centers closely related to daily living and inviting leading tenants. In other services, operating revenues and operating income rose 9.3% to ¥371.2 billion ($3,042 million) and 67.1% to ¥16.0 billion ($131 million), respectively, due to the favorable results of the housing development and sales and the advertising businesses.

Medium-term Business Plan

JR East created a medium-term business plan called "*New Frontier 21*" to be implemented for the period from fiscal 2002 to fiscal 2006, which was announced in November 2000. In this plan the JR East Group clearly presented its vision of the Companies as a "Trusted Life-Style Service Creating Group," that is, a group creating reliable life-style services worthy of trust by customers through corporate activities that are open to the world.

JR East will strengthen the Company's brand image—"Trust"—through the provision of higher quality services and the continuous pursuit of safe and stable transport, using the keywords, "thorough customer orientation." Furthermore, JR East will also carry on with *Station Renaissance* to make full use of the Company's largest management resource, its stations. JR East intends to implement 100% of the potential of its stations, which serve 16 million passengers per day, and show the Group's comprehensive power using its stations as its field of action.

On the operational front, management resources will be concentrated in the areas in which we have competitive advantage and the tie-up with companies outside the Group will be promoted. JR East also will withdraw from unprofitable businesses by taking drastic measures. JR East has opened new stores in alliance with *UNIQLO* and *MUJI* within the stations, while a quick decision of withdrawal was made on unprofitable businesses such as the automobile sales business. JR East will actively continue to take the direction, "selec-

Masatake Matsuda Chairman **Mutsutake Otsuka** President and CEO

tion and concentration" in order to carry out more efficient and effective operations.

By implementing these measures, the following five numerical goals have been adopted as the targets that have to be achieved by the year ending March 31, 2006 in "*New Frontier 21*." The first objective is to aim for consolidated free cash flows of ¥180 billion. The second objective is to improve the consolidated ROE (the ratio of net income to shareholders' equity) to 10.0%. The third objective is to increase the consolidated ROA (the ratio of operating income to total assets) to 5.5%. The other two objectives include the reduction of total long-term debt, which the Company has been tackling as a major management priority, by ¥500 billion on a nonconsolidated basis, and reduction of 10,000 in the number of employees on a nonconsolidated basis.

Full Privatization

In June 2001, the amendment law was legislated to exclude the three JR companies in Honshu from being subject to the JR Law. This is expected to be enforced by the end of 2001. Following the enforcement of this amendment law, the degree of freedom of management will be substantially enhanced, such as more flexible fund raising and asset disposal. While fully understanding that even more independent management will become necessary, JR East will implement steadily and surely the medium-term business plan, and will further strengthen its management base to meet the expectations of shareholders and investors.

Disposal of 500,000 shares of JR East still held by the government is expected to take place after the amendment law takes place in consideration of the equity market condition, but the fixed timing is not yet known.

The outlook on the Japanese economy remains uncertain at present but JR East will try to fulfill the entrustment of the shareholders and investors by the achievement of full privatization, which is now near at hand, and by realizing the various targets listed in "*New Frontier 21*." As in the past, we respectfully ask for your support and cooperation for the management team of JR East.

July 2001

Masatake Matsuda Mutsutake Otsuka

Masatake Matsuda
Chairman

Mutsutake Otsuka
President and CEO