Overview of Operating Results

During the interim period ended September 30, 2002, personal consumption was sluggish due to a severe employment condition and income environment, and the level of corporate capital expenditures also remained low. In addition, the stock market entered a continuous downward trend from summer onwards. The Japanese economy remained in the doldrums in general, however, there were some indications of a partial rally, including increases in exports and production. The JR East Group continued to make efforts to expand revenues by maximizing the use of business resources such as stations and the Shinkansen network in order to overcome such severe situations and effected measures to increase the efficiency of business operations by carrying out a scrupulous review of the overall expenses.

As a result, operating revenues increased 0.6% to ¥1,269.6 billion ($10,322 million), while operating income increased 12.9% to ¥201.5 billion ($1,638 million). Net income increased 114.8% to ¥63.2 billion ($514 million), due to a decline in interest expenses as a result of a further reduction in interest bearing debt by expanding a cash management system, introduced in fiscal 2002 (the year ended March 31, 2002), which controls the combined total group funds in addition to a rebound effect following revaluation loss of some of the holding securities, posted in the interim period ended September 30, 2001.

Cash Flows

Net cash provided by operating activities decreased by ¥51.4 billion to ¥185.8 billion ($1,511 million), affected by an increased outflow of cash due to the reduction of accounts payable despite an increase in income before income taxes.

Net cash used in investing activities increased by ¥6.0 billion to ¥133.6 billion ($1,086 million), due to capital expenditures for measures to ensure safe and stable transportation, improvement in transportation capacity and development of shopping centers and hotels.

Net cash used in financing activities decreased by ¥57.5 billion to ¥106.3 billion ($865 million), as a result of a continuation of dividend payments and a decrease of total long-term debt to ¥89.7 billion ($729 million), which was smaller than the level of the interim period ended September 30, 2001.

As a result, cash and cash equivalents as of September 30, 2002 decreased by ¥53.9 billion to ¥146.1 billion ($1,188 million) compared with the level as of March 31, 2002.

The balance of total long-term debt as of September 30, 2002 amounted to ¥4,290.3 billion ($34,881 million).

Segment Information

In Transportation, JR East made full use of its assets, especially its Shinkansen network and Tokyo metropolitan area network, which now includes Tokyo Monorail. Marketing policies were targeted toward promotion of rail use and advancement of revenues through carefully planned strategies that included the design of products to meet a wide range of needs. As a result, operating revenues from outside customers increased 0.6% to ¥903.2 billion ($7,343 million). Reasons for this growth included the addition of operating revenues from Tokyo Monorail for the first time in the interim period ended September 30, 2002. JR East gained management control of Tokyo Monorail in fiscal 2002. Operating expenses decreased 2.0% to ¥767.5 billion ($6,240 million), due to a fall in personnel expenses made possible by the reduction of employees and the completion, in fiscal 2002, of accounting for the payment for transfer to welfare pension. Operating income increased 14.7% to ¥161.5 billion ($1,313 million).

In Station space utilization, JR East continued to implement its *Station Renaissance*, creating new station environments for the 21st century. As a result, operating revenues from outside customers increased 0.8% to ¥184.8 billion ($1,503 million). Operating expenses increased 0.3% to ¥175.6 billion ($1,428 million) due to an increase of selling, general and administrative expenses because of the increase in the number of stores, etc., despite efforts made to improve profitability such as greater business efficiency. Operating income increased 0.1% to ¥13.9 billion ($113 million).

In Shopping centers & office buildings, due to opening a large office building, renewing of shopping centers, and introducing leading tenants with customer drawing power to the existing shopping centers, operating revenues from outside customers increased 3.5% to ¥84.3 billion ($685 million). Operating expenses decreased 0.9% to ¥65.7 billion ($534 million) due to meticulous pursuit of low-cost operation, etc. Operating income increased 17.2% to ¥22.1 billion ($180 million).

In Other services, operating revenues from outside customers decreased 1.4% to ¥97.2 billion ($791 million). The decrease is attributable to the decrease of revenues from advertising and publicity, and housing development and sales. Operating expenses increased 2.0% to ¥222.6 billion ($1,810 million), due to increased outsourcing and personnel costs resulting from growth in the volume of construction consulting and facility maintenance work. Operating income decreased 12.4% to ¥4.5 billion ($36 million).

Dividend Policy

JR East's basic policy regarding the appropriation of earnings is to maintain a stable dividend for shareholders while increasing retained earnings, as necessary, to ensure a sound operating base for the future development of business centered around railway services.

Based on this policy, JR East has consistently paid an interim dividend of ¥2,500 ($20) per share since fiscal 1992. In addition to an ordinary interim dividend of ¥2,500 ($20) per share for the interim period ended September 30, 2002, on November 15, 2002, the Board of Directors also resolved a special dividend of ¥1,500 ($12) to commemorate the completion of full privatization. This brings the total dividend to ¥4,000 ($33) per share.

Retained earnings will be used to reduce total long-term debt and improve JR East's financial position.

JR East will make efforts to improve business performance and establish a strong operating base where a stable dividend payment can be maintained.

Medium-Term Business Plan

JR East has formulated the Group's medium-term business plan, *New Frontier 21* for the period from fiscal 2002 to fiscal 2006, which was announced on November 29, 2000. In this plan, JR East Group aims to be a corporate group that strives to create life-style services trusted by its customers via corporate activities open to the world, i.e., a “Trusted Life-Style Service Creating Group.”

In more detail, management will be carried out with five visions: "creating customer value and pursuing customer satisfaction," "innovation of business through the creation of technologies," "harmony with society and coexistence with the environment," "creating motivation and vitality," and "raising shareholder value."

JR East has set five numerical goals:

Summary of *New Frontier 21*, the medium-term business plan

	Fiscal 2002 Actual (Reference)	Fiscal 2006 Target
Consolidated Free Cash Flows	¥349.4 billion*	¥200.0 billion
Consolidated ROE (return on average equity)	5.1%	10.0%
Consolidated ROA (ratio of operating income to average assets)	4.4%	5.5%
Reduction of nonconsolidated total long-term debt	Reduction of ¥316.8 billion in fiscal 2002	Reduction of ¥750.0 billion over five years (¥500.0 billion reduction achieved in three years)
Reduction of employees of JR East (parent company)	Reduction of 2,730 in fiscal 2002	Reduction of 10,000 over five years

* The consolidated free cash flow result of ¥349.4 billion in fiscal 2002 includes ¥155.4 billion from the partial sale of shares in Japan Telecom Co., Ltd.

On June 21, 2002, 500 thousand JR East shares that had been held by the JNR Settlement Headquarters of Japan Railway Construction Public Corporation were sold. This sale marked the final realization of full privatization, which was the goal of the Japanese National Railways restructuring, as well as the most important management priority for JR East. The management of JR East would like to take this opportunity to express its sincere appreciation to all who have supported the Company through this process. Full privatization will allow greater management flexibility and maneuverability. At the same time, it will also raise the expectations of shareholders, investors, customers and communities. Aiming to be a "Trusted Life-Style Service Creating Group," the JR East Group will achieve rapid, sustained progress toward the implementation of the various measures set down in its medium-term business plan, as defined in *New Frontier 21*.

December 2002

Mutsutake Otsuka

Mutsutake Otsuka
President and CEO