

JR East is determined to maintain its status as a corporate group trusted by all stakeholders, including shareholders. This commitment is reflected in the continuing emphasis placed on the improvement of corporate governance, which remains one of JR East's most important management issues.

OVERALL SITUATION REGARDING BOARD OF DIRECTORS

As of the end of June 2003, JR East has a board of 27 directors, including two outside corporate directors. They make decisions about important operational matters, including statutory requirements and supervise the performance of the company's operations. There were 13 meetings in the year ended March 31, 2003 (fiscal 2003). Since its establishment in 1987, JR East has always appointed outside corporate directors to ensure transparent management and to strengthen supervision. Outside corporate directors also bring with them a wide range of knowledge and experience. Under the Board, there is an Executive Committee made up of the 13 directors with executive functions. Its task is to deliberate on important management issues, including matters to be decided by the full Board of Directors, in accordance with policies determined by the Board of Directors. The Executive Committee met 44 times in fiscal 2003. There is also a Group Strategy Formulation Committee, which mainly consists of directors with executive functions. Its role is to discuss important aspects of group management, including management strategies for each field of business. This committee held 13 meetings in fiscal 2003.

JR East began to reduce the number of directors in order to further activate discussion and enhance flexible and speedy decision-making. The number was reduced to 27 from 31 at the shareholders' annual meeting in June 2003.

STRENGTHENING COMPLIANCE SYSTEMS

The Board of Corporate Auditors consists of five corporate auditors, including two full-time corporate audi-

tors. Four of them are outside corporate auditors, and of those, one is an attorney at law, and another is a CPA. Their involvement will help to strengthen JR East's supervisory structures. In accordance with policies determined by the Board of Corporate Auditors, the auditors attend various meetings, including meetings of the Board of Directors and the Executive Committee, and audit the performance of directors' duties through surveys of operations and assets. They also hold regular meetings with the auditors of group companies in order to share audit-related information. A staff of around 10 persons is assigned exclusively to assist and support the corporate auditors.

JR East's management believes that the most appropriate course is to strengthen corporate governance under the present audit structure.

The mission of the internal audit divisions, a combined staff of approximately 100 at the Inquiry & Audit Department at the head office and Inquiry & Audit divisions at branch offices, is to supervise corporate operations to ensure that all activities are being performed efficiently and in accordance with the law. Since July 2000, the Inquiry & Audit Department has also audited group companies.

For compliance, the Legal Department became independent of the Administration Department in June 2002. The Legal Department detects potential legal problems within the company as early as possible and obtains advice from compliance experts, including attorneys at law, as necessary and endeavors to ensure corporate operations are carried out in a legal manner.

JR East discloses information positively through its public relations and investor relations activities. It is using Internet pages and other resources to provide timely disclosure of an expanding range of important corporate data.

ANNUAL MEETING OF THE SHAREHOLDERS

JR East strives to run open annual meetings where more than 1,500 shareholders attend each year and to present corporate information in forms that are clear and easy to understand. Its policy is to hear the views of as many shareholders as possible.

Starting with the annual meeting in June 2003, JR East introduced electronic voting. This will facilitate the exercise of voting rights by shareholders by simplifying related administrative tasks.

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 paid a cash dividend of ¥5,000 per share since fiscal 1991. For fiscal 2003, JR East paid a special dividend of ¥3,000 (\$25) per share to commemorate the completion of full privatization in June 2002, in addition to the ordinary dividend of ¥5,000 (\$42) per share. The total cash dividend was ¥8,000 (\$67) per share. Based on recent performance trends and other factors, management has concluded that it will be possible to combine an increase in the ordinary cash dividend with the realization of *New Frontier 21*. It therefore plans to pay in fiscal 2004 a cash dividend of ¥6,000 per share, including an interim cash dividend of ¥3,000 per share. JR East continues to make efforts to improve business performance and establish a strong operating base from which a stable dividend payment can be maintained.

GROUP MANAGEMENT INITIATIVES

Formulating and Achieving Shared Management Policies

JR East is working to strengthen group management through the Group Strategy Formulation Committee. The Committee meets from time to time as required.

The Group Presidents' Council meets several times annually, in order to share the group's management policies. General employees are informed about policies through a monthly newsletter with group-wide distribution.

JR East has its own system for evaluating group companies. Each company has its own specific management goals based on two clearly defined roles: to bring cash into the group from outside and to reduce costs within the group. Quantitative evaluations are based on a combination of year-on-year comparisons and goal attainment ratios. JR East plans to move gradually toward a heavier weighting on goal attainment ratios.

Strengthening Group Solidarity

To improve financial efficiency and reduce interest-bearing debt at the consolidated level, JR East has introduced an integrated Cash Management System (CMS) for its entire group since April 2001. The system has already yielded significant benefits, including the reduction of interest-bearing debt by over ¥120 billion in two years after introduction and a ¥2 billion reduction in the amount of yearly interest payments flowing out of the group.

Other group integration initiatives include group-level network information systems of such as a group business information system and a corporate accounting system.