The following items, primarily about the risks that JR East faces, are presented here in a Q&A format, based on questions we often receive from investors.

Please also refer to the Forward Looking Statements on the inside front cover.

Q: WHAT IS YOUR PERSPECTIVE ON RISK MANAGEMENT?

A: As a railway operator, safety is our most important management priority. We are determined to maintain and enhance our reputation with railway passengers by making every possible effort to ensure total safety. Around ¥90–¥100 billion of our capital expenditures each year is devoted to safety equipment and facilities, with particular emphasis on the prevention of train collisions, derailments and level crossing accidents, platform safety measures and safety during maintenance operations. We also devote considerable effort to employee education, including training for employees of group companies and partner companies. We have developed a disaster prevention system, and our employees receive regular training in emergency procedures.

We are also working to minimize internal and external risks relating to corporate ethics and legal compliance. In January 2001, we established a horizontally organized Crisis Management Headquarters. Its mission is to involve top management when problems arise, to prevent collusion or pressure between departments and to ensure appropriate disclosure and compliance.

Q: IS THERE ANY RISK OF POLITICAL INTERFERENCE?

A: One of the reasons for the financial collapse of the Japanese National Railways (JNR) was the public corporation structure, which robbed the organization of management autonomy and allowed outside interference. The JNR restructuring process was driven by an awareness of these problems. We believe that the risk of political interference became negligible after JR East achieved full privatization in June 2002, which was the ultimate goal of the restructuring. In December 2001, even before full privatization, JR East was released from its obligation to obtain the approval of the Minister of Land, Infrastructure and Transport for important management decisions, such as the annual business plan, financing and disposal of significant assets.

Q: HOW DO YOU ACHIEVE BALANCE IN YOUR TRANSPORTATION AND NON-TRANSPORTATION BUSINESS?

A: JR East's goals are to build a range of non-transportation businesses centering on its stations, while maintaining a stable business structure based on railway operations. By the end of the *New Frontier 21* period, through fiscal 2006, non-transportation businesses will contribute around one-third of our operating revenues, which were 30% in fiscal 2003.

Q: WHAT IS YOUR STANCE ON CAPITAL INVESTMENT?

A: JR East makes its decisions on capital investment using the risk adjusted discounted cash flow based on the certainty equivalent method, except for items such as safety countermeasures, for which resulting cash flows cannot readily be quantified. Capital expenditure has in principle been limited to the level of depreciation, in order to release resources for the reduction of total long-term debt. In fiscal 1997, capital expenditure exceeded depreciation because of the acquisition of ground facilities in preparation for the opening of the Akita hybrid Shinkansen service in March 1997.

Depending on the development situation of non-transportation businesses, it is possible that capital expenditure will not be kept strictly within the limits of depreciation. However, depreciation will not be exceeded by a substantial margin, since the Cash Management System has already centralized the group companies' finance under the integrated control of the parent company, which is committed to the reduction of debt.

Q: HOW ARE RAILWAY OPERATIONS AFFECTED BY EXTERNAL FACTORS?

A: The Japanese economy continues to stagnate due to uncertainty about the global economic outlook and a downward trend in the stock market caused by the declining financial health of Japan's financial institutions. However, JR East's business area includes the Tokyo metropolitan area, which is still the economic heart of Japan. Moreover, economic trends have relatively little effect on demand from commuter pass passengers, who make up over one-half of JR East's passenger volume. We believe that a sudden drop in transportation revenues seems very unlikely.

On demographic grounds, R&I, a Japanese rating agency, lowered JR East's rating from AAA to AA+ in July 2002, based on the aging of the population from extended life spans and an estimate that Japan's total population is expected to reach its peak around 2006. However, the population of the Tokyo metropolitan area is expected to continue growing until around 2015. As countermeasures to the coming trend, we are providing various new travel products and incorporating barrier-free access, therefore, we believe it is unlikely that population decline will have a significant impact on passenger transportation in the foreseeable future.

As far as competition with other modes of transport is concerned, in JR East's service area, the Shinkansen is superior to domestic air travel in almost every respect: travel times, which include access, fares and frequency. JR East's efforts to improve the Shinkansen network have been so successful that there are now few air links between Tokyo and other major cities in its service area. Within the Tokyo metropolitan area, some other railway companies are establishing new lines, including subway lines. However, JR East continues to enhance its competitiveness by improving and expanding its own network, including the establishment of new direct routes based on optimal utilization of existing facilities.

Q: HOW DO YOU SET FARES?

A: Under the Railway Business Law, railway operators are required to obtain the approval of the Minister of Land, Infrastructure and Transport when setting or changing the upper limits for fares and Shinkansen limited express charges. Subject to prior notification, railway operators can set or change fares and Shinkansen limited express charges below these upper limits. They can also set or change limited express charges on conventional lines and other charges, with only prior notification.

When the Minister of Land, Infrastructure and Transport receives an application from a railway operator for a change within the upper limit for fares and charges, approval is given after an investigation to ensure that the level does not exceed the total cost. The total cost is defined as the amount obtained by adding a reasonable margin to the reasonable cost of an efficient business operation. Even if the company concerned is also involved in business activities other than railway operations, total cost is calculated solely on the basis of that company's railway operations. Apart from adjustments in April 1989 and April 1997 to reflect the introduction and later revision of the consumption tax, JR East has never changed its fares since its establishment in 1987. (See page 48.)

Q: WON'T THE CONSTRUCTION OF ADDITIONAL SHINKANSEN LINES BE A FINANCIAL BURDEN ON JR EAST?

A: JR East regards the fulfillment of the following two conditions to be essential for the commencement of the additional Shinkansen lines. These conditions are also included in the agreement between the government and ruling parties. First, JR East will pay usage fees after it has started operation on new lines and the usage fees will not exceed the corresponding benefits of the applicable line. Second, local communities should agree to the termination of JR East management of conventional lines running parallel to the new Shinkansen lines. These two conditions were fulfilled in the setting of usage fees and the transfer of operation of parallel conventional lines in the case of the Takasaki–Nagano segment of the Hokuriku Shinkansen line, operationally named Nagano Shinkansen, and the Morioka–Hachinohe extension of the Tohoku Shinkansen line, both of which are already being operated by JR East. Work has already started on other new lines, including the Nagano–Joetsu segment of the Hokuriku Shinkansen line and the Hachinohe–Shin-Aomori segment of the Tohoku Shinkansen line. For the same reasons, the opening of these new lines is not expected to have any adverse effect on the performance of JR East. (See page 47.)

Q: HOW IS LAND OWNED BY JR EAST EVALUATED?

A: When JR East was established in April 1987, the assets, such as land used for the operation of conventional lines, that we inherited from JNR were valued at original acquisition cost, meanwhile at then-market value for other assets. Initially we managed the Tohoku Shinkansen and Joetsu Shinkansen lines as leased assets. In 1991 we purchased these assets and the lands at then-market value. We decided to make this purchase because this would have a positive effect on our management, since recognizing depreciation would bring us greater financial stability in the medium- to long-term perspective, and fixing the amount of both assets and liabilities would be favorable for the future stock listing, which was pending at that time. We have acquired only minor tracts of land since the establishment.

Asset-impairment accounting will become obligatory in Japan from fiscal 2006. The Accounting Standards Board of Japan stated in the exposure draft that railway operators group their assets by line for asset-impairment accounting. Together with other JR Companies, we have put forward the counter-argument that railway businesses operate as total networks and that all lines should be treated together as a single asset.

Q: DO YOU HAVE ANY CONCERNS ABOUT CORPORATE PENSION PLANS?

A: The parent company and most of its consolidated subsidiaries have no corporate pension plans. For this reason, we are not affected by the problem of inadequate accumulation of reserves resulting from investment problems caused by the historically low level of interest rates and the doldrums of the stock market. The mutual aid association in the JNR era (Japan Railways Group Mutual Aid Association) was merged with the Welfare Pension (national pension) in April 1997. JR East has already fulfilled all obligations to make up its assigned portion of the shortage in the assets transferred to the Welfare Pension, and all related costs had already been charged to income.

Q: HAVE YOU MADE PROVISION FOR LIQUIDITY RISK?

A: Basically our structure is very robust in relation to liquidity risk. Our railway operations generate a stable flow of cash revenues made up of small amounts from widely dispersed sources, while payments for commuter passes and stored-fare tickets are made in advance. To secure liquidity for special contingencies, we prepare funds for the large payments two banking days in advance, which is the time required to arrange emergency finance. Additionally, JR East established commercial paper facilities in July 1995, which it uses to meet certain short-term financing requirements. Under these facilities, We may issue an aggregate amount of commercial paper outstanding up to ¥150.0 billion. Furthermore, JR East has bank overdraft facilities totalling ¥60.0 billion outstanding with its principal commercial banks. We have not established a commitment line, since that approach offers little benefit in our situation for its cost.

Q: ARE YOU PREPARED FOR NATURAL DISASTERS AND OTHER CONTINGENCIES?

A: We use insurance policies to provide against damage to railway fixtures and compensation claims resulting from passenger injuries or deaths. However, we have not made any specific provision for disasters resulting from major earthquakes or terrorist attacks, since the insurance premiums or securitization through Catastrophe Bond issues would be prohibitively expensive, and it would be impossible to attain an amount of cover that would be meaningful for us.