New Frontier 21—Review

AT A GLANCE

JR East marked the opening of the 21st century by announcing the *New Frontier 21* medium-term management plan in November 2000. Launched at a historic juncture, *New Frontier 21's* primary goals were to enhance consolidated results and heighten the overall value of the JR East group.

Also, to replace the parent company's management tenets and to reinforce group solidarity, overall group principles that incorporated the vision of becoming a *Trusted Lifestyle Service Creating Group* were inaugurated. Guided by that vision, *New Frontier 21* set out specific business strategies reflecting the group's common policies and targets. By consolidating group management, those *New Frontier 21*-inspired strategies have enhanced the quality of JR East's managerial activities.

ACHIEVEMENTS IN FOUR YEARS

New Frontier 21 laid down numerical targets for the five-year period through fiscal 2006. However, a concerted group effort rapidly advanced the plan's measures. As a result, the torch was passed to the next plan one year ahead of schedule because JR East had either met the targets in four years or was well within sight of reaching them in the fifth year.

Also, when *New Frontier 21* was initiated, the Japanese government's ongoing ownership of 500 thousand shares of JR East's common stock was a pressing issue. In June 2002, JR East achieved the ultimate goal of the restructuring of the Japanese National Railways (JNR) by becoming fully privatized following the sale of those shares to the public.

Thus, against that backdrop and having decided that *New Frontier 21* had achieved most of its initial objectives, JR East launched a new medium-term management plan as an entirely private-sector company.

LASTING LEGACY

Seeking to avoid complacency and to further inspire the entire group, JR East stressed in the preamble of its latest medium-term

New Frontier 2008—Overview

MISSION

JR East unveiled its latest medium-term management plan, *New Frontier 2008*—New Creation and Evolution, on January 24, 2005.

Aiming to guide JR East toward sustained, long-term growth, the plan sets out targets for the four-year period through March 2009 while staying true to the *New Frontier 21* vision of becoming a *Trusted Lifestyle Service Creating Group*. JR East is dedicated to creating new customer value and growing its business substantially over the long term through the provision of higher-quality products and services.

BACKGROUND

Business conditions in Japan are expected to become tougher. Japan's working-age population has already begun to shrink. In addition, from 2006 the overall population will begin to fall. Meanwhile, the transportation market will likely see the emergence of new railway lines in the Tokyo metropolitan area and stepped-up flight services.

On the other hand, a wide spectrum of business chances is opening up. In seizing those opportunities, JR East is creating platforms to launch and grow new business domains. For example, JR East is adding value to the Tokyo metropolitan railway network, accelerating Shinkansen services, diversifying *Suica* usage, pursuing *Station Renaissance*, and revitalizing station environs. JR East must heighten service quality to remain customers' first choice. Therefore, continuing to offer services that earn customer endorsement will be the ultimate driver of JR East's growth and development.

FRAMEWORK

- *New Frontier 2008's* Basic Management Policy outlines the reforms on which JR East will focus its efforts, while the plan's Key Management Issues and Concrete Management Targets list the challenges and benchmarks that JR East will have to clear to realize those reforms. Reflecting the number of items in each section of the plan, JR East summarizes the framework as: 3 Reforms, 6 Challenges, and 3 Benchmarks.

Basic Management Policy—3 Reforms

1. Mind-Set Reform: Offering Services That Reflect the Customer's Standpoint

Meet customer expectations*

(* The management philosophy underpinning *New Frontier 2008*)

2. Business Reform: Building a Robust Group

Enhance the competitiveness and collective strength of the corporate group based on self-reliant management

3. Management Reform: Fulfilling Social Responsibility and Achieving Sustainable Growth

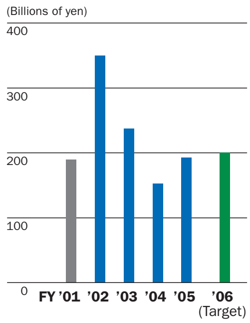
Sustain growth by improving the quality of life

Key Management Issues—6 Challenges (see pages 14 to 17 for details)

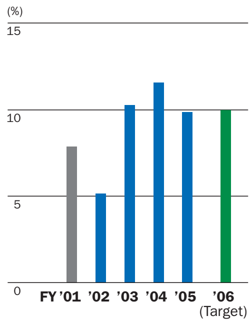
1. Upgrade safety and reliability

***NEW FRONTIER 21*—NUMERICAL TARGETS AND PROGRESS**

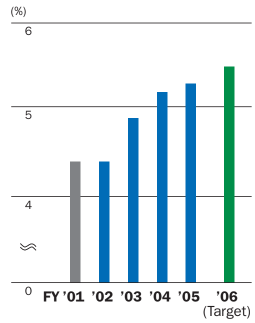
FREE CASH FLOWS*1



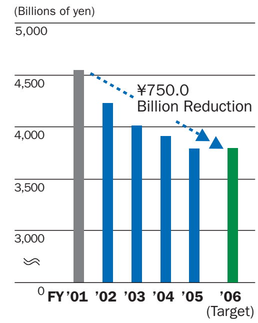
RETURN ON AVERAGE EQUITY (ROE)



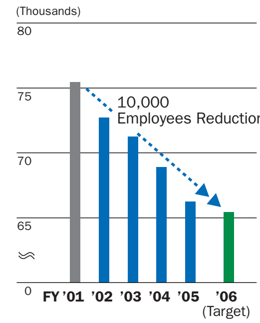
RATIO OF OPERATING INCOME TO AVERAGE ASSETS (ROA)



NONCONSOLIDATED TOTAL LONG-TERM DEBT*2



NUMBER OF EMPLOYEES OF PARENT COMPANY*3



*1 The original target was free cash flows of ¥180.0 billion. In November 2001, that target was upwardly revised to ¥200.0 billion.
*2 The original target was a cumulative reduction of ¥500.0 billion over five years. In November 2001, that target was upwardly revised to ¥750.0 billion.
*3 For employee numbers only, the base point is April 1, 2001.

management plan, *New Frontier 2008*, that its predecessor represented nothing more than one link in an evolutionary chain.

Nevertheless, in addition to identifying further issues and setting out fresh targets, *New Frontier 2008* calls for redoubled efforts to realize goals inherited from *New Frontier 21*. Thus, *New Frontier 2008* emphasizes the ongoing pursuit of the JR East group's vision of becoming a *Trusted Lifestyle Service Creating Group*. Further, the plan reiterates the goal of growing the whole group by having each group company pursue its mission in adherence with the policies of Self-Reliance and Alliance and Selection and Concentration.

2. Reinvent stations
3. Enhance convenience and comfort of railway operations
4. Grow non-transportation operations further
5. Enhance lifestyles through *Suica*
6. Focus on R&D

Concrete Management Targets—3 Benchmarks

1. Generate total consolidated cash flows from operating activities of ¥2,000 billion over four years

To sustain growth, JR East will actively seek further cash flows from operating activities, which it will simultaneously channel into three areas:

1) Further reduction of total long-term debt to reinforce the management platform,
2) Aggressive capital expenditure to create major business successes, and
3) Enhancement of returns to shareholders.

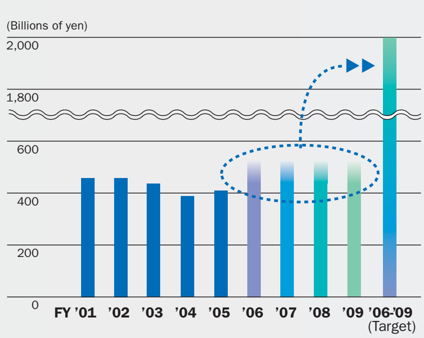
2. Lower ratio of total long-term debt to shareholders' equity to approximately two times

To further solidify its management platform, JR East aims to reduce total long-term debt steadily to approximately twice shareholders' equity.

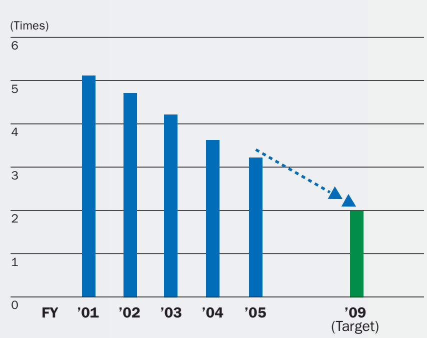
3. Realize 6% ROA

JR East will fully leverage its assets to drive further growth. Having already cleared 5%, JR East aims to push up consolidated ROA to 6% by March 2009.

CASH FLOWS FROM OPERATING ACTIVITIES



DEBT-TO-EQUITY RATIO



RATIO OF OPERATING INCOME TO AVERAGE ASSETS (ROA)