

*JR East regards strengthening the trust placed in it by shareholders and other stakeholders through enhanced corporate governance as a top management priority.*

### **JR EAST'S CORPORATE GOVERNANCE PHILOSOPHY**

Management decisions related to JR East call for long-term experience in keeping with the considerable length of time required for investments in mainstay railway operations to yield returns. JR East believes the most appropriate course is to enhance corporate governance based on its current auditor system of governance.

### **BOARD OF DIRECTORS**

JR East's Board of Directors comprised 24 directors, including 2 outside corporate directors, as of the end of June 2005. Meeting once a month in principle, the Board of Directors decides on key operational issues relating to statutory requirements and other matters and supervises overall operations. It convened 13 times during fiscal 2005. Since its establishment in 1987, JR East has enhanced management transparency and supervisory functions by appointing outside corporate directors with extensive experience and expertise.

JR East has streamlined its Board of Directors in recent years to invigorate debate and enhance the flexibility and speed of decision making. Subsequent to the shareholders' annual meeting in June 2004, the number of directors was reduced to 23. However, in order to appoint a director responsible for a newly established IT operations headquarters, the shareholders' annual meeting approved an increase to 24 directors in June 2005.

Furthermore, JR East discontinued the directors' and corporate auditors' retirement bonus system upon the conclusion of the shareholders' annual meeting in June 2004.

### **OTHER COMMITTEES**

Under the Board of Directors is the Executive Committee, which comprises 13 directors with executive functions. The committee deliberates matters to be decided by the Board of Directors and other important management issues. The Executive Committee met 41 times in fiscal 2005.

In addition, the Group Strategy Formulation Committee, which mainly consists of directors with executive functions, considers management strategy for respective operational areas and other significant group issues with a view to developing the JR East group as a whole. The committee held 9 meetings in fiscal 2005.

### **BOARD OF CORPORATE AUDITORS**

The Board of Corporate Auditors comprises 5 corporate auditors, including 2 full-time corporate auditors. And, the board's 4 outside corporate auditors include an attorney and a CPA. In accordance with guidelines established by the Board of Corporate Auditors, the corporate auditors supervise directors' implementation of operations by attending meetings of the Board of Directors, the Executive Committee, and other committees and by inquiring into JR East's operations and assets. JR East's corporate auditors not only convene monthly meetings of the Board of Corporate Auditors to exchange information, they also hold regular liaison meetings with the auditors of subsidiaries to share audit-related information.

### **INTERNAL AND ACCOUNTING AUDITS**

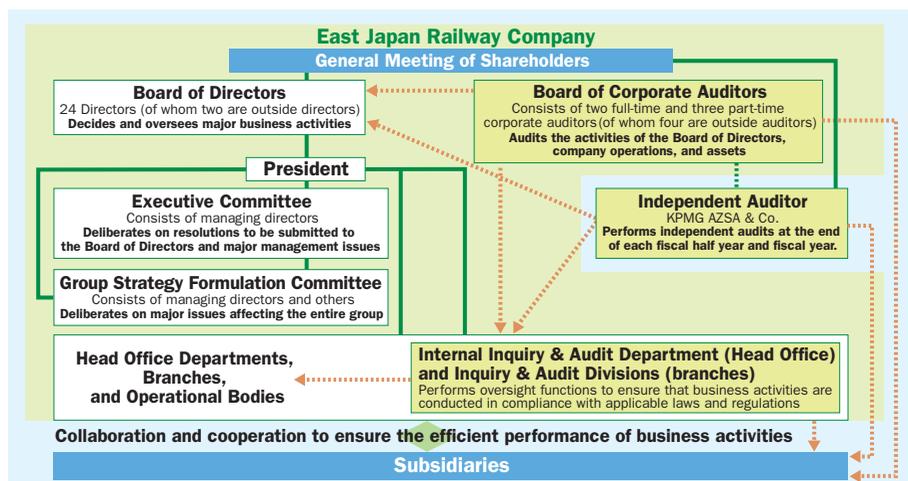
To ensure the efficient implementation of lawful operations, JR East has established an internal auditing system with approximately 100 full-time employees that comprises the Inquiry & Audit Department at its Head Office and Inquiry & Audit divisions at branch offices. The Inquiry & Audit Department also audits subsidiaries.

The accounts of JR East are audited under contract by KPMG AZSA & Co., independent certified public accountants, during and at the end of each fiscal year.

JR East facilitates coordination and information sharing to ensure efficient and effective auditing. For example, the full-time corporate auditors and the director responsible for internal auditing hold monthly liaison meetings. And, the full-time corporate auditors receive regular updates on audit implementation from the independent certified public accountants five times a year or at any other time deemed necessary.

### **SHAREHOLDERS' ANNUAL MEETING**

Aiming to be as accessible to shareholders as possible, JR East listens very carefully to its shareholders' views and offers clear explanations at annual meetings attended by approximately 2,000 shareholders. Moreover, JR East made it easier for shareholders to exercise their voting rights by introducing a computerized voting system from the June 2003 shareholders' annual meeting.



## Corporate Governance System

### DIVIDEND POLICY

JR East's basic profit appropriation policy is to secure retained earnings in order to establish a sound management platform that will enable the development of operations centered on stations and railway business while steadily enhancing returns to shareholders in light of performance trends.

Based on that policy, JR East paid a cash dividend of ¥6,500 (\$61) per share for fiscal 2005, including an interim cash dividend of ¥3,000 (\$28) per share, which represented a ¥500 increase per share in the ordinary cash dividend.

For fiscal 2006, plans call for a ¥500 increase per share in the cash dividend, to ¥7,000 per share, which will include an interim cash dividend of ¥3,500 per share. JR East will continue striving to build an even more robust operating base that enables stable dividend payments. At the same time, JR East aims to enhance returns to its shareholders.

### COMPENSATION OF DIRECTORS AND CORPORATE AUDITORS

In fiscal 2005, JR East paid the following compensation to directors and corporate auditors.

Directors		Corporate Auditors		Total	
No. of recipients	Amount	No. of recipients	Amount	No. of recipients	Amount
29	¥682 million (\$6 million)	5	¥90 million (\$1 million)	34	¥772 million (\$7 million)

Note: The above does not include bonuses paid to executives through the appropriation of earnings, retirement benefits approved by the shareholders' annual meeting, and the employee salaries of directors having duties in an employee capacity.

### COMPENSATION OF INDEPENDENT AUDITOR

In fiscal 2005, JR East paid compensation of ¥129 million (\$1 million) to KPMG AZSA & Co. for services provided pursuant to article 2, paragraph 1 of the Certified Public Accountant Law. Further, JR East paid compensation of ¥27 million (\$253 thousand) for other services in fiscal 2005.

### COMPLIANCE SYSTEMS

To ensure that its operations comply with laws and regulations, JR East has established specific compliance and corporate ethics guidelines that include concrete directions on the conduct of executives and employees. JR East has also established an internal reporting section that can be contacted from inside or outside JR East.

Further, JR East detects any potential legal problems at an early stage and consults with attorneys and other compliance experts as necessary. In addition, JR East heightens awareness of compliance issues and develops related human resources by conducting regular training programs for subsidiaries.

### RISK MANAGEMENT SYSTEM

JR East implements wide-ranging risk management for its railway operations by upgrading facilities and equipment and training personnel in relation to accident prevention, disaster countermeasures, and transport disruption countermeasures. In particular, JR East has established a system that prepares it to respond promptly and appropriately in the event of accidents or disasters. That system includes JR East's Transportation Operation Center, which operates 24 hours a day. Furthermore, JR East is working to accumulate risk management know-how based on the wealth of experience among its employees. And, in March 2004 JR East established the Transportation Reliability Improvement Committee, which is tasked with constructing a highly reliable transportation system based on JR East's advanced and complex railway network.

Primary responsibility for the management of risk associated with external criminal acts and improprieties that could have a significant impact on JR East's operations lies with the Crisis Management Headquarters, established in January 2001. That headquarters coordinates closely with all related departments. In the event of such a problem arising, the Crisis Management Headquarters and senior management rapidly set up an initial action task force that prevents delayed responses stemming from confused or inadequate communication.

### PROTECTION OF PERSONAL INFORMATION

JR East ensures that the protection of personal information is in strict compliance with relevant statutory and internal regulations. At the same time, JR East calls on the cooperation of its business partners and other associates with respect to the appropriate acquisition and utilization of personal information to ensure that such information is handled and managed safely and is up-to-date.