The following are issues related to operational and accounting procedures that may have a significant bearing on the decisions of investors. Forward-looking statements in the following section are based on the assessments of JR East as of March 31, 2005.

▸▸ LEGAL ISSUES RELATING TO OPERATIONS

As a railway operator, JR East manages its operations pursuant to the stipulations of the Railway Business Law. JR East is generally excluded from the provisions of the Law for Passenger Railway Companies and Japan Freight Railway Company (JR Law).

However, JR East is required to manage its operations in accordance with guidelines relating to matters that should be considered for the foreseeable future that are stipulated in a supplementary provision of the amended JR Law. Details of relevant laws are as follows.

The Railway Business Law (1986, Law No. 92)

Under the Railway Business Law, railway operators are required to obtain the permission of the Minister of Land, Infrastructure and Transport (MLIT) for each type of line and railway business operated (article 3). Operators receive approval from MLIT for the upper limit of passenger fares and Shinkansen limited express charges. Subject to prior notification, railway operators can then set or change those fares and charges within those upper limits (article 16). Operators are also required to give MLIT advance notice of the abolishment or suspension of railway operations. If an operator intends to abolish railway operations, the law requires one year's notice prior to the date of abolishment (article 28, items 1 and 2).

The JR Law (1986, Law No. 88)

Aim of the Establishment of the JR Law

Prior to amendment, the JR Law regulated the investments and the establishment of JR East, Hokkaido Railway Company, Central Japan Railway Company (JR Central), West Japan Railway Company (JR West), Shikoku Railway Company, Kyushu Railway Company, and Japan Freight Railway Company (JR Freight) and included provisions on the operational purposes and scopes of those companies. In addition to the provisions of the Railway Business Law, the JR Companies are subject to provisions of the JR Law that require the approval of MLIT with respect to significant management decisions. Also, under the JR Law preferential measures were applied to the JR Companies, such as those entitling holders of the bonds of the JR Companies to preferential rights over the claims of unsecured creditors (general mortgage).

Amendment of the JR Law

(a) A partial amendment of the JR Law (amended JR Law) enacted on December 1, 2001 (2001, Law No. 61), excluded JR East, JR Central, and JR West (the three JR Passenger Companies in Japan's main island) from the provisions of the JR Law that had been applicable to them until then.

(b) Further, the amended JR Law enables MLIT to issue guidelines relating to matters that should be considered for the foreseeable future with respect to the management of the railway operations of the three JR Passenger Companies in Japan's main island (the new companies), including any additional companies that may become involved in the management of all or a part of those railway operations as a result of assignations, mergers, divisions, or successions as designated by MLIT on or after the date of enactment of the amended JR Law (supplementary provision, article 2, item 1). Those guidelines were issued on November 7, 2001, and applied on December 1, 2001.

(c) The guidelines stipulate items relating to the following three areas.

- Items relating to ensuring alliances and cooperation among the companies (among the new companies or among the new companies and JR Companies) with respect to the establishment of appropriate passenger fares and charges, the unhindered utilization of railway facilities, and other factors relating to railway operations.
- Items relating to the appropriate maintenance of railway routes currently in operation reflecting trends in transportation demand and other changes in circumstances following the restructuring of the Japanese National Railways (JNR) and items relating to ensuring users' convenience through the development of stations and other railway facilities.
- Items stating that the new companies should give consideration to the avoidance of actions that inappropriately obstruct business activities or infringe upon the interests of small and medium-sized companies operating businesses in the operational areas of the new companies that are similar to the businesses of the new companies.

(d) MLIT may advise and issue instructions to the new companies to secure operations that are in accordance with those guidelines (supplementary provision, article 3). Moreover, the amended JR Law enables MLIT to issue warnings and directives in the event that operational management runs counter to the guidelines without any justifiable reason (supplementary provision, article 4).

(e) With respect to the provisions of those guidelines, JR East has always given, and of course will continue to give, adequate consideration to such items in the management of its operations. Therefore, JR East does not anticipate that those provisions will have a significant impact on its management.

(f) In addition, the amended JR Law includes required transitional measures, such as the stipulation that all bonds issued by the three JR Passenger Companies in Japan's main island prior to the amended JR Law's enactment date are and will continue to be general mortgage bonds as determined in article 4 of the JR Law (supplementary provision, article 7).

(g) With respect to the stocks of the three JR Passenger Companies in Japan's main island held by Japan Railway Construction Public Corporation (JRCC), which subsequently merged to form the Japan Railway Construction, Transport and Technology Agency (JRTT), MLIT proposed plans in the Diet for the staged sale of those stocks following the enactment of the amended JR Law, in the light of stock market trends. Based on those plans, JRCC sold 500,000 shares of JR East's common stock on June 21, 2002. As a result, JR East finally achieved full privatization.

▸▸ ESTABLISHMENT OF AND CHANGES TO FARES AND CHARGES

The required procedures when JR East sets or changes fares and charges for its railway operations are stipulated in the Railway Business Law. Changes to those procedures or the inability to flexibly change fares and charges based on those procedures for whatever reason could affect JR East's earnings. Details of those procedures are as follows.

System for Approval of Fares and Charges

The Railway Business Law stipulates that railway operators are required to obtain the approval of MLIT when setting or changing the upper limit for passenger fares and Shinkansen limited express charges (fares and charges) (Railway Business Law, article 16, item 1).

Subject to prior notification, railway operators can then set or change fares and charges within those upper limits and set or change the limited express charges on conventional lines and other charges (Railway Business Law, article 16, items 3 and 4).

Although the JR Passenger Companies can revise fares independently, a system was created among the JR Passenger Companies when JNR was restructured to ensure the convenience of users. At present, contracts among the JR Passenger Companies enable the realization of total fares and charges for passengers or packages requiring services that span two or more JR Passenger Companies. In addition, the JR Passenger Companies have established a system in which the fares and charges decrease relatively as distance traveled increases.

JR East's Stance

JR East has not raised fares since its establishment in April 1987, except for fare revisions to reflect the introduction and revision of consumption tax (April 1989 and April 1997).

JR East works to create a management base that is not dependent on raising fares through the efficient management of operations that secures revenues and reduces expenses. However, in the event that JR East was unable to secure appropriate profit levels as a result of such factors as changes in the operating environment, JR East is of the view that the timely implementation of fare revisions would be necessary to secure appropriate profit levels.

With the efficient management of operations as precondition, JR East believes that securing appropriate profit levels, which enable capital expenditure for the future and the strengthening of JR East's financial position, in addition to the distribution of profits to shareholders are essential.

JR East primarily undertakes capital expenditure, which has a significant impact on the capital usage of railway operations, with a view to establishing a robust management base through ensuring safe, stable transportation, offering high-quality services, and implementing other measures. Further, JR East appreciates the need to independently conduct capital expenditure based upon clearly defined management responsibility.

Stance of Ministry of Land, Infrastructure and Transport

With respect to the implementation of fare revisions by JR East, the position of the Ministry of Land, Infrastructure and Transport is as follows.

MLIT will approve applications for the revision of upper limits of fares from railway companies, including from JR East, upon conducting inspections to determine that fares do not exceed the sum of reasonable costs and profits, based on the efficient management of those companies (total-cost) (Railway Business Law, article 16, item 2).

In addition, a three-year period is stipulated for the calculation of costs.

Even if the railway operator has non-railway businesses, the calculation of total-cost—which comprises reasonable costs and reasonable profits, including required dividend payments to shareholders—is based only on the operator's railway operations.

Further, operators are required to submit for inspection capital expenditure plans for increased transportation services to ease crowding of commuter services and for other improvements of passenger services. And, the capital usage necessary for such enhancements is recognized in the calculation of total-cost.

Total-cost is calculated using a "rate base method" that estimates the capital cost (interest payments, dividend payments, and other costs) arising from fair and appropriate provision of return, based on the opportunity cost concept, in relation to the capital invested in corresponding railway operations.

The calculation of total-cost is as follows.

- total-cost = operating cost[1]+ operational return
- operational return = assets utilized in railway business operations (rate base) x operational return rate
- assets utilized in railway business operations = railway business operations fixed assets + construction in progress + deferred assets + working capital[2]
- operational return rate = equity ratio[3] x return rate on equity[4] + borrowed capital ratio[3] x return rate on borrowed capital[4]

Notes: 1. With respect to comparable costs among railway operators, in order to promote enhanced management efficiency, a "yard-stick formula" is used to encourage indirect competition among respective operators. The results of those comparisons are issued at the end of every business year and form the basis for the calculation of costs.
2. Working capital = operating cost and certain inventories.
3. Equity ratio 30%; borrowed capital ratio 70%.
4. Return rate on equity is based on the average of yields on public and corporate bonds and the overall industrial average return on equity and dividend yield ratio. Return rate on borrowed capital is based on the average actual rate on loans and other liabilities.

Subject to prior notification, railway operators can set or change fares and charges within the upper limits approved and other charges. However, MLIT can issue directives requiring changes in fares and charges by specified terms if the fares and charges submitted are deemed to fall within the following categories (Railway Business Law, article 16, item 5).

- The changes would lead to unjustifiable discrimination in the treatment of certain passengers.
- There is concern that the changes would give rise to unfair competition with other railway transportation operators.

PLAN FOR DEVELOPMENT OF NEW SHINKANSEN LINES

Construction Plans for New Shinkansen Lines

New Shinkansen lines are those lines indicated in the plan for the Shinkansen line network that was decided pursuant to the Nationwide Shinkansen Railway Development Law (1970, Law No. 71). Finalized in 1973, that plan called for the development of the Tohoku Shinkansen line (Morioka–Aomori), the Hokuriku Shinkansen line (Tokyo–Nagano–Toyama–Osaka), the Kyushu Shinkansen line (Fukuoka–Kagoshima), and other Shinkansen lines. Following the division and privatization of JNR, JR East was selected as the operator of the Takasaki–Joetsu segment of the Hokuriku Shinkansen line and the Morioka–Aomori segment of the Tohoku Shinkansen line. JR East started operation of the Hokuriku Shinkansen line between Takasaki and Nagano on October 1, 1997, and the Tohoku Shinkansen line between Morioka and Hachinohe on December 1, 2002 (see map on page 32).

Within JR East's service area, the Hachinohe–Shin-Aomori segment of the Tohoku Shinkansen line and the Nagano–Joetsu segment of the Hokuriku Shinkansen line are currently being constructed by JRTT. Based on a proposal by the three ruling parties, the national government and ruling parties agreed in December 1996 that both of those Shinkansen line segments would be standard gauge lines. In January 1998, the national government and ruling parties' examination committee for the development of new Shinkansen lines decided to begin the construction of those Shinkansen line segments during fiscal 1998, upon the completion of approval procedures. Based on that decision, JRCC (currently, JRTT) began construction in March 1998, after obtaining approval from the Minister of Transport pursuant to article 9 of the Nationwide Shinkansen Railway Development Law.

Further, in December 2004 the national government and ruling parties agreed on the outlook for the completion of new Shinkansen lines. For new Shinkansen lines under the jurisdiction of JR East, it was decided to "aim for completion by the end of fiscal 2011" for the

Hachinohe–Shin-Aomori segment of the Tohoku Shinkansen line, and to "aim for completion by the end of fiscal 2015 while seeking the earliest possible completion" for the Nagano–Hakusan general rail yard segment of the Hokuriku Shinkansen line; JR East has jurisdiction of the Nagano–Joetsu segment of the Hokuriku Shinkansen line.

Also, new Shinkansen lines not under the jurisdiction of JR East are being developed on the Joetsu–Toyama and the Isurugi–Kanazawa segments of the Hokuriku Shinkansen line and on the Hakata–Shin-Yatsushiro segment of the Kyushu Shinkansen line. Moreover, based on the national government and ruling parties' December 2004 agreement, construction began on the Shin-Aomori–Shin-Hakodate segment of the Hokkaido Shinkansen line and the Toyama–Isurugi and the Kanazawa–Hakusan general rail yard segments of the Hokuriku Shinkansen line from fiscal 2006.

Cost Burden of Development of New Shinkansen Lines

(a) National government, local governments, and the JR Companies assume the cost of new Shinkansen lines constructed by JRTT. Amounts to be funded by the JR Companies are to be paid out of the following.

1) Usage fees and other charges paid by the JR Company as the operator of the line
2) Funds made available from JRTT, to which JR East, JR Central, and JR West make payments of amounts due on their Shinkansen purchase liabilities (see page 64 for details)

(b) In October 1997, the opening of the Takasaki–Nagano segment of the Hokuriku Shinkansen line was accompanied by new standards for the amount of usage fees paid by the JR Companies as the operator of the line. Those usage fees are now regulated by the Japan Railway Construction, Transport and Technology Agency Law, enforcement ordinance article 6.

That enforcement ordinance stipulates that JRTT will stipulate the amount of usage fees based on the benefits received as the operator of the said Shinkansen line after opening and the sum of taxes and maintenance fees paid by JRTT for railway facilities leased. Of those, the benefits received as the operator are calculated by comparing the estimated revenues and expenses generated by the new segment of Shinkansen line and related line segments after opening with the revenues and expenses that would likely be generated by parallel conventional lines and related line segments if the new segment of the Shinkansen line were not opened. The expected benefits are the difference between the amount that the operator of the new Shinkansen line should receive as a result of operation and the amount that would be received if the new Shinkansen line did not commence services. Specifically, expected benefits are calculated based on expected demand and revenues and expenses over a 30-year period after opening. Further, a part of the usage fees, which are calculated based on the expected benefits, is fixed for the 30-year period after commencing services. In addition, the taxes and maintenance fees are included in calculations of corresponding benefits as an expense of the operator of the Shinkansen line after opening. Therefore, the burden of the operator is kept within the limits of the corresponding benefits.

With respect to the usage fees amount for the Takasaki–Nagano segment of the Hokuriku Shinkansen line opened in October 1997, JR East decided that the usage fees calculated by JRCC (currently, JRTT) were within the limits of the corresponding benefits to result from the opening of that line and concluded an agreement with JRCC in September 1997. Also, JRCC received approval for those usage fees from the Minister of Transport in September 1997. Usage fees for fiscal 2005 totaled ¥19.8 billion ($185 million), comprising the fixed amount calculated based on corresponding benefits of ¥17.5 billion ($163 million) and taxes and maintenance fees of ¥2.3 billion ($22 million).

In November 2002, JR East also concluded an agreement with JRCC regarding the usage fees amount for the Morioka–Hachinohe segment of the Tohoku Shinkansen line, which opened in December 2002. JRCC received approval for those usage fees from MLIT in November 2002. Usage fees for fiscal 2005 totaled ¥9.2 billion ($86 million), comprising the fixed amount calculated based on corresponding benefits of ¥7.9 billion ($74 million) and taxes and maintenance fees of ¥1.3 billion ($12 million).

(c) As well as being responsible for the construction of new Shinkansen lines, it is determined that JRTT procures construction costs and owns the facilities that it has constructed. JR East leases those facilities from JRTT after completion and pays the usage fees mentioned in (b) above upon the commencement of the service. During the construction period, JR East is not required to directly assume JRTT's construction costs.

Compared with periods when there is no construction of new Shinkansen lines, costs related to new Shinkansen lines, such as depreciation costs on railcars and other costs, can have an impact on JR East's single-year revenues and expenses in the initial period after opening. However, given the character of usage fees mentioned in (b) above, JR East believes that such factors will not have an impact on revenues and expenses over the 30-year period.

The JR Companies are required to assume the costs of "usage fees and other charges" as mentioned in (a) above. "Other charges" refers exclusively to the payment of usage fees before the commencement of services. However, such prior payment is required to be based upon agreements concluded following consultations between JR East and JRTT. Accordingly, it is assumed that JR East's position will be adequately reflected in such arrangements.

Treatment of Conventional Lines Running Parallel to New Shinkansen Lines

In October 1997, at the time of the opening of the Takasaki–Nagano segment of the Hokuriku Shinkansen line, the Yokokawa–Karuizawa segment was abolished and the management of the Karuizawa–Shinonoi segment of the Shinetsu line was separated from JR East. Further, in December 2002, at the time of the opening of the Morioka–Hachinohe segment of the Tohoku Shinkansen line, the management of the Morioka–Hachinohe segment of the Tohoku line was separated from JR East.

Also, an agreement reached between the national government and ruling parties in December 1996 stipulates that management of conventional line segments that run parallel to a new Shinkansen line should be separated from JR Companies when the new Shinkansen line commences operations. Pursuant to that agreement, when construction began on the Hachinohe–Shin-Aomori segment of the Tohoku Shinkansen line and the Nagano–Joetsu segment of the Hokuriku Shinkansen line in March 1998, JR East requested and received the agreement of local communities with regard to the separation of the management of conventional lines that run parallel to those Shinkansen lines upon commencement of operation: the Hachinohe–Aomori segment of the Tohoku line and the Nagano–Naoetsu segment of the Shinetsu line.

Further, in December 2000 the national government and ruling parties agreed that in cases where JR Freight continues to use conventional lines for which management has been separated from JR Companies, line usage fees will be charged commensurate with the amount of usage. With regard to the resulting loss for JR Freight, it was decided to implement an adjustment by allocating a part of revenue from usage fees on the parallel Shinkansen line segment to JR Freight as required.

Accordingly, the Nationwide Shinkansen Railway Development Law enforcement ordinance was amended in October 2002. As a result, it became possible to appropriate usage fees paid by the JR Companies for amounts required by the JR Freight adjustment mechanism. Previously, as a general principle, usage fees had only been appropriated to cover the construction cost of Shinkansen lines.

JR East's Stance on Construction of New Shinkansen Lines

JR East's stance on the construction of new Shinkansen lines is as follows.

As the operator of new Shinkansen lines, JR East will only assume the burden of the abovementioned usage fees and other charges that are within the limit of corresponding benefits as a result of commencing Shinkansen line operations. JR East will not assume any financial burden other than usage fees and other charges.

The agreement of local communities is required to be confirmed with respect to the management separation from JR East of conventional lines parallel to new Shinkansen line segments.

Based on strict adherence to the abovementioned conditions, which JR East has always viewed and will continue to view as essential, JR East will continue to fulfill its responsibility as the operator.

An agreement of the national government and ruling parties reconfirmed those conditions in December 1996. And those conditions continued to be firmly maintained at the time of opening the Takasaki–Nagano segment of the Hokuriku Shinkansen line and the Morioka–Hachinohe segment of the Tohoku Shinkansen line. In addition, the national government and ruling parties in December 1996 agreed that based on consultations and an agreement between the JR Companies and JRTT, prior payment of usage fees would be implemented. Consequently, the construction of the Hachinohe–Shin-Aomori segment of the Tohoku Shinkansen line and the Nagano–Joetsu segment of the Hokuriku Shinkansen line began in March 1998. Given the abovementioned reasons, JR East has estimated that those new Shinkansen line segments will not adversely affect the maintenance of its sound management base.

Further, a change to the abovementioned conditions and arrangements related to the construction of new Shinkansen lines could adversely affect JR East's financial position and business performance.

In addition, the national government and ruling parties' December 2004 agreement includes the statement "with respect to the burden amount of JR Companies in relation to the fringe earnings arising from the development of such new Shinkansen lines as the Shin-Aomori–Shin-Hakodate segment of the Hokkaido Shinkansen line and the Joetsu–Kanazawa segment of the Hokuriku Shinkansen line, a detailed investigation will be undertaken when services in those segments commence." However, given that the concept of "fringe earnings" is incompatible with the management decisions of an autonomous private-sector company and that a reasonable explanation of the concept cannot be offered to shareholders, JR East has expressed its opposition to the "fringe earnings" burden.

▸▸ PLAN FOR DEVELOPMENT OF TOKYO STATION'S YAESU EXIT

Plan Overview

Twin high-rise towers are to be constructed on the north and south sides of the square at the Yaesu exit of Tokyo station. A ground-level, central pedestrian deck with a large roof will connect the towers. Station facilities and shops will be located in the central area. The south tower and the upper floors of the north tower will contain leading-edge office space. Further, The Daimaru, Inc.'s Tokyo store will move from its present location in the Tetsudo Kaikan building to occupy the lower floors of the north tower (see page 41 for details).

Total floor space will be roughly 360,000 square meters (north and south towers and central area), and the total cost of the joint project will be approximately ¥130 billion ($1,215 million); JR East's share of the cost will be approximately ¥80 billion ($748 million). Adding the cost of independent projects, JR East will shoulder a total project cost of approximately ¥110 billion ($1,028 million).

Schedule

September 2004:	begin construction of 1st phase of north tower and south tower
August 2007:	complete construction of south tower
October 2007:	complete construction of 1st phase of north tower; begin construction of 2nd phase of north tower and central area
March 2011:	complete construction of 2nd phase of north tower and central area

JR East's Approach

The project is part of integrated efforts to redevelop the square in front of the Yaesu exit of Tokyo station and to recreate the image of Japan's capital city. In addition, JR East believes that this project will add significant value to the Yaesu area of Tokyo station and contribute to JR East's transportation and non-transportation operations. However, while it is expected that, based on full consideration, this project will be profitable, JR East's financial position and business performance could be affected in the event that the project does not proceed according to the plan due to a variety of environmental changes.

▸▸ SAFETY MEASURES

Railway operations can potentially suffer significant damage resulting from natural disasters, human errors, crime, terrorism, or other factors.

JR East regards ensuring safety as a major issue that fundamentally underpins its operations. Based on its five-year *Safety Plan 2008,* JR East is taking measures to build a railway with high safety levels by addressing infrastructural and operational issues.

Specifically, JR East's safety-related efforts involve replacing and upgrading railcars and facilities and installing Automatic Train Stop devices (ATS-P type) that prevent train collisions. Furthermore, since the Great Hanshin-Awaji Earthquake in January 1995, JR East has expanded the implementation area of engineering projects to reinforce elevated railway tracks against earthquake damage. Aiming to enhance the reliability of its transportation services, JR East is also extending the coverage of its Autonomous Decentralized Transport Operation Control System (ATOS) for major line segments in the Tokyo metropolitan area and working to prevent rain-related damage. In addition, JR East is upgrading equipment and conducting accident awareness campaigns to prevent accidents at railway level crossings.

▸▸ INFORMATION SYSTEMS AND PROTECTION OF PERSONAL DATA

JR East uses many computer systems in a variety of transportation and non-transportation operations. Further, computer systems play an important role among travel agencies, Railway Information Systems Co., Ltd., and other companies with which JR East has close business relationships. If the functions of those computer systems were seriously damaged as a result of natural disasters or human errors, this could have an impact on the operations of JR East. Moreover, in the event that personal data stored in those computer systems were leaked to unrelated third parties due to computer systems becoming infected by viruses or to unauthorized manipulation, it could affect JR East's financial position and business performance.

JR East takes measures to prevent damage, such as continuously upgrading the functions of in-house systems and training the related personnel. In the unlikely event of a system failure, JR East would minimize the impact by taking measures through an initial action framework that would be promptly set up and coordinated across operational divisions.

Further, JR East is doing its utmost to ensure the strict management and protection of personal data through the establishment of in-house regulations that include stipulations for the appropriate treatment of personal data, restricted authorization for access to personal data, control of access authority, and the construction of a system of in-house checks.

▸▸ DEVELOPMENT OF NON-TRANSPORTATION OPERATIONS

JR East regards non-transportation operations as of equal importance to transportation operations in its management. In non-transportation operations, JR East is developing station space utilization, shopping centers and office buildings, and other services (hotel operations, advertising and publicity, housing development and sales, and other services).

In non-transportation operations, JR East faces the risk of a downturn in consumption associated with economic recessions or unseasonable weather, which could lead to lower revenues from its shopping centers, stores in stations, hotels, and other operations. Such eventualities could also adversely affect sales of advertisement services and housing. In housing development and sales operations, falling land prices could lead to losses on the revaluation of real estate for sale or an increase in demands from tenants for rent reductions. Further, a fault in retail products or manufactured products, such as an outbreak of food poisoning or a similar incident, could reduce sales, damage trust in JR East, or result in the failure of tenants or business partners. The occurrence of any of those contingencies could have an impact on JR East's financial position and business performance. JR East's stations are used by roughly 16 million people every day (average number of passengers). JR East will fully leverage those stations as its largest management resource to develop operations. At the same time, JR East will enhance earnings and secure customer trust by implementing stringent hygiene management and credit controls.

▸▸ COMPETITION

JR East's transportation operations compete with the operations of other railway, airline, automobile, and bus transportation companies. Furthermore, JR East's non-transportation operations compete with existing and newly established businesses. The competition of JR East's transportation and non-transportation operations with such rival operators could have an impact on JR East's financial position and business performance. In particular, intensified competition in the transportation market could affect earnings from JR East's transportation operations. Such competition includes the opening of the Tsukuba Express, scheduled in August 2005 (see page 35 for details); the opening of subway line No. 13, currently under construction, in fiscal 2008; an increase in flight services as a result of the enlargement of Haneda Airport; and stepped-up highway bus services between regional cities. Also, in station space utilization operations and shopping centers and office buildings businesses, JR East's competitiveness could lessen as a result of intensified competition created by the renewal or opening of nearby commercial premises. In suburban areas, customers and tenants could be drawn away from commercial facilities nearby stations by the increased openings of large-scale shopping centers. In addition, the earnings of JR East's non-transportation operations could be affected by increasingly fierce competition that its hotel operations face from foreign-affiliated luxury hotels and economy business hotels and dedicated wedding reception facilities operated by domestic companies.

▸▸ REDUCTION OF TOTAL LONG-TERM DEBT

At the end of fiscal 2005, total long-term debt was ¥3,833.1 billion ($35,823 million). In addition, interest expense amounted to ¥148.4 billion ($1,387 million) in fiscal 2005, which was equivalent to 41.4% of operating income.

JR East will continue to reduce total long-term debt and refinance to obtain lower interest rates. However, a reduction in free cash flows due to unforeseen circumstances or a change in borrowing rates due to fluctuation in interest rates could affect JR East's financial position and business performance.