Mutsutake Otsuka, President and CEO, explains about the medium-term business plan, *"New Frontier 21,"* which actualizes JR East's running leap into the 21st century.

Last November JR East announced *"New Frontier 21."* What messages did you seek to convey in this new medium-term business plan?

On my appointment as President in June 2000, I initially identified two goals. The first was to achieve full privatization as quickly as possible. The other was to establish a clear direction and goals for JR East as a corporate group in this new age, with its emphasis on consolidated results. Last summer, executives gathered at a hotel in Tokyo and debated the future of JR East from morning until night. The results of that intense process were reflected in our new medium-term business plan, *"New Frontier 21,"* which we completed at the end of November 2000. The plan was announced on the eve of the 21st century. Its purpose is to set a clear direction for JR East Group in the opening five years of the new century, so that the entire Group can unite and advance together.

The most important aspect of the overall *"New Frontier 21"* process is the total commitment to customers' needs. In the 21st century, markets are led by consumers, and today's consumers judge products and services according to extremely demanding criteria. Unless we are fully committed to customer needs, customers will not choose our services, and we will be unable to increase our earnings. As I often say, when one is unable to decide whether or not to take a particular course of action, one should consider whether or not that action will improve customer convenience. The answer then becomes quite simple. By focusing consistently on customer convenience, we can also enhance shareholders' value.

If we want customers to choose our services, then we also need to focus on our brand image as a corporate group. Since our core activity is railway operations, our brand image is perhaps based primarily on qualities like "steady," "trustworthy" and "reliable." Our brand image is in need of a thorough update. We will develop a progressive and high quality brand image featuring "comfort" and "excitement."

Another priority for us is to develop the Group as a whole. In the past we have focused mainly on the activities of the parent company, but we should also turn our attention to the overall development of the JR East Group. One aim of the medium-term plan is to build awareness of group management among senior executives of the Company and Group companies. Whenever I have had the opportunity, I have discussed this aspect in depth with other senior executives of Group companies. There has also been discussion between the parent company and Group companies at each level of management. *"New Frontier 21"* is distinguished by the clear goals it sets for the entire JR East Group, based on discussions that also involved Group companies.

This is the first time that JR East has published medium-term numerical goals. Please tell us your perspectives in detail.

I believe that plans without numerical goals are meaningless. Unless the goals that we provide are concrete, how can we expect people to work energetically toward them? The business environment today is clouded in uncertainty, and we have moved from the era of continuous growth into a deflationary environment. We included five numerical goals for the year ended March 31, 2006 in *"New Frontier 21"* because we saw a need for clearly defined goals toward which we can all strive.

Our first goal relates to consolidated free cash flows. We see free cash flows as an indicator of true corporate strength. We have made a management commitment to invest extensively in safety-related facilities and equipment, and we intend to achieve our free cash flow goal while maintaining the necessary level of investment.

We selected our second goal indicator, consolidated return on equity (ROE), to signify our commitment to shareholder-focused management. Our equity ratio is still low, and we need to increase it, but increases in equity have a negative effect on ROE. We therefore need to achieve increases in net income in excess of any increases in shareholders' equity.

Our third goal is based on consolidated return on assets (ROA), an indicator of productivity of assets. ROA was chosen because we are using the substantial assets on which our various business activities are based. ROA can be enhanced by disposing of surplus assets and ensuring that all assets are used more effectively.

We have substantial debt. We therefore made the reduction of a substantial amount of debt our fourth goal. We are also determined to achieve continuous improvement in our productivity. That is why we have set the fifth goal calling for a substantial reduction in our work force.

"New Frontier 21" also includes business strategies designed to turn the vision into reality. We also produced specific action programs for each area of activity and Group company. We will monitor progress under these programs closely each year.

I have a clear view of how JR East will evolve in the 21st century upon accomplishment of the five-year plan. That is why I am determined to reach or exceed the numerical goals of this plan as soon as possible.

What specific measures do you plan in order to strengthen group management?

First, as the parent company, we need to provide each Group company with a mission that we expect it to accomplish. We then need to set specific goals for profit and other indicators in consultation with Group companies. Group companies will then be evaluated according to the extent to which they reach those goals. This evaluation will be reflected to reward for the management of those companies. In setting goals for each company, we will take into account that company's area of activity, business format,

Consolidated	Fiscal 2006
Free Cash Flows	¥180.0 billion
ROE (Return on average equity)	10.0%
ROA (Ratio of operating income to average assets)	5.5%
Nonconsolidated	Five years until fiscal 2006
Total Long-Term Debt	Reduction of ¥500.0 billion
Number of Employees	Reduction of 10,000

Free cash flows are the net of Operating Cash Flows and Investing Cash Flows.

Aiming to Enhance Shareholder Value

***"New Frontier 21"* is distinguished by the clear goals it sets for the entire JR East Group, based on discussions that also involved Group companies. We provide each Group company with a mission that we expect it to accomplish.**

region and mission. The goals used and the specific levels set will be optimized according to the specific circumstances of each company. Some companies will have free cash flow goals, while ROA will be an important indicator for companies that use substantial assets in their activities. In the retail sector, some companies use a competitor's profit ratio as their goals. This approach will help to motivate the Group, since there will be complete disclosure of each company's goals and its success in attaining those goals, and everyone will be aware of the implications for their reward.

At the same time, we will work to rejuvenate the boards of directors of Group companies. This process began last year and will be taken further in the current year. Our aim is to accelerate the generational change so that we can develop our various business activities from a youthful perspective.

We will also examine the business activities and management methods of each Group company and carefully consider their potential for the future. If necessary, companies will be restructured, or we will withdraw from areas of activity. In October 2001 we will integrate convenience store business which is currently covered by several Group companies. We have established the Chain Headquarters in the head office of JR East to manage our hotel business. The Chain Headquarters is responsible for chain operations and brand management, and also supports joint advertising and procurement. We are also giving specific thought to the restructuring and integration of our shopping centers.

We are also moving out of some areas of activity. Last year we liquidated a company that sold automobiles. We also plan to liquidate a company that operates a resort hotel and ski field in the Tohoku region. We will withdraw from unprofitable areas as quickly as possible so that the wounds do not become deeper than necessary.

What will be your approach to the information society and information technology?

We have established IT business project within the Company so that we can study a variety of potential business activities. One idea that has already been put into effect is IC card *Suica*. We are developing commuter passes based on IC cards, which can incorporate prepaid card function. The results of monitor testing were extremely encouraging, and we plan to introduce the system by the end of this year. There are four million commuter pass holders in Tokyo metropolitan area, and we expect that most of these people will switch to *Suica*. In the year ending March 31, 2003, we will combine our credit card, *View Card*, and *Suica*.

We are also carrying out specific research concerning the future of *Suica*. For example, we could add an electronic money function to *Suica*, and we could link *Suica* to mobile phones so that customers can book and pay for reserved seats or receive ticket inspection without human intervention. We also want to talk with major private railway companies and other JR companies about possible partnerships, since it would be extremely convenient for passengers if they could ride on various transportation systems using the same IC card. Regarding security, that is, in fact, a selling point of IC cards. They are very superior to the magnetic cards used today, but we cannot predict what threats may appear in the future, so we will do our best to always provide safe transactions. I believe that *Suica* will be our "trump card" as we work to develop a variety of business activities in the future.

In April 2001 we launched the *eki-net Travel* website in partnership with Japan Airlines Co., Ltd. and JTB Corp.. This integrated travel site offers exten-

Strengthening Group Management

New Frontier 21

Medium-Term Business Plan of JR East Group

The "*New Frontier 21*" Medium-Term Business Plan

JR East recently announced a medium-term business plan called "*New Frontier 21,*" which will cover the five-year period extending from April 2001 through March 2006. The plan targets a critical point in the JR East Group's development, setting forth a vision and a concrete action plan as the Group enters a new century and stands on the verge of full private-sector ownership. All actions are aimed at withstanding the dramatic changes that are foreseen in the Group's highly competitive operating environment.

Group Vision

In this medium-term business plan, our vision is to become a "Trusted Life-Style Service Creating Group." As we stand at the beginning of the 21st century, we will strengthen our management base and push ahead with reforms to realize this vision. In particular, we will steer our operations to meet the following five criteria:

I. Creating Customer Value and Pursuing Customer Satisfaction

(Building a corporate group for providing customers with "trust," "comfort" and "excitement.")
The starting point for the development of the JR East Group is our customers. Based on this awareness, we will commit ourselves thoroughly to a customer orientation, unite the creation of new customer value and seek to gain a higher level of appreciation from our customers.

II. Innovation of Business through the Creation of Technologies

(Building a corporate group for the integration of advanced technologies.)
The JR East Group will integrate advanced technologies in order to create new added value and thereby refine our railway businesses. Our goal shall be to become the "World's Number One Railway" in terms of safety, convenience, promotion of advanced technologies, comfort and efficiency.

III. Harmony with Society and Coexistence with the Environment

(Building a corporate group which harmonizes with society and gains the respect of the global community.)
While pursuing social missions such as coping with global environmental problems and the rapid aging of society, we will also maintain a fair stance towards global competition. We will enhance management transparency and go forward as a corporate group open to the world.

IV. Creating Motivation and Vitality

(Building a corporate group offering a working motivation and a sense of accomplishment through a free and liberal approach to work.)

V. Raising Shareholder Values

(Building a corporate group meeting shareholder expectations through the improvement of consolidated performance.)
We have set our numerical goals as follows.

Consolidated	Fiscal 2006
Free Cash Flows	¥180.0 billion
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Strategies to Transform the Vision into Reality

We have formulated a number of business strategies for the purpose of fulfilling our "*New Frontier 21*" vision. First is our *Station Renaissance*, which aims to achieve the best possible allocation of group business activities at railway stations, our greatest asset. Naturally, this requires that we conduct an exhaustive review of the layout of station facilities to open up new space for business activities. Another element of our *Station Renaissance* is large-scale developments at main stations in the Tokyo metropolitan area.

Another strategy is to utilize IT and other new technologies. One example is the creation of a new railway operating system by drawing on a broad range of IT resources. The system will improve the safety and accuracy of our railway operations. Another is the creation of business models that give us a substantial advantage over competitors making the most of our infrastructure, which is ideally suited for IT-oriented businesses. As a central part of this drive, we will use our IC card, *Suica,* which will be introduced in 2001, to offer cashless and ticketless transportation services. Many other new businesses are on the drawing board.

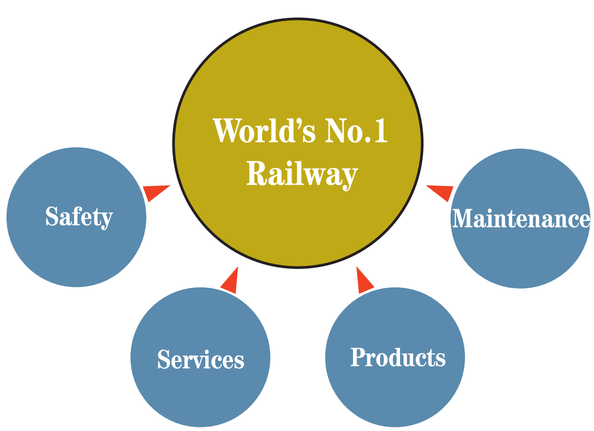
In railway operations, we will concentrate on making more gains in safety and service quality and on improving our operating system, such as by strengthening our service network. In life-style service businesses, we will focus our resources on businesses where we can achieve synergies with our railway operations and where we have competitive superiority. Strategic alliances with partners outside the JR East Group and the realignment of Group companies will be central to this drive.

sive information about not only rail travel products but also a wide range of other travel products. Users can also reserve tickets for the six JR companies or travel products. The site has made a very successful start and already has over 60,000 members. It handles 500 to 600 booking applications daily. We aim to increase membership to one million and annual sales to ¥10 billion over the next three years.

What is your specific approach to the development of the rail business as your base of management?

The railway operations will inevitably remain the core activity of the JR East Group. We believe that the best way to develop our life-style service businesses is to seek synergies with our railway operations. This will require further enhancement of our railway business. We are encouraged when people tell us that our railway services are already the best in the world. However, we are determined to be "World's Number One Railway" in a comprehensive sense, including the hardware and software factors behind such characteristics as passenger comfort, efficiency, leading-edge technology and safety. That is why I say that JR East aims to become the best railway in the world. We have coined the word *e@train* to symbolize the overall system that we aim to build through the intensive application of information technology to our rail operations. We are currently developing a prototype train which will have a LAN throughout each car—armed with IT, so to speak.

Our business strategy calls for marketing based on clearly focused customer targeting, and for the provision of products from the consumer's perspective. We have already developed products targeted toward young working women and products targeted toward housewives who are beyond the child care stage, both of which exceeded our expectations. We are also developing marketing strategies that reflect the growing aged population. The six JR companies jointly operate the *Zipangu Club*, a membership system for senior citizens. Benefits include 20-30% discounts on fares and charges. We aim to increase the number of members in our area from 640,000 at present to one million in the year ending March 31, 2006. We have adopted the name *Otona no Kyujitsu (Holidays for grown-ups)* for package products targeted toward senior citizens, and we are working with various partner companies to enhance the attractiveness of these products. We cannot attract customers simply by keeping prices low. Our approach is to combine our products with accommodation and other products to create an image of high quality with reasonable price. Our products are priced flexibly to encourage customers to travel when trains are not crowded, such as early mornings or in the off-season.



What specific views do you have regarding the development of non-railway businesses as the key to future growth?

Our most important business resource is our stations, which are used by 16 million people every day. We will totally review our stations and work to create station environments that will attract not only people who use trains, but also those in search of fun or interest. This campaign is already in progress under the name *Station Renaissance*. In the past station development projects focused on the utilization of surplus space. We have changed our basic approach. Future reviews of station development will focus on optimal utilization of stations as a whole. If necessary, we will invest in new facilities. One example of such a project is the attractive station shopping zone that will be completed at Ueno station this year. The sales target for the shopping zone is ¥10 billion per annum. We are also constructing large office buildings at Meguro and Shinagawa. In addition, we are seriously considering redevelopment projects for Tokyo and Shinjuku stations. We are steadily developing life-style service businesses around our railway operations. By the year ended March 31, 2006 we aim to be earning at least one-third of our consolidated operating revenues from these activities.

How do you plan to reduce your massive long-term debt?

The reduction of total long-term debt has been a major priority for JR East ever since its establishment. That is why we have a management policy of keeping capital expenditures within the level of depreciation. We will continue to invest in essential facilities, but we intend to maintain our basic policy of limiting capital expenditures within the level of depreciation through focusing and prioritization. One of the goals in *"New Frontier 21"* is the reduction of nonconsolidated total long-term debt by ¥500 billion. We will work to achieve or surpass this goal.

How do you view full privatization?

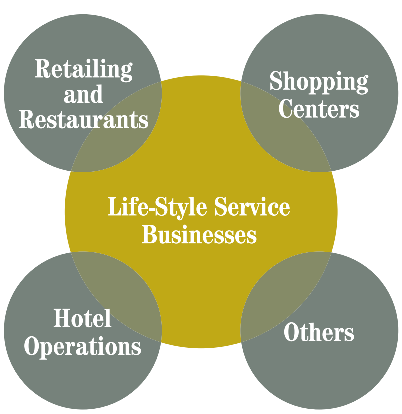
After becoming President and CEO last year, I visited many involved persons, including Diet members, to ask for full privatization as soon as possible. I felt a great sense of relief and satisfaction when the JR Law Amendment Bill was passed in June 2001. It took more than 14 years from the establishment of JR East to the passage of the bill. That was a long time. I felt a sense of gratitude to all those who worked toward this goal during that period. When the new law takes effect, which will be within six months from the issuance of the amendment law, JR East will be exempted from the JR Law.

Full privatization has given momentum to *"New Frontier 21."* We expect to contribute to shareholders, investors and customers with a flexible and active management.

The JR Law stipulates a variety of approval requirements, and we must ask the Minister of Land, Infrastructure and Transport for such approvals on our behalf. In some cases, the Minister of Land, Infrastructure and Transport must consult with the Minister of Finance. These procedures are by their content inevitably complex and time-consuming. This problem has not been a specific impediment to our business activities, because we have managed the Company to avoid such problems. However, the approval requirement has meant that we could not manage our activities with the same flexibility as other private-sector companies.

Once we are exempted from the JR Law, the required legal framework will be in place. However, the government still holds 12.5% of our shares, which amounts to 500,000 out of a total of 4 millions shares. This is clearly not a natural situation for a private-sector company. The government announced that it would sell JR East's shares after the effective date of the amendment law, in consideration of the stock market conditions. When the government completes the sale of all shares, the full privatization will have been realized, both in name and reality. We will therefore continue to work toward the eventual release of all shares held by the government.

The amendment law will clearly exempt us from the JR Law by the end of 2001. We will take advantage of this change to add increased impetus to our efforts under *"New Frontier 21."* We will be able to manage our activities with greater speed and flexibility, and I am confident that all of shareholders, investors and customers will benefit from this change.



Speedy and Flexible Management