# Financial Section

## Contents

# Eleven-Year Summary

East Japan Railway Company and Subsidiaries
Years ended March 31

| | 1995 | 1996 | 1997 |
|---|---|---|---|
| **Operating results** | | | |
| Operating revenues | 2,447,955 | 2,473,200 | 2,513,790 |
| Operating expenses | 2,034,546 | 2,059,384 | 2,097,388 |
| Operating income | 413,409 | 413,816 | 416,402 |
| Net income | 65,545 | 68,431 | 70,661 |
| **Segment information (*1)** | | | |
| Operating revenues from outside customers: | | | |
| Transportation | N/A | N/A | N/A |
| Station space utilization | N/A | N/A | N/A |
| Shopping centers & office buildings | N/A | N/A | N/A |
| Other services | N/A | N/A | N/A |
| Total | N/A | N/A | N/A |
| **Segment information (*2)** | | | |
| Operating revenues from outside customers: | | | |
| Transportation | 1,837,806 | 1,839,095 | 1,855,994 |
| Merchandise sales | 355,958 | 357,598 | 363,403 |
| Real estate leasing | 254,191 | 276,507 | 144,927 |
| Other services | | | 149,466 |
| Total | 2,447,955 | 2,473,200 | 2,513,790 |
| **Financial Position** | | | |
| Total assets | 7,291,152 | 7,345,760 | 7,384,463 |
| Long-term debt (including current portion) | 2,255,471 | 2,247,931 | 2,223,163 |
| Railway facilities purchase liabilities (including current portion) (*3) | 2,912,176 | 2,851,373 | 2,812,547 |
| Total long-term debt (sum of two items above) | 5,167,647 | 5,099,304 | 5,035,710 |
| Total shareholders' equity | 621,292 | 669,291 | 719,510 |
| **Cash flows (*4)** | | | |
| Cash flows from operating activities | 419,935 | 504,761 | 497,242 |
| Cash flows from investing activities | (351,321) | (342,507) | (419,923) |
| Cash flows from financing activities | (54,251) | (99,288) | (77,240) |
| **Per share data** | | | |
| Earnings | 16,386 | 17,108 | 17,665 |
| Shareholders' equity | 155,323 | 167,323 | 179,878 |
| Cash dividends (*5) | 5,000 | 5,000 | 5,000 |
| **Ratios** | | | |
| Net income as a percentage of revenues | 2.7 | 2.8 | 2.8 |
| Return on average equity (ROE) | 10.9 | 10.6 | 10.2 |
| Ratio of operating income to average assets (ROA) | 5.8 | 5.7 | 5.7 |
| Equity ratio | 8.5 | 9.1 | 9.7 |
| Total long-term debt to shareholders' equity | 8.3 | 7.6 | 7.0 |
| **Other data** | | | |
| Depreciation | 288,138 | 275,589 | 274,133 |
| Capital expenditures (*6) | N/A | 261,582 | 325,066 |
| Interest expense | 291,266 | 279,783 | 256,063 |
| Number of consolidated subsidiaries (As of March 31) | 69 | 72 | 73 |
| Number of employees (*7) | 91,520 | 90,405 | 89,593 |

*1 The business segmentation was changed to four new segments beginning with the year ended March 31, 2002.
The information for the year ended March 31, 2001, has been reclassified according to the new business segmentation.
*2 Real estate leasing was separated from other services beginning with the year ended March 31, 1998.
*3 Long-term liabilities incurred for purchase of the Tohoku and Joetsu Shinkansen facilities, the Akita hybrid Shinkansen facilities, and the Tokyo Monorail facilities.
*4 Due to a change in accounting standards, statements of cash flows after the year ended March 31, 2000, use presentation methods different to those of previous years.
*5 The total amount of dividends for the year ended March 31 comprises interim dividends for the interim period ended September 30 and year-end dividends for the year ended March 31, which was decided at the shareholders' annual meeting in June.
*6 These figures exclude expenditures funded by third parties, mainly governments and their agencies, which will benefit from the resulting facilities.
*7 Beginning with the year ended March 31, 2000, number of employees excludes employees assigned to other companies and employees on temporary leave.
*8 Upon the merger of Japan Railways Group Mutual Aid Association into the Welfare Pension, the Company shared the shortage of the assets to be transferred amounting to ¥77,566 million. This was paid in a lump sum and was accounted for as a long-term prepaid expense included in the other item of other assets on the balance sheets and was charged to income from the year ended March 31, 1998, to the year ended March 31, 2002, on a straight-line basis.

Millions of Yen (except for Per share data, Ratios, Number of consolidated subsidiaries, and Number of employees)

| 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | **2005** |
|---|---|---|---|---|---|---|---|
| 2,514,808 | 2,483,594 | 2,502,909 | 2,546,041 | 2,543,378 | 2,565,671 | 2,542,297 | **2,537,481** |
| 2,146,109 | 2,149,122 | 2,160,952 | 2,222,290 | 2,227,038 | 2,222,576 | 2,190,877 | **2,178,946** |
| 368,699 | 334,472 | 341,957 | 323,751 | 316,340 | 343,095 | 351,420 | **358,535** |
| 66,235 | 21,929 | 66,963 | 69,174 | 47,551 | 97,986 | 119,866 | **111,592** |
| N/A | N/A | N/A | 1,801,370 | 1,789,599 | 1,800,434 | 1,798,132 | **1,781,776** |
| N/A | N/A | N/A | 348,994 | 368,553 | 368,961 | 366,438 | **369,790** |
| N/A | N/A | N/A | 165,818 | 165,276 | 170,321 | 175,180 | **181,956** |
| N/A | N/A | N/A | 229,859 | 219,950 | 225,955 | 202,547 | **203,959** |
| N/A | N/A | N/A | 2,546,041 | 2,543,378 | 2,565,671 | 2,542,297 | **2,537,481** |
| 1,836,237 | 1,808,925 | 1,799,051 | 1,805,663 | N/A | N/A | N/A | **N/A** |
| 365,964 | 356,260 | 379,213 | 386,033 | N/A | N/A | N/A | **N/A** |
| 154,905 | 158,515 | 143,432 | 152,438 | N/A | N/A | N/A | **N/A** |
| 157,702 | 159,894 | 181,213 | 201,907 | N/A | N/A | N/A | **N/A** |
| 2,514,808 | 2,483,594 | 2,502,909 | 2,546,041 | N/A | N/A | N/A | **N/A** |
| 7,381,794 | 7,287,033 | 7,308,391 | 7,247,089 | 7,022,271 | 6,853,403 | 6,781,692 | **6,716,268** |
| 2,285,063 | 2,320,246 | 2,319,664 | 2,307,483 | 2,060,838 | 1,942,983 | 1,940,321 | **1,940,255** |
| 2,713,737 | 2,610,966 | 2,499,023 | 2,392,241 | 2,318,997 | 2,174,581 | 2,034,203 | **1,892,827** |
| 4,998,800 | 4,931,212 | 4,818,687 | 4,699,724 | 4,379,835 | 4,117,564 | 3,974,524 | **3,833,082** |
| 765,424 | 766,880 | 856,401 | 923,568 | 930,746 | 981,856 | 1,100,176 | **1,183,546** |
| 410,662 | 365,296 | 474,715 | 455,470 | 455,045 | 433,304 | 387,061 | **407,737** |
| (379,156) | (282,082) | (292,438) | (266,319) | (105,645) | (196,422) | (234,591) | **(214,948)** |
| (52,674) | (72,298) | (168,133) | (161,109) | (433,589) | (310,658) | (196,193) | **(209,041)** |
| 16,559 | 5,482 | 16,741 | 17,294 | 11,888 | 24,453 | 29,928 | **27,868** |
| 191,356 | 191,720 | 214,100 | 230,892 | 232,687 | 245,463 | 275,052 | **296,106** |
| 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 8,000 | 6,000 | **6,500** |
| 2.6 | 0.9 | 2.7 | 2.7 | 1.9 | 3.8 | 4.7 | **4.4** |
| 8.9 | 2.9 | 8.3 | 7.8 | 5.1 | 10.2 | 11.5 | **9.8** |
| 5.0 | 4.6 | 4.7 | 4.4 | 4.4 | 4.9 | 5.2 | **5.3** |
| 10.4 | 10.5 | 11.7 | 12.7 | 13.3 | 14.3 | 16.2 | **17.6** |
| 6.5 | 6.4 | 5.6 | 5.1 | 4.7 | 4.2 | 3.6 | **3.2** |
| 283,711 | 319,687 | 329,583 | 329,651 | 321,995 | 322,564 | 322,300 | **317,957** |
| 268,425 | 258,080 | 288,106 | 296,957 | 301,781 | 307,579 | 313,911 | **319,912** |
| 243,017 | 230,887 | 220,421 | 205,155 | 187,601 | 173,298 | 160,944 | **148,431** |
| 80 | 81 | 96 | 96 | 101 | 101 | 98 | **92** |
| 89,008 | 87,880 | 82,747 | 82,285 | 80,200 | 78,760 | 77,009 | **74,923** |

*9 Net income decreased significantly in the year ended March 31, 1999, mainly because "cash charges for additional obligation related to transfer to Welfare Pension" was accounted for in other expenses. This additional obligation of ¥70,475 million, including the interest portion, was paid in accordance with the enactment of the Law for Disposal of Debts and Liabilities of the Japanese National Railways Settlement Corporation. (See page 77, "JR East Background—Disposition of Long-Term Liabilities of JNR")

*10 Beginning with the year ended March 31, 1999, the declining balance method has generally been applied with respect to depreciation for structures related to Shinkansen railway fixtures. The straight-line method had been applied prior to the year ended March 31, 1999.

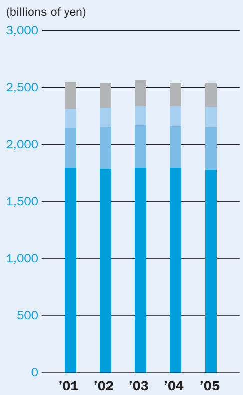
*11 Accounting Standards for Financial Instruments were adopted beginning with the year ended March 31, 2001.

*12 Tax effect accounting was adopted beginning with the year ended March 31, 2000.

*13 Accounting Standards for Retirement Benefits were adopted beginning with the year ended March 31, 2001. (See note 15 to consolidated financial statements)

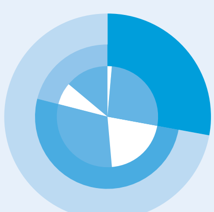
*14 Accounting Standards for Impairment of Fixed Assets were early adopted beginning with the year ended March 31, 2005. (See note 2 to consolidated financial statements)

**OPERATING REVENUES**
Years ended March 31




Transportation
Station Space Utilization
Shopping Centers & Office Buildings
Other Services

**BREAKDOWN OF REVENUES FROM PASSENGER TICKETS**
Year ended March 31, 2005



| | |
|---|---|
| Shinkansen Network | 27.9% |
| Commuter Passes | 1.4% |
| Non-Commuter Passes | 26.5% |
| Conventional Lines | 72.1% |
| Tokyo Metropolitan Area | 51.1% |
| Commuter Passes | 20.7% |
| Non-Commuter Passes | 30.4% |
| Other Areas | 21.0% |
| Commuter Passes | 7.1% |
| Non-Commuter Passes | 13.9% |

Forward-looking statements in the following discussion and analysis are judgments of JR East as of March 31, 2005.

## KEY ACCOUNTING POLICIES AND ESTIMATES

JR East prepares financial statements in accordance with accounting principles generally accepted in Japan. Forward-looking estimates included in those financial statements are based on a variety of factors that, in light of JR East's past performance and circumstances, can be reasonably assumed to have affected results for assets and liabilities on the consolidated settlement date and consolidated revenues and expenses in fiscal 2005, ended March 31, 2005. JR East continuously assesses those factors. Actual results may differ materially from those estimates, given the uncertainty of forward-looking statements.

## PERFORMANCE ANALYSIS

### Operating Revenues

Operating revenues edged down 0.2% year on year, to ¥2,537.5 billion ($23,715 million), as a result of a decline in transportation segment operating revenues, which offset increases in operating revenues from the station space utilization, the shopping centers & office buildings, and the other services segments.

In transportation, operating revenues from outside customers decreased 0.9%, to ¥1,781.8 billion ($16,652 million). This decline was attributable to a 0.8% decrease in revenues from passenger tickets in railway operations, to ¥1,653.3 billion ($15,451 million), which resulted from a downturn in non-commuter passes revenues for Shinkansen lines and conventional lines that accompanied the October 2004 Niigata Chuetsu Earthquake.

In the Shinkansen network, passenger kilometers were down 1.9%, to 18.4 billion, due to a substantial slump in transportation volume on the Joetsu Shinkansen line following the Niigata Chuetsu Earthquake. Buoyed by the opening of Honjo Waseda station, revenues from commuter passes increased 2.8%, to ¥22.1 billion ($206 million). However, non-commuter passes revenues declined 1.4%, to ¥438.5 billion ($4,098 million), as a result of lower revenues from the Joetsu Shinkansen line, which counteracted favorable revenues from the Tohoku Shinkansen line mainly in the Tokyo metropolitan area and environs. Consequently, revenues from passenger tickets decreased 1.2% year on year, to ¥460.5 billion ($4,304 million).

In the Tokyo metropolitan area network, passenger kilometers were 76.7 billion, remaining at approximately the same level as in the previous fiscal year as the impact of frequent typhoons cancelled out the upturn in passengers that stemmed from increased train services. Although usage of commuter passes grew, a higher proportion of passengers purchased six-month passes, which offer a higher discount. As a result, revenues from commuter passes edged down 0.1%, to ¥342.8 billion ($3,204 million). Also, non-commuter passes revenues declined 0.4%, to ¥502.5 billion ($4,697 million), due to the influence of the leap year in fiscal 2004 and the effect of frequent typhoons in fiscal 2005, which offset higher revenues from stepped-up train services on the Shonan-Shinjuku line and the further introduction of *Green Cars* (first class cars) to local train services. As a result, revenues from passenger tickets decreased 0.3%, to ¥845.4 billion ($7,901 million).

In the intercity and regional networks, passenger kilometers declined 0.6%, to 30.1 billion, due to lackluster usage of non-commuter passes and the effect of the Niigata Chuetsu Earthquake. Revenues from passenger tickets of ¥347.1 billion ($3,244 million) were 1.6% less than in the

* The business segmentation was changed to four new segments beginning with the year ended March 31, 2002.
The information for the year ended March 31, 2001, has been reclassified according to the new business segmentation.

previous fiscal year, reflecting decreases of 0.2% in revenues from commuter passes, to ¥117.7 billion ($1,100 million), and 2.3% in non-commuter passes revenues, to ¥229.4 billion ($2,144 million).

In non-transportation, operating revenues from outside customers were as follows.

Station space utilization operations posted a 0.9% increase, to ¥369.8 billion ($3,456 million), on the back of brisk sales at stores on station premises. Shopping centers & office buildings operations achieved 3.9% growth, to ¥182.0 billion ($1,700 million), thanks to renewals of existing shopping centers and openings of new shopping centers. Other services operations recorded a 0.7% upturn, to ¥204.0 billion ($1,907 million), which resulted from increases in revenues from East Japan Marketing & Communications, Inc., and JR East Japan Information Systems Company.

**Operating Expenses**

Operating expenses edged down 0.5% year on year, to ¥2,178.9 billion ($20,364 million), and accounted for 85.9% of operating revenues compared with 86.2% in fiscal 2004.

Transportation, other services and cost of sales decreased 1.0%, to ¥1,677.9 billion ($15,682 million), because of reductions in personnel expenses and depreciation as well as lower other expenses achieved through rigorous cost cutting.

Selling, general and administrative expenses rose 1.0%, to ¥501.0 billion ($4,682 million), due to an increase in taxes related to the introduction of pro forma standard taxation, which counteracted reduced personnel expenses resulting from a reduction in employee numbers.

**Operating Income**

Operating income increased 2.0% year on year, to ¥358.5 billion ($3,351 million). Operating income as a percentage of operating revenues rose from 13.8% in fiscal 2004 to 14.1%.

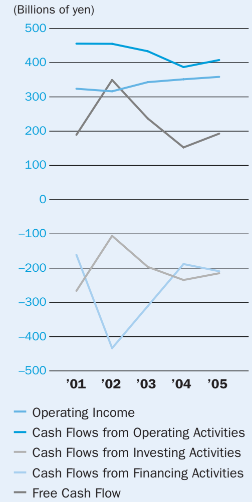
**Other Income (Expenses)**

Other expenses climbed 23.2%, to ¥158.3 billion ($1,480 million). This increase was attributable to impairment losses on fixed assets associated with the early adoption of Accounting Standards for Impairment of Fixed Assets and the recording of earthquake-damage losses and provision for allowance for earthquake-damage losses as a result of the Niigata Chuetsu Earthquake on October 2004. In addition, JR East further reduced interest-bearing debt. Although losses for redemption of bonds were recorded because a portion of interest-bearing debt was redeemed based on debt assumption agreements, interest payments on total debt decreased compared with the previous fiscal year.

That increase in other expenses offset an increase in other income associated with the aggressive streamlining of assets, which resulted in gain on sales of investment in securities, such as Vodafone K.K. shares, and gain on sales of fixed assets, and the recording of gain on sales of transferable development air rights.

**TREND OF OPERATING INCOME AND CASH FLOWS**

Years ended March 31



**Income before Income Taxes**
Income before income taxes decreased 10.2%, to ¥200.2 billion ($1,871 million). Income before income taxes as a percentage of operating revenues was 7.9%, compared with 8.8% in the previous fiscal year.

**Income Taxes**
The actual effective income tax rate, after applying tax effect accounting, decreased from 44.8% in fiscal 2004 to 43.1%. The aggregate standard effective tax rate was 40.5%. The reduction in the actual effective income tax rate was mainly due to a reduction in the aggregate standard effective tax rate that resulted from the introduction of pro forma standard taxation for enterprise taxes.

**Minority Interests in Net Income of Consolidated Subsidiaries**
Minority interests in net income of consolidated subsidiaries—primarily minority interests in income of LUMINE Co., Ltd., and Union Construction Co., Ltd.—were down 26.8%, to ¥2.2 billion ($21 million).

**Net Income**
Net income decreased 6.9% from the all-time-high level of the previous fiscal year, to ¥111.6 billion ($1,043 million). Earnings per share declined from ¥29,928 in fiscal 2004 to ¥27,868 ($260). Net income as a percentage of operating revenues edged down from 4.7% in the previous fiscal year to 4.4%.

## LIQUIDITY AND CAPITAL RESOURCES

**Cash Flows**
Net cash provided by operating activities was up ¥20.7 billion, to ¥407.7 billion ($3,811 million), reflecting lower payments of income taxes, which offset a decrease in income before income taxes.

Net cash used in investing activities of ¥214.9 billion ($2,009 million) was ¥19.6 billion less than in fiscal 2004, with increases in proceeds from sales of fixed assets and gain on sales of investments in securities, such as Vodafone K.K. shares, compensating for increased payments for purchases of fixed assets associated with the following capital expenditures.

In transportation, capital expenditures comprised the maintenance and renewal of transportation facilities that emphasized safety measures, the development of transportation capabilities, and the improvement of passenger services. In station space utilization, capital expenditures mainly targeted the *Station Renaissance* program, which included the construction of *Ecute Omiya* at Omiya station to realize a new business model for retailing development in station premises. In shopping centers & office buildings, capital expenditures primarily comprised construction projects on the Yaesu side of Tokyo station, the construction of *Tokyo Building,* and the renewal of existing shopping centers.
In other services, capital expenditures primarily focused on the development and upgrading of information systems, the renewal of sports facilities, and the construction of *HOTEL METS*.

In addition, free cash flows grew ¥40.3 billion, to ¥192.8 billion ($1,802 million).

Net cash used in financing activities increased ¥12.8 billion, to ¥209.0 billion ($1,954 million), which mainly resulted from payments for acquisition of treasury stock, and a ¥144.5 billion ($1,350 million) reduction in total long-term debt that was larger than in the previous fiscal year. Consequently, cash and cash equivalents at end of year, which were ¥82.9 billion at the end of fiscal 2004, declined ¥16.1 billion, to ¥66.8 billion ($624 million).

## Financial Policy

Total long-term debt at the end of fiscal 2005 was ¥3,833.1 billion ($35,823 million). That debt consists of long-term liabilities incurred for purchase of railway facilities associated with JR East's assumption of Shinkansen railway facilities and other facilities, bonds, and long-term loans.

Long-term liabilities incurred for purchase of railway facilities associated with JR East's assumption of Shinkansen railway facilities are paid in equal semi-annual installments, consisting of principal and interest payments, and are divided into the following three tranches.

a. ¥1,079.2 billion ($10,086 million) payable at a variable interest rate (annual interest rate in fiscal 2005: 4.50%) through March 31, 2017.
b. ¥422.8 billion ($3,952 million) payable at a fixed annual interest rate of 6.35% through March 31, 2017.
c. ¥355.7 billion ($3,324 million) payable at a fixed annual interest rate of 6.55% through September 30, 2051.
(Amounts as of March 31, 2005)

In addition, at fiscal year-end JR East had long-term liabilities incurred for purchase of railway facilities of ¥19.1 billion ($178 million) for the Akita hybrid Shinkansen and ¥16.0 billion ($150 million) for Tokyo Monorail (See note 12).

Since fiscal 1998, JR East has made annual early repayments of long-term liabilities incurred for purchase of railway facilities associated with JR East's assumption of Shinkansen railway facilities based on an agreement with the Japan Railway Construction, Transport and Technology Agency. JR East made early repayments of ¥47.9 billion ($447 million) in fiscal 2005. Plans call for annual early repayments through fiscal 2007.

In fiscal 2002, JR East introduced a cash management system that has integrated the management of the group's cash and funding, which used to be carried out separately by subsidiaries, with the aim of reducing JR East's total long-term debt. Also, JR East is enhancing capital management methods that include offsetting internal settlements among subsidiaries and consolidating payments by subsidiaries.

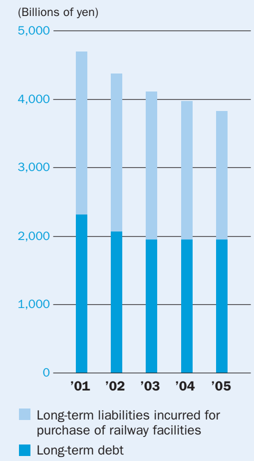
In the year ended March 31, 2005, JR East issued seven unsecured straight bonds, with a total nominal amount of ¥130.0 billion ($1,215 million) and maturities from 2012 through 2024.

Rating and Investment Information, Inc. (R&I), a Japanese rating agency, rated these bonds AA+. Further, JR East's long-term ratings from Standard & Poor's and Moody's were AA– and Aa2, respectively, through the fiscal year ended March 31, 2005.

In order to respond to short-term financing requirements, JR East has bank overdraft facilities with its principal banks totaling ¥60.0 billion ($561 million). R&I and Moody's rated JR East's commercial paper a–1+ and P–1, respectively, as of the end of fiscal 2005. JR East had outstanding commercial paper of ¥5.0 billion ($47 million) and no bank overdrafts on March 31, 2005.

JR East does not maintain committed bank credit lines (a financing framework that permits unrestricted borrowing within contract limits based on certain conditions).

**TOTAL LONG-TERM DEBT**
Years ended March 31



# Consolidated Balance Sheets

East Japan Railway Company and Subsidiaries
March 31, 2004 and 2005

| | Millions of Yen | | Millions of U.S. Dollars (Note 2) |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| **Assets** | | | |
| Current Assets: | | | |
| Cash and cash equivalents (Note 4) | ¥ 82,935 | ¥ **66,781** | $ **624** |
| Receivables: | | | |
| Accounts receivable–trade | 151,062 | **172,332** | **1,611** |
| Unconsolidated subsidiaries and affiliated companies | 5,152 | **5,442** | **51** |
| Other | 21,723 | **19,282** | **180** |
| Allowance for doubtful accounts (Note 2) | (1,720) | **(1,663)** | **(16)** |
| | 176,217 | **195,393** | **1,826** |
| Inventories (Notes 2 and 5) | 39,069 | **33,157** | **310** |
| Real estate for sale (Notes 2 and 6) | 12,005 | **11,375** | **106** |
| Deferred income taxes (Note 14) | 55,270 | **64,827** | **606** |
| Other current assets | 23,605 | **26,117** | **244** |
| Total current assets | 389,101 | **397,650** | **3,716** |
| Investments: | | | |
| Unconsolidated subsidiaries and affiliated companies (Notes 2 and 7) | 38,004 | **37,616** | **352** |
| Other (Notes 2 and 8) | 113,463 | **120,849** | **1,129** |
| | 151,467 | **158,465** | **1,481** |
| Property, Plant and Equipment (Notes 2 and 10): | | | |
| Buildings | 1,855,382 | **1,878,760** | **17,559** |
| Fixtures | 4,885,143 | **4,943,789** | **46,204** |
| Machinery, rolling stock and vehicles | 2,174,301 | **2,207,193** | **20,628** |
| Land | 2,117,484 | **2,026,942** | **18,943** |
| Construction in progress | 140,068 | **151,736** | **1,418** |
| Other | 148,672 | **153,138** | **1,431** |
| | 11,321,050 | **11,361,558** | **106,183** |
| Less accumulated depreciation | 5,382,325 | **5,560,850** | **51,971** |
| Net property, plant and equipment | 5,938,725 | **5,800,708** | **54,212** |
| Other Assets: | | | |
| Long-term deferred income taxes (Note 14) | 159,702 | **199,818** | **1,867** |
| Consolidation difference (Note 2) | 3,340 | **2,314** | **22** |
| Other | 139,357 | **157,313** | **1,471** |
| | 302,399 | **359,445** | **3,360** |
| | ¥ 6,781,692 | ¥ **6,716,268** | $ **62,769** |

See accompanying notes.

| | Millions of Yen | | Millions of U.S. Dollars (Note 2) |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| **Liabilities and Shareholders' Equity** | | | |
| Current Liabilities: | | | |
| Commercial paper | ¥ — | **¥ 5,000** | **$ 47** |
| Current portion of long-term debt (Note 11) | 124,367 | **158,453** | **1,481** |
| Current portion of long-term liabilities incurred for purchase of railway facilities (Note 12) | 143,179 | **147,612** | **1,380** |
| Prepaid railway fares received | 104,909 | **103,404** | **966** |
| Payables: | | | |
| Accounts payable–trade | 47,884 | **47,864** | **447** |
| Unconsolidated subsidiaries and affiliated companies | 39,975 | **43,387** | **405** |
| Other | 382,527 | **353,002** | **3,300** |
| | 470,386 | **444,253** | **4,152** |
| Accrued expenses | 116,852 | **116,061** | **1,085** |
| Accrued consumption tax (Note 13) | 13,397 | **12,822** | **120** |
| Accrued income taxes (Note 14) | 68,479 | **71,783** | **671** |
| Other current liabilities | 28,177 | **56,980** | **531** |
| Total current liabilities | 1,069,746 | **1,116,368** | **10,433** |
| Long-Term Debt (Note 11) | 1,815,954 | **1,781,802** | **16,652** |
| Long-Term Liabilities Incurred for Purchase of Railway Facilities (Note 12) | 1,891,024 | **1,745,215** | **16,310** |
| Accrued Employees' Severance and Retirement Benefits (Notes 2 and 15) | 595,569 | **598,923** | **5,597** |
| Deposits Received for Guarantees | 196,006 | **182,087** | **1,702** |
| Long-Term Deferred Tax Liabilities (Note 14) | 3,781 | **1,861** | **17** |
| Other Long-Term Liabilities | 79,949 | **80,224** | **752** |
| Minority Interests | 29,487 | **26,242** | **245** |
| Contingent Liabilities (Note 16) | | | |
| Shareholders' Equity (Notes 17 and 21): | | | |
| Common stock: | | | |
| Authorized 16,000,000 shares; | | | |
| Issued, 2004 and 2005—4,000,000 shares; | | | |
| Outstanding, 2004—3,999,235 shares and 2005—3,996,290 shares | 200,000 | **200,000** | **1,869** |
| Capital surplus: | | | |
| Additional paid-in capital | 96,600 | **96,600** | **903** |
| Total capital surplus | 96,600 | **96,600** | **903** |
| Retained earnings | 771,233 | **856,664** | **8,006** |
| Net unrealized holding gains on securities | 32,794 | **32,552** | **304** |
| Treasury stock, at cost, 765 shares in 2004 and 3,710 shares in 2005 | (451) | **(2,270)** | **(21)** |
| Total shareholders' equity | 1,100,176 | **1,183,546** | **11,061** |
| | ¥6,781,692 | **¥6,716,268** | **$62,769** |

# Consolidated Statements of Income

East Japan Railway Company and Subsidiaries
Years ended March 31, 2003, 2004 and 2005

| | Millions of Yen | | | Millions of U.S. Dollars (Note 2) |
|---|---|---|---|---|
| | 2003 | 2004 | **2005** | **2005** |
| Operating Revenues (Note 18) | ¥2,565,671 | ¥2,542,297 | **¥2,537,481** | **$23,715** |
| Operating Expenses (Note 18): | | | | |
| Transportation, other services and cost of sales | 1,712,629 | 1,695,026 | **1,677,930** | **15,682** |
| Selling, general and administrative expenses | 509,947 | 495,851 | **501,016** | **4,682** |
| | 2,222,576 | 2,190,877 | **2,178,946** | **20,364** |
| Operating Income (Note 18) | 343,095 | 351,420 | **358,535** | **3,351** |
| Other Income (Expenses): | | | | |
| Interest expense on short- and long-term debt | (54,331) | (49,889) | **(44,331)** | **(414)** |
| Interest expense incurred for purchase of railway facilities | (118,967) | (111,055) | **(104,100)** | **(973)** |
| Losses for redemption of bonds (Note 11) | — | — | **(24,003)** | **(224)** |
| Devaluation losses on investment in securities | (17,029) | — | **—** | **—** |
| Loss on sales of fixed assets | (28,869) | (10,674) | **(11,010)** | **(103)** |
| Social insurance charges (Note 2) | — | (9,697) | **—** | **—** |
| Impairment losses on fixed assets (Notes 2, 10 and 18) | — | — | **(46,355)** | **(433)** |
| Earthquake-damage losses (Note 3) | — | — | **(11,933)** | **(112)** |
| Provision for allowance for earthquake-damage losses (Note 3) | — | — | **(28,647)** | **(268)** |
| Interest and dividend income | 1,789 | 2,211 | **1,257** | **12** |
| Equity in net income of affiliated companies | 324 | 352 | **290** | **3** |
| Gain on sales of investment in securities | 17,134 | 12,816 | **39,517** | **369** |
| Gain on sales of transferable development air rights | — | — | **26,685** | **249** |
| Gain on sales of fixed assets | 42,205 | 18,177 | **38,914** | **364** |
| Devaluation losses on fixed assets (Note 2) | (14,809) | — | **—** | **—** |
| Other, net | 22,866 | 19,204 | **5,382** | **50** |
| | (149,687) | (128,555) | **(158,334)** | **(1,480)** |
| Income before Income Taxes | 193,408 | 222,865 | **200,201** | **1,871** |
| Income Taxes (Note 14): | | | | |
| Current | 150,114 | 142,901 | **137,409** | **1,284** |
| Deferred | (57,607) | (42,970) | **(51,046)** | **(477)** |
| Minority Interests in Net Income of Consolidated Subsidiaries | (2,915) | (3,068) | **(2,246)** | **(21)** |
| Net Income | ¥ 97,986 | ¥ 119,866 | **¥ 111,592** | **$ 1,043** |

| | Yen | | | U.S. Dollars (Note 2) |
|---|---|---|---|---|
| Earnings per Share (Note 2) | ¥24,453 | ¥29,928 | **¥27,868** | **$260** |

See accompanying notes.

# Consolidated Statements of Shareholders' Equity

East Japan Railway Company and Subsidiaries
Years ended March 31, 2003, 2004 and 2005

| | Number of Issued Shares of Common Stock | Millions of Yen | | | | |
|---|---|---|---|---|---|---|
| | | Common Stock | Capital Surplus | Retained Earnings | Net Unrealized Holding Gains (Losses) on Securities | Treasury Stock |
| Balance at March 31, 2002 | 4,000,000 | ¥200,000 | ¥96,600 | ¥607,376 | ¥ 26,770 | ¥ — |
| Increase due to addition of consolidated subsidiaries, and other | — | — | — | 10 | — | — |
| Net income | — | — | — | 97,986 | — | — |
| Cash dividends (¥6,500 per share) | — | — | — | (26,000) | — | — |
| Bonuses to directors and corporate auditors | — | — | — | (176) | — | — |
| Net unrealized holding losses on securities | — | — | — | — | (20,259) | — |
| Adoption of new accounting standard for treasury stock (Note 17) | — | — | — | — | — | (451) |
| Balance at March 31, 2003 | 4,000,000 | 200,000 | 96,600 | 679,196 | 6,511 | (451) |
| Increase due to merger of nonconsolidated subsidiaries | — | — | — | 177 | — | — |
| Increase due to change in accounting period of consolidated subsidiaries | — | — | — | 185 | — | — |
| Net income | — | — | — | 119,866 | — | — |
| Cash dividends (¥7,000 per share) | — | — | — | (28,000) | — | — |
| Bonuses to directors and corporate auditors | — | — | — | (191) | — | — |
| Net unrealized holding gains on securities | — | — | — | — | 26,283 | — |
| Balance at March 31, 2004 | 4,000,000 | 200,000 | 96,600 | 771,233 | 32,794 | (451) |
| Increase due to merger of nonconsolidated subsidiaries, and other | **—** | **—** | **—** | **33** | **—** | **—** |
| Net income | **—** | **—** | **—** | **111,592** | **—** | **—** |
| Cash dividends (¥6,000 per share) | **—** | **—** | **—** | **(23,970)** | **—** | **—** |
| Bonuses to directors and corporate auditors | **—** | **—** | **—** | **(177)** | **—** | **—** |
| Disposal (purchase) of treasury stock, net | **—** | **—** | **—** | **(2,047)** | **—** | **(1,819)** |
| Net unrealized holding losses on securities | **—** | **—** | **—** | **—** | **(242)** | **—** |
| Balance at March 31, 2005 | **4,000,000** | **¥200,000** | **¥96,600** | **¥856,664** | **¥ 32,552** | **¥(2,270)** |

| | Millions of U.S. Dollars (Note 2) | | | | |
|---|---|---|---|---|---|
| | Common Stock | Capital Surplus | Retained Earnings | Net Unrealized Holding Gains (Losses) on Securities | Treasury Stock |
| Balance at March 31, 2004 | $1,869 | $903 | $7,207 | $306 | $ (4) |
| Increase due to merger of nonconsolidated subsidiaries, and other | **—** | **—** | **0** | **—** | **—** |
| Net income | **—** | **—** | **1,043** | **—** | **—** |
| Cash dividends ($56 per share) | **—** | **—** | **(224)** | **—** | **—** |
| Bonuses to directors and corporate auditors | **—** | **—** | **(1)** | **—** | **—** |
| Disposal (purchase) of treasury stock, net | **—** | **—** | **(19)** | **—** | **(17)** |
| Net unrealized holding losses on securities | **—** | **—** | **—** | **(2)** | **—** |
| Balance at March 31, 2005 | **$1,869** | **$903** | **$8,006** | **$304** | **$(21)** |

See accompanying notes.

# Consolidated Statements of Cash Flows

East Japan Railway Company and Subsidiaries
Years ended March 31, 2003, 2004 and 2005

| | Millions of Yen | | | Millions of U.S. Dollars (Note 2) |
|---|---|---|---|---|
| | 2003 | 2004 | **2005** | **2005** |
| Cash Flows from Operating Activities: | | | | |
| Income before income taxes | ¥ 193,408 | ¥ 222,865 | **¥ 200,201** | **$ 1,871** |
| Depreciation (Note 18) | 322,564 | 322,300 | **317,957** | **2,972** |
| Impairment losses on fixed assets | — | — | **46,355** | **433** |
| Amortization of long-term prepaid expense | 4,533 | 5,202 | **4,913** | **46** |
| Increase in accrued employees' severance and retirement benefits | 43,427 | 17,398 | **3,369** | **31** |
| Interest and dividend income | (1,789) | (2,211) | **(1,257)** | **(12)** |
| Interest expense | 173,298 | 160,944 | **148,431** | **1,387** |
| Construction grants received | (65,382) | (79,708) | **(79,728)** | **(745)** |
| Devaluation losses on investment in securities | 17,029 | — | **—** | **—** |
| Gain on sales of investment in securities | (17,134) | (12,816) | **(39,517)** | **(369)** |
| Loss from disposition and provision for cost reduction of fixed assets | 86,233 | 106,572 | **101,662** | **950** |
| Earthquake-damage losses | — | — | **11,933** | **112** |
| Provision for allowance for earthquake-damage losses | — | — | **28,647** | **268** |
| Decrease (Increase) in major receivables | (2,888) | 2,242 | **(10,826)** | **(101)** |
| Decrease in major payables | (15,234) | (5,497) | **(9,175)** | **(86)** |
| Other | (16,096) | (19,183) | **(19,872)** | **(186)** |
| Sub-total | 721,969 | 718,108 | **703,093** | **6,571** |
| Proceeds from interest and dividends | 1,924 | 2,367 | **1,417** | **13** |
| Payments of interest | (173,806) | (162,568) | **(149,915)** | **(1,401)** |
| Payments of earthquake-damage losses | — | — | **(6,854)** | **(64)** |
| Payments of income taxes | (116,783) | (170,846) | **(140,004)** | **(1,308)** |
| Net cash provided by operating activities | 433,304 | 387,061 | **407,737** | **3,811** |
| Cash Flows from Investing Activities: | | | | |
| Payments for purchases of fixed assets | (352,962) | (374,642) | **(388,993)** | **(3,635)** |
| Proceeds from sales of fixed assets | 81,344 | 34,684 | **69,445** | **649** |
| Proceeds from construction grants | 60,843 | 76,765 | **59,312** | **554** |
| Proceeds from sales of transferable development air rights | — | — | **13,343** | **125** |
| Payments for purchases of investment in securities | (12,408) | (6,638) | **(13,610)** | **(127)** |
| Proceeds from sales of investment in securities | 19,398 | 23,057 | **41,917** | **392** |
| Other | 7,363 | 12,183 | **3,638** | **33** |
| Net cash used in investing activities | (196,422) | (234,591) | **(214,948)** | **(2,009)** |
| Cash Flows from Financing Activities: | | | | |
| Net increase in commercial paper | — | — | **5,000** | **47** |
| Proceeds from long-term loans | 123,670 | 155,000 | **64,300** | **601** |
| Payments of long-term loans | (357,743) | (297,625) | **(124,366)** | **(1,162)** |
| Proceeds from issuance of bonds | 115,983 | 139,914 | **129,943** | **1,214** |
| Payment for redemption of bonds | — | — | **(70,000)** | **(654)** |
| Payments of liabilities incurred for purchase of railway facilities | (144,416) | (140,377) | **(144,369)** | **(1,349)** |
| Payments for acquisition of treasury stock | — | — | **(6,507)** | **(61)** |
| Cash dividends paid | (26,000) | (28,000) | **(23,970)** | **(224)** |
| Other | (22,152) | (25,105) | **(39,072)** | **(366)** |
| Net cash used in financing activities | (310,658) | (196,193) | **(209,041)** | **(1,954)** |
| Net Decrease in Cash and Cash Equivalents | (73,776) | (43,723) | **(16,252)** | **(152)** |
| Cash and Cash Equivalents at Beginning of Year | 200,022 | 126,478 | **82,935** | **775** |
| Increase due to Addition of Consolidated Subsidiaries, and Other | 232 | 189 | **98** | **1** |
| Decrease due to Change in Accounting Period of Consolidated Subsidiaries | — | (9) | **—** | **—** |
| Cash and Cash Equivalents at End of Year | ¥ 126,478 | ¥ 82,935 | **¥ 66,781** | **$ 624** |

See accompanying notes.

East Japan Railway Company and Subsidiaries
Years ended March 31, 2003, 2004 and 2005

## 1. INCORPORATION OF EAST JAPAN RAILWAY COMPANY

In accordance with the provisions of the Law for Japanese National Railways Restructuring (the Law), the Japanese National Railways (JNR) was privatized into six passenger railway companies, one freight railway company and several other organizations (JR Group Companies), on April 1, 1987.

East Japan Railway Company (the Company) is one of the six passenger railway companies and serves eastern Honshu (mainland Japan) in Japan. The Company operates 70 railway lines, 1,699 stations and 7,526.8 operating kilometers as of March 31, 2005.

In the wake of the split-up of JNR, assets owned by and liabilities incurred by JNR were transferred to JR Group Companies, the Shinkansen Holding Corporation and JNR Settlement Corporation (JNRSC). Most JNR assets located in eastern Honshu, except for the land and certain railway fixtures used by the Tohoku and Joetsu Shinkansen lines, were transferred to the Company. Current liabilities and accrued employees' severance and retirement benefits, incurred in connection with railway and other operations in the allotted area, and certain long-term debt were assumed by the Company.

The transfer values were determined by the Evaluation Council, a governmental task force, in accordance with the provisions of the Law. In general, railway assets such as railway property and equipment were valued at net book value of JNR. Nonrailway assets such as investments and other operating property and equipment were valued at prices determined by the Evaluation Council.

The land and railway fixtures of the Tohoku and Joetsu Shinkansen lines were owned by Shinkansen Holding Corporation until September 30, 1991, and the Company leased such land and railway fixtures at a rent determined by Shinkansen Holding Corporation in accordance with related laws and regulations. On October 1, 1991, the Company purchased such Shinkansen facilities for a total purchase price of ¥3,106,970 million from the Shinkansen Holding Corporation (See note 12). Subsequent to the purchase, the Shinkansen Holding Corporation was dissolved. Railway Development Fund succeeded to all rights and obligations of the Shinkansen Holding Corporation. In October 1997, Railway Development Fund and Maritime Credit Corporation merged to form Corporation for Advanced Transport & Technology. In October 2003, Japan Railway Construction Public Corporation and Corporation for Advanced Transport & Technology merged to form Japan Railway Construction, Transport and Technology Agency.

Prior to December 1, 2001, in accordance with the provisions of the Law for Passenger Railway Companies and Japan Freight Railway Company (JR Law), the Company was required to obtain approval from the Minister of Land, Infrastructure and Transport as to significant management decisions, including new issues of stock or bonds, borrowing of long-term loans, election of representative directors and corporate auditors, sale of major properties, amendment of the Articles of Incorporation and distribution of retained earnings.

The amendment to the JR Law took effect on December 1, 2001 (2001 Law No. 61) and the Company is no longer subject generally to the JR Law, as amended (See note 11).

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of presentation of financial statements**

The Company and its consolidated subsidiaries maintain their books of account in accordance with the Japanese Commercial Code and accounting principles generally accepted in Japan ("Japanese GAAP"). Certain accounting principles and practices generally accepted in Japan are different from International Financial Reporting Standards in certain respects as to application and disclosure requirements. The Company's and certain consolidated subsidiaries' books are also subject to the Law for Railway Business Enterprise and related regulations for a regulated company.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements prepared for Securities and Exchange Law of Japan purposes. Certain modifications and reclassifications, including the presentation of the Consolidated Statements of Shareholders' Equity, have been made for the convenience of readers outside Japan.

The consolidated financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2005, which was ¥107 to U.S.$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

**Consolidation**

The consolidated financial statements of the Company include the accounts of all significant subsidiaries (together, the "Companies"). The effective-control standard is applied according to Regulations Concerning Terminology, Forms and Method of Presentation of Consolidated Financial Statements in Japan (Regulations for Consolidated Financial Statements). For the year ended March 31, 2005, 92 subsidiaries were consolidated. One subsidiary was established and newly consolidated in the year ended March 31, 2005. Furthermore, seven subsidiaries were deconsolidated in the year ended March 31, 2005 because of their merger with other consolidated subsidiaries.

All significant intercompany transactions and accounts have been eliminated. Cost in excess of net assets of consolidated subsidiaries purchased is analyzed and allocated to appropriate accounts so long as the reason is clear and the remaining unknown portion is accounted for as consolidation difference. Such consolidation differences are amortized over 5 years on a straight-line basis.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

**Equity method**

The effective-influence standard is applied according to Regulations for Consolidated Financial Statements. For the year ended March 31, 2005, two affiliated companies were accounted for by the equity method, and there was no change in those companies during that year.

Investments in unconsolidated subsidiaries and other affiliated companies are stated mainly at moving-average cost since their equity earnings in the aggregate are not material in relation to consolidated net income and retained earnings.

**Allowance for doubtful accounts**

According to the Japanese Accounting Standards for Financial Instruments, the Companies provide the allowance based on the past loan loss experience for a certain reference period in general. Furthermore, for receivables from debtors with financial difficulty which could affect their ability to perform in accordance with their obligations, the allowance is provided for estimated unrecoverable amounts on an individual basis.

**Inventories**

Inventories are stated at cost as follows:

Merchandise inventories: the retail cost method or first-in, first-out method;

Rails, materials and supplies: the moving-average cost method; and

Other: the last purchased cost method

**Real estate for sale**

Real estate for sale is stated at the identified cost, which is reduced for significant decline in value. Devaluation losses on real estate for sale included in the other, net item of other expenses on the consolidated statements of income for the years ended March 31, 2003, 2004 and 2005 were ¥347 million, ¥4,383 million and ¥118 million ($1 million), respectively.

**Securities**

Securities are classified and stated as follows:

(1) Trading securities are stated at fair market value. The Companies had no trading securities through the years ended March 31, 2003, 2004 and 2005.

(2) Held-to-maturity debt securities are stated at amortized cost.

(3) Equity securities issued by subsidiaries and affiliated companies which are not consolidated nor accounted for using the equity method are mainly stated at moving-average cost.

(4) Available-for-sale securities are stated as follows:

(a) Available-for-sale securities with market value
According to the Japanese Accounting Standards for Financial Instruments, available-for-sale securities for which market quotations are available are stated at fair market value as of the balance sheet date. Net unrealized gains or losses on these securities are reported as a separate item in shareholders' equity at an amount net of applicable income taxes and minority interests. The cost of sales of such securities is determined mainly by the moving-average method.

(b) Available-for-sale securities without market value
Available-for-sale securities for which market quotations are not available are mainly stated at moving-average cost.

If there are significant declines in the market values of held-to-maturity debt securities, equity securities issued by subsidiaries and affiliated companies which are not consolidated nor accounted for using the equity method or available-for-sale securities, the said securities are stated at market values in the balance sheet, and the difference between the market value and the original book value is recognized as a loss in the period. The Company's policy for such write-offs stipulates that if the market value as of the year end has declined by 50% or more of the acquisition cost of the said security, it should be stated at the market value. If the market value has declined by 30% or more but less than 50%, the said security should be written off by the amount determined as necessary after taking the possibility of market value recovery into account.

**Property, plant and equipment**

Property, plant and equipment are generally stated at cost or the transfer value referred to in Note 1. To comply with the regulations, contributions received in connection with construction of certain railway improvements are deducted from the cost of acquired assets.

Depreciation is determined primarily by the declining balance method based on the estimated useful lives of the assets as prescribed by the Japanese Tax Law. Regarding the replacement method for certain fixtures, the initial acquisition costs are depreciated to 50% of the costs under the condition that subsequent replacement costs are charged to income. Certain property, plant and equipment of the consolidated subsidiaries were depreciated using the straight-line method. Buildings (excluding related fixtures) acquired from April 1, 1998 onward are depreciated using the straight-line method according to the Japanese Tax Law.

The range of useful lives is mainly as follows:

| | |
|---|---|
| Buildings | 3 to 50 years |
| Fixtures | 3 to 60 years |
| Rolling stock and vehicles | 3 to 20 years |
| Machinery | 3 to 20 years |

Devaluation losses on fixed assets recorded in the consolidated statements of income for the year ended March 31, 2003 mainly consist of losses on land of the Company that has not been used for any operation and is unlikely to be used practically in the future.

**Accounting for employees' retirement benefits**

Almost all employees of the Companies are generally entitled to receive lump sum severance and retirement benefits (some subsidiaries have adopted a pension plan of their own). The amounts of the employees' severance and retirement benefits are determined by the length of service and basic salary at the time of severance or retirement of the employees. Previously, most of the Companies accrued a liability for such obligation equal to 40% of the amount required if all eligible employees had voluntarily terminated their employment at the balance sheet date.

The Japanese Accounting Standards for Retirement Benefits became effective beginning with the year ended March 31, 2001. The Companies accrue liabilities for post-employment benefits at the balance sheet date in an amount calculated based on the actuarial present value of all post-employment benefits attributed to employee services rendered prior to the balance sheet date and the fair value of plan assets at that date.

The excess of the projected benefit obligations over the total of the fair value of plan assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") is being charged to income over 10 years from the year ended March 31, 2001 on a straight-line basis. The balance of unrecognized net transition obligation as of March 31, 2005 was ¥245,135 million ($2,291 million).

The unrecognized prior service costs are amortized by the straight-line method and charged to income over the number of years (mainly 10 years) which does not exceed the average remaining service years of employees at the time when the prior service costs were incurred.

Actuarial gains and losses are recognized in expenses using the straight-line basis over constant years (mainly 10 years) within the average of the estimated remaining service lives commencing with the following year.

**Accounting for certain lease transactions**

Finance leases which do not transfer titles to lessees are accounted for in the same manner as operating leases under Japanese GAAP.

**Accounting for research and development costs**
According to the Accounting Standards for Research and Development Costs, etc., in Japan, research and development costs are recognized as they incur. Research and development costs included in operating expenses for the years ended March 31, 2003, 2004 and 2005 were ¥15,310 million, ¥15,836 million and ¥15,579 million ($146 million), respectively.

**Social insurance charges**
Amendment of the Health Insurance Law and other laws led to the introduction of a total compensation system for health insurance and welfare pension insurance charges from April 1, 2003. As a result, the employer's contribution for summer wages in 2003 amounted to ¥9,697million was included in other expenses in the consolidated statement of income for the year ended March 31, 2004.

**Income taxes**
Income taxes comprise corporation, enterprise and inhabitants taxes. Deferred income taxes are recognized for temporary differences between the financial statement basis and the tax basis of assets and liabilities.

**Earnings per share**
Earnings per share shown in the consolidated statements of income are computed by dividing income available to common shareholders by the weighted average number of common stock outstanding during the year. Diluted earnings per share are not shown, since there are no outstanding securities with dilutive effect on earnings per share such as convertible bonds.

**Derivative transactions**
All derivative transactions of the Companies are used for hedging purposes and are accounted for in the following manner:

(1) Regarding forward exchange contracts and foreign currency swap contracts, the hedged foreign currency receivable and payable are recorded using the Japanese yen amount of the contracted forward rate or swap rate, and no gains or losses on the forward exchange contracts or foreign currency swap contracts are recorded.

(2) Regarding interest rate swap contracts, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

**Impairment of fixed assets**
In August 2002, Business Accounting Council of Japan issued the "Opinion Concerning Establishment of Accounting Standards for Impairment of Fixed Assets," which becomes operative for the year beginning on or after April 1, 2005. Beginning with the year ended March 31, 2005, the Companies prospectively adopted the standards. The new accounting standards require that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the book value of an asset or asset group may not be recoverable.

The impairment losses would be recognized if the book value of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group.

The impairment losses would be measured as the amount by which the book value of the asset exceeds its recoverable amounts, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price.

Restoration of previously recognized impairment losses would be prohibited. For cumulative impairment losses, the Companies deducted directly from respective asset amounts based on the revised regulation on consolidated financial statements.

As a result, income before income taxes decreased by ¥46,355 million ($433 million) compared with what would have been reported if the new accounting standards had not been applied (See Note 10).

## 3. EARTHQUAKE DAMAGE

On October 23, 2004, a number of the Companies' properties sustained damage as a result of the Niigata Chuetsu Earthquake. The related losses reflected in the statement of income for the year ended March 31, 2005, were as follows:

| | Millions of Yen | Millions of U.S. Dollars |
|---|---|---|
| | **2005** | **2005** |
| Earthquake-damage losses | **¥11,933** | **$112** |
| Provision for allowance for earthquake-damage losses | **28,647** | **268** |

## 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all cash balances and highly liquid investments with maturities not exceeding three months at the time of purchase.

## 5. INVENTORIES

Inventories consist of rails, materials, supplies, merchandise and others.

## 6. REAL ESTATE FOR SALE

Real estate for sale represents the cost, as adjusted for significant decline in value, of land acquired and related land improvements in connection with residential home site developments in eastern Honshu.

## 7. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATED COMPANIES

Investments in and advances to unconsolidated subsidiaries and affiliated companies at March 31, 2004 and 2005, consisted of the following:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Unconsolidated subsidiaries: | | | |
| Investments | ¥ 5,990 | **¥ 6,171** | **$ 58** |
| Advances | 2,362 | **2,142** | **20** |
| | 8,352 | **8,313** | **78** |
| Affiliated companies: | | | |
| Investments (including equity in earnings of affiliated companies) | 29,252 | **28,903** | **270** |
| Advances | 400 | **400** | **4** |
| | 29,652 | **29,303** | **274** |
| | ¥38,004 | **¥37,616** | **$352** |

## 8. SECURITIES

For held-to-maturity debt securities with market value, amount on balance sheets and market value at March 31, 2004 and 2005, were as follows:

| | Millions of Yen | | | | | | Millions of U.S. Dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2004 | | | **2005** | | | **2005** | | |
| | Amount on Balance Sheet | Market Value | Difference | Amount on Balance Sheet | Market Value | Difference | Amount on Balance Sheet | Market Value | Difference |
| Of which market value exceeds the amount on balance sheet: | | | | | | | | | |
| Government, Municipal bonds, etc. | ¥101 | ¥101 | ¥ 0 | **¥305** | **¥306** | **¥ 1** | **$3** | **$3** | **$ 0** |
| Of which market value does not exceed the amount on balance sheet: | | | | | | | | | |
| Government, Municipal bonds, etc. | 234 | 234 | (0) | **30** | **30** | **(0)** | **0** | **0** | **(0)** |
| Total | ¥335 | ¥335 | ¥(0) | **¥335** | **¥336** | **¥ 1** | **$3** | **$3** | **$ 0** |

For available-for-sale securities with market value, acquisition cost and amount on balance sheets at March 31, 2004 and 2005, were as follows:

| | Millions of Yen | | | | | | Millions of U.S. Dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2004 | | | **2005** | | | **2005** | | |
| | Acquisition Cost | Amount on Balance Sheet | Difference | Acquisition Cost | Amount on Balance Sheet | Difference | Acquisition Cost | Amount on Balance Sheet | Difference |
| Of which amount on balance sheet exceeds the acquisition cost: | | | | | | | | | |
| Equity shares | ¥38,750 | ¥94,043 | ¥55,293 | **¥48,318** | **¥102,383** | **¥54,065** | **$452** | **$ 957** | **$505** |
| Debt securities | 1,758 | 1,829 | 71 | **1,723** | **1,775** | **52** | **16** | **17** | **1** |
| Of which amount on balance sheet does not exceed the acquisition cost: | | | | | | | | | |
| Equity shares | 3,819 | 3,258 | (561) | **3,539** | **3,463** | **(76)** | **33** | **32** | **(1)** |
| Debt securities | 21 | 20 | (1) | **11** | **10** | **(1)** | **0** | **0** | **(0)** |
| Total | ¥44,348 | ¥99,150 | ¥54,802 | **¥53,591** | **¥107,631** | **¥54,040** | **$501** | **$1,006** | **$505** |

Available-for-sale securities sold during the years ended March 31, 2004 and 2005 amounted to ¥22,614 million and ¥41,252 million ($386 million), respectively. Within other income (expenses) on the consolidated statements of income for the years ended March 31, 2004 and 2005, gains on sales of available-for-sale securities amounted to ¥12,799 million and ¥39,101 million ($365 million), respectively, and were included in gain on sales of investment in securities, and losses on sales of available-for-sale securities amounted to ¥922 million and ¥116 million ($1 million), respectively, and were included in other, net.

The major components of available-for-sale securities without market value at March 31, 2004 and 2005, were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Available-for-sale securities without market value: | | | |
| Unlisted equity securities | ¥11,684 | **¥11,183** | **$105** |
| Investments in special purpose company | — | **1,305** | **12** |
| Preferred equity securities | 1,000 | **1,000** | **9** |

Annual maturities of available-for-sale securities with maturities and held-to-maturity debt securities as of March 31, 2005, were as follows:

| | Millions of Yen | | | Millions of U.S. Dollars | | |
|---|---|---|---|---|---|---|
| | **2005** | | | **2005** | | |
| | 1 Year or Less | 5 Years or Less But More than 1 Year | 10 Years or Less But More than 5 Years | 1 Year or Less | 5 Years or Less But More than 1 Year | 10 Years or Less But More than 5 Years |
| Debt securities | **¥1,717** | **¥342** | **¥—** | **$16** | **$3** | **$—** |
| Total | **¥1,717** | **¥342** | **¥—** | **$16** | **$3** | **$—** |

## 9. PLEDGED ASSETS

At March 31, 2004 and 2005, buildings and fixtures with net book value of ¥39,701 million and ¥37,821 million ($353 million) and other assets with net book value of ¥690 million and ¥505 million ($5 million), respectively, were pledged as collateral for long-term debt and other liabilities totaling ¥5,911 million and ¥5,359 million ($50 million), at the respective dates.

In addition, at March 31, 2004 and 2005, buildings and fixtures with net book value of ¥48,851 million and ¥56,056 million ($524 million) and other assets with net book value of ¥8,517 million and ¥9,115 million ($85 million), respectively, were pledged as collateral for long-term liabilities incurred for purchase of the Tokyo Monorail facilities amounting to ¥15,544 million and ¥16,035 million ($150 million) at March 31, 2004 and 2005, respectively (See note 12).

## 10. IMPAIRMENT LOSSES ON FIXED ASSETS

In adherence with management accounting classifications, the Companies generally categorize assets according to operations or properties. For railway business assets, the Companies treat railway lines as a single asset group because the railway network generates cash flow as a whole. Also, the Companies separately categorize assets that are slated to be disposed of (such as employee housing) or idle.

For 169 such assets, mainly composed of assets that are slated to be disposed of (such as employee housing) or idle, for which significant gaps had developed between book values and fair values due to the continuing decline in land prices, the book values were lowered to recoverable amounts according to the Accounting Standards for Impairment of Fixed Assets. As a result, the Companies recorded ¥46,355 million ($433 million) losses on impairment of fixed assets in the year ended March 31, 2005.

| Area | Asset status | Asset type | Impairment loss |
|---|---|---|---|
| Tokyo and surrounding areas | 135 assets mainly scheduled to be disposed of or idle | Land, buildings and fixtures | ¥42,441 million ($397 million) |
| Other areas | 34 assets mainly scheduled to be disposed of or idle | Land, buildings and fixtures | ¥3,914 million ($36 million) |

Regional breakdown of impairment loss
Tokyo and surrounding areas: ¥42,441 million (land, ¥38,268 million; buildings and fixtures, ¥3,938 million; other, ¥235 million)
Other areas: ¥3,914 million (land, ¥2,498 million; buildings and fixtures, ¥1,386 million; other, ¥30 million)

The Companies determine recoverable amounts for the above asset groups by measuring the net selling prices or values in use.

Net selling prices used to measure recoverable amounts reasonably reflect assessed values of fixed assets or evaluations based on real estate appraisal benchmarks. Values in use for the measurement of recoverable amounts are based on the present values of expected cash flows with the discount rate of 5.0%.

## 11. LONG-TERM DEBT

Long-term debt at March 31, 2004 and 2005, is summarized as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| General Mortgage Bonds issued in 1996 to 2001 with interest rates ranging from 1.70% to 3.95% due in 2009 to 2021 | ¥ 629,900 | **¥ 559,900** | **$ 5,233** |
| Unsecured Bonds issued in 2002 to 2005 with interest rates ranging from 0.39% to 2.53% due in 2008 to 2033 | 316,000 | **446,000** | **4,168** |
| Secured Loans due in 2005 to 2016 principally from banks and insurance companies with interest rates mainly ranging from 4.70% to 5.80% | 5,285 | **4,739** | **44** |
| Unsecured Loans due in 2005 to 2021 principally from banks and insurance companies with interest rates mainly ranging from 1.045% to 3.15% | 901,176 | **841,656** | **7,866** |
| 7.25% Euro U.S. dollar bonds due in 2006 | 87,960 | **87,960** | **822** |
| | 1,940,321 | **1,940,255** | **18,133** |
| Less current portion | 124,367 | **158,453** | **1,481** |
| | ¥1,815,954 | **¥1,781,802** | **$16,652** |

Issue and maturity years above are expressed in calendar years (ending December 31 in the same year).

Although the Company is no longer subject generally to the JR Law, as amended, all bonds issued by the Company prior to December 1, 2001, the effective date of the amendment to the JR Law, are and will continue to be general mortgage bonds as required under the JR Law which are entitled to a statutory preferential right over the claims of unsecured creditors of the Company. Any bonds issued on or after December 1, 2001 are unsecured bonds without general mortgage preferential rights.

The 7.25% Euro U.S. dollar bonds in the amount of $800 million were issued in October 1996. These bonds have been hedged by a foreign currency swap contract with a bank.

Seeking to mitigate future interest burden, the Company concluded debt assumption agreements on October 27, 2004. Details of affected bonds are (1) Issue: Straight bonds, second issue, East Japan Railway Company; (2) Issue date: March 6, 1995; (3) Coupon: 4.90%; (4) Maturity date: February 25, 2015; and (5) Nominal amounts; ¥70,000 million ($654 million). In fiscal 2005, the Company recorded ¥24,003 million ($224 million) losses for redemption of bonds.

The annual maturities of long-term debt at March 31, 2005, were as follows:

| Year ending March 31, | Millions of Yen | Millions of U.S. Dollars |
|---|---|---|
| 2006 | ¥158,453 | $1,481 |
| 2007 | 203,550 | 1,902 |
| 2008 | 241,371 | 2,256 |
| 2009 | 234,064 | 2,188 |
| 2010 | 208,092 | 1,945 |
| 2011 and thereafter | 894,725 | 8,361 |

## 12. LONG-TERM LIABILITIES INCURRED FOR PURCHASE OF RAILWAY FACILITIES

In October 1991, the Company purchased the Tohoku and Joetsu Shinkansen facilities from the Shinkansen Holding Corporation for a total purchase price of ¥3,106,970 million payable in equal semiannual installments consisting of principal and interest payments in three tranches: ¥2,101,898 million and ¥638,506 million in principal amounts payable through March 2017; and ¥366,566 million payable through September 2051. In March 1997, the liability of ¥27,946 million payable in equal semiannual installments through March 2022 to Japan Railway Construction Public Corporation was incurred with respect to the acquisition of the Akita hybrid Shinkansen facilities. In February 2002, the Company acquired a majority interest in Tokyo Monorail Co., Ltd. As a result, the consolidated balance sheet as of March 31, 2002 includes liabilities of Tokyo Monorail Co., Ltd. amounting to ¥36,726 million payable to Japan Railway Construction Public Corporation.

The long-term liabilities incurred for purchase of railway facilities outstanding at March 31, 2004 and 2005, were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| The long-term liability incurred for purchase of the Tohoku and Joetsu Shinkansen facilities: | | | |
| Payable semiannually including interest at a rate currently approximating 4.50% through 2017 | ¥1,195,872 | **¥1,079,216** | **$10,086** |
| Payable semiannually including interest at 6.35% through 2017 | 445,747 | **422,816** | **3,952** |
| Payable semiannually including interest at 6.55% through 2051 | 356,868 | **355,701** | **3,324** |
| | 1,998,487 | **1,857,733** | **17,362** |
| The long-term liability incurred for purchase of the Akita hybrid Shinkansen facilities: | | | |
| Payable semiannually at an average rate currently approximating 0.42% through 2022 | 20,172 | **19,059** | **178** |
| The long-term liability incurred for purchase of the Tokyo Monorail facilities: | | | |
| Payable semiannually at an average rate currently approximating 3.10% through 2029 | 15,544 | **16,035** | **150** |
| | 2,034,203 | **1,892,827** | **17,690** |
| Less current portion: | | | |
| The Tohoku and Joetsu Shinkansen purchase liability | 141,350 | **145,742** | **1,362** |
| The Akita hybrid Shinkansen purchase liability | 1,076 | **1,068** | **10** |
| The Tokyo Monorail purchase liability | 753 | **802** | **8** |
| | 143,179 | **147,612** | **1,380** |
| | ¥1,891,024 | **¥1,745,215** | **$16,310** |

Maturity years above are expressed in calendar years (ending December 31 in the same year).

The annual payments of long-term liabilities incurred for purchase of railway facilities at March 31, 2005, were as follows:

| Year ending March 31, | Millions of Yen | Millions of U.S. Dollars |
|---|---|---|
| 2006 | ¥ 147,612 | $ 1,380 |
| 2007 | 141,961 | 1,327 |
| 2008 | 99,981 | 934 |
| 2009 | 104,936 | 981 |
| 2010 | 110,152 | 1,029 |
| 2011 and thereafter | 1,288,185 | 12,039 |

## 13. CONSUMPTION TAX

The Japanese consumption tax is an indirect tax levied at the rate of 5%. Accrued consumption tax represents the difference between consumption tax collected from customers and consumption tax paid on purchases.

## 14. INCOME TAXES

The major components of deferred income taxes and deferred tax liabilities at March 31, 2004 and 2005, were as follows:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Deferred income taxes: | | | |
| Accrued severance and retirement benefits | ¥197,917 | **¥220,865** | **$2,064** |
| Reserves for bonuses | 32,574 | **32,218** | **301** |
| Losses on impairment of fixed assets | — | **15,706** | **147** |
| Provision for allowance for earthquake-damage losses | — | **11,592** | **108** |
| Devaluation losses on real estate for sale | 9,973 | **6,944** | **65** |
| Accrued enterprise tax | 6,124 | **5,768** | **54** |
| Excess depreciation and amortization of fixed assets | 6,081 | **7,256** | **68** |
| Devaluation losses on fixed assets | 5,645 | **5,539** | **52** |
| Loss carry forwards for tax purposes | 2,233 | **1,125** | **10** |
| Other | 20,444 | **26,444** | **247** |
| | 280,991 | **333,457** | **3,116** |
| Less valuation allowance | (11,771) | **(15,753)** | **(147)** |
| Less amounts offset against deferred tax liabilities | (54,248) | **(53,059)** | **(496)** |
| Net deferred income taxes | ¥214,972 | **¥264,645** | **$2,473** |
| Deferred tax liabilities: | | | |
| Tax deferment for gain on transfers of certain fixed assets | ¥ 26,343 | **¥ 26,600** | **$ 249** |
| Net unrealized holding gains on securities | 22,430 | **21,904** | **205** |
| Valuation for assets and liabilities of consolidated subsidiaries | 4,153 | **3,767** | **35** |
| Other | 5,104 | **2,649** | **24** |
| | 58,030 | **54,920** | **513** |
| Less amounts offset against deferred income taxes | (54,248) | **(53,059)** | **(496)** |
| Net deferred tax liabilities | ¥ 3,782 | **¥ 1,861** | **$ 17** |

Income taxes consist of corporation, enterprise and inhabitants taxes. The aggregate standard effective rate of taxes on consolidated income before income taxes was 41.8%, 41.8% and 40.5% for the years ended March 31, 2003, 2004 and 2005, respectively. After applying tax effect accounting, the actual effective income tax rate was 47.8%, 44.8% and 43.1% for the years ended March 31, 2003, 2004 and 2005, respectively.

For the years ended March 31, 2003, 2004, and 2005, the actual effective income tax rate differed from the aggregate standard effective tax rate for the following reasons:

| | 2003 | 2004 | **2005** |
|---|---|---|---|
| The aggregate standard effective tax rate | 41.8% | 41.8% | **40.5%** |
| Adjustments: | | | |
| Non-deductible expenses for tax purposes | 0.6 | 0.5 | **0.5** |
| Non-taxable incomes | (0.5) | — | **—** |
| Per capita inhabitants tax | 0.5 | 0.5 | **0.5** |
| Tax credits | — | (1.0) | **(1.0)** |
| Increase in valuation allowance | — | 0.9 | **2.3** |
| Difference due to tax rate change | 1.9 | 1.7 | **—** |
| Devaluation losses on fixed assets | 3.1 | — | **—** |
| Other, net | 0.4 | 0.4 | **0.3** |
| The actual effective rate after applying tax effect accounting | 47.8% | 44.8% | **43.1%** |

Effective for the years commencing on April 1, 2004 or later, according to the revised Local Tax Law, income tax rates for enterprise taxes were reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred income taxes and deferred tax liabilities for temporary differences expected to be reversed and loss carry forwards to be utilized after March 31, 2004, the Companies used the revised aggregate standard effective tax rates for the years ended March 31, 2003 and 2004.

As the result of the change in the aggregate standard effective tax rates, deferred income taxes decreased by ¥3,447 million and provision for deferred income taxes increased by ¥3,590 million and net income decreased by ¥3,613 million in the year ended March 31, 2003, compared with what would have been recorded under the previous Local Tax Law. The impact on items relating to investment securities is immaterial.

## 15. ACCRUED EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS AND EMPLOYEES' SEVERANCE AND RETIREMENT BENEFIT EXPENSES

As mentioned in Note 2, beginning with the year ended March 31, 2001, the Companies adopted the Japanese Accounting Standards for Retirement Benefits, under which the liabilities and expenses for employees' severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2004 and 2005, consisted of the following:

| | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2004 | **2005** | **2005** |
| Projected benefit obligation | ¥(899,814) | **¥(794,003)** | **$(7,421)** |
| Plan assets | 8,626 | **4,136** | **39** |
| Unfunded projected benefit obligation | (891,188) | **(789,867)** | **(7,382)** |
| Unrecognized net transition obligation | 298,633 | **245,135** | **2,291** |
| Unrecognized actuarial differences | (21,510) | **(70,549)** | **(659)** |
| Unrecognized prior service costs | 18,576 | **16,470** | **154** |
| Book value (net) | (595,489) | **(598,811)** | **(5,596)** |
| Prepaid pension expense | (80) | **(112)** | **(1)** |
| Accrued employees' severance and retirement benefits | ¥(595,569) | **¥(598,923)** | **$(5,597)** |

Employees' severance and retirement benefit expenses included in the consolidated statements of income for the years ended March 31, 2003, 2004 and 2005, consisted of the following:

| | Millions of Yen | | | Millions of U.S. Dollars |
|---|---|---|---|---|
| | 2003 | 2004 | **2005** | **2005** |
| Service costs | ¥ 36,569 | ¥ 40,218 | **¥ 38,663** | **$ 361** |
| Interest costs | 28,076 | 27,719 | **26,361** | **247** |
| Expected return on plan assets | (190) | (80) | **(103)** | **(1)** |
| Amortization of net transition obligation | 49,854 | 49,831 | **49,748** | **465** |
| Amortization of actuarial differences | 344 | (971) | **(2,022)** | **(19)** |
| Amortization of prior service costs | 1,234 | 2,177 | **3,094** | **29** |
| Employees' severance and retirement benefit expenses | 115,887 | 118,894 | **115,741** | **1,082** |
| Loss on transfer to defined contribution pension plan | — | — | **5,397** | **50** |
| Total | ¥115,887 | ¥118,894 | **¥121,138** | **$1,132** |

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years.

The discount rates used by the Companies are mainly 3.0%. The rates of expected return on pension assets used by the Companies were mainly 3.0% in the year ended March 31, 2003, mainly 1.0% in the year ended March 31, 2004, and mainly 2.0% in the year ended March 31, 2005.

## 16. CONTINGENT LIABILITIES

The Company is contingently liable for the in-substance defeasance of general mortgage bonds issued by the Company, which were assigned to certain banks under debt assumption agreements. The outstanding amount contingently liable under such debt assumption agreements at March 31, 2005 was ¥70,000 million ($654 million).

## 17. SHAREHOLDERS' EQUITY

The Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve or additional paid-in capital may be used to reduce a deficit by a resolution of the shareholders' meeting or may be capitalized by a resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of the shareholders' meeting. The legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company and in accordance with the Commercial Code of Japan. Appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period when the shareholders' approval has been obtained. Retained earnings at March 31, 2005 include amounts representing the year-end cash dividends and bonuses for directors and corporate auditors, which were approved at the shareholders' meeting held in June 2005 as discussed in Note 21.

The Commercial Code of Japan allows companies to repurchase treasury stock by a resolution of the Board of Directors in adherence with articles of incorporation or by a resolution of the shareholders' meeting and to dispose of such treasury stock by a resolution of the Board of Directors.

Effective on April 1, 2002, the Companies adopted the new accounting standards for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1).

According to the new accounting standards, the shares issued by the Company and held by the equity-method affiliated companies are reported as a treasury stock in the consolidated balance sheets.

As a result, 765 shares, valued at ¥451 million, were recorded as treasury stock in the year ended March 31, 2003.

## 18. SEGMENT INFORMATION

The Companies' primary business activities include (1) Transportation, (2) Station space utilization, (3) Shopping centers & office buildings and (4) Other services.

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | Transportation | Station Space Utilization | Shopping Centers & Office Buildings | Other Services | Elimination and/or Corporate | Consolidated |
| 2003: | | | | | | |
| Operating revenues: | | | | | | |
| Outside customers | ¥1,800,434 | ¥368,961 | ¥170,321 | ¥225,955 | ¥ — | ¥2,565,671 |
| Inside group | 51,183 | 10,148 | 7,463 | 292,867 | (361,661) | — |
| | 1,851,617 | 379,109 | 177,784 | 518,822 | (361,661) | 2,565,671 |
| Costs and expenses | 1,594,874 | 350,974 | 134,265 | 501,364 | (358,901) | 2,222,576 |
| Operating income | ¥ 256,743 | ¥ 28,135 | ¥ 43,519 | ¥ 17,458 | ¥ (2,760) | ¥ 343,095 |
| Identifiable assets | ¥5,668,361 | ¥148,092 | ¥733,801 | ¥566,974 | ¥(263,825) | ¥6,853,403 |
| Depreciation | 253,959 | 8,100 | 25,807 | 34,698 | — | 322,564 |
| Capital investments | 296,052 | 9,111 | 22,348 | 41,149 | — | 368,660 |
| 2004: | | | | | | |
| Operating revenues: | | | | | | |
| Outside customers | ¥1,798,132 | ¥366,438 | ¥175,180 | ¥202,547 | ¥ — | ¥2,542,297 |
| Inside group | 52,552 | 9,605 | 7,235 | 273,805 | (343,197) | — |
| | 1,850,684 | 376,043 | 182,415 | 476,352 | (343,197) | 2,542,297 |
| Costs and expenses | 1,587,913 | 348,892 | 136,143 | 458,411 | (340,482) | 2,190,877 |
| Operating income | ¥ 262,771 | ¥ 27,151 | ¥ 46,272 | ¥ 17,941 | ¥ (2,715) | ¥ 351,420 |
| Identifiable assets | ¥5,602,010 | ¥152,036 | ¥731,078 | ¥591,825 | ¥(295,257) | ¥6,781,692 |
| Depreciation | 250,720 | 8,416 | 25,213 | 37,951 | — | 322,300 |
| Capital investments | 292,707 | 12,789 | 33,375 | 44,501 | — | 383,372 |
| **2005:** | | | | | | |
| Operating revenues: | | | | | | |
| Outside customers | **¥1,781,776** | **¥369,790** | **¥181,956** | **¥203,959** | **¥ —** | **¥2,537,481** |
| Inside group | **54,953** | **10,393** | **7,263** | **259,943** | **(332,552)** | **—** |
| | **1,836,729** | **380,183** | **189,219** | **463,902** | **(332,552)** | **2,537,481** |
| Costs and expenses | **1,571,100** | **353,804** | **139,406** | **446,416** | **(331,780)** | **2,178,946** |
| Operating income | **¥ 265,629** | **¥ 26,379** | **¥ 49,813** | **¥ 17,486** | **¥ (772)** | **¥ 358,535** |
| Identifiable assets | **¥5,550,567** | **¥161,572** | **¥729,981** | **¥619,793** | **¥(345,645)** | **¥6,716,268** |
| Depreciation | **244,620** | **8,474** | **25,377** | **39,486** | **—** | **317,957** |
| Impairment losses on fixed assets | **33,506** | **2,057** | **6,674** | **4,118** | **—** | **46,355** |
| Capital investments | **294,934** | **13,797** | **29,656** | **44,948** | **—** | **383,335** |

| | Millions of U.S. Dollars | | | | | |
|---|---|---|---|---|---|---|
| | Transportation | Station Space Utilization | Shopping Centers & Office Buildings | Other Services | Elimination and/or Corporate | Consolidated |
| **2005:** | | | | | | |
| Operating revenues: | | | | | | |
| Outside customers | **$16,652** | **$3,456** | **$1,700** | **$1,907** | **$ —** | **$23,715** |
| Inside group | **514** | **97** | **68** | **2,429** | **(3,108)** | **—** |
| | **17,166** | **3,553** | **1,768** | **4,336** | **(3,108)** | **23,715** |
| Costs and expenses | **14,683** | **3,306** | **1,303** | **4,172** | **(3,100)** | **20,364** |
| Operating income | **$ 2,483** | **$ 247** | **$ 465** | **$ 164** | **$ (8)** | **$ 3,351** |
| Identifiable assets | **$51,874** | **$1,510** | **$6,822** | **$5,792** | **$(3,229)** | **$62,769** |
| Depreciation | **2,286** | **79** | **237** | **370** | **—** | **2,972** |
| Impairment losses on fixed assets | **313** | **19** | **62** | **39** | **—** | **433** |
| Capital investments | **2,756** | **129** | **277** | **421** | **—** | **3,583** |

The main activities of each business segment are as follows:

Transportation:

Passenger transportation mainly by passenger railway;

Station space utilization:

Retail sales, food and convenience stores, etc., which utilize space at stations;

Shopping centers & office buildings:

Operation of shopping centers other than Station Space Utilization business and leasing of office buildings, etc.; and

Other services:

Advertising and publicity, hotel operations, wholesale, truck delivery, cleaning, information processing, housing development and sales, credit card business and other services.

Capital investments include a portion contributed mainly by national and local governments. Identifiable assets in the corporate column mainly comprise current and non-current securities held by the Company.

Geographic segment information is not shown since the Company has no overseas consolidated subsidiaries. Information for overseas sales is not shown due to there being no overseas sales.

## 19. INFORMATION REGARDING CERTAIN LEASES

Finance leases other than those which transfer ownership to lessees are accounted for in the same manner as operating leases. Under such finance leases, lease payments, which were charged to income for the years ended March 31, 2004 and 2005, amounted to ¥15,864 million and ¥14,409 million ($135 million), respectively. Lease income which was credited to income for the years ended March 31, 2004 and 2005 was ¥4,286 million and ¥4,251 million ($40 million), respectively.

Future lease payments inclusive of interest were ¥35,592 million ($333 million), including due in one year of ¥11,594 million ($108 million), and future lease receipts inclusive of interest were ¥13,850 million ($129 million), including due in one year of ¥4,359 million ($41 million), at March 31, 2005.

Future lease payments for non-cancellable operating leases amount to ¥612 million ($6 million), which were due within one year at March 31, 2005.

## 20. INFORMATION FOR DERIVATIVE TRANSACTIONS

The Companies deal with forward exchange, foreign currency swap and interest rate swap transactions to hedge the risks resulting from future changes in foreign exchange rates and interest rates (market risk) with regard to bonds, loans and other obligations.

The Companies believe there is extremely low risk of default by derivative transaction counterparties as all such transactions are with financial institutions having sound reputations.

Contracts for derivative transactions are executed only after prudent consideration by the finance section of each of the Companies and upon resolution of its Board of Directors or other appropriate internal approval process.

## 21. SUBSEQUENT EVENT

At the June 2005 annual meeting, the shareholders of the Company approved (1) the payment of a year-end cash dividend of ¥3,500 ($33) per share, aggregating ¥13,990 million ($131 million) and (2) the payment of bonuses to directors and corporate auditors of ¥220 million ($2 million).

KPMG

**Independent Auditors' Report**

To the Board of Directors of East Japan Railway Company:

We have audited the accompanying consolidated balance sheets of East Japan Railway Company and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2005, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of East Japan Railway Company and subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
As discussed in Note 2 to the consolidated financial statements, effective April 1, 2004, East Japan Railway Company and subsidiaries prospectively adopted the new Japanese accounting standards for impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 23, 2005

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