Financial Section

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Eleven-Year Summary

East Japan Railway Company and Subsidiaries
Years ended March 31

	1997	1998	1999	2000
Operating results				
Operating revenues	2,513,790	2,514,808	2,483,594	2,502,909
Operating expenses	2,097,388	2,146,109	2,149,122	2,160,952
Operating income	416,402	368,699	334,472	341,957
Net income	70,661	66,235	21,929	66,963
Segment information(*1)				
Operating revenues from outside customers:				
Transportation	N/A	N/A	N/A	N/A
Station space utilization	N/A	N/A	N/A	N/A
Shopping centers & office buildings	N/A	N/A	N/A	N/A
Other services	N/A	N/A	N/A	N/A
Total	N/A	N/A	N/A	N/A
Segment information(*2)				
Operating revenues from outside customers:				
Transportation	1,855,994	1,836,237	1,808,925	1,799,051
Merchandise sales	363,403	365,964	356,260	379,213
Real estate leasing	144,927	154,905	158,515	143,432
Other services	149,466	157,702	159,894	181,213
Total	2,513,790	2,514,808	2,483,594	2,502,909
Financial position				
Total assets	7,384,463	7,381,794	7,287,033	7,308,391
Long-term debt (including current portion)	2,223,163	2,285,063	2,320,246	2,319,664
Railway facilities purchase liabilities (including current portion)(*3)	2,812,547	2,713,737	2,610,966	2,499,023
Total long-term debt (sum of two items above)	5,035,710	4,998,800	4,931,212	4,818,687
Shareholders' equity(*4)	719,510	765,424	766,880	856,401
Cash flows(*5)				
Cash flows from operating activities	497,242	410,662	365,296	474,715
Cash flows from investing activities	(419,923)	(379,156)	(282,082)	(292,438)
Cash flows from financing activities	(77,240)	(52,674)	(72,298)	(168,133)
Per share data				
Earnings	17,665	16,559	5,482	16,741
Shareholders' equity(*4)	179,878	191,356	191,720	214,100
Cash dividends(*6)	5,000	5,000	5,000	5,000
Ratios				
Net income as a percentage of revenues	2.8	2.6	0.9	2.7
Return on average equity (ROE)	10.2	8.9	2.9	8.3
Ratio of operating income to average assets (ROA)	5.7	5.0	4.6	4.7
Equity ratio	9.7	10.4	10.5	11.7
Total long-term debt to shareholders' equity	7.0	6.5	6.4	5.6
Other data				
Depreciation	274,133	283,711	319,687	329,583
Capital expenditures(*7)	325,066	268,425	258,080	288,106
Interest expense	256,063	243,017	230,887	220,421
Number of consolidated subsidiaries (As of March 31)	73	80	81	96
Number of employees(*8)	89,593	89,008	87,880	82,747

*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 the purchase of the Tohoku and Joetsu Shinkansen facilities, the Akita hybrid Shinkansen facilities, and the Tokyo Monorail facilities
*4 Shareholders' equity equals total net assets less minority interests beginning with the year ended March 31, 2007 (as in the balance sheets; see Notes 2 (1), 2 (16), and 2 (17) to consolidated financial statements).
*5 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.
*6 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 were decided at the shareholders' annual meeting in June.
*7 These figures exclude expenditures funded by third parties, mainly governments and their agencies, which will benefit from the resulting facilities.
*8 Beginning with the year ended March 31, 2000, "Number of employees" excludes employees assigned to other companies and employees on temporary leave.
*9 Upon the merger of the 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)

2001	2002	2003	2004	2005	2006	**2007**
2,546,041	2,543,378	2,565,671	2,542,297	2,537,481	2,592,393	**2,657,346**
2,222,290	2,227,038	2,222,576	2,190,877	2,178,946	2,196,293	**2,229,248**
323,751	316,340	343,095	351,420	358,535	396,100	**428,098**
69,174	47,551	97,986	119,866	111,592	157,575	**175,871**
1,801,370	1,789,599	1,800,434	1,798,132	1,781,776	1,805,406	**1,825,387**
348,994	368,553	368,961	366,438	369,790	383,904	**399,998**
165,818	165,276	170,321	175,180	181,956	190,466	**197,140**
229,859	219,950	225,955	202,547	203,959	212,617	**234,821**
2,546,041	2,543,378	2,565,671	2,542,297	2,537,481	2,592,393	**2,657,346**
1,805,663	N/A	N/A	N/A	N/A	N/A	**N/A**
386,033	N/A	N/A	N/A	N/A	N/A	**N/A**
152,438	N/A	N/A	N/A	N/A	N/A	**N/A**
201,907	N/A	N/A	N/A	N/A	N/A	**N/A**
2,546,041	N/A	N/A	N/A	N/A	N/A	**N/A**
7,247,089	7,022,271	6,853,403	6,781,692	6,716,268	6,821,584	**6,968,032**
2,307,483	2,060,838	1,942,983	1,940,321	1,940,255	1,960,211	**2,034,558**
2,392,241	2,318,997	2,174,581	2,034,203	1,892,827	1,743,657	**1,601,646**
4,699,724	4,379,835	4,117,564	3,974,524	3,833,082	3,703,867	**3,636,204**
923,568	930,746	981,856	1,100,176	1,183,546	1,357,359	**1,488,554**
455,470	455,045	433,304	387,061	407,737	447,722	**541,850**
(266,319)	(105,645)	(196,422)	(234,591)	(214,948)	(309,489)	**(348,800)**
(161,109)	(433,589)	(310,658)	(196,193)	(209,041)	(141,599)	**(172,027)**
17,294	11,888	24,453	29,928	27,868	39,370	**44,008**
230,892	232,687	245,463	275,052	296,106	339,599	**372,493**
5,000	5,000	8,000	6,000	6,500	8,000	**9,000**
2.7	1.9	3.8	4.7	4.4	6.1	**6.6**
7.8	5.1	10.2	11.5	9.8	12.4	**12.4**
4.4	4.4	4.9	5.2	5.3	5.9	**6.2**
12.7	13.3	14.3	16.2	17.6	19.9	**21.4**
5.1	4.7	4.2	3.6	3.2	2.7	**2.4**
329,651	321,995	322,564	322,300	317,957	316,038	**318,526**
296,957	301,781	307,579	313,911	319,912	361,372	**413,310**
205,155	187,601	173,298	160,944	148,431	136,548	**131,376**
96	101	101	98	92	86	**85**
82,285	80,200	78,760	77,009	74,923	72,802	**71,316**

*10 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.

*11 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.

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

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

*14 Accounting Standards for Retirement Benefits were adopted beginning with the year ended March 31, 2001. (See Notes 2 (9) and 15 to consolidated financial statements)

*15 Accounting Standards for Impairment of Fixed Assets were early adopted beginning with the year ended March 31, 2005. (See Notes 2 (15) and 10 to consolidated financial statements)

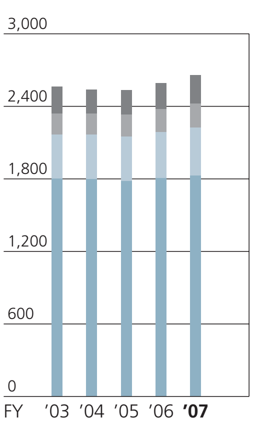
Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking statements in the following discussion and analysis are judgments of JR East as of March 31, 2007.

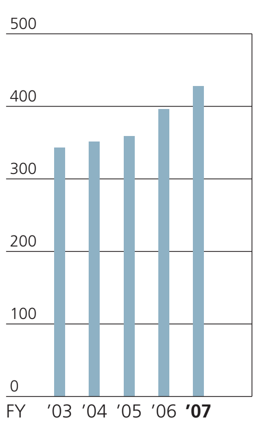
KEY ACCOUNTING POLICIES AND ESTIMATES

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 current 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 2007, ended March 31, 2007. JR East continuously assesses those factors. Actual results may differ materially from those estimates, given the uncertainty of forward-looking statements.

Operating Revenues
(Billions of Yen)



Operating Income
(Billions of Yen)



PERFORMANCE ANALYSIS

Overview

During the fiscal year ended March 31, 2007, despite a weakening in personal consumption seen in the latter half of the year, the Japanese economy remained on a recovery trend as private capital investment continued to rise, supported by strong corporate performance. Amid these economic conditions, East Japan Railway Company and its consolidated subsidiaries as well as associated companies accounted for under the equity method (hereinafter, JR East) worked aggressively to further the development of their operations by upgrading transportation services and actively developing non-transportation activities centered on stations, while also proactively working to expand the usage scope and quality of services related to *Suica* electronic money card services.

As a consequence, increases in the operating revenues of all business segments brought an increase of 2.5% in total operating revenues from the previous fiscal year, to ¥2,657.3 billion ($22,520 million), and operating income expanded 8.1%, to ¥428.1 billion ($3,628 million). Net income increased 11.6%, to ¥175.9 billion ($1,490 million), supported by gains from the sale of fixed assets and other factors.

Segment Information

Transportation

JR East worked to further enhance safety, focusing primarily on railway operations. At the same time, the Company worked to encourage rail travel and to increase revenues from its Shinkansen network and Tokyo metropolitan area network.

Specifically, JR East actively developed travel products to take full advantage of the cooperative operation of limited express trains running on tracks of the Company and Tobu Railway Co., Ltd., introduced during the previous fiscal year. JR East also implemented campaigns to promote seasonal travel to various destinations—such as the *To Aizu This Summer 2006 Campaign* and the *Chiba Destination Campaign*—which were aimed at promoting the flow of tourists to specific regions. In activities related to the *Otona no Kyujitsu Club*, JR East promoted business tie-ups with a broad range of financial institutions and other types of companies to offer a wider spectrum of services and worked to expand the number of club members. Other initiatives included the implementation of two timetable revisions and the March 2007 addition of *Green Cars* (first-class cars) to the Joban Line as well as the initiation of a mutual line-sharing arrangement with the railway that operates the Sendai Airport Line upon the opening of that line. Also, JR East began to make *Suica* IC cards interchangeable with other cards in the *PASMO* IC card system in the Tokyo metropolitan area. In bus operations, operating conditions continued to be harsh, but JR East worked to strengthen the foundation for these operations by introducing new routes, closing unprofitable routes, and other initiatives. In monorail operations, JR East inaugurated the *Haneda Express* new rapid service between Hamamatsucho Station and Haneda Airport Terminal 1 Station and otherwise worked to improve the convenience of accessing Haneda Airport.

As a result of these efforts, railway network transportation volumes increased, and operating revenues expanded 1.1 %, to ¥1,825.4 billion ($15,469 million). Operating income advanced 7.2%, to ¥319.0 billion ($2,704 million).

Station Space Utilization

JR East proceeded with the implementation of its *Station Renaissance* program, which aims to create new station environments suited to the 21st century. Specific initiatives included the opening of the second and third phases of the *Dila Ofuna* project in Kanagawa Prefecture, following the opening of the first phase in the previous fiscal year, and the implementation of a station space development project at Takadanobaba Station. In addition, JR East increased the number of *NEWDAYS* convenience stores and undertook refurbishment and business stimulation promotion projects at existing stores in that chain. A new company aimed at unifying JR East's beverage procurement operations and other objectives, JR East Water Business Co., Ltd., was established and began operating.

Along with the positive effects of these initiatives and new revenues from the opening of the *ecute Shinagawa* store in Tokyo, which was opened in the previous fiscal year, operating revenues increased 4.2%, to ¥400.0 billion ($3,390 million). Operating income grew 9.1%, to ¥33.2 billion ($282 million).

Shopping Centers & Office Buildings

In shopping center operations, JR East refurbished *Box Hill Matsudo* and *atré Ebisu* and, at these and other shopping centers, actively worked to recruit powerful tenants with the ability to attract customers.

Measures to restructure Group companies and strengthen the Group's marketing capabilities and financial position in this business included two mergers involving five shopping center management companies. These were the merger of LUMINE Co., Ltd., with Shinjuku Station Building Co., Ltd., and the amalgamation of Hachioji Terminal Building Co., Ltd., Kokubunji Terminal Building Co., Ltd., and Kofu Station Building Co., Ltd. In addition, the *My City* shopping center began operations anew as *LUMINE EST* with operations in Tokyo.

As a result of these and other initiatives, operating revenues increased 3.5%, to ¥197.1 billion ($1,671 million), and operating income was up 8.9%, to ¥58.6 billion ($497 million).

Other Services

In hotel operations, JR East opened *HOTEL METS Koenji* in Tokyo and continued its program of activities to improve competitiveness through the refurbishment of guest rooms and banquet halls. In advertising and publicity operations, JR East moved forward with initiatives to expand sales of transportation-related media, focusing on in-car visual advertising. Among other services, JR East opened Tokyo's largest-scale fitness club, *Jexer Fitness & Spa Ueno*, and worked to expand sales of equipment and other items aimed at the commencement of joint use of its IC card with *PASMO*. In credit card business, JR East strove to expand the number of holders of *Otona no Kyujitsu Club: Zipangu* cards and various other cards. Regarding *Suica* electronic money cards for shopping, the start of interchangeable service with the *PASMO* card system broadened the scope of usage during the fiscal year, and JR East also worked proactively to expand *Suica* use in urban shops and elsewhere. At the end of the fiscal year, the number of outlets accepting *Suica* IC cards had risen to approximately 12,700.

Accordingly, operating revenues of this segment rose 10.4%, to ¥234.8 billion ($1,990 million), and operating income surged 15.6%, to ¥17.9 billion ($152 million).

Operating Income

Operating expenses increased 1.5%, to ¥2,229.2 billion ($18,892 million), and operating expenses as a percentage of operating revenues was 83.9%, compared with 84.7% in the previous fiscal year. Transportation, other services and cost of sales advanced 1.0%, to ¥1,718.6 billion ($14,564 million). Although personnel expenses decreased, the rise in transportation, other services and cost of sales reflected an increase in nonpersonnel expenses due to such factors as a rise in the cost of sales that accompanied growth in the net sales of consolidated subsidiaries. Selling, general and administrative expenses were up 3.2%, to ¥510.7 billion ($4,328 million), reflecting an increase in nonpersonnel expenses.

Consequently, operating income surged 8.1%, to ¥428.1 billion ($3,628 million), and operating income as a percentage of operating revenues was 16.1%, compared with 15.3% in the previous fiscal year.

Other Income (Expenses)

Other income increased 39.8%, to ¥144.1 billion ($1,221 million), owing to a rise in gains on investments in investment funds as well as such factors as growth in gain on sales of fixed assets and in construction-work-related income.

Other expenses rose 15.7%, to ¥265.5 billion ($2,250 million). Contributing factors included growth in losses for redemption of bonds and in construction-work-related advanced depreciation deduction as well as a loss associated with the large number of employees who retired during the fiscal year.

Interest and dividend income and other financial income, net of interest and dividend expense and other financial expenses, amounted to a ¥129.4 billion ($1,097 million) expense, an improvement of 3.9% from the previous fiscal year.

Income before Income Taxes

Income before income taxes grew 13.7%, to ¥306.7 billion ($2,599 million). Income before income taxes as a percentage of operating revenues was 11.5%, compared with 10.4% in the previous fiscal year.

Net Income

Net income advanced 11.6%, to a record high ¥175.9 billion ($1,490 million). Earnings per share rose from ¥39,370 in fiscal 2006 to ¥44,008 ($373). Net income as a percentage of operating revenues grew from 6.1% in the previous fiscal year to 6.6%.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Net cash provided by operating activities was up ¥94.1 billion, to ¥541.9 billion ($4,592 million), primarily reflecting a rise in income before income taxes.

Net cash used in investing activities amounted to ¥348.8 billion ($2,956 million), ¥39.3 billion more than in fiscal 2006, due to such factors as an increase in payments for purchases of fixed assets.

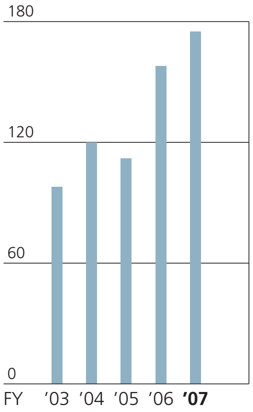
Capital expenditures were as follows: Regarding transportation operations, capital expenditures were made to maintain and renew transportation facilities, with an emphasis on safety measures, develop transportation capabilities, and improve passenger services. In station space utilization, capital expenditures were centered on *Station Renaissance* program measures to create commercial facilities at Takadanobaba and Ofuna stations. In shopping centers & office buildings, capital expenditures primarily comprised the construction of *Sapia Tower* and such construction projects on the Yaesu side of Tokyo Station as the *GranTokyo North Tower* Phase I project and *GranTokyo South Tower* project. In other services, capital expenditures primarily focused on the construction of *HOTEL METS Koenji* and *HOTEL METS Tachikawa*.

In addition, free cash flows increased ¥54.8 billion, to ¥193.1 billion ($1,636 million).

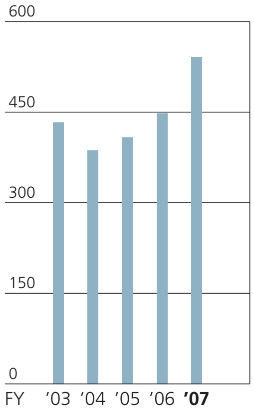
Net cash used in financing activities increased ¥30.4 billion, to ¥172.0 billion ($1,458 million), mainly owing to a net decrease in commercial paper and a rise in the payments for bond redemption compared with the previous year.

Consequently, cash and cash equivalents at end of year, which were ¥64.4 billion at the end of fiscal 2006, rose ¥22.6 billion, to ¥87.0 billion ($737 million).

Net Income
(Billions of Yen)



Cash Flows from Operating Activities
(Billions of Yen)



Financial Policy

Total long-term debt at the end of fiscal 2007 amounted to ¥3,636.2 billion ($30,815 million), due to long-term liabilities incurred for the 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 the purchase of railway facilities associated with JR East's assumption of Shinkansen railway facilities are paid in equal semiannual installments, consisting of principal and interest payments, and are divided into the following three tranches:

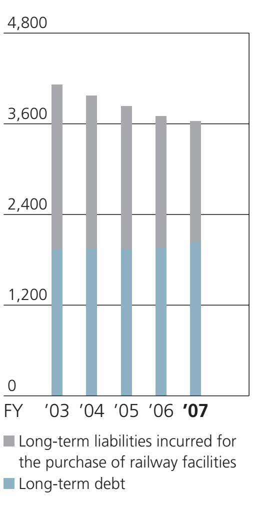
a. ¥847.8 billion ($7,184 million) payable at a variable interest rate (annual interest rate in fiscal 2007: 4.33%) through March 31, 2017.

b. ¥372.4 billion ($3,156 million) payable at a fixed annual interest rate of 6.35% through March 31, 2017.

c. ¥353.1 billion ($2,993 million) payable at a fixed annual interest rate of 6.55% through September 30, 2051.

In addition, at fiscal year-end, JR East had long-term liabilities incurred for the purchase of railway facilities of ¥16.9 billion ($143 million) for the Akita hybrid Shinkansen and ¥11.5 billion ($97 million) for the Tokyo Monorail.

Total Long-Term Debt
(Billions of Yen)



Since fiscal 1998, JR East has made annual early repayments of long-term liabilities incurred for the 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 ¥42.3 billion ($359 million) in fiscal 2007.

In fiscal 2002, JR East introduced a cash management system that integrated the management of the Group's cash and funding, which previously was 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, 2007, JR East issued four unsecured straight bonds, with a total nominal amount of ¥50.0 billion ($424 million) and maturities from 2016 through 2026. Rating and Investment Information, Inc. (R&I), a Japanese rating agency, rated these bonds AA+. Overseas, JR East issued two euro pound bonds with a total nominal amount of £600.0 million (¥130.8 billion/$1,109 million) and maturities from 2031 through 2034. JR East's ratings for these bonds from Standard & Poor's and Moody's were AA- and Aa2, respectively.

In order to respond to short-term financing requirements, JR East has bank overdraft facilities with its principal banks totaling ¥300.0 billion ($2,542 million). R&I and Moody's rated JR East's commercial paper a-1+ and P-1, respectively, as of the end of fiscal 2007. JR East had no outstanding commercial paper and no bank overdrafts on March 31, 2007. JR East does not maintain committed bank credit lines (a financing framework that permits unrestricted borrowing within contract limits based on certain conditions).

Operational and Other Risk Information

The following are issues related to operational and accounting procedures that may have a significant bearing on the decisions of investors. Forward-looking statements in the following section are based on the assessments of JR East as of March 31, 2007.

LEGAL ISSUES RELATING TO OPERATIONS

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

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

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

Under the Railway Business Law, railway operators are required to obtain the permission of the Minister of Land, Infrastructure and Transport (MLIT) for each type of line and railway business operated (article 3). Operators receive approval from the MLIT for the upper limit of passenger fares and Shinkansen limited express surcharges. Subject to prior notification, railway operators can then set or change those fares and surcharges within those upper limits (article 16). Operators are also required to give the MLIT advance notice of the abolishment or suspension of railway operations. If an operator intends to eliminate or suspend railway operations, the operator must give prior notification to the MLIT. In the case of eliminating operations, the notice must be given at least one year in advance (article 28, items 1 and 2).

The JR Law (1986, Law No. 88)

Aim of the Establishment of the JR Law

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

Amendment of the JR Law

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

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

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

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

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

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

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

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

ESTABLISHMENT OF AND CHANGES TO FARES AND SURCHARGES

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

System for Approval of Fares and Surcharges

The Railway Business Law stipulates that railway operators are required to obtain the approval of the MLIT when setting or changing the upper limit for passenger fares and Shinkansen limited express surcharges (fares and surcharges) (Railway Business Law, article 16, item 1). Subject to prior notification, railway operators can then set or change fares and surcharges within those upper limits, including limited express surcharges on conventional lines and other charges (Railway Business Law, article 16, items 3 and 4).

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

JR East's Stance

(a) JR East has not raised fares since its establishment in April 1987, other than to reflect the consumption tax introduction (April 1989) and revision (April 1997).

Through efficiently securing revenues and reducing expenses, JR East has worked to create a management base that is not dependent on raising fares. However, if JR East were unable to secure appropriate profit levels as a result of such factors as changes in the operating environment, it would view the timely implementation of fare revisions as necessary to secure appropriate profit levels.

(b) With the efficient management of operations as a precondition, JR East believes securing a profit level that enables capital expenditure for the future and the strengthening of its financial position—in addition to the distribution of profits to shareholders—to be essential. JR East primarily undertakes capital expenditure, which has a significant impact on the capital usage of railway operations, with a view to establishing a robust management base through ensuring safe, stable transportation, offering high-quality services, and implementing other measures. Further, JR East appreciates the need to independently conduct capital expenditure based upon clearly defined management responsibility.

Stance of the Ministry of Land, Infrastructure and Transport

With respect to the implementation of fare revisions by JR East, the position of the MLIT is as follows.

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

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

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

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

The calculation of total-cost is as follows:

- total-cost = operating cost[1] + operational return
- operational return = assets utilized in railway business

operations (rate base) x operational return rate

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

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

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

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

PLAN FOR THE DEVELOPMENT OF NEW SHINKANSEN LINES

Construction Plans for New Shinkansen Lines

New Shinkansen lines are those lines indicated in the plan for the Shinkansen line network that was decided pursuant to the Nationwide Shinkansen Railway Development Law (1970, Law No. 71). Finalized in 1973, that plan called for the development of the Tohoku Shinkansen Line (Morioka–Aomori), the Hokuriku Shinkansen Line (Tokyo–Nagano–Toyama–Osaka), the Kyushu Shinkansen Line (Fukuoka–Kagoshima), and other Shinkansen lines. Following the division and privatization of JNR, JR East was selected as the operator of the Takasaki–Joetsu segment of the Hokuriku Shinkansen Line and the Morioka–Aomori segment of the Tohoku Shinkansen Line. JR East started operation of the Hokuriku Shinkansen Line between Takasaki and Nagano on October 1, 1997, and the Tohoku Shinkansen Line between Morioka and Hachinohe on December 1, 2002 (see map on page 18).

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

Further, in December 2004, the national government and ruling parties agreed on the outlook for the completion of new Shinkansen lines. For new Shinkansen lines under the jurisdiction of JR East, it was decided to aim to complete the Hachinohe–Shin-Aomori segment of the Tohoku Shinkansen Line by the end of fiscal 2011 and the Nagano–Hakusan general rail yard segment of the Hokuriku Shinkansen Line by the end of fiscal 2015 (JR East has jurisdiction of the Nagano–Joetsu segment of the Hokuriku Shinkansen Line).

Also, new Shinkansen lines not under the jurisdiction of JR East are being developed on the Shin-Aomori–Shin-Hakodate segment of the Hokkaido Shinkansen Line, the Joetsu–Hakusan general rail yard segment and the Fukui Station portion of the Hokuriku Shinkansen Line, and the Hakata–Shin-Yatsushiro segment of the Kyushu Shinkansen Line.

Cost Burden of the Development of New Shinkansen Lines

(a) The national government, local governments, and the JR Companies assume the cost of new Shinkansen lines constructed by the JRTT. Amounts to be funded by the JR Companies are to be paid out of the following:
   1) Usage fees and other surcharges paid by the JR company as the operator of the line
   2) Funds made available from the JRTT, to which JR East, JR Central, and JR West make payments of amounts due on their Shinkansen purchase liabilities (see page 70 for details)

(b) In October 1997, the opening of the Takasaki–Nagano segment of the Hokuriku Shinkansen Line was accompanied by new standards for the amount of usage fees paid by the JR Companies as the operator of the line. Those usage fees are now regulated by the Japan Railway Construction, Transport and Technology Agency Law (enforcement ordinance, article 6). That enforcement ordinance stipulates that the JRTT will stipulate the amount of usage fees based on the benefits received as the operator of the said Shinkansen line after opening and the sum of taxes and maintenance fees paid by the JRTT for railway facilities leased. Of those, the benefits received as the operator are calculated by comparing the estimated revenues and expenses generated by the new segment of the Shinkansen line and related line segments after opening with the revenues and expenses that would likely be generated by parallel conventional lines and related line segments if the new segment of the Shinkansen line were not opened. The expected benefits are the difference between the amount that the operator of the new Shinkansen line should receive as a result of operation and the amount that would be received if the new Shinkansen line did not commence services. Specifically, expected benefits are calculated based on expected demand and revenues and expenses over a 30-year period after opening. Further, a part of the usage fees, which are calculated based on the expected benefits, is fixed for the 30-year period after commencing services. In addition, the taxes and maintenance fees are included in calculations of corresponding benefits as an expense of the operator of the Shinkansen line after opening. Therefore, the burden of the operator is kept within the limits of the corresponding benefits.

   With respect to the usage fee amount for the Takasaki–Nagano segment of the Hokuriku Shinkansen Line, which opened in October 1997, JR East decided that the usage fees calculated by the JRCC (currently, the JRTT) were within the limits of the corresponding benefits to result from the opening of that line and concluded an agreement with the JRCC in September 1997. Also, the JRCC received approval for those usage fees from the Minister of Transport in September 1997. Usage fees for fiscal 2007 totaled ¥19.6 billion ($166 million), comprising the fixed amount calculated based on corresponding benefits of ¥17.5 billion ($148 million) and taxes and maintenance fees of ¥2.1 billion ($18 million).

   In November 2002, JR East also concluded an agreement with the JRCC regarding the usage fees amount for the Morioka–Hachinohe segment of the Tohoku Shinkansen Line, which opened in December 2002. The JRCC received approval for those usage fees from the MLIT in November 2002. Usage fees for fiscal 2007 totaled ¥9.0 billion ($76 million), comprising the fixed amount calculated based on corresponding benefits of ¥7.9 billion ($67 million) and taxes and maintenance fees of ¥1.1 billion ($9 million).

(c) As well as being responsible for the construction of new Shinkansen lines, the JRTT procures construction costs and owns the facilities that it has constructed. JR East leases those facilities from the JRTT after completion and pays the usage fees mentioned in (b) above upon the commencement of the service. During the construction period, JR East is not required to directly assume the JRTT's construction costs. Compared with periods when there is no construction of new Shinkansen lines, costs related to new Shinkansen lines, such as depreciation of railcars and other costs, can have an impact on JR East's single-year revenues and expenses in the initial period after opening. However, given the character of usage fees mentioned in (b) above, JR East believes that such factors will not have an impact on revenues and expenses over the 30-year period.

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

Treatment of Conventional Lines Running Parallel to New Shinkansen Lines

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

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

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

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

JR East's Stance on the Construction of New Shinkansen Lines

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

(1) As the operator of new Shinkansen lines, JR East will only assume the burden of the aforementioned usage

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

(2) The confirmation of agreements with local communities is required in regard to the management separation from JR East of conventional lines parallel to new Shinkansen line segments.

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

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

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

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

SAFETY MEASURES

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

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

Specifically, JR East's safety-related efforts involve replacing and upgrading railcars and facilities and installing Automatic Train Stop devices (ATS-P and ATS-Ps types) that prevent train collisions as well as excessive speeds on the curved sections of tracks and other such areas. Further, based on lessons learned from such temblors as the 2004 Niigata Chuetsu Earthquake, JR East has accelerated quake countermeasures, such as the implementation of projects to reinforce tunnels and elevated railway tracks. JR East has begun implementing derailment countermeasures, including those to upgrade railcars and ground equipment and otherwise minimize the damage resulting from derailments. In light of the derailment that occurred on the Uetsu Line on December 25, 2005, JR East is continuing research to clarify the causes of the accident while also proceeding with the installation of wind speed measurement equipment and windbreak fences. In addition, JR East is upgrading equipment and conducting accident awareness campaigns to prevent accidents at railway crossings as well as working to prevent rain-related damage, with particular attention to the Tokyo metropolitan area.

PLAN FOR THE DEVELOPMENT OF TOKYO STATION'S YAESU EXIT

Plan Overview

(a) Twin high-rises, *GranTokyo North Tower* and *GranTokyo South Tower,* are to be constructed on the north and south sides of the square in front of the Yaesu exit of Tokyo Station. *Gran Roof,* a ground-level, central pedestrian deck with a large roof, will connect the towers.

(b) Total floor space will be roughly 352,000m², and the total cost of the joint project will be approximately ¥130 billion ($1,102 million), with JR East's share being approximately ¥80 billion ($678 million). Adding the cost of independent projects, JR East will shoulder a total project cost of approximately ¥125 billion ($1,059 million).

(c) Schedule

September 2004:	begin construction of Phase I of the *North Tower* and *South Tower*
October 2007:	complete construction of Phase I of the *North Tower;* complete construction of the *South Tower*
Latter half of 2008:	begin construction of Phase II of the *North Tower* and *GranRoof*
Summer 2010:	complete construction of Phase II of the *North Tower*
Spring 2011:	complete construction of the central area, including *GranRoof* (also, complete the redevelopment of the square in front of the Yaesu exit of Tokyo Station during fiscal 2012)

JR East's Approach

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

INFORMATION SYSTEMS AND PROTECTION OF PERSONAL DATA

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

JR East takes measures to prevent damage, such as continuously upgrading the functions of in-house systems and training the related personnel. In the unlikely event of a system failure, JR East would minimize the impact by taking measures through an initial action framework that would be promptly set up and coordinated across operational divisions. Further, JR East is doing its utmost to ensure the strict management and protection of personal data through the establishment of in-house regulations that include stipulations for the appropriate treatment of personal data, restricted authorization for access to personal data, control of access authority, and the construction of a system of in-house checks.

DEVELOPMENT OF NON-TRANSPORTATION OPERATIONS

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

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

COMPETITION

JR East's transportation operations compete with the operations of airline, automobile, bus transportation, and other railway companies. Furthermore, JR East's non-transportation operations compete with existing and newly established businesses. The competition of JR East's transportation and non-transportation operations with such rival operators could have an impact on JR East's financial position and business performance. In particular, intensified competition in the transportation market could affect earnings from JR East's transportation operations. Such competition includes the opening of the Tokyo Metro Fukutoshin Line subway, currently under construction, in fiscal 2009; an increase in flight services as a result of the enlargement of Tokyo International Airport (Haneda Airport); and stepped-up highway bus services between regional cities. Also, in station space utilization operations and shopping centers and office buildings businesses, JR East's competitiveness could lessen as a result of intensified competition created by the renewal or opening of nearby commercial premises. In addition, the earnings of JR East's hotel operations could be affected by increasingly fierce competition from foreign-affiliated luxury hotels as well as economy business hotels and dedicated wedding reception facilities operated by domestic companies.

REDUCTION OF TOTAL LONG-TERM DEBT

At the end of fiscal 2007, total long-term debt was ¥3,636.2 billion ($30,815 million). In addition, interest expense amounted to ¥131.4 billion ($1,113 million) in fiscal 2007, which was equivalent to 30.7% of operating income. JR East will continue to reduce total long-term debt and refinance to obtain lower interest rates. However, a reduction in free cash flows due to unforeseen circumstances or a change in borrowing rates due to fluctuation in interest rates could affect JR East's financial position and business performance.

Consolidated Balance Sheets

East Japan Railway Company and Subsidiaries
March 31, 2006 and 2007

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2006	**2007**	**2007**
Assets			
Current Assets:			
Cash and cash equivalents (Note 4)	¥ 64,373	**¥ 86,980**	**$ 737**
Receivables:			
Accounts receivable–trade	196,976	**265,219**	**2,248**
Unconsolidated subsidiaries and affiliated companies	5,943	**10,733**	**91**
Other	19,363	**18,891**	**160**
Allowance for doubtful accounts (Note 2 (4))	(1,744)	**(2,411)**	**(21)**
	220,538	**292,432**	**2,478**
Inventories (Notes 2 (5) and 5)	35,098	**36,793**	**312**
Real estate for sale (Notes 2 (6) and 6)	8,786	**6,528**	**55**
Deferred income taxes (Note 14)	55,948	**59,809**	**507**
Other current assets	27,359	**30,572**	**259**
Total current assets	412,102	**513,114**	**4,348**
Investments:			
Unconsolidated subsidiaries and affiliated companies (Notes 2 (2) and 7)	36,394	**32,727**	**277**
Other (Notes 2 (7) and 8)	213,085	**205,628**	**1,743**
	249,479	**238,355**	**2,020**
Property, Plant and Equipment (Notes 2 (8), 9 and 10):			
Buildings	1,917,169	**1,957,141**	**16,586**
Fixtures	5,004,830	**5,080,350**	**43,054**
Machinery, rolling stock and vehicles	2,236,890	**2,285,963**	**19,373**
Land	2,014,863	**2,012,665**	**17,056**
Construction in progress	191,916	**222,965**	**1,890**
Other	161,456	**161,585**	**1,369**
	11,527,124	**11,720,669**	**99,328**
Less accumulated depreciation	5,730,775	**5,888,162**	**49,900**
Net property, plant and equipment	5,796,349	**5,832,507**	**49,428**
Other Assets:			
Long-term deferred income taxes (Note 14)	193,871	**210,463**	**1,784**
Goodwill (Note 2 (2))	80	**—**	**—**
Other	169,703	**173,593**	**1,471**
	363,654	**384,056**	**3,255**
	¥6,821,584	**¥6,968,032**	**$59,051**

See accompanying notes.

Financial Section

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2006	**2007**	**2007**
Liabilities and Shareholders' Equity/Net Assets			
Current Liabilities:			
Commercial paper	¥ 40,000	¥ **—**	$ **—**
Current portion of long-term debt (Notes 9 and 11)	115,652	**241,772**	**2,049**
Current portion of long-term liabilities incurred for purchase of railway facilities (Notes 9 and 12)	141,211	**144,129**	**1,221**
Prepaid railway fares received	91,537	**90,865**	**770**
Payables:			
Accounts payable–trade	51,797	**64,413**	**546**
Unconsolidated subsidiaries and affiliated companies	48,065	**49,719**	**421**
Other	426,372	**487,368**	**4,130**
	526,234	**601,500**	**5,097**
Accrued expenses	109,605	**109,310**	**926**
Accrued consumption tax (Note 13)	8,817	**15,709**	**133**
Accrued income taxes (Note 14)	59,666	**81,572**	**691**
Other current liabilities	33,390	**53,069**	**451**
Total current liabilities	1,126,112	**1,337,926**	**11,338**
Long-Term Debt (Notes 9 and 11)	1,844,559	**1,792,786**	**15,193**
Long-Term Liabilities Incurred for Purchase of Railway Facilities (Notes 9 and 12)	1,602,446	**1,457,517**	**12,352**
Employees' Severance and Retirement Benefits (Notes 2 (9) and 15)	597,789	**600,229**	**5,087**
Deposits Received for Guarantees	172,305	**164,927**	**1,398**
Long-Term Deferred Tax Liabilities (Note 14)	2,478	**2,680**	**23**
Other Long-Term Liabilities	93,514	**98,862**	**837**
Minority Interests	25,022	**—**	**—**
Contingent Liabilities (Note 16)			
Shareholders' Equity (Notes 2 (1), 2 (16) and 17):			
Common stock:			
Authorized 16,000,000 shares; Issued, 2006—4,000,000 shares; Outstanding, 2006—3,996,234 shares	200,000	**—**	**—**
Capital surplus:			
Additional paid-in capital	96,600	**—**	**—**
Total capital surplus	96,600	**—**	**—**
Retained earnings	984,525	**—**	**—**
Net unrealized holding gains on securities	78,543	**—**	**—**
Treasury stock, at cost, 3,766 shares in 2006	(2,309)	**—**	**—**
Total shareholders' equity	1,357,359	**—**	**—**
Net Assets (Notes 2 (1), 2 (16) and 17):			
Common stock:			
Authorized 16,000,000 shares; Issued, 2007—4,000,000 shares; Outstanding, 2007—3,996,194 shares	—	**200,000**	**1,695**
Capital surplus	—	**96,721**	**820**
Retained earnings	—	**1,127,234**	**9,553**
Treasury stock, at cost, 3,806 shares in 2007	—	**(2,595)**	**(22)**
Net unrealized holding gains on securities	—	**66,969**	**567**
Net deferred gains on derivatives under hedge accounting	—	**225**	**2**
Minority interests	—	**24,551**	**208**
Total net assets	—	**1,513,105**	**12,823**
	¥6,821,584	**¥6,968,032**	**$59,051**

Consolidated Statements of Income

East Japan Railway Company and Subsidiaries
Years ended March 31, 2005, 2006 and 2007

	Millions of Yen			Millions of U.S. Dollars (Note 2 (1))
	2005	2006	**2007**	**2007**
Operating Revenues (Note 18)	¥2,537,481	¥2,592,393	**¥2,657,346**	**$22,520**
Operating Expenses (Note 18):				
Transportation, other services and cost of sales	1,677,930	1,701,620	**1,718,576**	**14,564**
Selling, general and administrative expenses	501,016	494,673	**510,672**	**4,328**
	2,178,946	2,196,293	**2,229,248**	**18,892**
Operating Income (Note 18)	358,535	396,100	**428,098**	**3,628**
Other Income (Expenses):				
Interest expense on short- and long-term debt	(44,331)	(40,882)	**(42,512)**	**(360)**
Interest expense incurred for purchase of railway facilities	(104,100)	(95,666)	**(88,864)**	**(753)**
Losses for redemption of bonds (Note 11)	(24,003)	(3,409)	**(20,557)**	**(174)**
Loss on sales of fixed assets	(11,010)	(3,982)	**(650)**	**(6)**
Environmental conservation costs	—	(13,956)	**(13,884)**	**(118)**
Impairment losses on fixed assets (Notes 2 (15), 10 and 18)	(46,355)	(1,841)	**(3,507)**	**(30)**
Earthquake-damage losses (Note 3)	(11,933)	—	**—**	**—**
Provision for allowance for earthquake-damage losses (Note 3)	(28,647)	—	**—**	**—**
Interest and dividend income	1,257	1,814	**1,954**	**17**
Equity in net income (loss) of affiliated companies	290	707	**(1,978)**	**(17)**
Gain on sales of investment in securities	39,517	858	**—**	**—**
Gain on sales of transferable development air rights	26,685	—	**10,456**	**89**
Gain on sales of fixed assets	38,914	23,279	**35,489**	**301**
Other, net	5,382	6,613	**2,635**	**22**
	(158,334)	(126,465)	**(121,418)**	**(1,029)**
Income before Income Taxes	200,201	269,635	**306,680**	**2,599**
Income Taxes (Note 14):				
Current	137,409	125,330	**140,556**	**1,191**
Deferred	(51,046)	(15,682)	**(12,135)**	**(103)**
Minority Interests in Net Income of Consolidated Subsidiaries	(2,246)	(2,412)	**(2,388)**	**(21)**
Net Income	¥ 111,592	¥ 157,575	**¥ 175,871**	**$ 1,490**

	Yen			U.S. Dollars (Note 2 (1))
Earnings per Share (Note 2 (13))	¥27,868	¥39,370	**¥44,008**	**$373**

See accompanying notes.

Consolidated Statements of Shareholders' Equity (Note 2 (17))

East Japan Railway Company and Subsidiaries
Years ended March 31, 2005 and 2006

		Millions of Yen				
	Number of Issued Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Holding Gains (Losses) on Securities	Treasury Stock
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)
Gain on disposal of treasury stock	—	—	0	—	—	—
Increase due to addition of consolidated subsidiary and other	—	—	—	484	—	—
Net income	—	—	—	157,575	—	—
Cash dividends (¥8,000 per share)	—	—	—	(29,978)	—	—
Bonuses to directors and corporate auditors	—	—	—	(220)	—	—
Disposal (purchase) of treasury stock, net	—	—	—	—	—	(39)
Net unrealized holding gains on securities	—	—	—	—	45,991	—
Balance at March 31, 2006	4,000,000	¥200,000	¥96,600	¥984,525	¥78,543	¥(2,309)

Consolidated Statements of Changes in Net Assets (Note 2 (17))

East Japan Railway Company and Subsidiaries
Year ended March 31, 2007

		Millions of Yen							
	Number of Issued Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Net Unrealized Holding Gains (Losses) on Securities	Net Deferred Gains (Losses) on Derivatives under Hedge Accounting	Minority Interests	Total
Balance at March 31, 2006	4,000,000	¥200,000	¥96,600	¥ 984,525	¥(2,309)	¥ 78,543	¥ —	¥ —	¥1,357,359
Reclassification due to adoption of new accounting standards for presentation of net assets in the balance sheet as of April 1, 2006	—	—	—	—	—	—	—	25,022	25,022
Net assets at April 1, 2006	4,000,000	¥200,000	¥96,600	¥ 984,525	¥(2,309)	¥78,543	¥ —	¥25,022	¥1,382,381
Cash dividends (¥9,000 per share)	—	—	—	(33,974)	—	—	—	—	(33,974)
Bonuses to directors and corporate auditors	—	—	—	(243)	—	—	—	—	(243)
Net income	—	—	—	175,871	—	—	—	—	175,871
Increase due to addition of consolidated subsidiaries and other	—	—	—	1,055	—	—	—	—	1,055
Purchase of treasury stock	—	—	—	—	(741)	—	—	—	(741)
Disposal of treasury stock	—	—	121	—	455	—	—	—	576
Other	—	—	—	—	—	(11,574)	225	(471)	(11,820)
Balance at March 31, 2007	4,000,000	¥200,000	¥96,721	¥1,127,234	¥(2,595)	¥ 66,969	¥225	¥24,551	¥1,513,105

		Millions of U.S. Dollars (Note 2 (1))							
	Number of Issued Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Net Unrealized Holding Gains (Losses) on Securities	Net Deferred Gains (Losses) on Derivatives under Hedge Accounting	Minority Interests	Total
Balance at March 31, 2006	4,000,000	$1,695	$819	$8,343	$(20)	$666	$—	$ —	$11,503
Reclassification due to adoption of new accounting standards for presentation of net assets in the balance sheet as of April 1, 2006	—	—	—	—	—	—	—	212	212
Net assets at April 1, 2006	4,000,000	$1,695	$819	$8,343	$(20)	$666	$—	$212	$11,715
Cash dividends ($76 per share)	—	—	—	(288)	—	—	—	—	(288)
Bonuses to directors and corporate auditors	—	—	—	(2)	—	—	—	—	(2)
Net income	—	—	—	1,490	—	—	—	—	1,490
Increase due to addition of consolidated subsidiaries and other	—	—	—	10	—	—	—	—	10
Purchase of treasury stock	—	—	—	—	(6)	—	—	—	(6)
Disposal of treasury stock	—	—	1	—	4	—	—	—	5
Other	—	—	—	—	—	(99)	2	(4)	(101)
Balance at March 31, 2007	4,000,000	$1,695	$820	$9,553	$(22)	$567	$ 2	$208	$12,823

See accompanying notes.

Consolidated Statements of Cash Flows

East Japan Railway Company and Subsidiaries
Years ended March 31, 2005, 2006 and 2007

	Millions of Yen			Millions of U.S. Dollars (Note 2 (1))
	2005	2006	**2007**	**2007**
Cash Flows from Operating Activities:				
Income before income taxes	¥200,201	¥269,635	**¥306,680**	**$2,599**
Depreciation (Note 18)	317,957	316,038	**318,526**	**2,699**
Impairment losses on fixed assets	46,355	1,841	**3,507**	**30**
Amortization of long-term prepaid expense	4,913	4,942	**5,079**	**43**
Net change in employees' severance and retirement benefits	3,369	(532)	**2,051**	**17**
Interest and dividend income	(1,257)	(1,814)	**(1,954)**	**(17)**
Interest expense	148,431	136,548	**131,376**	**1,113**
Construction grants received	(79,728)	(54,146)	**(65,452)**	**(555)**
Gain on sales of investment in securities	(39,517)	(858)	**—**	**—**
Loss from disposition and provision for cost reduction of fixed assets	101,662	76,331	**93,655**	**794**
Earthquake-damage losses	11,933	—	**—**	**—**
Provision for allowance for earthquake-damage losses	28,647	—	**—**	**—**
Net change in major receivables	(10,826)	(24,009)	**(52,546)**	**(445)**
Net change in major payables	(9,175)	36,348	**68,643**	**582**
Other	(19,872)	(14,904)	**(14,655)**	**(123)**
Subtotal	703,093	745,420	**794,910**	**6,737**
Proceeds from interest and dividends	1,417	1,969	**2,159**	**18**
Payments of interest	(149,915)	(138,712)	**(130,114)**	**(1,103)**
Payments of earthquake-damage losses	(6,854)	(26,568)	**(6,291)**	**(53)**
Payments of income taxes	(140,004)	(134,387)	**(118,814)**	**(1,007)**
Net cash provided by operating activities	407,737	447,722	**541,850**	**4,592**
Cash Flows from Investing Activities:				
Payments for purchases of fixed assets	(388,993)	(390,439)	**(458,097)**	**(3,882)**
Proceeds from sales of fixed assets	69,445	33,315	**39,667**	**336**
Proceeds from construction grants	59,312	63,849	**69,834**	**592**
Proceeds from sales of transferable development air rights	13,343	—	**5,228**	**44**
Payments for purchases of investment in securities	(13,610)	(17,634)	**(12,238)**	**(104)**
Proceeds from sales of investment in securities	41,917	2,627	**—**	**—**
Cash decrease due to purchases of shares of a company newly consolidated, net of cash acquired	—	(487)	**—**	**—**
Other	3,638	(720)	**6,806**	**58**
Net cash used in investing activities	(214,948)	(309,489)	**(348,800)**	**(2,956)**
Cash Flows from Financing Activities:				
Net increase (decrease) in commercial paper	5,000	35,000	**(40,000)**	**(339)**
Proceeds from long-term loans	64,300	105,739	**109,162**	**925**
Payments of long-term loans	(124,366)	(158,453)	**(116,247)**	**(985)**
Proceeds from issuance of bonds	129,943	160,113	**180,081**	**1,526**
Payments for redemption of bonds	(70,000)	(87,960)	**(100,000)**	**(847)**
Payments of liabilities incurred for purchase of railway facilities	(144,369)	(149,170)	**(142,012)**	**(1,203)**
Payments for acquisition of treasury stock	(6,507)	(48)	**(40)**	**(0)**
Cash dividends paid	(23,970)	(29,978)	**(33,974)**	**(288)**
Other	(39,072)	(16,842)	**(28,997)**	**(247)**
Net cash used in financing activities	(209,041)	(141,599)	**(172,027)**	**(1,458)**
Net Increase (Decrease) in Cash and Cash Equivalents	(16,252)	(3,366)	**21,023**	**178**
Cash and Cash Equivalents at Beginning of Year	82,935	66,781	**64,373**	**546**
Increase due to Addition of Consolidated Subsidiaries and Other	98	958	**1,584**	**13**
Cash and Cash Equivalents at End of Year	¥ 66,781	¥ 64,373	**¥ 86,980**	**$ 737**

See accompanying notes.

Notes to Consolidated Financial Statements

East Japan Railway Company and Subsidiaries
Years ended March 31, 2005, 2006 and 2007

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 (Japan's main island). The Company operates 70 railway lines, 1,702 stations and 7,526.8 operating kilometers as of March 31, 2007.

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 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 the 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. The Railway Development Fund succeeded to all rights and obligations of the Shinkansen Holding Corporation. In October 1997, the Railway Development Fund and Maritime Credit Corporation merged to form the Corporation for Advanced Transport & Technology. In October 2003, Japan Railway Construction Public Corporation and the Corporation for Advanced Transport & Technology merged to form the 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

1) Basis of presentation of financial statements

The Company and its consolidated subsidiaries maintain their books of account in accordance with the Japanese Corporate Law 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 consolidated balance sheet as of March 31, 2007, which has been prepared in accordance with the new accounting standard as discussed in Note 2 (16), is presented with the consolidated balance sheet as of March 31, 2006 prepared in accordance with the previous presentation rules.

Also, as discussed in Note 2 (17), the consolidated statement of changes in net assets for the year ended March 31, 2007 has been prepared in accordance with the new accounting standard. The accompanying consolidated statements of shareholders' equity for the years ended March 31, 2005 and 2006 were voluntarily prepared for the purpose of inclusion in the consolidated financial statements.

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 for each of the two years ended March 31, 2005 and 2006, 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, 2007, which was ¥118 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.

2) 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, 2007, 85 subsidiaries were consolidated. Two subsidiaries were newly consolidated in the year ended March 31, 2007 because of the establishment and increased importance of one of those companies. Furthermore, three subsidiaries were deconsolidated in the year ended March 31, 2007 because of their merger with other consolidated subsidiaries.

All significant intercompany transactions and accounts have been eliminated. Differences between the acquisition costs and the underlying net equities of investments in consolidated subsidiaries are recorded as goodwill in the consolidated balance sheets and amortized using the straight-line method over five years.

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.

3) Equity method

The effective-influence standard is applied according to Regulations for Consolidated Financial Statements. For the year ended March 31, 2007, 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.

4) Allowance for doubtful accounts

According to the Japanese Accounting Standards for Financial Instruments, the Companies provide an 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.

5) 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

6) Real estate for sale

Real estate for sale is stated at the identified cost, which is reduced for a 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, 2005, 2006 and 2007 were ¥118 million, ¥654 million and ¥1,563 million ($13 million), respectively.

7) 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, 2005, 2006 and 2007.

(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 deferred gains or losses on these securities are reported as a separate item in shareholders' equity in 2006 and net assets in 2007 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 Companies' 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.

8) 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

9) 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, 2007 was ¥146,278 million ($1,240 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.

10) 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.

11) 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, 2005, 2006 and 2007 were ¥15,579 million, ¥16,886 million and ¥17,095 million ($145 million), respectively.

12) 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.

13) 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.

14) Derivative transactions

All derivative transactions of the Companies are used for hedging purposes. Such derivative transactions are stated at fair value and the gains and losses resulting from changes in fair value of those transactions are deferred until the losses and gains of the hedged items are recognized. Certain derivative transactions of the Companies that meet certain hedging criteria 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.

15) Impairment of fixed assets

In August 2002, the Business Accounting Council of Japan issued the "Opinion concerning Establishment of Accounting Standards for Impairment of Fixed Assets," which became operative from the year beginning on 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 are recognized when the book value of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continuing use and eventual disposition of the asset or asset group.

The impairment losses are 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 continuing use and eventual disposition of the asset or the net selling price.

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

16) Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

The consolidated balance sheet as of March 31, 2007 prepared in accordance with the New Accounting Standards comprises three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheet as of March 31, 2006 prepared pursuant to the previous presentation rules comprises the assets, liabilities, minority interests and shareholders' equity sections.

Under the New Accounting Standards, the following items are presented differently at March 31, 2007 compared to March 31, 2006. The net assets section includes deferred gains (losses) on hedging derivatives, net of taxes. Under the previous presentation rules, deferred gains (losses) on hedging derivatives were included in the assets or liabilities section without considering the related income tax effects. Minority interests are included in the net assets section at March 31, 2007. Under the previous presentation rules, companies were required to present minority interests between the non-current liabilities and the shareholders' equity sections.

The adoption of the New Accounting Standards had no impact on the consolidated statement of income for the year ended March 31, 2007. Also, if the New Accounting Standards had not been adopted at March 31, 2007, shareholders' equity amounting to ¥1,488,329 million ($12,613 million) would have been presented.

17) Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the Accounting Standard for Statement of Changes in Net Assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. The accompanying consolidated statements of shareholders' equity for the years ended March 31, 2005 and 2006, which were voluntarily prepared for inclusion in the consolidated financial statements, have not been adapted to the new presentation rules of 2007.

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 and allowance reflected in the other current liabilities in the balance sheets for the years ended March 31, 2005, 2006 and 2007 were as follows.

	Millions of Yen			Millions of U.S. Dollars
	2005	2006	**2007**	**2007**
Earthquake-damage losses	¥11,933	¥ —	**¥—**	**$—**
Allowance for earthquake-damage losses	28,647	2,264	**—**	**—**

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 a 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, 2006 and 2007 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2006	**2007**	**2007**
Unconsolidated subsidiaries:			
Investments	¥ 5,014	**¥ 4,520**	**$ 38**
Advances	1,449	**483**	**4**
	6,463	**5,003**	**42**
Affiliated companies:			
Investments (including equity in earnings of affiliated companies)	29,931	**27,724**	**235**
	¥36,394	**¥32,727**	**$277**

8 Securities

For held-to-maturity debt securities with market value, amount on balance sheets and market value at March 31, 2006 and 2007 were as follows:

	Millions of Yen						Millions of U.S. Dollars		
	2006			**2007**			**2007**		
	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.	¥ 25	¥ 25	¥ 0	**¥ 40**	**¥ 40**	**¥ 0**	**$0**	**$0**	**$ 0**
Of which market value does not exceed the amount on balance sheet:									
Government, municipal bonds, etc.	293	290	(3)	**275**	**273**	**(2)**	**3**	**3**	**(0)**
Total	¥318	¥315	¥(3)	**¥315**	**¥313**	**¥(2)**	**$3**	**$3**	**$(0)**

For available-for-sale securities with market value, acquisition cost and amount on balance sheets at March 31, 2006 and 2007 were as follows:

	Millions of Yen						Millions of U.S. Dollars		
	2006			**2007**			**2007**		
	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	¥66,369	¥196,966	¥130,597	**¥72,834**	**¥184,783**	**¥111,949**	**$617**	**$1,566**	**$949**
Debt securities	154	171	17	**154**	**164**	**10**	**2**	**2**	**0**
Of which amount on balance sheet does not exceed the acquisition cost:									
Equity shares	10	7	(3)	**3,647**	**3,079**	**(568)**	**31**	**26**	**(5)**
Debt securities	227	223	(4)	**247**	**245**	**(2)**	**2**	**2**	**(0)**
Total	¥66,760	¥197,367	¥130,607	**¥76,882**	**¥188,271**	**¥111,389**	**$652**	**$1,596**	**$944**

Available-for-sale securities sold during the year ended March 31, 2005 amounted to ¥41,252 million. Within other income (expenses) on the consolidated statements of income for the years ended March 31, 2005, gains on sales of available-for-sale securities amounted to ¥39,101 million and were included in gain on sales of investment in securities, and losses on sales of available-for-sale securities amounted to ¥116 million and were included in other, net.

In the years ended March 31, 2006 and 2007, gains and losses on the sale of available-for-sale securities were immaterial.

The major components of available-for-sale securities without market value at March 31, 2006 and 2007 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2006	**2007**	**2007**
Available-for-sale securities without market value:			
Unlisted equity securities	¥10,988	**¥10,945**	**$93**
Investments in special-purpose company	2,013	**3,560**	**30**
Preferred equity securities	999	**1,000**	**8**

Annual maturities of available-for-sale securities with maturities and held-to-maturity debt securities as of March 31, 2007 were as follows:

	Millions of Yen				Millions of U.S. Dollars			
	2007				**2007**			
	1 Year or Less	5 Years or Less but More Than 1 Year	10 Years or Less but More Than 5 Years	More Than 10 Years	1 Year or Less	5 Years or Less but More Than 1 Year	10 Years or Less but More Than 5 Years	More Than 10 Years
Debt securities	**¥259**	**¥450**	**¥6**	**¥10**	**$2**	**$4**	**$0**	**$0**
Total	**¥259**	**¥450**	**¥6**	**¥10**	**$2**	**$4**	**$0**	**$0**

9 Pledged Assets

At March 31, 2006 and 2007, buildings and fixtures with net book value of ¥36,308 million and ¥31,770 million ($269 million), respectively, and other assets with net book value of ¥816 million and ¥478 million ($4 million), respectively, were pledged as collateral for long-term debt and other liabilities totaling ¥5,304 million and ¥5,145 million ($44 million), at the respective dates.

In addition, at March 31, 2006 and 2007, buildings and fixtures with net book value of ¥52,813 million and ¥54,021 million ($458 million), respectively, and other assets with net book value of ¥7,982 million and ¥8,504 million ($72 million), respectively, were pledged as collateral for long-term liabilities incurred for purchase of the Tokyo Monorail facilities amounting to ¥13,110 million and ¥11,486 million ($97 million) at March 31, 2006 and 2007, 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.

As of fiscal 2005, 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 a loss of ¥46,355 million 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
Other areas	34 assets mainly scheduled to be disposed of or idle	Land, buildings and fixtures	¥3,914 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% for the years ended March 31, 2005 and 2006 and 6.0% for the year ended March 31, 2007. In the years ended March 31, 2006 and 2007, impairment losses on fixed assets were immaterial.

11 Long-Term Debt

Long-term debt at March 31, 2006 and 2007 is summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2006	**2007**	**2007**
General mortgage bonds issued in 1997 to 2001 with interest rates ranging from 1.70% to 3.30% due in 2009 to 2021	¥ 559,900	**¥ 459,900**	**$ 3,897**
Unsecured bonds issued in 2002 to 2006 with interest rates ranging from 0.39% to 2.55% due in 2008 to 2033	556,000	**605,827**	**5,134**
Secured loans due in 2007 to 2016 principally from banks and insurance companies with interest rates mainly ranging from 4.70% to 5.80%	4,514	**3,738**	**32**
Unsecured loans due in 2007 to 2036 principally from banks and insurance companies with interest rates mainly ranging from 1.045% to 2.50%	789,437	**784,796**	**6,651**
Euro-pound bonds issued in 2006 with interest rates ranging from 4.50% to 4.875% due in 2031 to 2036	50,360	**180,297**	**1,528**
	1,960,211	**2,034,558**	**17,242**
Less current portion	115,652	**241,772**	**2,049**
	¥1,844,559	**¥1,792,786**	**$15,193**

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 250 million pound 4.50% bonds, amounting to ¥50,360 million ($427 million), were issued in January 2006. The 250 million pound 4.875% bonds, amounting to ¥52,550 million ($445 million), were issued in June 2006. The 350 million pound 4.75% bonds, amounting to ¥78,299 million ($664 million), were issued in December 2006. 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 August 22, 2005. Details of affected bonds are (1) Issue: 7.25% euro U.S. dollar bonds; (2) Issue date: October 11, 1996; (3) Coupon: 7.25%; (4) Maturity date: October 11, 2006; and (5) Nominal amounts; $800 million (¥87,960 million). Further, the Company concluded debt assumption agreements on January 24, 2007. Details of affected bonds are (1) Issue: Straight bonds, third issue, East Japan Railway Company; (2) Issue date: March 11, 1996; (3) Coupon: 3.95%; (4) Maturity date: February 25, 2016; and (5) Nominal amounts; ¥100,000 million ($847 million).

In fiscal 2006 and 2007, the Company recorded losses of ¥3,409 million and ¥20,557 million ($174 million), respectively, for redemption of bonds. The annual maturities of long-term debt at March 31, 2007 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2008	¥241,772	$2,049
2009	235,112	1,992
2010	208,527	1,767
2011	189,713	1,608
2012	214,081	1,814
2013 and thereafter	946,438	8,021

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, 2006 and 2007 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2006	**2007**	**2007**
The long-term liability incurred for purchase of the Tohoku and Joetsu Shinkansen facilities:			
Payable semiannually including interest at a rate currently approximating 4.33% through 2017	¥ 959,732	**¥ 847,755**	**$ 7,184**
Payable semiannually including interest at 6.35% through 2017	398,405	**372,419**	**3,156**
Payable semiannually including interest at 6.55% through 2051	354,456	**353,129**	**2,993**
	1,712,593	**1,573,303**	**13,333**
The long-term liability incurred for purchase of the Akita hybrid Shinkansen facilities:			
Payable semiannually at an average rate currently approximating 0.75% through 2022	17,954	**16,857**	**143**
The long-term liability incurred for purchase of the Tokyo Monorail facilities:			
Payable semiannually at an average rate currently approximating 2.95% through 2029	13,110	**11,486**	**97**
	1,743,657	**1,601,646**	**13,573**
Less current portion:			
The Tohoku and Joetsu Shinkansen purchase liability	139,419	**142,328**	**1,206**
The Akita hybrid Shinkansen purchase liability	1,059	**1,089**	**9**
Tokyo Monorail purchase liability	733	**712**	**6**
	141,211	**144,129**	**1,221**
	¥1,602,446	**¥1,457,517**	**$12,352**

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

Financial Section

The annual payments of long-term liabilities incurred for purchase of railway facilities at March 31, 2007 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2008	¥144,129	$1,221
2009	139,485	1,182
2010	137,756	1,167
2011	128,746	1,091
2012	124,485	1,055
2013 and thereafter	927,045	7,857

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, 2006 and 2007 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2006	**2007**	**2007**
Deferred income taxes:			
Employees' severance and retirement benefits	¥241,696	**¥242,713**	**$2,057**
Reserves for bonuses	30,827	**30,359**	**257**
Losses on impairment of fixed assets	14,352	**13,785**	**117**
Excess depreciation and amortization of fixed assets	8,786	**11,220**	**95**
Environmental conservation cost	7,452	**10,858**	**92**
Devaluation losses on real estate for sale	6,288	**6,242**	**53**
Devaluation losses on fixed assets	5,467	**5,421**	**46**
Accrued enterprise tax	5,182	**6,639**	**56**
Other	32,565	**40,508**	**343**
	352,615	**367,745**	**3,116**
Less valuation allowance	(18,077)	**(21,952)**	**(186)**
Less amounts offset against deferred tax liabilities	(84,719)	**(75,521)**	**(640)**
Net deferred income taxes	¥249,819	**¥270,272**	**$2,290**
Deferred tax liabilities:			
Tax deferment for gain on transfers of certain fixed assets	¥ 28,407	**¥ 28,213**	**$ 239**
Net unrealized holding gains on securities	52,867	**45,318**	**384**
Valuation for assets and liabilities of consolidated subsidiaries	3,636	**3,459**	**29**
Other	2,292	**1,211**	**11**
	87,202	**78,201**	**663**
Less amounts offset against deferred income taxes	(84,719)	**(75,521)**	**(640)**
Net deferred tax liabilities	¥ 2,483	**¥ 2,680**	**$ 23**

Income taxes consist of corporation, enterprise and inhabitants' taxes. The aggregate standard effective rate of taxes on consolidated income before income taxes was 40.5% for the year ended March 31, 2005. After applying tax effect accounting, the actual effective income tax rate was 43.1% for the year ended March 31, 2005. For the year ended March 31, 2005, the actual effective income tax rate differed from the aggregate standard effective tax rate for the following reasons:

For the years ended March 31, 2006 and 2007, the difference between the actual effective income tax rate after applying tax effect accounting and the aggregate standard effective tax rate was less than 5% of the aggregate standard effective tax rate. In view of its insignificant size, the difference is not discussed here.

	2005
The aggregate standard effective tax rate	40.5%
Adjustments:	
Non-deductible expenses for tax purposes	0.5
Per capita inhabitants' taxes	0.5
Tax credits	(1.0)
Increase in valuation allowance	2.3
Difference due to tax rate change	—
Other, net	0.3
The actual effective rate after applying tax effect accounting	43.1 %

15 Employees' Severance and Retirement Benefits

As mentioned in Note 2 (9), 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, 2006 and 2007 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2006	**2007**	**2007**
Projected benefit obligation	¥(754,950)	**¥(716,002)**	**$(6,068)**
Plan assets	4,685	**5,010**	**43**
Unfunded projected benefit obligation	(750,265)	**(710,992)**	**(6,025)**
Unrecognized net transition obligation	195,799	**146,278**	**1,240**
Unrecognized actuarial differences	(57,544)	**(47,279)**	**(401)**
Unrecognized prior service costs	14,365	**11,964**	**101**
Book value (net)	(597,645)	**(600,029)**	**(5,085)**
Prepaid pension expense	144	**200**	**2**
Employees' severance and retirement benefits	¥(597,789)	**¥(600,229)**	**$(5,087)**

Employees' severance and retirement benefit expenses included in the consolidated statements of income for the years ended March 31, 2005, 2006 and 2007 consisted of the following:

	Millions of Yen			Millions of U.S. Dollars
	2005	2006	**2007**	**2007**
Service costs	¥ 38,663	¥ 37,202	**¥ 31,141**	**$264**
Interest costs	26,361	23,214	**22,120**	**188**
Expected return on plan assets	(103)	(65)	**(82)**	**(1)**
Amortization of net transition obligation	49,748	48,971	**48,952**	**415**
Amortization of actuarial differences	(2,022)	(7,258)	**(5,092)**	**(43)**
Amortization of prior service costs	3,094	2,106	**2,401**	**20**
Employees' severance and retirement benefit expenses	115,741	104,170	**99,440**	**843**
Loss on transfer to defined contribution pension plan	5,397	—	**—**	**—**
Losses related to retirement of a large number of employees from a consolidated subsidiary	—	—	**9,603**	**81**
Total	¥121,138	¥104,170	**¥109,043**	**$924**

Financial Section

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 2.0% in the years ended March 31, 2005, 2006 and 2007.

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 amounts contingently liable under such debt assumption agreements at March 31, 2007 were ¥70,000 million ($593 million) and ¥100,000 million ($847 million) by general bonds.

17 Net Assets

The Japanese Corporate Law became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Japanese Corporate Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Corporate Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Japanese Corporate Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Japanese Corporate Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and other retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held in June 2007, the shareholders approved cash dividends amounting to ¥17,986 million ($152 million). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2007. Such appropriations are recognized in the period in which they are approved by the shareholders.

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
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
2006:						
Operating revenues:						
Outside customers	¥1,805,406	¥383,904	¥190,466	¥212,617	¥ —	¥2,592,393
Inside group	56,380	11,803	7,761	277,435	(353,379)	—
	1,861,786	395,707	198,227	490,052	(353,379)	2,592,393
Costs and expenses	1,564,057	365,268	144,374	474,533	(351,939)	2,196,293
Operating income	¥ 297,729	¥ 30,439	¥ 53,853	¥ 15,519	¥ (1,440)	¥ 396,100
Identifiable assets	¥5,513,144	¥166,956	¥744,389	¥653,322	¥(256,227)	¥6,821,584
Depreciation	238,686	8,959	26,573	41,820	—	316,038
Capital investments	310,177	12,772	36,206	59,033	—	418,188
2007:						
Operating revenues:						
Outside customers	**¥1,825,387**	**¥399,998**	**¥197,140**	**¥234,821**	**¥ —**	**¥2,657,346**
Inside group	**57,562**	**14,320**	**8,785**	**291,495**	**(372,162)**	**—**
	1,882,949	**414,318**	**205,925**	**526,316**	**(372,162)**	**2,657,346**
Costs and expenses	**1,563,906**	**381,099**	**147,280**	**508,383**	**(371,420)**	**2,229,248**
Operating income	**¥ 319,043**	**¥ 33,219**	**¥ 58,645**	**¥ 17,933**	**¥ (742)**	**¥ 428,098**
Identifiable assets	**¥5,597,031**	**¥185,956**	**¥778,709**	**¥751,939**	**¥(345,603)**	**¥6,968,032**
Depreciation	**236,887**	**9,122**	**27,703**	**44,814**	**—**	**318,526**
Capital investments	**343,825**	**9,166**	**52,608**	**69,118**	**—**	**474,717**

	Millions of U.S. Dollars					
	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Other Services	Elimination and/or Corporate	Consolidated
2007:						
Operating revenues:						
Outside customers	**$15,469**	**$3,390**	**$1,671**	**$1,990**	**$ —**	**$22,520**
Inside group	**488**	**121**	**74**	**2,470**	**(3,153)**	**—**
	15,957	**3,511**	**1,745**	**4,460**	**(3,153)**	**22,520**
Costs and expenses	**13,253**	**3,229**	**1,248**	**4,308**	**(3,146)**	**18,892**
Operating income	**$ 2,704**	**$ 282**	**$ 497**	**$ 152**	**$ (7)**	**$ 3,628**
Identifiable assets	**$47,432**	**$1,576**	**$6,599**	**$6,372**	**$(2,928)**	**$59,051**
Depreciation	**2,008**	**77**	**235**	**379**	**—**	**2,699**
Capital investments	**2,914**	**78**	**446**	**585**	**—**	**4,023**

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, 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 noncurrent 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, 2006 and 2007, amounted to ¥12,872 million and ¥12,692 million ($108 million), respectively. Lease income which was credited to income for the years ended March 31, 2006 and 2007 was ¥4,541 million and ¥4,764 million ($40 million), respectively.

Future lease payments inclusive of interest were ¥33,699 million and ¥31,724 million ($269 million), including due in one year of ¥11,572 million and ¥11,060 million ($94 million), and future lease receipts inclusive of interest were ¥14,478 million and ¥16,062 million ($136 million), including due in one year of ¥4,365 million and ¥4,809 million ($41 million), at March 31, 2006 and 2007, respectively.

In the year ended March 31, 2007, there were no cancelable operating leases.

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 an 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 Events

On April 17, 2007, the Company issued a 1.81% coupon unsecured bond due on April 17, 2017, with an aggregate nominal principal amount of ¥20,000 million ($169 million), and a 2.26% coupon unsecured bond due on April 16, 2027, with an aggregate nominal principal amount of ¥20,000 million ($169 million).

On April 24, 2007, the Company issued the 250 million pound 5.25% bonds due April 22, 2033, amounting to ¥58,750 million ($498 million).

Independent Auditors' Report

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, 2007 and 2006, and the related consolidated statements of income for each of the three years in the period ended March 31, 2007, the consolidated statements of changes in net assets for the year ended March 31, 2007, the consolidated statements of shareholders' equity for each of the two years in the period ended March 31, 2006 and the consolidated statements of cash flows for each of the three years in the period ended March 31, 2007, 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 consolidated subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
As discussed in Note 2(15) 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, 2007 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(1) to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 22, 2007

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