FINANCIAL SECTION

CONTENTS

East Japan Railway Company and Subsidiaries
Years ended March 31

	1998	1999	2000	2001
Operating results				
Operating revenues	2,514,808	2,483,594	2,502,909	2,546,041
Operating expenses	2,146,109	2,149,122	2,160,952	2,222,290
Operating income	368,699	334,472	341,957	323,751
Net income	66,235	21,929	66,963	69,174
Segment information*1				
Operating revenues from outside customers:				
Transportation	N/A	N/A	N/A	1,801,370
Station space utilization	N/A	N/A	N/A	348,994
Shopping centers & office buildings	N/A	N/A	N/A	165,818
Other services	N/A	N/A	N/A	229,859
Total	N/A	N/A	N/A	2,546,041
Segment information				
Operating revenues from outside customers:				
Transportation	1,836,237	1,808,925	1,799,051	1,805,663
Merchandise sales	365,964	356,260	379,213	386,033
Real estate leasing	154,905	158,515	143,432	152,438
Other services	157,702	159,894	181,213	201,907
Total	2,514,808	2,483,594	2,502,909	2,546,041
Financial position				
Total assets	7,381,794	7,287,033	7,308,391	7,247,089
Long-term debt (including current portion)	2,285,063	2,320,246	2,319,664	2,307,483
Railway facilities purchase liabilities (including current portion)*2	2,713,737	2,610,966	2,499,023	2,392,241
Total long-term debt (sum of two items above)	4,998,800	4,931,212	4,818,687	4,699,724
Shareholders' equity*3	765,424	766,880	856,401	923,568
Cash flows*4				
Cash flows from operating activities	410,662	365,296	474,715	455,470
Cash flows from investing activities	(379,156)	(282,082)	(292,438)	(266,319)
Cash flows from financing activities	(52,674)	(72,298)	(168,133)	(161,109)
Per share data				
Earnings	16,559	5,482	16,741	17,294
Shareholders' equity*3	191,356	191,720	214,100	230,892
Cash dividends*5	5,000	5,000	5,000	5,000
Ratios				
Net income as a percentage of revenues	2.6	0.9	2.7	2.7
Return on average equity (ROE)	8.9	2.9	8.3	7.8
Ratio of operating income to average assets (ROA)	5.0	4.6	4.7	4.4
Equity ratio	10.4	10.5	11.7	12.7
Total long-term debt to shareholders' equity	6.5	6.4	5.6	5.1
Other data				
Depreciation	283,711	319,687	329,583	329,651
Capital expenditures*6	268,425	258,080	288,106	296,957
Interest expense	243,017	230,887	220,421	205,155
Number of consolidated subsidiaries (As of March 31)	80	81	96	96
Number of employees*7	89,008	87,880	82,747	82,285

*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 Long-term liabilities incurred for the purchase of the Tohoku and Joetsu Shinkansen facilities, the Akita hybrid Shinkansen facilities, and the Tokyo Monorail facilities.
*3 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).
*4 Due to a change in accounting standards, statements of cash flows after the year ended March 31, 2000, use presentation methods different to those of previous years.
*5 The total amount of dividends for the year ended March 31 comprises interim dividends for the interim period ended September 30 and year-end dividends for the year ended March 31, which were decided at the shareholders' annual meeting in June.
*6 These figures exclude expenditures funded by third parties, mainly governments and their agencies, which will benefit from the resulting facilities.
*7 Beginning with the year ended March 31, 2000, "Number of employees" excludes employees assigned to other companies and employees on temporary leave.
*8 Upon the merger of 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)

2002	2003	2004	2005	2006	2007	**2008**
2,543,378	2,565,671	2,542,297	2,537,481	2,592,393	2,657,346	**2,703,564**
2,227,038	2,222,576	2,190,877	2,178,946	2,196,293	2,229,248	**2,258,404**
316,340	343,095	351,420	358,535	396,100	428,098	**445,160**
47,551	97,986	119,866	111,592	157,575	175,871	**189,673**
1,789,599	1,800,434	1,798,132	1,781,776	1,805,406	1,825,387	**1,857,756**
368,553	368,961	366,438	369,790	383,904	399,998	**404,006**
165,276	170,321	175,180	181,956	190,466	197,140	**205,347**
219,950	225,955	202,547	203,959	212,617	234,821	**236,455**
2,543,378	2,565,671	2,542,297	2,537,481	2,592,393	2,657,346	**2,703,564**
N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
7,022,271	6,853,403	6,781,692	6,716,268	6,821,584	6,968,032	**6,942,003**
2,060,838	1,942,983	1,940,321	1,940,255	1,960,211	2,034,558	**2,101,439**
2,318,997	2,174,581	2,034,203	1,892,827	1,743,657	1,601,646	**1,457,360**
4,379,835	4,117,564	3,974,524	3,833,082	3,703,868	3,636,204	**3,558,799**
930,746	981,856	1,100,176	1,183,546	1,357,359	1,488,554	**1,596,398**
455,045	433,304	387,061	407,737	447,722	541,850	**475,601**
(105,645)	(196,422)	(234,591)	(214,948)	(309,489)	(348,800)	**(400,789)**
(433,589)	(310,658)	(196,193)	(209,041)	(141,599)	(172,027)	**(80,407)**
11,888	24,453	29,928	27,868	39,370	44,008	**47,464**
232,687	245,463	275,052	296,106	339,599	372,493	**399,483**
5,000	8,000	6,000	6,500	8,000	9,000	**10,000**
1.9	3.8	4.7	4.4	6.1	6.6	**7.0**
5.1	10.2	11.5	9.8	12.4	12.4	**12.3**
4.4	4.9	5.2	5.3	5.9	6.2	**6.4**
13.3	14.3	16.2	17.6	19.9	21.4	**23.0**
4.7	4.2	3.6	3.2	2.7	2.4	**2.2**
321,995	322,564	322,300	317,957	316,038	318,526	**335,587**
301,781	307,579	313,911	319,912	361,372	413,310	**417,144**
187,601	173,298	160,944	148,431	136,548	131,376	**126,047**
101	101	98	92	86	85	**82**
80,200	78,760	77,009	74,923	72,802	71,316	**72,214**

*9 Net income decreased significantly in the year ended March 31, 1999, mainly because "Cash charges for additional obligation related to transfer to Welfare Pension" was accounted for in other expenses. This additional obligation of ¥70,475 million, including the interest portion, was paid in accordance with the enactment of the Law for Disposal of Debts and Liabilities of the Japanese National Railways Settlement Corporation.

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

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

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

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

*14 Accounting Standards for Impairment of Fixed Assets were early adopted beginning with the year ended March 31, 2005. (See Notes 2 (15) and 9 to consolidated financial statements)

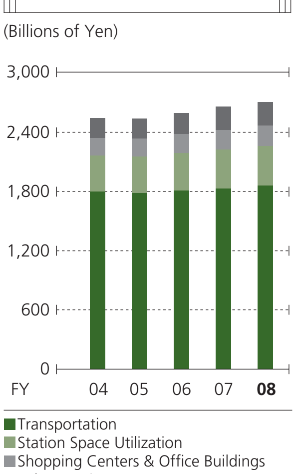
*15 Pursuant to an amendment of the Japanese Tax Law, from the fiscal year ended March 31, 2008, a depreciation method based on the amended Japanese Tax Law has been used for property, plant and equipment acquired on or after April 1, 2007. Further, for property, plant and equipment acquired on or before March 31, 2007, from the fiscal year following the fiscal year in which assets reach 5% of acquisition cost through the application of a depreciation method based on the Japanese Tax Law prior to amendment, the difference between the amount equivalent to 5% of the acquisition cost and the memorandum value (residual value under the amended Japanese Tax Law) is depreciated evenly over a five-year period and recognized in depreciation. (see Note 2 (8))

Forward-looking statements in the following discussion and analysis are judgments of the JR East Group as of March 31, 2008.

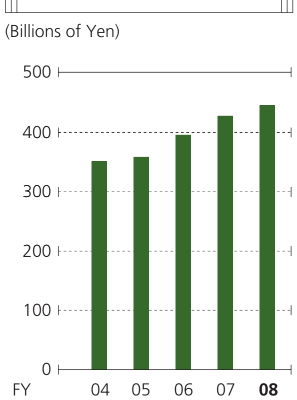
KEY ACCOUNTING POLICIES AND ESTIMATES

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 2008, ended March 31, 2008. JR East continuously assesses those factors. Actual results may differ materially from those estimates, given the uncertainty of forward-looking statements.

Operating Revenues



Operating Income



PERFORMANCE ANALYSIS

Overview

During fiscal 2008, ended March 31, 2008, Japan's economy entered a temporary lull as weakening second-half corporate earnings due to a slowdown in the U.S. economy and crude oil price hikes offset steady first-half trends due to brisk exports. Amid those economic conditions, JR East and its consolidated subsidiaries and equity-method affiliated companies worked to increase earnings by further upgrading transportation services and developing life-style business centered on railway stations. At the same time, in operations based on *Suica*, JR East expanded usage areas and further improved services.

As a result, all business segments increased operating revenues year on year. Consequently, JR East recorded year-on-year increases of 1.7% in total operating revenues, to ¥2,703.6 billion ($27,036 million), and 4.0% in operating income, to ¥445.2 billion ($4,452 million). Further, net income was up 7.8%, to ¥189.7 billion ($1,897 million) due to decrease in losses for redemption of bonds and other factors.

Business results by business segment were as follows.

Segment Information

■ Transportation

JR East further improved safety, focusing on its railway operations. At the same time, JR East encouraged use of its Shinkansen network, its Tokyo metropolitan area network, and other networks and increased revenues from those networks.

Specifically, JR East created tourist flows within its service area through campaigns promoting seasonal travel to various regional destinations, such as the *North Tohoku Destination Campaign* and the *Sendai / Miyagi DC Pre Campaign*. In addition, JR East improved *Otona no Kyujitsu Club* member services and increased member numbers. In other initiatives, JR East encouraged use of local train service *Green Cars* (first-class cars), increased train services during the Golden Week (spring holiday) period and the summer vacation period, and revised service schedules, mainly for Shinkansen services and the Tokyo metropolitan area, in March 2008. In *Suica* initiatives, JR East began a *Mobile Suica Limited Express Ticket* service enabling "ticketless" use of Shinkansen services within JR East's service area. Further, JR East launched mutual use between *Suica* and Central Japan Railway Company's *TOICA* as well as realizing mutual use between *Suica* and IC passenger tickets on the conventional lines of three companies, including *ICOCA* of West Japan Railway Company. Bus operations continued to face tough business conditions, however JR East strengthened the foundations of those operations by introducing new routes and streamlining unprofitable routes. In monorail operations, JR East encouraged passengers to use its services between Hamamatsu-cho and Haneda Airport Terminal 1 by increasing *Haneda Express* nonstop services and promoting the convenience of these services.

As a result of such initiatives, railway network transportation volumes increased year on year, and operating revenues rose 1.8% year on year, to ¥1,916.7 billion ($19,167 million), which included a 1.8% increase in operating revenues from outside customers, to ¥1,857.8 billion ($18,578 million). Operating income rose 4.0% year on year, to ¥331.8 billion ($3,318 million).

Higher revenues were due to a 1.7% increase in revenues from passenger tickets in railway operations, to ¥1,732.6 billion ($17,326 million), which was attributable to increases in revenues from commuter passes and non-commuter passes revenues from Shinkansen services and conventional line services.

■ Shinkansen Network

In the Shinkansen network, passenger kilometers were up 2.8%, to 19.9 billion, due to favorable performances by long-distance Shinkansen line segments of the Tohoku Shinkansen Line, the Joetsu Shinkansen Line, and other Shinkansen lines, and favorable usage of Shinkansen line segments in the Tokyo metropolitan area, such as Tokyo–Utsunomiya on the Tohoku Shinkansen Line and Tokyo–Takasaki on the Joetsu Shinkansen Line. Revenues from passenger tickets rose 2.4% year on year, to ¥491.0 billion ($4,910 million), which included a 0.5% year-on-year increase in revenues from commuter passes, to ¥22.8 billion ($228 million), thanks to favorable usage of commuter passes. Moreover, non-commuter passes revenues were up 2.5%, to ¥468.2 billion ($4,682 million), as a result of solid performances by long-distance Shinkansen line segments, including Tokyo–Sendai/Morioka/Hachinohe on the Tohoku Shinkansen Line and Tokyo–Niigata on the Joetsu Shinkansen Line, and strong performances by Shinkansen line segments in the Tokyo metropolitan area, such as Tokyo–Utsunomiya on the Tohoku Shinkansen Line and Tokyo–Takasaki on the Joetsu Shinkansen Line.

■ Kanto Area Network

In the Kanto area network, passenger kilometers rose 2.4% year on year, to 103.9 billion, which were primarily related to higher commuter usage stemming from an improved job market, increased usage during the Golden Week and a three-day weekend in November, and a rebound from a decrease in usage in the previous fiscal year caused by unusually heavy rain. Revenues from passenger tickets increased 1.6% year on year, to ¥1,155.4 billion ($11,554 million). Those revenues comprised a 1.3% year-on-year increase in revenues from commuter passes, to ¥451.2 billion ($4,512 million), mainly due to higher commuter usage stemming from an improved job market, and a 1.9% year-on-year increase in non-commuter passes revenues, to ¥704.2 billion ($7,042 million), which largely resulted from the introduction of *Green Cars* to local train services of the Joban Line and an increase in *Green Cars* for local train services of the Utsunomiya Line, Takasaki Line, and other lines; higher usage due to the opening of new commercial facilities in areas alongside railway lines; a rise in usage during the Golden Week and the three-day weekend in November; and a rebound from the decrease in usage in the previous fiscal year caused by heavy rain.

■ Other

In the intercity and regional networks, passenger kilometers declined 1.0% year on year, to 6.7 billion, due to the effect of the Niigataken Chuetsu-oki Earthquake. Revenues from passenger tickets edged down 0.7% year on year, to ¥86.0 billion ($860 million), because of year-on-year declines of 0.3% in revenues from commuter passes, to ¥19.7 billion ($197 million), and 0.9% in non-commuter passes revenues, to ¥66.3 billion ($663 million).

■ Station Space Utilization

In station space utilization operations, JR East advanced its *Station Renaissance* program, which is creating new railway station environments befitting the 21st century. Specifically, in Tokyo JR East began operations at the first phase of *ecute Tachikawa*, *GranSta*, and the first and second phases of *Dila Mitaka*. Further, JR East expanded its network of *NEWDAYS* convenience stores while remodeling and revitalizing existing convenience stores. Also, JR East developed and marketed its *From AQUA* mineral water, which uses natural water from the Tanigawa mountain range.

Those efforts and a strong performance by *ecute Shinagawa* in Tokyo resulted in a 1.5% increase year on year in operating revenues, to ¥420.6 billion ($4,206 million), which included a 1.0% rise in operating revenues from outside customers, to ¥404.0 billion ($4,040 million). Operating income was up 9.2% year on year, to ¥36.3 billion ($363 million).

■ Shopping Centers & Office Buildings

In shopping centers & office buildings operations, shopping centers operations opened *Beans Nishi-Kawaguchi* in Saitama and *GranAge* inside *Tokyo Station City*. Further, JR East remodeled *atré Kameido* in Tokyo and introduced major tenants with the ability to attract customers. In efforts to strengthen sales capabilities and financial foundations by reorganizing Group companies, JR East undertook two mergers involving four shopping center management companies: The EKIBIRU Development Co. TOKYO merged with Kichijoji Lonlon Co., Ltd., and JR East Department Store Co., Ltd., merged with Kamata Station Building Co., Ltd. In office buildings operations, JR East developed *Tokyo Station City*. Specifically, *Tokyo Station Conference* began operations inside *Sapia Tower* in Tokyo, while the first phase of *GranTokyo North Tower* and *GranTokyo South Tower* opened for business.

Those initiatives and the favorable business results of LUMINE Co., Ltd., resulted in a 4.0% year-on-year increase in operating revenues, to ¥214.1 billion ($2,141 million), which included a 4.2% rise in operating revenues from outside customers, to ¥205.4 billion ($2,054 million). Operating income was up 2.0% year on year, to ¥59.8 billion ($598 million).

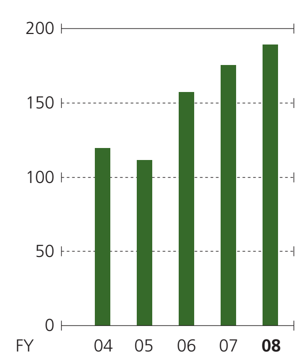
■ Other Services

In other services operations, hotel operations opened *Hotel Metropolitan Marunouchi* inside *Sapia Tower* in Tokyo. Further, JR East continued to strengthen the competitiveness of those operations by remodeling guest rooms and banquet halls. In advertising and publicity operations, JR East promoted sales of advertising within railcars through such initiatives as the *Train Channel*. In other services, JR East remodeled *Jexer Fitness Club Oimachi* in Tokyo. Further, in credit card operations, JR East worked to increase members of its various types of *View Card*, such as the *Otona no Kyujitsu Club Zipangu Card* and the *Otona no Kyujitsu Club Middle Card*. Moreover, JR East began issuing various types of affiliated credit cards with Toyota Finance Corporation Co., Ltd., and other companies. For *Suica* shopping services, or electronic money, JR East continued developing its network of affiliated stores. Thanks to those efforts, there were approximately 44,200 *Suica* compatible stores as of the end of the fiscal 2008. In addition, JR East introduced a *Suica Point Club*, which enables customer to accumulate points by using *Suica* electronic money for shopping. Further, JR East began a service enabling the exchange of those points with the "miles" of the ANA Mileage Club of All Nippon Airways Co., Ltd.

As a result, operating revenues increased 2.9%, to ¥541.7 billion ($5,417 million), which included a 0.7% increase in operating revenues from outside customers, to ¥236.4 billion ($2,364 million). Operating income decreased 3.5%, to ¥17.3 billion ($173 million), mainly due to an increased allowance for the points system of credit card operations.

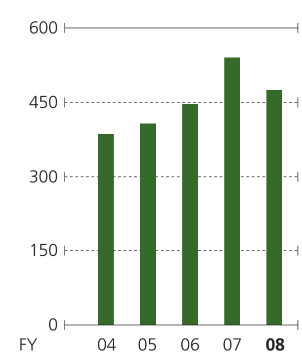
Net Income

(Billions of Yen)



Cash Flows from Operating Activities

(Billions of Yen)



Operating Income

Operating expenses rose 1.3% year on year, to ¥2,258.4 billion ($22,584 million). Operating expenses as a percentage of operating revenues was 83.5%, an improvement on 83.9% in the previous fiscal year. Transportation, other services and cost of sales increased 1.7% year on year, to ¥1,748.3 billion ($17,483 million), because an increase in property expenses such as repair expenses and an increase in depreciation due to a revision of the Japanese Tax Law offset a decrease in personnel expenses.

Selling, general and administrative expenses edged down 0.1% year on year, to ¥510.1 billion ($5,101 million), which was due to a decrease in property expenses.

Operating income rose 4.0% year on year, to ¥445.2 billion ($4,452 million). Operating income as a percentage of operating revenues was 16.5%, up from 16.1% in the previous fiscal year.

Income before Income Taxes

Other income declined 2.9% year on year, to ¥139.9 billion ($1,399 million), principally associated with decreases in gain on investment in anonymous association and gain on sales of fixed assets, offsetting an increase in construction grants received.

Other expenses decreased 3.2% year on year, to ¥257.0 billion ($2,570 million), which mainly resulted from a decrease in losses for redemption of bonds based on debt assumption agreements and lower interest payments due to a decline in interest-bearing debt, offsetting an increase in losses on reduction entry for construction grants and an increase in impairment losses on fixed assets.

Interest and dividend income and other financial income, net of interest and dividend expense and other financial expenses, amounted to a ¥123.0 billion ($1,230 million) expense, an improvement of 5.0% from the previous fiscal year.

Income before income taxes increased 7.0% year on year, to ¥328.1 billion ($3,281 million). Income before income taxes as a percentage of operating revenues was 12.1%, up from 11.5% in the previous fiscal year.

Net Income

Net income rose 7.8% year on year, to a record ¥189.7 billion ($1,897 million). Earnings per share were ¥47,464 ($475), up from ¥44,008 in the previous fiscal year. Further, net income as a percentage of operating revenues was 7.0%, compared with 6.6% in the previous fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

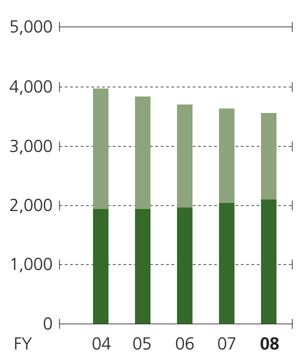
Net cash provided by operating activities was down ¥66.3 billion year on year, to ¥475.6 billion ($4,756 million), mainly resulting from an increase in payments of income taxes and a decrease in major payables, which counteracted an increase in income before income taxes.

Net cash used in investing activities increased ¥52.0 billion year on year, ¥400.8 billion ($4,008 million), which was due to such factors as increased payments for purchase of fixed assets.

Capital expenditures were as follows. In transportation operations, JR East implemented capital expenditure to maintain and renew transportation facilities with an emphasis on safety measures, develop transportation capabilities, and improve passenger services. Station space utilization operations advanced the *Station Renaissance* program through capital expenditures for the construction of the first phase of *ecute Tachikawa and GranSta* in Tokyo. Shopping centers & office buildings operations undertook capital expenditures for the construction of *GranTokyo North Tower* and *GranTokyo South Tower* as part of construction projects on the Yaesu side of Tokyo Station as well as capital expenditures for the remodeling of existing shopping centers. In other services, capital expenditures focused on the construction of *HOTEL METS Tachikawa* in Tokyo and the strengthening of functions through the development of systems.

Total Long-Term Debt

(Billions of Yen)



Long-term liabilities incured for purchase of railway facilities
Long-term debt

Financial Section

Further, free cash flows decreased ¥118.3 billion year on year, to ¥74.8 billion ($748 million).

Net cash used in financing activities was down ¥91.6 billion year on year, to ¥80.4 billion ($804 million), primarily due to the absence of a reduction in commercial paper, which compensated for a reduction in total long-term debt that was larger than in the previous fiscal year.

Cash and cash equivalents at the end of fiscal 2008, which was ¥87.0 billion ($870 million) at the end of the previous fiscal year, declined ¥4.9 billion, to ¥82.1 billion ($821 million).

Financial Policy

Total long-term debt at the end of fiscal 2008 stood at ¥3,558.8 billion ($35,588 million). That debt consists of long-term liabilities incurred for purchase of railway facilities associated with JR East's assumption of Shinkansen railway facilities and other facilities, bonds, and long-term loans.

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

a. ¥734.8 billion ($7,348 million) payable at a variable interest rate (annual interest rate in fiscal 2008: 4.28%) through March 31, 2017
b. ¥344.8 billion ($3,448 million) payable at a fixed annual interest rate of 6.35% through March 31, 2017
c. ¥351.7 billion ($3,517 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 ¥15.8 billion ($158 million) for the Akita hybrid Shinkansen and ¥10.3 billion ($103 million) for Tokyo Monorail.

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 (JRCC). JR East made early repayments of ¥43.4 billion ($434 million) in fiscal 2008.

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, 2008, JR East issued four unsecured straight bonds, with a total nominal amount of ¥80.0 billion ($800 million) and maturities from 2017 through 2027. Rating and Investment Information, Inc. (R&I), a Japanese rating agency, rated these bonds AA+. Overseas, JR East issued euro–pounds sterling bonds with a total nominal amount of £250.0 million (¥58.8 billion/$588 million) and maturity in 2033. JR East's ratings for those 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 ($3,000 million). R&I and Moody's rated JR East's commercial paper a-1+ and P-1, respectively, as of the end of fiscal 2008. Further, JR East had bank overdrafts of ¥36.0 billion ($360 million) on March 31, 2008. JR East had no outstanding commercial paper on March 31, 2008.

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

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, 2008.

LEGAL ISSUES RELATING TO OPERATIONS

As a railway operator, JR East manages its railway 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 (hereinafter the "JR Law").

However, JR East is required to manage its railway operations in accordance with guidelines relating to matters that should be considered for the foreseeable future, which 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, Transport and Tourism (hereinafter the "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 (hereinafter "fares and surcharges"). Subject to prior notification, railway operators can then set or change fares and surcharges within those upper limits (article 16). Operators are also required to give the MLIT advance notice of the elimination or suspension of railway operations. 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 its 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 (hereinafter the "JR 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 (hereinafter the "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 operating on Japan's main island, hereinafter the "new companies") 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 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 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 the convenience of users through the development of stations and other railway facilities
- Items stating that the new companies should give consideration to the avoidance of actions which inappropriately obstruct business activities or infringe upon the interests of small and medium-sized companies

operating businesses within 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 railway 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 new companies 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).

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 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 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 subsequent 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 was 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.

(c) 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 and 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, Transport and Tourism

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 the upper limits of fares from railway operators, including from JR East, upon conducting inspections to determine that the 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 non-railway businesses, the calculation of total-cost—which comprises reasonable costs and reasonable profits, including required dividend payments to shareholders—is based only on the operator's railway operations.

Further, operators are required to submit 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 financial costs) arising from the provision of a fair and appropriate return, based on the opportunity cost concept, in relation to the capital invested in the said 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 costs 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 the prior notification of the MLIT, 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.

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 political 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 joint 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 former 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 schedule 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

(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 under the Japan Railway Construction, Transport and Technology Agency Law (enforcement ordinance, article 6). That enforcement ordinance stipulates that the JRTT will determine the amount of usage fees based on the benefit 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 was 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 lines did not commence services. Specifically, the 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 the 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 former 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 2008 totaled ¥19.4 billion ($194 million), comprising the fixed amount calculated based on the corresponding benefits of ¥17.5 billion ($175 million) and taxes and maintenance fees of ¥1.9 billion ($19 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 2008 totaled ¥9.0 billion ($90 million), comprising the fixed amount calculated based on the corresponding benefits of ¥8.0 billion ($80 million) and taxes and maintenance fees of ¥1.0 billion ($10 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 nature 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 directly 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 eliminated 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 the management of conventional line segments which 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 operations: 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, in December 2007 deliberations began regarding "securing financial resources to begin construction of Shinkansen line segments not yet constructed" in connection with "agreement items of the national government and ruling parties' examination committee for the development of new Shinkansen lines." A working group of the national government and ruling parties concerned with the construction of new Shinkansen lines decided to "concentrate the utmost efforts on reaching a conclusion, upon establishing a schedule for measures to stably secure financial resources by the end of the current fiscal year." In response, the MLIT issued a request regarding the prior calculation of usage fees for Shinkansen line segments in which services have not yet commenced with a view to securing financial resources for the construction of new Shinkansen lines. In the view of JR East, the calculation of usage fees is not possible at this stage because service schedules and charge structures upon commencement of Shinkansen services have not yet been decided and the conditions relating to competing transportation operators directly prior to the commencement of Shinkansen services should be reflected. Accordingly, JR East issued a response to the effect that usage fees should be decided through discussion between the management team and related parties based on a variety of information and actual management conditions directly prior to the commencement of Shinkansen services on the said Shinkansen line segments.

SAFETY MEASURES

Railway operations can potentially suffer significant damage resulting from natural disasters, human error, 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) 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 earthquake countermeasures, such as the implementation of projects to reinforce tunnels and elevated railway tracks. JR East has also 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. At the same time, JR East proceeded with the installation of wind speed measurement equipment and windbreak fences and undertook trials of operational regulations that use real-time meteorological information. In addition, JR East is upgrading equipment and conducting accident awareness campaigns to prevent accidents at railway crossings. Further, in order to increase the reliability of transportation services, JR East is strengthening ground equipment and railcars and 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-rise buildings, *GranTokyo North Tower* and *GranTokyo South Tower*, are to be constructed on the north and south sides of the open square in front of the Yaesu exit of Tokyo Station. The two towers will be connected by *GranRoof*, a ground-level, central pedestrian deck with a large roof.

(b) Total floor space will be roughly 352,000m^2, and the total-cost of the joint project will be approximately ¥140 billion ($1,400 million), with JR East's share being approximately ¥84 billion ($840 million). Adding the cost of independent projects, JR East will shoulder a total project cost of approximately ¥129 billion ($1,290 million). Further, in October 2007, JR East completed the *GranTokyo South Tower* and the first phase of the *GranTokyo North Tower*, which have a combined total floor space of approximately 312,000m^2.

(c) Schedule

September 2004: begin construction of Phase I of the *GranTokyo North Tower*; begin construction of the *GranTokyo South Tower*

October 2007: complete construction of Phase I of the *GranTokyo North Tower*; complete construction of the *GranTokyo South Tower*

Latter half of fiscal 2009: begin construction of Phase II of the *GranTokyo North Tower*; begin construction of the central area, including *GranRoof*

Summer 2012: complete construction of Phase II of the *GranTokyo North Tower*

Spring 2013: complete construction of the central area, including *GranRoof* (also, complete the redevelopment of the open square in front of the Yaesu exit of Tokyo Station during fiscal 2014)

JR East's Approach

The project is part of integrated efforts to redevelop the open 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 exit 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 was leaked to unrelated third parties due to computer systems becoming infected by viruses or 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 an economic recession 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 17 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 airlines, automobiles, 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; the advancement of large-scale upgrading works by other railway operators; the commencement of services of the Narita New Rapid Line; and an increase in flight services as a result of the enlargement of Tokyo International Airport (Haneda Airport). 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 new entry of other companies into markets or 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 2008, total long-term debt was ¥3,558.8 billion ($35,588 million). In addition, interest expense amounted to ¥126.0 billion ($1,260 million) in fiscal 2008, which was equivalent to 28.3% 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.

East Japan Railway Company and Subsidiaries
March 31, 2007 and 2008

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2007	2008	2008
Assets			
Current Assets:			
Cash and cash equivalents (Note 3)	¥ 86,980	¥ 82,058	$ 821
Receivables:			
Accounts receivable–trade	265,219	274,030	2,740
Unconsolidated subsidiaries and affiliated companies	10,733	6,495	65
Other	18,891	19,285	193
Allowance for doubtful accounts (Note 2 (4))	(2,411)	(2,495)	(25)
	292,432	297,315	2,973
Inventories (Notes 2 (5) and 4)	36,793	35,004	350
Real estate for sale (Notes 2 (6) and 5)	6,528	5,509	55
Deferred income taxes (Note 13)	59,809	54,328	543
Other current assets	30,572	33,744	338
Total current assets	513,114	507,958	5,080
Investments:			
Unconsolidated subsidiaries and affiliated companies (Notes 2 (2) and 6)	32,727	34,325	343
Other (Notes 2 (7) and 7)	205,628	143,876	1,439
	238,355	178,201	1,782
Property, Plant and Equipment (Notes 2 (8), 8 and 9):			
Buildings	1,957,141	2,030,431	20,304
Fixtures	5,080,350	5,161,059	51,611
Machinery, rolling stock and vehicles	2,285,963	2,306,162	23,062
Land	2,012,665	2,012,448	20,124
Construction in progress	222,965	176,956	1,770
Other	161,585	169,827	1,698
	11,720,669	11,856,883	118,569
Less accumulated depreciation	5,888,162	6,018,868	60,189
Net property, plant and equipment	5,832,507	5,838,015	58,380
Other Assets:			
Long-term deferred income taxes (Note 13)	210,463	235,416	2,354
Other	173,593	182,413	1,824
	384,056	417,829	4,178
	¥ 6,968,032	¥ 6,942,003	$ 69,420

See accompanying notes.

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2007	**2008**	**2008**
Liabilities and Net Assets			
Current Liabilities:			
Current portion of long-term debt (Notes 8 and 10)	¥ 241,772	**¥ 234,446**	**$ 2,344**
Current portion of long-term liabilities incurred for purchase of railway facilities (Notes 8 and 11)	144,129	**139,699**	**1,397**
Prepaid railway fares received	90,865	**89,401**	**894**
Payables:			
Accounts payable–trade	64,413	**45,958**	**460**
Unconsolidated subsidiaries and affiliated companies	49,719	**46,979**	**470**
Other	487,368	**452,232**	**4,522**
	601,500	**545,169**	**5,452**
Accrued expenses	109,310	**109,370**	**1,094**
Accrued consumption tax (Note 12)	15,709	**4,617**	**46**
Accrued income taxes (Note 13)	81,572	**59,992**	**600**
Other current liabilities	53,069	**77,799**	**778**
Total current liabilities	1,337,926	**1,260,493**	**12,605**
Long-Term Debt (Notes 8 and 10)	1,792,786	**1,866,993**	**18,670**
Long-Term Liabilities Incurred for Purchase of Railway Facilities (Notes 8 and 11)	1,457,517	**1,317,661**	**13,177**
Employees' Severance and Retirement Benefits (Notes 2 (9) and 14)	600,229	**617,086**	**6,171**
Deposits Received for Guarantees	164,927	**159,210**	**1,592**
Long-Term Deferred Tax Liabilities (Note 13)	2,680	**2,010**	**20**
Other Long-Term Liabilities	98,862	**96,544**	**965**
Contingent Liabilities (Note 15)			
Net Assets (Notes 2 (1), 2 (16) and 16):			
Common stock:			
Authorized 16,000,000 shares;			
Issued, 2008—4,000,000 shares;			
Outstanding, 2008—3,996,163 shares	200,000	**200,000**	**2,000**
Capital surplus	96,721	**96,728**	**967**
Retained earnings	1,127,234	**1,278,942**	**12,789**
Treasury stock, at cost, 3,837 shares in 2008	(2,595)	**(2,631)**	**(26)**
Net unrealized holding gains on securities	66,969	**24,373**	**244**
Net deferred gains (losses) on derivatives under hedge accounting	225	**(1,014)**	**(10)**
Minority interests	24,551	**25,608**	**256**
Total net assets	1,513,105	**1,622,006**	**16,220**
	¥6,968,032	**¥6,942,003**	**$69,420**

CONSOLIDATED STATEMENTS OF INCOME

East Japan Railway Company and Subsidiaries
Years ended March 31, 2006, 2007 and 2008

	Millions of Yen			Millions of U.S. Dollars (Note 2 (1))
	2006	2007	**2008**	**2008**
Operating Revenues (Note 17)	¥2,592,393	¥2,657,346	**¥2,703,564**	**$27,036**
Operating Expenses (Note 17):				
Transportation, other services and cost of sales	1,701,620	1,718,576	**1,748,293**	**17,483**
Selling, general and administrative expenses	494,673	510,672	**510,111**	**5,101**
	2,196,293	2,229,248	**2,258,404**	**22,584**
Operating Income (Note 17)	396,100	428,098	**445,160**	**4,452**
Other Income (Expenses):				
Interest expense on short- and long-term debt	(40,882)	(42,512)	**(44,412)**	**(444)**
Interest expense incurred for purchase of railway facilities	(95,666)	(88,864)	**(81,635)**	**(816)**
Losses for redemption of bonds (Note 10)	(3,409)	(20,557)	**—**	**—**
Loss on sales of fixed assets	(3,982)	(650)	**(2,820)**	**(28)**
Environmental conservation costs	(13,956)	(13,884)	**(1,577)**	**(16)**
Impairment losses on fixed assets (Notes 2 (15), 9 and 17)	(1,841)	(3,507)	**(11,712)**	**(117)**
Interest and dividend income	1,814	1,954	**3,069**	**31**
Equity in net income (loss) of affiliated companies	707	(1,978)	**91**	**1**
Gain on sales of investment in securities	858	—	**—**	**—**
Gain on sales of transferable development air rights	—	10,456	**—**	**—**
Gain on sales of fixed assets	23,279	35,489	**10,448**	**104**
Other, net	6,613	2,635	**11,500**	**114**
	(126,465)	(121,418)	**(117,048)**	**(1,171)**
Income before Income Taxes	269,635	306,680	**328,112**	**3,281**
Income Taxes (Note 13):				
Current	125,330	140,556	**127,224**	**1,272**
Deferred	(15,682)	(12,135)	**9,374**	**94**
Minority Interests in Net Income of Consolidated Subsidiaries	(2,412)	(2,388)	**(1,841)**	**(18)**
Net Income	¥ 157,575	¥ 175,871	**¥ 189,673**	**$ 1,897**
	Yen			U.S. Dollars (Note 2 (1))
Earnings per Share (Note 2 (13))	¥39,370	¥44,008	**¥47,464**	**$475**

See accompanying notes.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (NOTE 2 (17))

East Japan Railway Company and Subsidiaries
Year ended March 31, 2006

	Number of Issued Shares of Common Stock	Millions of Yen				
		Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Holding Gains on Securities	Treasury Stock
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)	—	—
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)

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (NOTE 2 (17))

East Japan Railway Company and Subsidiaries
Years ended March 31, 2007 and 2008

	Number of Issued Shares of Common Stock	Millions of Yen							
		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
Cash dividends (¥10,000 per share)	**—**	**—**	**—**	**(37,971)**	**—**	**—**	**—**	**—**	**(37,971)**
Net income	**—**	**—**	**—**	**189,673**	**—**	**—**	**—**	**—**	**189,673**
Increase due to addition of consolidated subsidiaries and other	**—**	**—**	**—**	**6**	**—**	**—**	**—**	**—**	**6**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(52)**	**—**	**—**	**—**	**(52)**
Disposal of treasury stock	**—**	**—**	**7**	**—**	**16**	**—**	**—**	**—**	**23**
Other	**—**	**—**	**—**	**—**	**—**	**(42,596)**	**(1,239)**	**1,057**	**(42,778)**
Balance at March 31, 2008	**4,000,000**	**¥200,000**	**¥96,728**	**¥1,278,942**	**¥(2,631)**	**¥ 24,373**	**¥(1,014)**	**¥25,608**	**¥1,622,006**

	Number of Issued Shares of Common Stock	Millions of U.S. Dollars (Note 2 (1))							
		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, 2007	4,000,000	$2,000	$967	$11,272	$(26)	$ 670	$ 2	$246	$15,131
Cash dividends ($100 per share)	**—**	**—**	**—**	**(380)**	**—**	**—**	**—**	**—**	**(380)**
Net income	**—**	**—**	**—**	**1,897**	**—**	**—**	**—**	**—**	**1,897**
Increase due to addition of consolidated subsidiaries and other	**—**	**—**	**—**	**0**	**—**	**—**	**—**	**—**	**0**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(0)**	**—**	**—**	**—**	**(0)**
Disposal of treasury stock	**—**	**—**	**0**	**—**	**0**	**—**	**—**	**—**	**0**
Other	**—**	**—**	**—**	**—**	**—**	**(426)**	**(12)**	**10**	**(428)**
Balance at March 31, 2008	**4,000,000**	**$2,000**	**$967**	**$12,789**	**$(26)**	**$ 244**	**$(10)**	**$256**	**$16,220**

See accompanying notes.

East Japan Railway Company and Subsidiaries
Years ended March 31, 2006, 2007 and 2008

	Millions of Yen			Millions of U.S. Dollars (Note 2 (1))
	2006	2007	**2008**	**2008**
Cash Flows from Operating Activities:				
Income before income taxes	¥ 269,635	¥ 306,680	**¥ 328,112**	**$ 3,281**
Depreciation (Note 17)	316,038	318,526	**335,587**	**3,356**
Impairment losses on fixed assets	1,841	3,507	**11,712**	**117**
Amortization of long-term prepaid expense	4,942	5,079	**5,377**	**54**
Net change in employees' severance and retirement benefits	(532)	2,051	**15,665**	**157**
Interest and dividend income	(1,814)	(1,954)	**(3,069)**	**(31)**
Interest expense	136,548	131,376	**126,047**	**1,260**
Construction grants received	(54,146)	(65,452)	**(97,556)**	**(976)**
Gain on sales of investment in securities	(858)	—	**—**	**—**
Loss from disposition and provision for cost reduction of fixed assets	76,331	93,655	**111,765**	**1,118**
Net change in major receivables	(24,009)	(52,546)	**(26,289)**	**(263)**
Net change in major payables	36,348	68,643	**(41,825)**	**(418)**
Other	(14,904)	(14,655)	**(16,872)**	**(168)**
Subtotal	745,420	794,910	**748,654**	**7,487**
Proceeds from interest and dividends	1,969	2,159	**3,282**	**33**
Payments of interest	(138,712)	(130,114)	**(124,887)**	**(1,249)**
Payments of earthquake-damage losses	(26,568)	(6,291)	**(2,849)**	**(29)**
Payments of income taxes	(134,387)	(118,814)	**(148,599)**	**(1,486)**
Net cash provided by operating activities	447,722	541,850	**475,601**	**4,756**
Cash Flows from Investing Activities:				
Payments for purchases of fixed assets	(390,439)	(458,097)	**(488,211)**	**(4,882)**
Proceeds from sales of fixed assets	33,315	39,667	**16,290**	**163**
Proceeds from construction grants	63,849	69,834	**67,985**	**680**
Proceeds from sales of transferable development air rights	—	5,228	**13,343**	**133**
Payments for purchases of investment in securities	(17,634)	(12,238)	**(17,070)**	**(171)**
Proceeds from sales of investment in securities	2,627	—	**—**	**—**
Cash decrease due to purchases of shares of a company newly consolidated, net of cash acquired	(487)	—	**—**	**—**
Other	(720)	6,806	**6,874**	**69**
Net cash used in investing activities	(309,489)	(348,800)	**(400,789)**	**(4,008)**
Cash Flows from Financing Activities:				
Net increase (decrease) in commercial paper	35,000	(40,000)	**—**	**—**
Proceeds from long-term loans	105,739	109,162	**170,500**	**1,705**
Payments of long-term loans	(158,453)	(116,247)	**(202,001)**	**(2,020)**
Proceeds from issuance of bonds	160,113	180,081	**138,314**	**1,383**
Payments for redemption of bonds	(87,960)	(100,000)	**(40,000)**	**(400)**
Payments of liabilities incurred for purchase of railway facilities	(149,170)	(142,012)	**(144,285)**	**(1,443)**
Payments for acquisition of treasury stock	(48)	(40)	**(52)**	**(1)**
Cash dividends paid	(29,978)	(33,974)	**(37,971)**	**(380)**
Other	(16,842)	(28,997)	**35,088**	**352**
Net cash used in financing activities	(141,599)	(172,027)	**(80,407)**	**(804)**
Net Increase (Decrease) in Cash and Cash Equivalents	(3,366)	21,023	**(5,595)**	**(56)**
Cash and Cash Equivalents at Beginning of Year	66,781	64,373	**86,980**	**870**
Increase due to Addition of Consolidated Subsidiaries and Other	958	1,584	**673**	**7**
Cash and Cash Equivalents at End of Year	¥ 64,373	¥ 86,980	**¥ 82,058**	**$ 821**

See accompanying notes.

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, 1,703 stations and 7,526.8 operating kilometers as of March 31, 2008.

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 11). 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, Transport and Tourism 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 10).

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.

As discussed in Note 2 (17), the consolidated statements of changes in net assets for the years ended March 31, 2007 and 2008 have been prepared in accordance with the new accounting standard. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006 was 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 Financial Instruments and Exchange Act of Japan purposes. Certain modifications and reclassifications, including the presentation of the Consolidated Statement of Shareholders' Equity for the year ended March 31, 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, 2008, which was ¥100 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, 2008, 82 subsidiaries were consolidated. Three subsidiaries were deconsolidated in the year ended March 31, 2008 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, 2008, 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 (carrying amount in the balance sheet is calculated with consideration of write-downs due to decreased profitability);

Rails, materials and supplies: the moving-average cost method (carrying amount in the balance sheet is calculated with consideration of write-downs due to decreased profitability); and

Other: the last purchased cost method (carrying amount in the balance sheet is calculated with consideration of write-downs due to decreased profitability)

6) Real Estate for Sale

For the years ended March 31, 2006 and 2007, real estate for sale is stated at the identified cost, which is reduced for significant decline in value. Devaluation losses on real estate for sale included in the other, net item of other expenses on the consolidated statements of income for the years ended March 31, 2006 and 2007 were ¥654 million and ¥1,563 million, respectively. From the year ended March 31, 2008, carrying amounts in the balance sheet are calculated with consideration of write-down due to decreased profitability. The said written down amount is included in operating expenses. However, for the year ended March 31, 2008, it was insignificant.

7) Securities

Securities are classified and stated as follows:

(1) Trading securities are stated at market value. The Companies had no trading securities through the years ended March 31, 2006, 2007 and 2008.

(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 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 and 2008 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 book value 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 are 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

Pursuant to an amendment of the Japanese Tax Law, from the fiscal year ended March 31, 2008, a depreciation method based on the amended Japanese Tax Law has been used for property, plant and equipment acquired on or after April 1, 2007. As a result, operating income and income before income taxes both decreased ¥3,383 million ($34 million). Further, for property, plant and equipment acquired on or before March 31, 2007, from the fiscal year following the fiscal year in which assets reach 5% of acquisition cost through the application of a depreciation method based on the Japanese Tax Law prior to amendment, the difference between the amount equivalent to 5% of the acquisition cost and the memorandum value (residual value under the amended Japanese Tax Law) is depreciated evenly over a five-year period and recognized in depreciation. As a result, compared to the previous method, operating income and income before income taxes both decreased ¥11,492 million ($115 million).

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 in addition to those severance and retirement benefits). 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, 2008 was ¥97,637 million ($976 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, 2006, 2007 and 2008 were ¥16,886 million, ¥17,095 million and ¥15,649 million ($156 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

Derivative transactions that do not meet requirements for hedge accounting are stated at fair value and the gains or losses resulting from change in fair value of those transactions are recognized as income or expense in the period. Derivative transactions that meet requirements for hedge accounting 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 on the Consolidated Statements of Income.
Of those, certain derivative transactions of the Companies that meet certain hedging criteria are accounted 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

Accounting Standards for Impairment of Fixed Assets 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 sheets as of March 31, 2007 and 2008 prepared in accordance with the New Accounting Standards comprise three sections, which are assets, liabilities and net assets sections.

Under the New Accounting Standards, 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. 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 statements of income for the years ended March 31, 2007 and 2008.

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 statements of changes in net assets for the years ended March 31, 2007 and 2008 in accordance with the Additional New Accounting Standards. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the consolidated financial statements, has not been adapted to the new presentation rules of 2007.

3 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.

4 INVENTORIES

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

5 REAL ESTATE FOR SALE

Real estate for sale represents the cost of land acquired and related land improvements in connection with residential home site developments in eastern Honshu. Further, until the fiscal year ended March 31, 2007, significant decreases in price were reflected in balance sheet values. From the fiscal year ended March 31, 2008, carrying amounts in the balance sheet are calculated with consideration of write-down due to decreased profitability.

6 INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATED COMPANIES

Investments in and advances to unconsolidated subsidiaries and affiliated companies at March 31, 2007 and 2008 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2007	**2008**	**2008**
Unconsolidated subsidiaries:			
Investments	¥ 4,520	**¥ 4,507**	**$ 45**
Advances	483	**593**	**6**
	5,003	**5,100**	**51**
Affiliated companies:			
Investments (including equity in earnings of affiliated companies)	27,724	**29,225**	**292**
	¥32,727	**¥34,325**	**$343**

7 SECURITIES

For held-to-maturity debt securities with market value, amount on balance sheets and market value at March 31, 2007 and 2008 were as follows:

	Millions of Yen						Millions of U.S. Dollars		
	2007			**2008**			**2008**		
	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.	¥ 40	¥ 40	¥ 0	**¥148**	**¥148**	**¥0**	**$2**	**$2**	**$0**
Of which market value does not exceed the amount on balance sheet:									
Government, municipal bonds, etc.	275	273	(2)	**20**	**20**	**0**	**0**	**0**	**0**
Total	¥315	¥313	¥(2)	**¥168**	**¥168**	**¥0**	**$2**	**$2**	**$0**

For available-for-sale securities with market value, acquisition cost and amount on balance sheets at March 31, 2007 and 2008 were as follows:

	Millions of Yen						Millions of U.S. Dollars		
	2007			**2008**			**2008**		
	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	¥72,834	¥184,783	¥111,949	**¥51,295**	**¥ 97,428**	**¥46,133**	**$513**	**$ 974**	**$461**
Debt securities	154	164	10	**48**	**56**	**8**	**1**	**1**	**0**
Of which amount on balance sheet does not exceed the acquisition cost:									
Equity shares	3,647	3,079	(568)	**38,184**	**32,376**	**(5,808)**	**382**	**324**	**(58)**
Debt securities	247	245	(2)	**241**	**240**	**(1)**	**2**	**2**	**(0)**
Total	¥76,882	¥188,271	¥111,389	**¥89,768**	**¥130,100**	**¥40,332**	**$898**	**$1,301**	**$403**

In the years ended March 31, 2007 and 2008, 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, 2007 and 2008 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	**2008**	**2008**
Available-for-sale securities without market value:			
Unlisted equity securities	¥10,945	**¥11,019**	**$110**
Investments in special-purpose company	3,560	**—**	**—**
Preferred equity securities	1,000	**1,000**	**10**

Annual maturities of available-for-sale securities with maturities and held-to-maturity debt securities as of March 31, 2008 were as follows:

	Millions of Yen				Millions of U.S. Dollars			
	2008				2008			
	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	**¥90**	**¥360**	**¥6**	**¥10**	**$1**	**$4**	**$0**	**$0**
Total	**¥90**	**¥360**	**¥6**	**¥10**	**$1**	**$4**	**$0**	**$0**

8 PLEDGED ASSETS

At March 31, 2007 and 2008, buildings and fixtures with net book value of ¥31,770 million and ¥29,736 million ($297 million), respectively and other assets with net book value of ¥478 million and ¥245 million ($2 million), respectively, were pledged as collateral for long-term debt and other liabilities totaling ¥5,145 million and ¥4,075 million ($41 million), at the respective dates.

In addition, at March 31, 2007 and 2008, buildings and fixtures with net book value of ¥54,021 million and ¥51,850 million ($519 million), respectively and other assets with net book value of ¥8,504 million and ¥7,923 million ($79 million), respectively, were pledged as collateral for long-term liabilities incurred for purchase of the Tokyo Monorail facilities amounting to ¥11,486 million and ¥10,339 million ($103 million) at March 31, 2007 and 2008, respectively (see Note 11).

9 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 2008, for fixed assets such as shopping centers for which profitability has decreased markedly due to such factors as the likelihood that fixed assets will be disposed of earlier than initially anticipated, the book values were reduced to the recoverable amounts and the said reductions were recognized as impairment losses on fixed assets (¥11,712 million).

Asset status	Asset type	Area
Shopping centers	Buildings and fixtures	Takasaki, Gunma Prefecture, etc.
Loaned land and others	Land, buildings and fixtures	Omiya-ku, Saitama, Saitama Prefecture, etc.

* Breakdown of impairment loss:
Buildings and fixtures: ¥8,077 million; Land: ¥3,035 million; Other: ¥600 million; Total: ¥11,712 million

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

Measurements of recoverable amounts made using the net selling prices are calculated based on real estate appraisals, etc. Values in use for the measurement of recoverable amounts are based on the present values of expected cash flows with the discount rate of 6.0%. Further, presentation has been omitted for the year ended March 31, 2006 and 2007, because related items were insignificant.

10 LONG-TERM DEBT

Long-term debt at March 31, 2007 and 2008 is summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	**2008**	**2008**
General mortgage bonds issued in 1997 to 2001 with interest rates ranging from 1.70% to 3.30% due in 2009 to 2021	¥ 459,900	**¥ 459,900**	**$ 4,599**
Unsecured bonds issued in 2002 to 2007 with interest rates ranging from 0.71% to 2.55% due in 2011 to 2033	605,827	**645,821**	**6,458**
Secured loans due in 2008 to 2016 principally from banks and insurance companies with interest rates mainly ranging from 2.60% to 6.50%	3,738	**3,286**	**33**
Unsecured loans due in 2008 to 2036 principally from banks and insurance companies with interest rates mainly ranging from 0.961% to 7.50%	784,796	**753,748**	**7,537**
Euro-pound bonds issued in 2006 to 2007 with interest rates ranging from 4.50% to 5.25% due in 2031 to 2036	180,297	**238,684**	**2,387**
	2,034,558	**2,101,439**	**21,014**
Less current portion	241,772	**234,446**	**2,344**
	¥1,792,786	**¥1,866,993**	**$18,670**

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 4.875% bonds, amounting to ¥52,550 million ($526 million), were issued in June 2006. The 350 million pound 4.75% bonds, amounting to ¥78,299 million ($783 million), were issued in December 2006. The 250 million pound 5.25% bonds, amounting to ¥58,750 million ($588 million), were issued in April 2007. 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 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 ($1,000 million).

In fiscal 2007, the Company recorded losses of ¥20,557 million ($206 million) for redemption of bonds. The annual maturities of long-term debt at March 31, 2008 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2009	¥ 234,446	$ 2,344
2010	208,917	2,089
2011	189,760	1,898
2012	234,081	2,341
2013	223,771	2,238
2014 and thereafter	1,012,017	10,120

11 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, 2007 and 2008 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	**2008**	**2008**
The long-term liability incurred for purchase of the Tohoku and Joetsu Shinkansen facilities:			
Payable semiannually including interest at a rate currently approximating 4.28% through 2017	¥ 847,755	**¥ 734,784**	**$ 7,348**
Payable semiannually including interest at 6.35% through 2017	372,419	**344,757**	**3,448**
Payable semiannually including interest at 6.55% through 2051	353,129	**351,713**	**3,517**
	1,573,303	**1,431,254**	**14,313**
The long-term liability incurred for purchase of the Akita hybrid Shinkansen facilities:			
Payable semiannually at an average rate currently approximating 0.94% through 2022	16,857	**15,767**	**158**
The long-term liability incurred for purchase of the Tokyo Monorail facilities:			
Payable semiannually at an average rate currently approximating 2.92% through 2029	11,486	**10,339**	**103**
	1,601,646	**1,457,360**	**14,574**
Less current portion:			
The Tohoku and Joetsu Shinkansen purchase liability	142,328	**137,961**	**1,380**
The Akita hybrid Shinkansen purchase liability	1,089	**1,042**	**10**
Tokyo Monorail purchase liability	712	**696**	**7**
	144,129	**139,699**	**1,397**
	¥1,457,517	**¥1,317,661**	**$13,177**

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

The annual payments of long-term liabilities incurred for purchase of railway facilities at March 31, 2008 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2009	¥139,699	$1,397
2010	137,935	1,379
2011	128,875	1,289
2012	124,565	1,246
2013	129,989	1,300
2014 and thereafter	796,297	7,963

12 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.

13 INCOME TAXES

The major components of deferred income taxes and deferred tax liabilities at March 31, 2007 and 2008 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2007	**2008**	**2008**
Deferred income taxes:			
Employees' severance and retirement benefits	¥242,713	**¥249,556**	**$2,496**
Reserves for bonuses	30,359	**29,976**	**300**
Losses on impairment of fixed assets	13,785	**17,218**	**172**
Excess depreciation and amortization of fixed assets	11,220	**10,522**	**105**
Environmental conservation cost	10,858	**8,203**	**82**
Devaluation losses on real estate for sale	6,242	**—**	**—**
Devaluation losses on fixed assets	5,421	**5,419**	**54**
Accrued enterprise tax	6,639	**5,130**	**51**
Other	40,508	**43,844**	**439**
	367,745	**369,868**	**3,699**
Less valuation allowance	(21,952)	**(24,707)**	**(248)**
Less amounts offset against deferred tax liabilities	(75,521)	**(55,416)**	**(554)**
Net deferred income taxes	¥270,272	**¥289,745**	**$2,897**
Deferred tax liabilities:			
Tax deferment for gain on transfers of certain fixed assets	¥ 28,213	**¥ 33,006**	**$ 330**
Net unrealized holding gains on securities	45,318	**18,665**	**187**
Valuation for assets and liabilities of consolidated subsidiaries	3,459	**3,458**	**35**
Other	1,211	**2,299**	**22**
	78,201	**57,428**	**574**
Less amounts offset against deferred income taxes	(75,521)	**(55,416)**	**(554)**
Net deferred tax liabilities	¥ 2,680	**¥ 2,012**	**$ 20**

For the years ended March 31, 2006, 2007, and 2008, 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.

14 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, 2007 and 2008 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2007	**2008**	**2008**
Projected benefit obligation	¥(716,002)	**¥(689,485)**	**$(6,895)**
Plan assets	5,010	**4,736**	**48**
Unfunded projected benefit obligation	(710,992)	**(684,749)**	**(6,847)**
Unrecognized net transition obligation	146,278	**97,637**	**976**
Unrecognized actuarial differences	(47,279)	**(39,357)**	**(394)**
Unrecognized prior service costs	11,964	**9,581**	**96**
Book value (net)	(600,029)	**(616,888)**	**(6,169)**
Prepaid pension expense	200	**198**	**2**
Employees' severance and retirement benefits	¥(600,229)	**¥(617,086)**	**$(6,171)**

Employees' severance and retirement benefit expenses included in the consolidated statements of income for the years ended March 31, 2006, 2007 and 2008 consisted of the following:

	Millions of Yen			Millions of U.S. Dollars
	2006	2007	**2008**	**2008**
Service costs	¥ 37,202	¥ 31,141	**¥29,551**	**$296**
Interest costs	23,214	22,120	**20,930**	**209**
Expected return on plan assets	(65)	(82)	**(88)**	**(1)**
Amortization of net transition obligation	48,971	48,952	**48,820**	**488**
Amortization of actuarial differences	(7,258)	(5,092)	**(6,592)**	**(66)**
Amortization of prior service costs	2,106	2,401	**1,063**	**11**
Employees' severance and retirement benefit expenses	104,170	99,440	**93,684**	**937**
Losses related to retirement of a large number of employees from a consolidated subsidiary	—	9,603	**—**	**—**
Total	¥104,170	¥109,043	**¥93,684**	**$937**

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, 2006, 2007 and 2008.

15 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, 2008 were ¥70,000 million ($700 million) and ¥100,000 million ($1,000 million) by general bonds.

16 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 2008, the shareholders approved cash dividends amounting to ¥19,985 million ($200 million). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2008. Such appropriations are recognized in the period in which they are approved by the shareholders.

17 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					
	2006					
	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Other Services	Elimination and/or Corporate	Consolidated
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

	2008					
Operating revenues:						
Outside customers	**¥1,857,756**	**¥404,006**	**¥205,347**	**¥236,455**	**¥ —**	**¥2,703,564**
Inside group	**58,912**	**16,583**	**8,714**	**305,312**	**(389,521)**	**—**
	1,916,668	**420,589**	**214,061**	**541,767**	**(389,521)**	**2,703,564**
Costs and expenses	**1,584,850**	**384,322**	**154,240**	**524,453**	**(389,461)**	**2,258,404**
Operating income	**¥ 331,818**	**¥ 36,267**	**¥ 59,821**	**¥ 17,314**	**¥ (60)**	**¥ 445,160**
Identifiable assets	**¥5,555,426**	**¥180,589**	**¥813,835**	**¥789,504**	**¥(397,351)**	**¥6,942,003**
Depreciation	**249,713**	**9,706**	**29,081**	**47,087**	**—**	**335,587**
Impairment losses on fixed assets	**2,573**	**556**	**6,870**	**1,713**	**—**	**11,712**
Capital investments	**325,349**	**16,149**	**64,869**	**66,560**	**—**	**472,927**

	Millions of U.S. Dollars					
	2008					
	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Other Services	Elimination and/or Corporate	Consolidated
Operating revenues:						
Outside customers	**$18,578**	**$4,040**	**$2,054**	**$2,364**	**$ —**	**$27,036**
Inside group	**589**	**166**	**87**	**3,053**	**(3,895)**	**—**
	19,167	**4,206**	**2,141**	**5,417**	**(3,895)**	**27,036**
Costs and expenses	**15,849**	**3,843**	**1,543**	**5,244**	**(3,895)**	**22,584**
Operating income	**$ 3,318**	**$ 363**	**$ 598**	**$ 173**	**$ (0)**	**$ 4,452**
Identifiable assets	**$55,554**	**$1,806**	**$8,138**	**$7,895**	**$(3,973)**	**$69,420**
Depreciation	**2,497**	**97**	**291**	**471**	**—**	**3,356**
Impairment losses on fixed assets	**26**	**6**	**69**	**16**	**—**	**117**
Capital investments	**3,253**	**161**	**649**	**666**	**—**	**4,729**

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.

Pursuant to an amendment of the Japanese Tax Law, from the fiscal year under review, a depreciation method based on the amended Japanese Tax Law has been used for property, plant and equipment acquired on or after April 1, 2007. Further, for property, plant and equipment acquired on or before March 31, 2007, from the fiscal year following the fiscal year in which assets reach 5% of acquisition cost through the application of a depreciation method based on the Japanese Tax Law prior to amendment, the difference between the amount equivalent to 5% of the acquisition cost and the memorandum value (residual value under the amended Japanese Tax Law) is depreciated evenly over a five-year period and recognized in depreciation. As a result, compared with the previous method, in the fiscal year under review the Company recorded increases in operating expenses of ¥12,363 million ($124 million) for transportation, ¥454 million ($5 million) for station space utilization, ¥1,616 million ($16 million) for shopping centers & office buildings, and ¥442 million ($4 million) for other services, and the respective operating incomes of these segments decreased by the same amounts.

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

18 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, 2007 and 2008, amounted to ¥12,692 million and ¥12,039 million ($120 million), respectively. Lease income which was credited to income for the years ended March 31, 2007 and 2008 was ¥4,764 million and ¥4,995 million ($50 million), respectively.

Future lease payments inclusive of interest were ¥31,724 million and ¥28,796 million ($288 million), including due in one year of ¥11,060 million and ¥11,211 million ($112 million), and future lease receipts inclusive of interest were ¥16,062 million and ¥16,456 million ($165 million), including due in one year of ¥4,809 million and ¥4,545 million ($45 million), at March 31, 2007 and 2008, respectively.

Future lease receipts for operating leases amounted to ¥18,401 million ($184 million), including those due within one year of ¥2,386 million ($24 million), at March 31, 2008.

19 INFORMATION FOR DERIVATIVE TRANSACTIONS

1) Items Regarding Trading Circumstances

The Company and its consolidated subsidiaries use foreign exchange contracts transactions, currency swap transactions, and interest swap transactions with the aim of avoiding risk (market risk) related to fluctuation of future market prices (foreign exchange/interest) in relation to bonds, loans, and so on. Further, commodity swap transactions are used with the aim of avoiding product price fluctuation risk related to fuel purchasing, and natural disaster derivatives are used with the aim of avoiding revenue and expenditure fluctuation risk due to natural disasters.

Because all of the derivative transaction contracts that the Company and its consolidated subsidiaries enter into are the transaction whose counterparties are financial institutions that have high creditworthiness, the Company believes that there is almost no risk of parties to contracts defaulting on obligations.

Under the basic policy approved by the Board of Directors, with the aim of appropriate implementation of transactions and risk management, financial departments in respective companies process those derivative transactions following appropriate internal precedures or approval of the Board of Directors, based on relevant internal regulations.

2) Items Regarding the Fair Value of Transactions, etc.

	Millions of Yen		Millions of U.S. Dollars	
	2008		2008	
Classification	Transactions other than market transactions	Total	Transactions other than market transactions	Total
Type	Natural disaster derivatives transactions bought		Natural disaster derivatives transactions bought	
Contract amount etc.	**¥26,052**	**¥26,052**	**$260**	**$260**
Of which more-than-one-year contract amount, etc.	**26,052**	**26,052**	**260**	**260**
Fair value	**2,992**	**2,992**	**30**	**30**
Gain or loss from valuation	**(1,153)**	**(1,153)**	**(12)**	**(12)**

*1. In the year ended March 31, 2006 and 2007, hedge accounting was applied to all derivative transactions. Therefore, items relating to the fair value of transactions have been omitted.
*2. Contract amount, etc. is the maximum amount receivable.
*3. Fair value is calculated based on the current value presented by financial institutions, etc. with which transactions are conducted.
*4. Derivative transactions for which hedge accounting is applied are not subject to inclusion and are therefore omitted.

20 SUBSEQUENT EVENTS

1) Issuance of Bonds

On April 22, 2008, the Company issued a 1.62% coupon unsecured bond due on April 20, 2018, with an aggregate nominal principal amount of ¥30,000 million ($300 million), and a 2.35% coupon unsecured bond due on April 21, 2028, with an aggregate nominal principal amount of ¥20,000 million ($200 million).

2) Stock Split and Adoption of the Trading Lot System

With enactment of the "Law Amending the Partial Revision of the Commercial Code Concerning Transfer of Bonds for Rationalization of Settlements Related to Trade such as Shares (Law No. 88 of 2004, hereafter referred to as the Settlement Rationalization Law)," which is scheduled to take effect in January 2009, a transition will be made to the stock transfer system (the electronic share certificate system).

Based on the approval of a meeting of the Board of Directors on April 28, 2008, and a resolution of the 21st Regular General Meeting of Shareholders, convened on June 24, 2008, approving an amendment to the Articles of Incorporation, in order to clear up odd lot shares not covered by the stock transfer system the Company will implement a stock split, at a ratio of 100 shares for each share of common stock, and adopt a trading lot system, establishing a trading lot of 100 shares, with an effective date one day before the date on which the Settlement Rationalization Law takes effect.

If the said stock split had been implemented at the beginning of the previous period or if it had been implemented at the beginning of the period under review, respective per share information for fiscal 2007 and fiscal 2008 would be as follows.

Fiscal 2007
Net assets per share: ¥3,725
Earnings per share–basic: ¥440
Earnings per share–diluted: Not shown because there are no residual securities

Fiscal 2008
Net assets per share: ¥3,995
Earnings per share–basic: ¥475
Earnings per share–diluted: Not shown because there are no residual securities

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, 2008 and 2007, and the related consolidated statements of income for each of the three years in the period ended March 31, 2008, the consolidated statements of changes in net assets for each of the two years in the period ended March 31, 2008, the consolidated statement of shareholders' equity for the year ended March 31, 2006 and the consolidated statements of cash flows for each of the three years in the period ended March 31, 2008, 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
Implementation of a stock split and adoption of a trading lot system are discussed in Note 20(2) to the consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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 24, 2008