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Eleven-year Summary

East Japan Railway Company and Subsidiaries
Years ended March 31

	2000	2001	2002	2003
Operating Results				
Operating revenues	2,502,909	2,546,041	2,543,378	2,565,671
Operating expenses	2,160,952	2,222,290	2,227,038	2,222,576
Operating income	341,957	323,751	316,340	343,095
Net income	66,963	69,174	47,551	97,986
Segment Information[1]				
Operating Revenues from Outside Customers:				
Transportation	N/A	1,801,370	1,789,599	1,800,434
Station space utilization	N/A	348,994	368,553	368,961
Shopping centers & office buildings	N/A	165,818	165,276	170,321
Other services	N/A	229,859	219,950	225,955
Total	N/A	2,546,041	2,543,378	2,565,671
Segment Information				
Operating Revenues from Outside Customers:				
Transportation	1,799,051	1,805,663	N/A	N/A
Merchandise sales	379,213	386,033	N/A	N/A
Real estate leasing	143,432	152,438	N/A	N/A
Other services	181,213	201,907	N/A	N/A
Total	2,502,909	2,546,041	N/A	N/A
Financial Position				
Total assets	7,308,391	7,247,089	7,022,271	6,853,403
Long-term debt (including current portion)	2,319,664	2,307,483	2,060,838	1,942,983
Railway facilities purchase liabilities (including current portion)[2]	2,499,023	2,392,241	2,318,997	2,174,581
Total long-term debt (sum of two items above)	4,818,687	4,699,724	4,379,835	4,117,564
Shareholders' equity[3]	856,401	923,568	930,746	981,856
Cash Flows				
Cash flows from operating activities	474,715	455,470	455,045	433,304
Cash flows from investing activities	(292,438)	(266,319)	(105,645)	(196,422)
Cash flows from financing activities	(168,133)	(161,109)	(433,589)	(310,658)
Per Share Data[4]				
Earnings	16,741	17,294	11,888	24,453
Shareholders' equity[3]	214,100	230,892	232,687	245,463
Cash dividends[5]	5,000	5,000	5,000	8,000
Ratios				
Net income as a percentage of revenues	2.7	2.7	1.9	3.8
Return on average equity (ROE)	8.3	7.8	5.1	10.2
Ratio of operating income to average assets (ROA)	4.7	4.4	4.4	4.9
Equity ratio	11.7	12.7	13.3	14.3
Total long-term debt to shareholders' equity	5.6	5.1	4.7	4.2
Other Data				
Depreciation	329,583	329,651	321,995	322,564
Capital expenditures[6]	288,106	296,957	301,781	307,579
Interest expense	220,421	205,155	187,601	173,298
Number of consolidated subsidiaries (As of March 31)	96	96	101	101
Number of employees	82,747	82,285	80,200	78,760

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).
4 JR East implemented a stock split at a ratio of 100 shares for 1 share of common stock with an effective date of January 4, 2009. Per share data for Fiscal 2009 reflects the stock split.
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 annual shareholders' 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 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.
8 Accounting Standards for Financial Instruments were adopted beginning with the year ended March 31, 2001.
9 Accounting Standards for Retirement Benefits were adopted beginning with the year ended March 31, 2001. (See Notes 2 (9) and 18 to consolidated financial statements)

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

2004	2005	2006	2007	2008	2009	2010
2,542,297	2,537,481	2,592,393	2,657,346	2,703,564	2,697,000	2,573,724
2,190,877	2,178,946	2,196,293	2,229,248	2,258,404	2,264,445	2,228,875
351,420	358,535	396,100	428,098	445,160	432,555	344,849
119,866	111,592	157,575	175,871	189,673	187,291	120,214
1,798,132	1,781,776	1,805,406	1,825,387	1,857,756	1,831,933	1,757,994
366,438	369,790	383,904	399,998	404,006	415,020	387,104
175,180	181,956	190,466	197,140	205,347	222,628	226,932
202,547	203,959	212,617	234,821	236,455	227,419	201,694
2,542,297	2,537,481	2,592,393	2,657,346	2,703,564	2,697,000	2,573,724
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
6,781,692	6,716,268	6,821,584	6,968,032	6,942,003	6,965,793	6,995,494
1,940,321	1,940,255	1,960,211	2,034,558	2,101,439	2,171,860	2,266,077
2,034,203	1,892,827	1,743,657	1,601,646	1,457,360	1,316,708	1,177,793
3,974,524	3,833,082	3,703,867	3,636,204	3,558,799	3,488,568	3,443,870
1,100,176	1,183,546	1,357,359	1,488,554	1,596,398	1,718,587	1,780,584
387,061	407,737	447,722	541,850	475,601	584,360	479,180
(234,591)	(214,948)	(309,489)	(348,800)	(400,789)	(396,796)	(391,682)
(196,193)	(209,041)	(141,599)	(172,027)	(80,407)	(159,238)	(115,327)
29,928	27,868	39,370	44,008	47,464	469	303
275,052	296,106	339,599	372,493	399,483	4,301	4,501
6,000	6,500	8,000	9,000	10,000	110	110
4.7	4.4	6.1	6.6	7.0	6.9	4.7
11.5	9.8	12.4	12.4	12.3	11.3	6.9
5.2	5.3	5.9	6.2	6.4	6.2	4.9
16.2	17.6	19.9	21.4	23.0	24.7	25.5
3.6	3.2	2.7	2.4	2.2	2.0	1.9
322,300	317,957	316,038	318,526	335,587	343,101	356,365
313,911	319,912	361,372	413,310	417,144	402,582	434,754
160,944	148,431	136,548	131,376	126,047	120,395	112,596
98	92	86	85	82	82	73
77,009	74,923	72,802	71,316	72,214	72,550	71,854

10 Accounting Standards for Impairment of Fixed Assets were early adopted beginning with the year ended March 31, 2005. (See Notes 2 (5) and 10 to consolidated financial statements)

11 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))

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

Forward-looking statements in the following discussion and analysis are judgments of the JR East Group as of March 31, 2010.

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 2010, ended March 31, 2010. JR East continuously assesses those factors. Actual results may differ materially from those estimates, given the uncertainty of forward-looking statements.

PERFORMANCE ANALYSIS

Overview*

In the fiscal year under review, ended March 31, 2010, Japan's economy initially faced extremely uncertain conditions as the dramatic recession that began in the previous fiscal year continued. Although increased exports to Asia and benefits of the economic stimulus package implemented by the Japanese Government spurred a recovery during Fiscal 2010, the recovery was not self-sustaining; the conditions remained challenging, characterized by high levels of unemployment. In addition, railway network transportation volumes decreased due to the March 2009 cut in the maximum expressway toll to ¥1,000 on weekends and national holidays. Amid this business environment, East Japan Railway Company, its consolidated subsidiaries, and equity-method affiliated companies (JR East) worked to continue generating revenues by further improving services in railway operations and developing life-style businesses focused on railway stations. JR East also actively developed businesses that capitalize on *Suica*.

As a result, in the fiscal year, operating revenues decreased by 4.6%, to ¥2,573.7 billion ($27,674 million), due to significantly lower operating revenues from JR East's Transportation segment, and operating income decreased by 20.3 %, to ¥344.8 billion ($3,708 million), due to an increase of depreciation expenses and other factors. Net income was down 35.8%, to ¥120.2 billion ($1,293 million).

Business results by business segment were as follows.

Segment Information

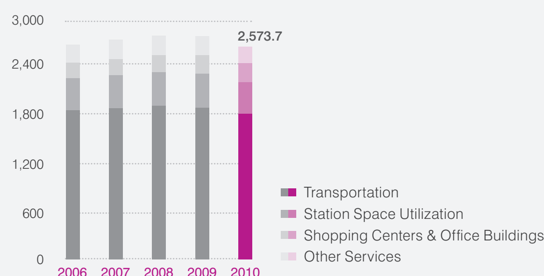
Transportation

In the Transportation segment, with railway operations as its core operations, JR East sought to further improve safety and stability while securing revenues by encouraging use of its Shinkansen network and the Tokyo metropolitan area network.

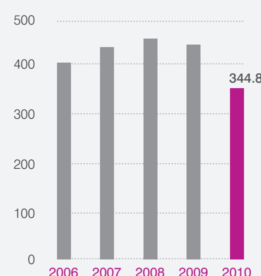
Specifically, JR East increased the number of train services and railcars with seats available for reservations to meet passenger demand. In addition, JR East worked to generate a greater volume of tourism in its service area by implementing tourism campaigns such as the *Yokohama Destination Campaign* and the *Niigata Destination Campaign* and launching a new travel product, *Tabi-Ichi*, which offers exciting local programs. Further, as countermeasures in response to decreased expressway tolls, JR East promoted railway usage by launching a *Two-Day Pass*, a *Weekend Day Trip Pass*, and *Furusato-Yuki-no Josha-ken* and implementing a campaign that combines train services and inexpensive rent-a-car services. For the *Otona no Kyujitsu Club*, JR East worked to expand and improve services for members and increase membership by launching tickets and travel products exclusively for members. Also, JR East improved comfort and convenience for passengers by introducing new type railcars

*Unless otherwise stated, all comparisons are between the fiscal year and the previous fiscal year.

Operating Revenues
Billions of Yen



Operating Income
Billions of Yen



to Joban Line local train services and other lines, revising service schedules in March 2010, opening Musashi-Kosugi Station on the Yokosuka Line, and increasing the number of Narita Express trains. For *Suica*, JR East began mutual use of conventional line IC tickets with Kyushu Railway Company's *SUGOCA*, Nishi-Nippon Railroad's *nimoca*, and Fukuoka City Transportation Bureau's *HAYAKAKEN* in March 2010. In bus operations, JR East worked to increase the competitiveness of express routes by expanding services on short-distance routes and setting fares flexibly. In monorail operations, JR East worked to promote usage through such efforts as selling the *Monorail and Yamanote Line Discount Ticket* for holiday use.

However, railway network transportation volumes decreased due to the effect of economic stagnation and decreased expressway tolls. As a result, the Transportation segment recorded a decrease of 4.3% in operating revenues, to ¥1,808.7 billion ($19,448 million), and a decrease of 25.2% in operating income, to ¥231.3 billion ($2,487 million).

Shinkansen Network

In the Shinkansen network, passenger kilometers decreased 6.0%, to 18.2 billion, because the recession resulted in decreases in usage of long-distance Shinkansen line segments on the Tohoku Shinkansen Line and the Joetsu Shinkansen Line and 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 declined 7.5%, to ¥439.5 billion ($4,726 million), revenues from commuter passes decreased 0.8%, to ¥22.8 billion ($245 million). Non-commuter passes revenues also decreased 7.8%, to ¥416.7 billion ($4,481 million), due to the effects of the recession and decreased expressway tolls; a reduction in usage of long-distance Shinkansen line segments, including Tokyo–Sendai on the Tohoku Shinkansen Line and Tokyo–Niigata on the Joetsu Shinkansen Line; and a reduction in 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.

Kanto Area Network

In the Kanto area network, passenger kilometers decreased 1.3%, to 102.3 billion, because reduced use of limited express services and the effects of typhoons, earthquakes, and decreased expressway tolls offset increased usage arising from the opening of new commercial facilities in areas alongside railway lines. Revenues from passenger tickets declined 2.5%, to ¥1,120.7 billion ($12,051 million), due to decreases in revenues from commuter passes and non-commuter passes revenues. Specifically, revenues from commuter passes declined 1.0%, to ¥449.2 billion ($4,830 million), reflecting an unfavorable employment market. Further, non-commuter passes revenues were down 3.5%, to ¥671.5 billion ($7,220 million), due to reduced use of limited express services and *Green Cars* on local train services and the effects of typhoons and earthquakes.

Other

In the intercity and regional networks, passenger kilometers declined 2.9%, to 6.5 billion, due to reduced use of limited express services. Revenues from passenger tickets were down 4.9%, to ¥80.5 billion ($866 million), as a result of decreases of 1.0% in revenues from commuter passes, to ¥19.8 billion ($213 million) and 6.0% in non commuter passes revenues, to ¥60.7 billion ($653 million).

Station Space Utilization

In the Station Space Utilization segment, JR East promoted its *Station Renaissance* program, which maximizes the value of spaces within railway stations. Specifically, JR East opened the fifth phase of *Dila Ofuna* (Kanagawa) and *ecute Tokyo* (Tokyo). Further, collaborating with the local community, JR East remodeled Echigo-Yuzawa Station to establish stores that highlight regional characteristics and opened *CoCoLo Yuzawa Gangi Dori* (Niigata).

Nevertheless, due to the effect of economic stagnation and transfer of certain operations to the Shopping Centers and Office Buildings segment pursuant to a reorganization of the Group companies, the Station Space Utilization segment recorded a decrease of 7.7% in operating revenues, to ¥400.0 billion ($4,300 million), and a decrease of 12.7% in operating income, to ¥33.3 billion ($358 million).

Shopping Centers and Office Buildings

In the Shopping Centers and Office Buildings segment, JR East began operations at *LUMINE MAN SHIBUYA* (Tokyo), *E'site Ageo* (Saitama), *atrévie Sugamo* (Tokyo), and so on. Also, with AEON Mall Co., Ltd., JR East jointly remodeled *Tsuchiura Station Building*, which resumed operations as *perch Tsuchiura* (Ibaraki).

As a result of these initiatives and transfer of certain operations from the Station Space Utilization segment pursuant to a reorganization of the Group companies, the Shopping Centers and Office Buildings segment recorded an increase of 1.8% in operating revenues to ¥235.8 billion ($2,536 million). However, due to the effect of economic stagnation, the Shopping

Centers and Office Buildings segment posted a decrease of 1.0% in operating income, to ¥69.3 billion ($745 million).

Other Services

In the Other Services segment, JR East continued to strengthen its competitiveness by opening *HOTEL METS Komagome* (Tokyo) and remodeling *Hotel Metropolitan Akita* (Akita). Further, as part of *Rediscovering the Region Projects*, JR East remodeled *Folkloro Iwate Towa* (Iwate) and other facilities. Advertising and publicity operations included promotion of advertisement sales in railway stations, such as *Digital Posters*. In other services operations, JR East began operations at the *Jexer Fitness Club Higashi-Kanagawa* (Kanagawa). Aiming to further strengthen credit card operations, in September 2009 JR East established Viewcard Co., Ltd., and spun off JR East's credit card operations to Viewcard in February 2010. With respect to its *Suica* shopping services (electronic money), JR East continued aggressively developing affiliated stores in urban shopping areas beyond railway stations and began mutual use of electronic money with *SUGOCA*, *nimoca*, *HAYAKAKEN*, and Central Japan Railway Company's *TOICA* from March 2010. As of the end of the fiscal year, *Suica* electronic money was usable at approximately 89,350 stores.

Nevertheless, due to lower revenues of advertising and publicity operations and lower sales of IC-compatible equipment, the Other Services segment recorded a decrease of 3.1% in operating revenues, to ¥528.1 billion ($5,679 million), and a decrease of 21.8% in operating income, to ¥13.5 billion ($145 million).

Operating Income

Operating expenses decreased 1.6%, to ¥2,228.9 billion ($23,966 million). Operating expenses as a percentage of operating revenues was 86.6%, compared with 84.0% in the previous fiscal year. Transportation, other services and cost of sales decreased 1.6%, to ¥1,721.0 billion ($18,505 million), because a decrease in property expenses resulting from lower cost of sales, which accompanied a decline in the sales of consolidated subsidiaries, counteracted an increase in depreciation.

Selling, general and administrative expenses were down 1.4%, to ¥507.9 billion ($5,461 million), which was due to a decrease in personnel expenses.

Operating income was down 20.3%, to ¥344.8 billion ($3,708 million). Operating income as a percentage of operating revenues was 13.4%, compared with 16.0% in the previous fiscal year.

Income before Income Taxes

Other income declined 24.7%, to ¥15.9 billion ($171 million), principally associated with a decrease in dividend income.

Other expenses increased 1.2%, to ¥125.6 billion ($1,351 million), which mainly resulted from an increase in equity in net losses of affiliated companies.

Interest and dividend income and other financial income, net of interest and dividend expense and other financial expenses, amounted to a ¥110.0 billion ($1,183 million) expense, an improvement of 5.7%.

Income before income taxes decreased 33.4%, to ¥214.9 billion ($2,310 million). Income before income taxes as a percentage of operating revenues was 8.3%, a decline from 12.0%.

Net Income

Net income decreased for the second consecutive year, declining 35.8%, to ¥120.2 billion ($1,293 million). Earnings per share were ¥303.35, down from ¥468.68 per share. Further, net income as a percentage of operating revenues was 4.7%, compared with 6.9% in the previous fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Net cash provided by operating activities was down ¥105.2 billion, to ¥479.2 billion ($5,153 million), mainly resulting from a decrease in income before income taxes.

Net cash used in investing activities decreased ¥5.1 billion, to ¥391.7 billion ($4,212 million), which was due to such factors as decreased payments for purchase of fixed assets.

Capital expenditures were as follows. In transportation operations, JR East implemented capital expenditures to further measures for transportation safety and reliability as well as build a highly competitive transportation network. Based on the *Station Renaissance* program, station space utilization operations developed stores at Gotanda Station, Tokyo Station, and other stations. In shopping centers and office buildings operations, JR East undertook capital expenditures for such initiatives as *CIAL PLAT Higashi-Kanagawa* in Kanagawa. At the same time, those operations continued constructing the second phase of *GranTokyo North Tower* in Tokyo as part of construction projects on the Yaesu side of Tokyo Station. In other services, capital expenditures initiatives included the construction of *HOTEL METS Komagome* in Tokyo.

Further, free cash flows decreased ¥100.1 billion, to ¥87.5 billion ($941 million).

Net cash used in financing activities was down ¥43.9 billion, to ¥115.3 billion ($1,240 million), primarily due to a decrease in payments of long-term loans.

Cash and cash equivalents at the end of fiscal 2010, which was ¥110.9 billion at the end of the previous fiscal year, was down ¥27.1 billion, to ¥83.8 billion ($901 million).

Financial Policy

Total long-term debt at the end of fiscal 2010 stood at ¥3,443.9 billion ($37,030 million). That debt consists of long-term liabilities incurred for the purchase of railway facilities associated with JR East's assumption of Shinkansen railway facilities and other facilities, bonds, and long-term loans.

Long-term liabilities incurred for 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. ¥524.7 billion ($5,643 million) payable at a variable interest rate (annual interest rate in fiscal 2010: 4.15%) through March 31, 2017

b. ¥284.0 billion ($3,053 million) payable at a fixed annual interest rate of 6.35% through March 31, 2017

c. ¥348.6 billion ($3,748 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 ¥13.6 billion ($146 million) for the Akita hybrid Shinkansen Line and ¥6.9 billion ($74 million) for the 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 (JRTT). JR East made early repayments of ¥35.4 billion ($382 million) in fiscal 2010.

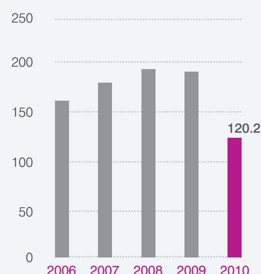
In fiscal 2002, JR East introduced a cash management system that integrated the management of the Group's cash and funding, which previously was carried out separately by subsidiaries, with the aim of reducing JR East's total long-term debt. Also, JR East is enhancing capital management methods that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

In the year ended March 31, 2010, JR East issued nine unsecured straight bonds, with a total nominal amount of ¥190.0 billion ($2,043 million) and maturities from 2013 through 2030. Rating and Investment Information, Inc. (R&I), a Japanese rating agency, rated these bonds AA+. Further, JR East received long-term debt ratings from Standard & Poor's and Moody's of AA– and Aa1, respectively.

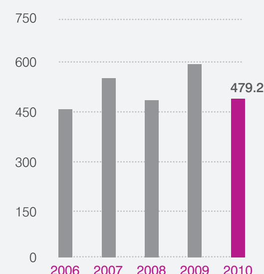
In order to respond to short-term financing requirements, JR East has bank overdraft facilities with its principal banks totaling ¥300.0 billion ($3,226 million). JR East did not have any bank overdrafts on March 31, 2010. R&I and Moody's rated JR East's commercial paper a-1+ and P-1, respectively, as of the end of fiscal 2010. JR East did not have any outstanding commercial paper on March 31, 2010.

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

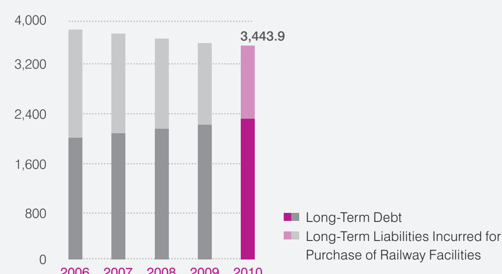
Net Income
Billions of Yen



Cash Flows from Operating Activities
Billions of Yen



Total Long-Term Debt
Billions of Yen



Operational and Other Risk Information

The following are issues related to operational and accounting procedures that may have a significant bearing on the decisions of investors. Forward-looking statements in the following section are based on the assessments of JR East as of March 31, 2010.

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 a partial amendment of the JR Law (hereinafter 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) 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 "three 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 three new companies or among the three 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 three new companies should give consideration to the avoidance of actions that inappropriately obstruct business activities or infringe upon the interests of small and medium-sized companies operating businesses within the operational areas of the new companies that are similar to the businesses of the three 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 condition—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 (hereinafter "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]

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 and to strive for completion as early as possible (JR East has jurisdiction of the Nagano–Joetsu segment of the Hokuriku Shinkansen Line). Furthermore, JR East announced in May 2010 that it aims to begin operations on the Hachinohe–Shin-Aomori segment of the Tohoku Shinkansen Line on December 4, 2010.

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 of the Hokuriku Shinkansen Line, and the Hakata–Shin-Yatsushiro and Takeo-Onsen–Isahaya segments 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 charges paid by the JR Companies 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 service. 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 2010 totaled ¥21.8 billion ($235 million), comprising the fixed amount calculated based on the corresponding benefits of ¥17.5 billion ($188 million) and taxes and maintenance fees of ¥4.3 billion ($46 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 2010 totaled ¥9.3 billion ($100 million), comprising the fixed amount calculated based on the corresponding benefits of ¥7.9 billion ($85 million) and taxes and maintenance fees of ¥1.4 billion ($15 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.

Regarding the development of the Hachinohe–Shin-Aomori segment of the Tohoku Shinkansen Line and the Nagano–Joetsu segment of the Hokuriku Shinkansen Line currently underway, upon confirming that the two aforementioned conditions had been met, in January 1998 JR East agreed to construction.

Changes in relation to the two aforementioned conditions for the construction of new Shinkansen lines could affect the JR East Group's financial condition and business performance.

SAFETY MEASURES

Railway operations can potentially suffer significant damage resulting from natural disasters, human error, crime, terrorism, the large-scale spread of infectious diseases, or other factors.

JR East regards ensuring safety as a major issue that fundamentally underpins its operations. Based on a 5-year safety plan covering the period through fiscal 2014, *2013 Safety Vision*, JR East is taking measures to build a railway with high safety levels by addressing infrastructural and operational issues.

Specifically, to prevent train accidents, JR East has continued to introduce ATS-P and ATS-Ps systems, which automatically stop trains to prevent collisions and excessive speed, particularly on curved track sections on conventional lines. In particular, in light of the derailment that occurred on the Uetsu Line in 2005, JR East continued to increase the installation of wind speed measurement equipment and moved forward with the introduction of windbreak fences and gale warning systems. With respect to countermeasures for earthquakes, JR East continued to reinforce elevated railway tracks and extended the coverage of the Early Earthquake Alert System for conventional lines, which makes it possible to stop trains more quickly in the event of a major earthquake, from the Tokyo metropolitan area to include all line segments within JR East's service area. Also, as a measure to prevent accidents at railway crossings, JR East installed equipment for detecting obstacles. In addition, aiming to prevent accidents on railway station platforms, JR East moved forward with construction for the advance introduction of automatic platform gates to Ebisu Station and Meguro Station on the Yamanote Line.

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 error, 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 condition and business performance.

JR East takes measures to prevent damage, such as continuously upgrading the functions of in-house systems and training 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, office buildings, restaurants and stores in railway 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 railway 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 condition and business performance.

In railway operations, intensified competition in the transportation market could affect earnings from JR East's transportation operations. Such competition includes the advancement of large-scale upgrading works by other railway operators, the commencement of services on the Narita New Rapid Line, 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 2010, total long-term debt was ¥3,443.9 billion ($37,030 million). In addition, interest expense amounted to ¥112.6 billion ($1,211 million) in fiscal 2010, which was equivalent to 32.7% of operating income. JR East will continue to reduce total long-term debt and refinance to obtain lower interest rates. However, a reduction in free cash flows due to unforeseen circumstances or a change in borrowing rates due to fluctuation in interest rates could affect JR East's financial condition and business performance.

COMPLIANCE

The JR East Group conducts operations in a variety of areas that include railway operations, life-style businesses, and businesses based on the use of *Suica* pursuant to the stipulations of related statutory laws and regulations such as the Railway Business Law and conducts operations in adherence to corporate ethics. However, becoming subject to administrative measures or losing public confidence due to a breach of those statutory laws and regulations or corporate ethics could affect the JR East Group's financial condition and business performance.

The JR East Group, in addition to establishing the Legal Compliance and Corporate Ethics Guidelines, works to ensure legal compliance through such initiatives as strengthening employee education about legal compliance and checking the status of compliance with statutory laws and regulations that relate to the overall operations.

REDUCTION OF EXPRESSWAY TOLLS

An upper limit of ¥1,000 for expressway tolls on weekends and national holidays, which the Japanese Government introduced from March 2009 as part of economic measures, is significantly affecting the JR East Group and its earnings from railway operations. In addition, with a view to introducing toll-free expressways, the government's plans call for the removal of tolls on 50 expressway segments of 37 routes nationwide on a trial basis from June 2010. Further, the government plans to introduce a new toll system that will set upper limits on tolls of ¥2,000 for ordinary automobiles and ¥5,000 for large vehicles. Such reductions in expressway tolls could affect the JR East Group's financial condition and financial results.

Consolidated Balance Sheets

East Japan Railway Company and Subsidiaries
March 31, 2009 and 2010

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2009	2010	2010
Assets			
Current Assets:			
Cash and cash equivalents (Notes 3 and 7)	¥ 110,871	¥ 83,756	$ 901
Receivables (Note 7):			
Accounts receivable–trade	286,328	295,335	3,176
Unconsolidated subsidiaries and affiliated companies	7,384	7,213	78
Other	18,194	14,841	159
Allowance for doubtful accounts (Note 2 (4))	(2,819)	(2,294)	(25)
	309,087	315,095	3,388
Inventories (Notes 2 (5) and 4)	36,494	45,100	485
Real estate for sale (Notes 2 (6) and 5)	3,756	2,667	29
Deferred income taxes (Note 19)	50,114	46,567	501
Other current assets	48,505	44,469	477
Total current assets	558,827	537,654	5,781
Investments:			
Unconsolidated subsidiaries and affiliated companies (Notes 2 (2), (3) and 6)	34,472	32,549	350
Other (Notes 2 (7), 7 and 8)	106,462	117,552	1,264
	140,934	150,101	1,614
Property, Plant and Equipment (Notes 2 (8), 9, 10 and 21):			
Buildings	2,077,712	2,124,800	22,847
Fixtures	5,239,973	5,334,651	57,362
Machinery, rolling stock and vehicles	2,340,701	2,417,163	25,991
Land	2,007,490	2,008,435	21,596
Construction in progress	195,979	221,988	2,387
Other	158,688	170,607	1,835
	12,020,543	12,277,644	132,018
Less accumulated depreciation	6,182,346	6,399,377	68,811
Net property, plant and equipment	5,838,197	5,878,267	63,207
Other Assets:			
Long-term deferred income taxes (Note 19)	256,756	263,207	2,830
Other	171,079	166,265	1,788
	427,835	429,472	4,618
	¥ 6,965,793	¥ 6,995,494	$ 75,220

See accompanying notes.

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2009	2010	2010
Liabilities and Net Assets			
Current Liabilities:			
Current portion of long-term debt (Notes 7, 9 and 11)	¥ 208,198	¥ 190,102	$ 2,044
Current portion of long-term liabilities incurred for purchase of railway facilities (Notes 7, 9 and 12)	137,926	128,842	1,385
Prepaid railway fares received	87,649	86,637	932
Payables (Note 7):			
Accounts payable–trade	43,311	44,017	473
Unconsolidated subsidiaries and affiliated companies	47,503	56,870	612
Other	432,848	467,488	5,027
	523,662	568,375	6,112
Accrued expenses	105,475	101,831	1,095
Accrued consumption tax (Notes 7 and 13)	13,524	4,658	50
Accrued income taxes (Notes 2 (12), 7 and 19)	74,717	35,057	377
Other current liabilities	30,057	40,363	434
Total current liabilities	1,181,208	1,155,865	12,429
Long-Term Debt (Notes 7, 9 and 11)	1,963,662	2,075,975	22,322
Long-Term Liabilities Incurred for Purchase of Railway Facilities (Notes 7, 9 and 12)	1,178,782	1,048,951	11,279
Employees' Severance and Retirement Benefits (Notes 2 (9) and 18)	644,468	671,512	7,220
Deposits Received for Guarantees	153,506	145,243	1,562
Long-Term Deferred Tax Liabilities (Note 19)	1,642	1,864	20
Other Long-Term Liabilities	97,819	88,537	952
Contingent Liabilities (Note 14)			
Net Assets (Note 15):			
Common stock:			
Authorized 1,600,000,000 shares;			
Issued, 2010—400,000,000 shares;			
Outstanding, 2010—395,570,947 shares	200,000	200,000	2,151
Capital surplus	96,733	96,733	1,040
Retained earnings	1,424,739	1,501,637	16,147
Treasury stock, at cost, 4,429,053 shares in 2010	(2,878)	(25,832)	(278)
Net unrealized holding gains on securities	63	8,656	93
Net deferred losses on derivatives under hedge accounting	(70)	(610)	(7)
Minority interests	26,119	26,963	290
Total net assets	1,744,706	1,807,547	19,436
	¥6,965,793	¥6,995,494	$75,220

Consolidated Statements of Income

East Japan Railway Company and Subsidiaries
Years ended March 31, 2008, 2009 and 2010

			Millions of Yen	Millions of U.S. Dollars (Note 2 (1))
	2008	2009	2010	2010
Operating Revenues (Note 22)	¥2,703,564	¥2,697,000	¥2,573,724	$27,674
Operating Expenses (Note 22):				
Transportation, other services and cost of sales	1,748,293	1,749,262	1,720,974	18,505
Selling, general and administrative expenses	510,111	515,183	507,901	5,461
	2,258,404	2,264,445	2,228,875	23,966
Operating Income (Note 22)	445,160	432,555	344,849	3,708
Other Income (Expenses):				
Interest expense on short- and long-term debt	(44,412)	(46,409)	(45,329)	(487)
Interest expense incurred for purchase of railway facilities	(81,635)	(73,986)	(67,267)	(723)
Loss on sales of fixed assets	(2,820)	(3,418)	(2,033)	(22)
Environmental conservation costs	(1,577)	(3,697)	(6,484)	(70)
Impairment losses on fixed assets (Notes 2 (15) and 10)	(11,712)	(946)	(5,801)	(62)
Losses on devaluation of investment in securities (Note 2 (7))	—	(10,795)	—	—
Interest and dividend income	3,069	3,767	2,619	28
Equity in net income (loss) of affiliated companies	91	344	(5,283)	(57)
Gain on sales of transferable development air rights	—	—	16,891	182
Gain on sales of fixed assets	10,448	16,908	2,087	22
Other, net	11,500	8,161	(19,375)	(209)
	(117,048)	(110,071)	(129,975)	(1,398)
Income before Income Taxes	328,112	322,484	214,874	2,310
Income Taxes (Notes 2 (12) and 19):				
Current	127,224	134,638	100,191	1,077
Deferred	9,374	(1,508)	(7,706)	(83)
Minority Interests in Net Income of Consolidated Subsidiaries	(1,841)	(2,063)	(2,175)	(23)
Net Income	¥ 189,673	¥ 187,291	¥ 120,214	$ 1,293

			Yen	U.S. Dollars (Note 2 (1))
Earnings per Share (Note 2 (13))	¥47,464	¥469	¥303	$3

See accompanying notes.

Consolidated Statements of Changes in Net Assets

East Japan Railway Company and Subsidiaries
Years ended March 31, 2008, 2009 and 2010

		Millions of Yen							
	Number of Issued Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Net Unrealized Holding Gains (Losses) on Securities	Net Deferred Gains (Losses) on Derivatives under Hedge Accounting	Minority Interests	Total
Balance at March 31, 2007	4,000,000	¥200,000	¥96,721	¥1,127,234	¥ (2,595)	¥ 66,969	¥ 225	¥24,551	¥1,513,105
Cash dividends (¥9,500 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
Cash dividends (¥105 per share)	—	—	—	(41,968)	—	—	—	—	(41,968)
Net income	—	—	—	187,291	—	—	—	—	187,291
Increase due to addition of consolidated subsidiaries and other	—	—	—	474	—	—	—	—	474
Purchase of treasury stock	—	—	—	—	(276)	—	—	—	(276)
Disposal of treasury stock	—	—	5	—	29	—	—	—	34
Other	—	—	—	—	—	(24,310)	944	511	(22,855)
Increase due to stock split	396,000,000	—	—	—	—	—	—	—	—
Balance at March 31, 2009	400,000,000	¥200,000	¥96,733	¥1,424,739	¥ (2,878)	¥ 63	¥ (70)	¥26,119	¥1,744,706
Cash dividends (¥110 per share)	—	—	—	(43,746)	—	—	—	—	(43,746)
Net income	—	—	—	120,214	—	—	—	—	120,214
Increase due to merger	—	—	—	738	—	—	—	—	738
Change of scope of consolidation	—	—	—	654	—	—	—	—	654
Change of scope of equity method	—	—	—	(962)	—	—	—	—	(962)
Purchase of treasury stock	—	—	—	—	(22,957)	—	—	—	(22,957)
Disposal of treasury stock	—	—	(0)	—	3	—	—	—	3
Other	—	—	—	—	—	8,593	(540)	844	8,897
Balance at March 31, 2010	400,000,000	¥200,000	¥96,733	¥1,501,637	¥(25,832)	¥ 8,656	¥ (610)	¥26,963	¥1,807,547

		Millions of U.S. Dollars (Note 2(1))							
	Number of Issued Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Net Unrealized Holding Gains (Losses) on Securities	Net Deferred Gains (Losses) on Derivatives under Hedge Accounting	Minority Interests	Total
Balance at March 31, 2009	4,000,000,000	$2,151	$1,040	$15,319	$ (31)	$ 1	$(1)	$281	$18,760
Cash dividends ($1.18 per share)	—	—	—	(470)	—	—	—	—	(470)
Net income	—	—	—	1,293	—	—	—	—	1,293
Increase due to merger	—	—	—	8	—	—	—	—	8
Change of scope of consolidation	—	—	—	7	—	—	—	—	7
Change of scope of equity method	—	—	—	(10)	—	—	—	—	(10)
Purchase of treasury stock	—	—	—	—	(247)	—	—	—	(247)
Disposal of treasury stock	—	—	(0)	—	0	—	—	—	0
Other	—	—	—	—	—	92	(6)	9	95
Balance at March 31, 2010	400,000,000	$2,151	$1,040	$16,147	$(278)	$93	$(7)	$290	$19,436

See accompanying notes.

Consolidated Statements of Cash Flows

East Japan Railway Company and Subsidiaries
Years ended March 31, 2008, 2009 and 2010

			Millions of Yen	Millions of U.S. Dollars (Note 2 (1))
	2008	2009	2010	2010
Cash Flows from Operating Activities:				
Income before income taxes	¥ 328,112	¥ 322,484	¥ 214,874	$ 2,310
Depreciation (Note 22)	335,587	343,101	356,365	3,832
Impairment losses on fixed assets	11,712	946	5,801	62
Amortization of long-term prepaid expense	5,377	5,614	6,269	67
Net change in employees' severance and retirement benefits	15,665	27,378	27,112	292
Interest and dividend income	(3,069)	(3,767)	(2,619)	(28)
Interest expense	126,047	120,395	112,596	1,211
Construction grants received	(97,556)	(60,042)	(58,125)	(625)
Loss from disposition and provision for cost reduction of fixed assets	111,765	80,249	83,857	902
Net change in major receivables	(26,289)	(10,673)	(10,409)	(112)
Net change in major payables	(41,825)	(8,111)	8,893	96
Other	(16,872)	5,210	(13,838)	(149)
Subtotal	748,654	822,784	730,776	7,858
Proceeds from interest and dividends	3,282	3,969	2,823	30
Payments of interest	(124,887)	(120,978)	(113,429)	(1,220)
Payments of earthquake-damage losses	(2,849)	(1,471)	(418)	(4)
Payments of income taxes	(148,599)	(119,944)	(140,572)	(1,511)
Net cash provided by operating activities	475,601	584,360	479,180	5,153
Cash Flows from Investing Activities:				
Payments for purchases of fixed assets	(488,211)	(460,504)	(446,232)	(4,798)
Proceeds from sales of fixed assets	16,290	27,221	5,834	63
Proceeds from construction grants	67,985	55,382	45,331	487
Proceeds from sales of transferable development air rights	13,343	—	13,674	147
Payments for purchases of investment in securities	(17,070)	(15,452)	(7,000)	(75)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	—	—	486	5
Other	6,874	(3,443)	(3,775)	(41)
Net cash used in investing activities	(400,789)	(396,796)	(391,682)	(4,212)
Cash Flows from Financing Activities:				
Proceeds from long-term loans	170,500	130,000	112,300	1,208
Payments of long-term loans	(202,001)	(134,630)	(88,714)	(954)
Proceeds from issuance of bonds	138,314	174,982	190,000	2,043
Payments for redemption of bonds	(40,000)	(100,000)	(120,000)	(1,290)
Payments of liabilities incurred for purchase of railway facilities	(144,285)	(140,652)	(138,915)	(1,494)
Payments for acquisition of treasury stock	(52)	(57)	(22,957)	(247)
Cash dividends paid	(37,971)	(41,968)	(43,746)	(470)
Other	35,088	(46,913)	(3,295)	(36)
Net cash used in financing activities	(80,407)	(159,238)	(115,327)	(1,240)
Net Increase (Decrease) in Cash and Cash Equivalents	(5,595)	28,326	(27,829)	(299)
Cash and Cash Equivalents at Beginning of Year	86,980	82,058	110,871	1,192
Increase due to Addition of Consolidated Subsidiaries and Other	673	487	807	9
Decrease in Cash and Cash Equivalents due to Corporate Division	—	—	(93)	(1)
Cash and Cash Equivalents at End of Year	¥ 82,058	¥ 110,871	¥ 83,756	$ 901

See accompanying notes.

Notes to Consolidated Financial Statements

East Japan Railway Company and Subsidiaries
Years ended March 31, 2008, 2009 and 2010

NOTE 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, 1,705 railway stations and 7,526.8 operating kilometers as of March 31, 2010.

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

Prior to December 1, 2001, in accordance with the provisions of the Law for Passenger Railway Companies and Japan Freight Railway Company (JR Law), the Company was required to obtain approval from the Minister of Land, Infrastructure, 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 11).

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

1) Basis of Presentation of Financial Statements

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

The 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 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, 2010, which was ¥93 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, 2010, 73 subsidiaries were consolidated. During

this fiscal year, two companies were newly consolidated, and eleven companies were excluded from consolidation.

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. During this fiscal year, UQ Communications Inc. was added as an affiliated company accounted for by the equity method due to its increased significance, and there were three affiliated companies accounted for by the equity method.

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

Real estate for sale is stated at identified cost (carrying amount in the balance sheet is calculated with consideration of write- downs due to decreased profitability of inventories). The said write-down amount is included in operating expenses. However, for the years ended March 31, 2008, 2009 and 2010, these were 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, 2008, 2009 and 2010.
(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 net assets 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 that 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
Machinery, rolling stock and vehicles	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. 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.

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. Such treatment was completed during this fiscal year.

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

With respect to finance lease transactions that do not transfer ownership, previously the Companies used accounting methods in accordance with those for normal lease transactions. However, from the year ended March 31, 2009, the Companies adopted Accounting Standard for Lease Transactions (Accounting Standards Board of Japan Statement No. 13, revised March 30, 2007) and Guidance on Accounting Standard for Lease Transactions (Accounting Standards Board of Japan Guidance No. 16, revised March 30, 2007) and implemented accounting treatments in adherence with those for normal sales transactions. In addition, for finance lease transactions that do not transfer ownership to the lessee with lease transaction commencement dates on or before March 31, 2008, the Companies will continue to use accounting treatments in adherence with those for normal lease transactions. The effect of those changes is negligible.

11) Accounting for Research and Development Costs

According to the Accounting Standard for Research and Development Costs, etc., in Japan, research and development costs are recognized as they are incurred. Research and development costs included in operating expenses for the years ended March 31, 2008, 2009 and 2010 were ¥15,649 million, ¥16,403 million and ¥16,487 million ($177 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.

Pursuant to the resolutions at the meetings of the Board of Directors held on April 28, 2008 and December 17, 2008, and approval of amendments to the Articles of Incorporation at the 21st annual shareholders' meeting held on June 24, 2008, the Company implemented a stock split of 100 shares for 1 share of common stock and adopted a unit share system under which 1 trading unit comprises 100 shares with an effective date of January 4, 2009, and the number of issued shares increased 396,000,000 shares, to 400,000,000 shares.

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 amount, 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.

NOTE 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.

NOTE 4: INVENTORIES

Inventories at March 31, 2009 and 2010 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2009	2010	2010
Merchandise and finished goods	¥ 7,937	¥ 7,278	$ 78
Work in process	6,076	15,496	167
Raw materials and supplies	22,481	22,326	240
	¥36,494	¥45,100	$485

NOTE 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.

NOTE 6: INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATED COMPANIES

Investments in and advances to unconsolidated subsidiaries and affiliated companies at March 31, 2009 and 2010 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2009	2010	2010
Unconsolidated subsidiaries:			
Investments	¥ 4,229	¥ 4,659	$ 50
Advances	502	385	4
	4,731	5,044	54
Affiliated companies:			
Investments (including equity in earnings of affiliated companies)	29,741	27,505	296
	¥34,472	¥32,549	$350

NOTE 7: FINANCIAL INSTRUMENTS

1) Items relating to the status of financial instruments

a) Policy in relation to financial instruments

If surplus funds arise, the Companies use only financial assets with high degrees of safety for the management of funds.
The Companies principally use bond issuances and bank loans in order to raise funds. Further, the Companies use derivatives to reduce risk, as described below, and do not conduct speculative trading.

b) Details of financial instruments and related risk

Trade receivables are exposed to credit risk in relation to customers, transportation operators with connecting railway services, and other parties. Further, short-term loans receivable, which principally comprise loans receivable as a result of credit card cashing services, are exposed to credit risk in relation to customers. Regarding the said risk, pursuant to the internal regulations of the Companies, due dates and balances are managed appropriately for each counterparty. Securities are exposed to market price fluctuation risk. Substantially all of trade payables—payables, accrued consumption tax, and accrued income taxes—have payment due dates within one year. Bonds and loans are exposed to risk associated with inability to make payments on due dates because of unforeseen decreases in free cash flow. Further, certain bonds and loans are exposed to market price fluctuation risk (foreign exchange / interest rates). Long-term liabilities incurred for purchase of railway facilities are liabilities with regard to the Japan Railway Construction, Transport and Technology Agency and, pursuant to the Law Related to the Transference of Shinkansen Railway Facilities, comprise principally of (interest-bearing) debts related to the Company's purchase of Shinkansen railway facilities for a total purchase price of ¥3,106,970 million from the Shinkansen Holding Corporation on October 1, 1991. The Company pays such purchase price, based on regulations pursuant to the Law Related to the Transference of Shinkansen Railway Facilities, enacted in 1991, and other laws, in semiannual installments calculated using the equal payment method, whereby interest and principal are paid in equal amounts semiannually, based on interest rates approved by the Minister of Land, Infrastructure, Transport and Tourism (at the time of enactment). Long-term liabilities incurred for purchase of railway facilities are exposed to risk associated with inability to make payments on due dates because of a decrease in free cash flow for unforeseen reasons. Further, certain long-term liabilities incurred for purchase of railway facilities are exposed to market price fluctuation risk (interest rates).

c) Risk management system for financial instruments

The Companies use forward exchange contract transactions, currency swap transactions, and interest rate swap transactions with the aim of avoiding risk (market risk) related to fluctuation in future market prices (foreign exchange / interest rates) in relation to, among others, bonds and loans. 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 expenditure fluctuation risk due to natural disasters. Because all of the derivative transaction contracts that the Companies enter into are transactions whose counterparties are financial institutions that have high creditworthiness, the Companies believe that there is nearly no risk of parties to contracts defaulting on obligations. Under the basic policy approved by the Board of Directors, with the aim of appropriately executing transactions and risk management, financial departments in the relevant companies process those derivative transactions following appropriate internal procedures or approval of the Board of Directors, based on relevant internal regulations.

d) Supplementary explanation of items relating to the fair values of financial instruments

The fair values of financial instruments include market prices or reasonably estimated values if there are no market prices. Because estimation of fair values incorporates variable factors, adopting different assumptions can change the values.

2) Items relating to the fair values of financial instruments

Amounts recognized for selective items in the consolidated balance sheet as of March 31, 2010, fair values of such items, and the differences between such amounts and values are shown below. Further, items for which fair values are extremely difficult to establish are not included in the following table.

	Millions of Yen			Millions of U.S. Dollars		
	Consolidated balance sheet amount	Fair value	Difference	Consolidated balance sheet amount	Fair value	Difference
a Cash and cash equivalents	¥ 83,756	¥ 83,756	—	$ 901	$ 901	—
b Receivables	317,389	317,389	—	3,413	3,413	—
c Securities						
Held-to-maturity debt securities	160	160	0	2	2	0
Available-for-sale securities	107,972	107,972	—	1,161	1,161	—
Assets	¥ 509,277	¥ 509,277	¥ 0	$ 5,477	$ 5,477	$ 0
a Payables	568,375	568,375	—	6,112	6,112	—
b Accrued consumption tax	4,658	4,658	—	50	50	—
c Accrued income taxes	35,057	35,057	—	377	377	—
d Long-term debt						
Bonds	1,489,525	1,558,196	68,671	16,016	16,755	739
Long-term loans	776,552	788,612	12,060	8,350	8,480	130
e Long-term liabilities incurred for purchase of railway facilities	1,177,793	1,593,612	415,819	12,664	17,135	4,471
Liabilities	¥4,051,960	¥4,548,510	¥496,550	$43,569	$48,909	$5,340
Derivative transactions*						
a Hedge accounting not applied	1,851	1,851	—	20	20	—
b Hedge accounting applied	(1,159)	(1,159)	—	(12)	(12)	—

* Net receivables / payables arising from derivatives are shown. Items that are net payables are shown in parenthesis.

1 Items relating to securities, derivatives transactions, and method of estimating the fair values of financial instruments

Assets

a. Cash and cash equivalents

b. Receivables

Because these assets are settled over short terms, fair values and book values are nearly equivalent. Therefore, relevant book values are used.

c. Securities

The fair values of these securities are based mainly on market prices.

Liabilities

a. Payables

b. Accrued consumption tax

c. Accrued income taxes

Because these liabilities are settled over short terms, fair values and book values are nearly equivalent. Therefore, relevant book values are used.

d. Long-term debt

Bonds

The fair values of domestic bonds are based on market prices.

The fair values of foreign currency denominated bonds, which are subject to treatment using foreign currency swaps, are estimated by discounting the foreign currency swaps and future cash flows treated in combination with them based on estimated interest rates if similar domestic bonds were newly issued.

Long-term loans

The fair values of long-term loans are principally estimated by discounting future cash flows based on estimated interest rates if similar new loans were implemented. Further, the fair values of certain long-term loans, which are subject to treatment using foreign currency swaps or interest rate swaps, are estimated by discounting the foreign currency swaps or interest rate swaps and future cash flows treated in combination with them based on estimated interest rates if similar new loans were implemented.

e. Long-term liabilities incurred for purchase of railway facilities

Because these liabilities are special monetary liabilities that are subject to constraints pursuant to laws and statutory regulations and not based exclusively on free agreement between contracting parties in accordance with market principles, and because repeating fund raising using similar methods would be difficult, as stated in "1) Items relating to the status of financial instruments, b. Details of financial instruments and related risk," the fair values of long-term liabilities incurred for purchase of railway facilities are estimated by assuming that future cash flows were raised through bonds, the Company's basic method of fund raising, and discounting them based on estimated interest rates if similar domestic bonds were newly issued. Further, certain long-term liabilities incurred for purchase of railway facilities with variable interest rates are estimated based on the most recent interest rates, notification of which is provided by the Japan Railway Construction, Transport and Technology Agency.

Derivative Transactions (See Note 17)

2 Financial instruments whose fair values are extremely difficult to determine

	Consolidated balance sheet amount	
Classification	Millions of Yen	Millions of U.S. Dollars
Unlisted equity securities	¥6,336	$68
Preferred equity securities	1,000	11

Because the fair values of these financial instruments are extremely difficult to determine, given that they do not have market prices and future cash flows cannot be estimated, they are not included in "c Securities—Available-for-sale securities."

3 The amounts recognized in the consolidated balance sheet and fair values related to bonds, long-term loans, and long-term liabilities incurred for purchase of railway facilities include, respectively, the current portion of bonds, the current portion of long-term loans, and the current portion of long-term liabilities incurred for purchase of railway facilities.

4 The redemption schedule for monetary claims and held-to-maturity debt securities after the consolidated balance sheet date

	Millions of Yen				Millions of U.S. Dollars			
	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
Cash and cash equivalents	¥ 83,756	¥ —	¥—	¥—	$ 901	$—	$—	$—
Receivables	308,643	8,731	15	—	3,319	94	0	—
Securities								
Held-to-maturity debt securities (Government bonds)	140	10	—	10	2	0	—	0
Available-for-sale securities which have maturity (Government bonds)	—	—	6	—	—	—	0	—
Total	¥392,539	¥8,741	¥21	¥10	$4,222	$94	$ 0	$ 0

5 The annual maturities of bonds, long-term loans, and long-term liabilities incurred for purchase of railway facilities at March 31, 2010 (See Note 11 and 12).

(Additional information)
From this fiscal year, the Companies adopted Accounting Standard for Financial Instruments (Accounting Standards Board of Japan Statement No.10) (March 10, 2008) and Guidance on Disclosures about Fair Value of Financial Instruments (Accounting Standards Board of Japan Guidance No.19) (March 10, 2008).

NOTE 8: SECURITIES

For held-to-maturity debt securities, the amount on balance sheets and market value at March 31, 2009 and 2010 were as follows:

	Millions of Yen						Millions of U.S. Dollars		
	2009			2010			2010		
	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.	¥159	¥160	¥ 1	¥150	¥150	¥ 0	$2	$2	$ 0
Of which market value does not exceed the amount on balance sheet:									
Government, municipal bonds, etc.	—	—	—	10	10	(0)	0	0	(0)
Total	¥159	¥160	¥ 1	¥160	¥160	¥ 0	$2	$2	$(0)

Note: From this fiscal year held-to-maturity debt securities include not only securities with market value but also securities without market value.

For available-for-sale securities, the acquisition cost and amount on balance sheets at March 31, 2009 and 2010 were as follows:

	Millions of Yen						Millions of U.S. Dollars		
	2009			2010			2010		
	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	¥24,636	¥40,554	¥ 15,918	¥45,209	¥ 70,629	¥ 25,420	$ 486	$ 759	$ 273
Debt securities	206	206	0	6	6	0	0	0	0
Of which amount on balance sheet does not exceed the acquisition cost:									
Equity shares	72,191	57,119	(15,072)	48,264	37,337	(10,927)	519	402	(117)
Debt securities	11	10	(1)	—	—	—	—	—	—
Total	¥97,044	¥97,889	¥ 845	¥93,479	¥107,972	¥ 14,493	$1,005	$1,161	$ 156

Note: From this fiscal year available-for-sale securities include not only securities with market value but also securities without market value.

NOTE 9: PLEDGED ASSETS

At March 31, 2009 and 2010, buildings and fixtures with net book value of ¥27,554 million and ¥26,616 million ($286 million), respectively, and other assets with net book value of ¥245 million and ¥1,021 million ($11 million), respectively, were pledged as collateral for long-term debt and other liabilities totaling ¥3,398 million and ¥3,260 million ($35 million), at the respective dates.

In addition, at March 31, 2009 and 2010, buildings and fixtures with net book value of ¥49,480 million and ¥47,403 million ($510 million), respectively, and other assets with net book value of ¥7,397 million and ¥7,099 million ($76 million), respectively, were pledged as collateral for long-term liabilities incurred for purchase of the Tokyo Monorail facilities amounting to ¥8,566 million and ¥6,896 million ($74 million) at March 31, 2009 and 2010, respectively (see Note 12).

NOTE 10: IMPAIRMENT LOSSES ON FIXED ASSETS

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

As of fiscal 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 years ended March 31, 2009 and 2010, because related items were insignificant.

NOTE 11: LONG-TERM DEBT

Long-term debt at March 31, 2009 and 2010 is summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2009	2010	2010
General mortgage bonds issued in 1997 to 2001 with interest rates ranging from 1.70% to 3.30% due in 2010 to 2021	¥ 359,900	¥ 239,900	$ 2,580
Unsecured bonds issued in 2002 to 2010 with interest rates ranging from 0.54% to 2.55% due in 2011 to 2033	820,822	1,010,842	10,869
Secured loans due in 2010 to 2016 principally from banks and insurance companies with interest rates mainly ranging from 2.80% to 6.50%	2,877	2,719	29
Unsecured loans due in 2010 to 2036 principally from banks and insurance companies with interest rates mainly ranging from 1.00% to 6.00%	749,527	773,833	8,321
Euro-pound bonds issued in 2006 to 2007 with interest rates ranging from 4.50% to 5.25% due in 2031 to 2036	238,734	238,783	2,567
	2,171,860	2,266,077	24,366
Less current portion	208,198	190,102	2,044
	¥1,963,662	¥2,075,975	$22,322

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 annual maturities of bonds at March 31, 2010 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2011	¥ 60,000	$ 645
2012	110,000	1,183
2013	90,000	968
2014	80,000	860
2015	75,000	807
2016 and thereafter	1,075,859	11,568

The annual maturities of long-term loans at March 31, 2010 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2011	¥130,102	$1,399
2012	124,112	1,335
2013	133,979	1,441
2014	128,909	1,386
2015	123,460	1,327
2016 and thereafter	135,990	1,462

NOTE 12: LONG-TERM LIABILITIES INCURRED FOR PURCHASE OF RAILWAY FACILITIES

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

The long-term liabilities incurred for purchase of railway facilities outstanding at March 31, 2009 and 2010 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2009	2010	2010
The long-term liability incurred for purchase of the Tohoku and Joetsu Shinkansen facilities:			
Payable semiannually including interest at a rate currently approximating 4.15% through 2017	¥ 627,950	¥ 524,729	$ 5,643
Payable semiannually including interest at 6.35% through 2017	315,310	283,965	3,053
Payable semiannually including interest at 6.55% through 2051	350,203	348,592	3,748
	1,293,463	1,157,306	12,444
The long-term liability incurred for purchase of the Akita hybrid Shinkansen facilities:			
Payable semiannually at an average rate currently approximating 1.32% through 2022	14,679	13,591	146
The long-term liability incurred for purchase of the Tokyo Monorail facilities:			
Payable semiannually at an average rate currently approximating 2.90% through 2029	8,566	6,896	74
	1,316,708	1,177,793	12,664
Less current portion:			
The Tohoku and Joetsu Shinkansen purchase liability	136,257	127,248	1,368
The Akita hybrid Shinkansen purchase liability	1,040	1,041	11
Tokyo Monorail purchase liability	629	553	6
	137,926	128,842	1,385
	¥1,178,782	¥1,048,951	$11,279

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, 2010 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2011	¥128,842	$1,385
2012	124,589	1,340
2013	129,920	1,397
2014	126,276	1,358
2015	121,274	1,304
2016 and thereafter	546,892	5,880

NOTE 13: CONSUMPTION TAX

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

NOTE 14: 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, 2010 were ¥70,000 million ($753 million) and ¥100,000 million ($1,075 million) by general bonds.

NOTE 15: NET ASSETS

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 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.

In addition, under the Corporate Law, by resolution of shareholders' meeting, 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 2010, the shareholders approved cash dividends amounting to ¥21,763 million ($234 million). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2010. Such appropriations are recognized in the period in which they are approved by the shareholders.

NOTE 16: INFORMATION REGARDING CERTAIN LEASES

As mentioned in Note 2 (10), for finance lease transactions that do not transfer ownership from fiscal years beginning on or after April 1, 2008, the Companies adopted the accounting standard and implemented accounting treatments in adherence with those for normal sales transactions.

The amounts of finance lease obligations at March 31, 2009 and 2010 were negligible.

In addition, for finance lease transactions that do not transfer ownership on or before March 31, 2008, the Companies will continue to use accounting treatments in adherence with those for normal lease transactions.

Under such finance leases, lease payments, which were charged to income for the year ended March 31, 2008, amounted to ¥12,039 million. Lease income which was credited to income for the year ended March 31, 2008 was ¥4,995 million.

Future lease payments inclusive of interest were ¥28,796 million, including due in one year of ¥11,211 million, and future lease receipts inclusive of interest were ¥16,456 million, including due in one year of ¥4,545 million, at March 31, 2008.

The amounts of lease payments, lease income, future lease payments inclusive of interest and future lease receipts inclusive of interest at March 31, 2009 and 2010 were negligible, so presentation has been omitted.

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

The amounts of operating leases at March 31, 2009 and 2010 were negligible, so presentation has been omitted.

NOTE 17: INFORMATION FOR DERIVATIVE TRANSACTIONS

1) Items Regarding Trading Circumstances (See Note 7)

2) Derivative Transactions not Applied to Hedge Accounting

	Millions of Yen				Millions of U.S. Dollars	
	2009		2010		2010	
Classification / Type	Transactions other than market transactions / Natural disaster derivatives transactions bought	Total	Transactions other than market transactions / Natural disaster derivatives transactions bought	Total	Transactions other than market transactions / Natural disaster derivatives transactions bought	Total
Contract amount, etc.	¥25,548	¥25,548	¥24,190	¥24,190	$260	$260
Of which more-than-one-year contract amount, etc.	25,548	25,548	24,190	24,190	260	260
Fair value	3,761	3,761	1,851	1,851	20	20
Gain or loss from valuation	769	769	(1,909)	(1,909)	(21)	(21)

Notes:
1 Contract amount, etc. is the maximum amount receivable.
2 Fair value is calculated based on the current value presented by financial institutions, etc. with which transactions are conducted.

3) Derivative Transactions Applied to Hedge Accounting

		Millions of Yen		
		2010		
Type	Hedged item	Contract amount, etc.	Of which more-than-one-year contract amount, etc.	Fair value*[2]
Currency swap	Long-term loans	¥ 20,000	¥ 20,000	¥(1,105)
Forward exchange	Accounts payable–trade	27	—	0
Commodity swap	Fuel purchasing	1,681	1,195	(54)
Currency swap	Foreign currency denominated bonds	239,959	239,959	*[1]
Interest swap	Long-term loans	360,700	315,700	*[1]
	Total	¥622,367	¥576,854	¥(1,159)

		Millions of U.S. Dollars		
		2010		
Type	Hedged item	Contract amount, etc.	Of which more-than-one-year contract amount, etc.	Fair value*[2]
Currency swap	Long-term loans	$ 215	$ 215	$(12)
Forward exchange	Accounts payable–trade	0	—	0
Commodity swap	Fuel purchasing	18	13	(0)
Currency swap	Foreign currency denominated bonds	2,580	2,580	*[1]
Interest swap	Long-term loans	3,879	3,395	*[1]
	Total	$6,692	$6,203	$(12)

Notes:
1 Derivative transactions that meet certain hedging criteria, regarding foreign currency swaps, or interest rate swaps, are treated in combination with bonds or long-term loans, the fair values of these derivatives are included in the fair values of these bonds or long-term loans. (See Note 7)
2 Fair value is calculated based on the current value presented by financial institutions, etc. with which transactions are conducted.

NOTE 18: 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, 2009 and 2010 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2009	2010	2010
Projected benefit obligation	¥(672,205)	¥(688,506)	$(7,403)
Plan assets	4,295	4,835	52
Unfunded projected benefit obligation	(667,910)	(683,671)	(7,351)
Unrecognized net transition obligation	48,816	0	0
Unrecognized actuarial differences	(32,396)	7,509	81
Unrecognized prior service costs	7,177	4,782	51
Book value (net)	(644,313)	(671,380)	(7,219)
Prepaid pension expense	155	132	1
Employees' severance and retirement benefits	¥(644,468)	¥(671,512)	$(7,220)

Employees' severance and retirement benefit expenses included in the consolidated statements of income for the years ended March 31, 2008, 2009 and 2010 consisted of the following:

	Millions of Yen			Millions of U.S. Dollars
	2008	2009	2010	2010
Service costs	¥29,551	¥28,160	¥29,320	$ 315
Interest costs	20,930	20,051	19,542	210
Expected return on plan assets	(88)	(80)	(66)	(1)
Amortization of net transition obligation	48,820	48,821	48,820	525
Amortization of actuarial differences	(6,592)	(6,476)	(6,442)	(69)
Amortization of prior service costs	1,063	2,404	2,796	30
Employees' severance and retirement benefit expenses	93,684	92,880	93,970	1,010
Total	¥93,684	¥92,880	¥93,970	$1,010

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.

Previously, the discount rates used by the Companies were mainly 3.0%. However, from this fiscal year the discount rates are mainly 2.0%. The rates of expected return on pension assets used by the Companies were mainly 2.0% in the years ended March 31, 2008, 2009 and 2010.

NOTE 19: INCOME TAXES

The major components of deferred income taxes and deferred tax liabilities at March 31, 2009 and 2010 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2009	2010	2010
Deferred income taxes:			
Employees' severance and retirement benefits	¥260,658	¥271,854	$2,923
Reserves for bonuses	28,684	27,300	294
Losses on impairment of fixed assets	14,824	15,137	163
Unrealized holding gains on fixed assets	8,542	9,762	105
Excess depreciation and amortization of fixed assets	8,779	8,850	95
Environmental conservation cost	7,467	8,441	91
Loss carry forwards for tax purposes	6,200	6,035	65
Accrued enterprise tax	6,109	—	—
Net unrealized holding losses on securities	6,093	—	—
Other	33,169	36,978	397
	380,525	384,357	4,133
Less valuation allowance	(26,275)	(25,406)	(273)
Less amounts offset against deferred tax liabilities	(47,380)	(49,177)	(529)
Net deferred income taxes	¥306,870	¥309,774	$3,331
Deferred tax liabilities:			
Tax deferment for gain on transfers of certain fixed assets	¥ 35,187	¥33,801	$363
Net unrealized holding gains on securities	6,439	10,288	111
Valuation for assets and liabilities of consolidated subsidiaries	3,403	3,404	37
Other	3,993	3,560	38
	49,022	51,053	549
Less amounts offset against deferred income taxes	(47,380)	(49,177)	(529)
Net deferred tax liabilities	¥ 1,642	¥ 1,876	$ 20

For the year ended March 31, 2010, the actual effective income tax rate differed from the aggregate standard effective tax rate for the following reasons:

	2010
The aggregate standard effective tax rate	40.5 %
Adjustments	
Non-deductible expenses for tax purposes	0.5 %
Per capita inhabitants tax	0.5 %
Tax credits	(0.5)%
Equity on net loss of affiliated companies	1.0 %
Other net	1.0 %
The actual effective rate after applying tax effect accounting	43.0 %

For the years ended March 31, 2008 and 2009, 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.

NOTE 20. BUSINESS COMBINATIONS

Business combinations (for the year ended March 31, 2010) were as follows;

1) Summary of the target business, legal form of the business combination, corporate name after the combination and summary of the transaction, including transaction purposes

(a) Summary of the target business: Credit card business of the Company

(b) Legal form of the business combination: Absorption-type corporate division (split-type) effected by the Company pursuant to which Viewcard Co., Ltd. (a wholly-owned subsidiary of the Company) became the successor company

(c) Corporate name after the combination: Viewcard Co., Ltd. (a consolidated subsidiary of the Company)

(d) Summary of the transaction, including transaction purposes: Reinforcement of the Company's credit card business, pursuant to an absorption-type corporate division agreement effective as of February 1, 2010; the Company's credit card business was succeeded by Viewcard Co., Ltd.

2) Summary of the accounting treatment

In accordance with the Accounting Standard for Business Combinations (October 31, 2003, Business Accounting Council) and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (Accounting Standards Board of Japan Guideline No.10, published on November 15, 2007), it is treated as a transaction between parties under common control.

In the years ended March 31, 2008 and 2009, there were no significant business combinations.

NOTE 21. INVESTMENT AND RENTAL PROPERTY

The Companies own rental office buildings and rental commercial facilities (hereafter "investment and rental property") principally within the Company's service area. In this fiscal year, the amounts of net income related to rental property was ¥63,449 million ($682 million) (rental income is recognized in operating revenues and rental expense is principally charged to operating expenses.) The amounts recognized in the consolidated balance sheet and fair values related to investment and rental property are as follows.

			Millions of Yen	Millions of U.S. Dollars	
Consolidated balance sheet amount			Fair value	Consolidated balance sheet amount	Fair value
2009	Difference	2010	2010	2010	2010
¥517,648	¥(3,504)	¥514,144	¥1,396,133	$5,528	$15,012

1 The consolidated balance sheet amount is the amount after accumulated depreciation on fixed assets has been deducted from acquisition cost.

2 Regarding difference above the table, the increase was principally attributable to acquisition of real estate and renewal (¥23,747 million, $255 million), and the decrease was mainly attributable to depreciation expenses (¥21,000 million, $226 million).

3 Regarding fair values at the end of this fiscal year, the amount for significant properties is based on real-estate appraisals prepared by external real-estate appraisers, and the amount for other properties is estimated by the Companies based on indicators that reflect certain appraisal values or appropriate market prices.

4 Because fair values are extremely difficult to determine, this table does not include property that is being constructed or developed for future use as investment property.

(Additional information)

From this fiscal year, the Companies adopted Accounting Standard for Disclosures about Fair Value of Investment and Rental Property (Accounting Standards Board of Japan Statement No.20) (November 28, 2008) and Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property (Accounting Standards Board of Japan Guidance No.23) (November 28, 2008).

NOTE 22: 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
						2008
	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Other Services	Elimination and/or Corporate	Consolidated
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

						2009
Operating revenues:						
Outside customers	¥1,831,933	¥415,020	¥222,628	¥227,419	¥ —	¥2,697,000
Inside group	57,095	18,075	8,993	317,681	(401,844)	—
	1,889,028	433,095	231,621	545,100	(401,844)	2,697,000
Costs and expenses	1,579,809	394,936	161,583	527,839	(399,722)	2,264,445
Operating income	¥ 309,219	¥ 38,159	¥ 70,038	¥ 17,261	¥ (2,122)	¥ 432,555
Identifiable assets	¥5,580,551	¥181,511	¥826,778	¥815,578	¥(438,625)	¥6,965,793
Depreciation	254,320	10,139	30,922	47,720	—	343,101
Capital investments	359,175	10,995	41,267	38,595	—	450,032

						2010
Operating revenues:						
Outside customers	¥1,757,994	¥387,104	¥226,932	¥201,694	¥ —	¥2,573,724
Inside group	50,711	12,854	8,915	326,438	(398,918)	—
	1,808,705	399,958	235,847	528,132	(398,918)	2,573,724
Costs and expenses	1,577,379	366,628	166,539	514,626	(396,297)	2,228,875
Operating income	¥ 231,326	¥ 33,330	¥ 69,308	¥ 13,506	¥ (2,621)	¥ 344,849
Identifiable assets	¥5,717,136	¥178,574	¥858,828	¥826,925	¥(585,969)	¥6,995,494
Depreciation	267,109	10,542	30,549	48,165	—	356,365
Capital investments	396,360	14,865	38,795	29,146	—	479,166

						Millions of U.S. Dollars
						2010
	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Other Services	Elimination and/or Corporate	Consolidated
Operating revenues:						
Outside customers	$18,903	$4,162	$2,440	$2,169	$ —	$27,674
Inside group	545	138	96	3,510	(4,289)	—
	19,448	4,300	2,536	5,679	(4,289)	27,674
Costs and expenses	16,961	3,942	1,791	5,534	(4,262)	23,966
Operating income	$ 2,487	$ 358	$ 745	$ 145	$ (27)	$ 3,708
Identifiable assets	$61,475	$1,920	$9,235	$8,892	$(6,302)	$75,220
Depreciation	2,872	113	329	518	—	3,832
Capital investments	4,262	160	417	313	—	5,152

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:

Hotel operations, advertising and publicity, wholesales, truck delivery, information processing, cleaning services / station operations, cleaning, 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 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.

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.

Independent Auditors' Report

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, 2010 and 2009, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2010, 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, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 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 23, 2010