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, 2016.

Key Accounting Policies and Estimates

JR East prepares consolidated 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 2016, ended March 31, 2016. 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 fiscal 2016, the Japanese economy improved in such areas as employment and income conditions and continued to recover gradually. Under these conditions, and guided by "JR East Group Management Vision V—Ever Onward," the Group (consisting of the Company, its consolidated subsidiaries, and affiliated companies that were accounted for by the equity method) steadily executed various initiatives centered on the railway and life-style service businesses and *Suica* operations.

As a result, operating revenues for fiscal 2016 increased 4.0%, to ¥2,867.2 billion ($25,373 million), and operating income increased 14.1%, to ¥487.8 billion ($4,317 million), mainly due to growth in the Company's transportation revenues, primarily from Shinkansen revenues. Profit attributable to owners of parent increased 36.0%, to ¥245.3 billion ($2,171 million).

In light of a serious incident in April 2015 in which an electrical pole collapsed and obstructed a train track on the Kanda–Akihabara segment of the Yamanote Line, we sought to prevent this type of incident from recurring. We established within the Railway Safety Promotion Committee an exploratory committee, with the Director General of Railway Operations Headquarters as chief investigator, that conducted investigations and an analysis of background factors to determine the cause. As a result, we are taking countermeasures that include the establishment of an Electric Power Technology Management Center and the review of safety education and training to focus on what is needed in practice to strengthen risk management and technical support for design and construction. In addition, following such serious incidents as the interruptions to transportation services in April 2015 and thereafter, including the severing of overhead wires on the Tohoku Shinkansen Line and the Negishi Line and a breakdown of electric facilities on the Takasaki Line, we implemented preventive measures and also took measures to enable us to resume operations earlier and to respond to customers' needs more rapidly when transportation services are disrupted. We are working to improve the safety and reliability of transportation through initiatives that include the October 2015 establishment of the Railway-Related Risk Mitigation Committee, which is tasked with preventing the recurrence of accidents and incidents that affect transportation and with identifying potential risks and weaknesses.

As part of strategies aimed at capturing demand from non-Japanese tourists visiting Japan, which has continued to increase in recent years, the Group as a whole took measures to increase and improve product lineups and develop capabilities for serving such customers. Specifically, in July 2015 a subsidiary of the Company entered into comprehensive operational alliances with two travel companies that are strong in Thailand, Indonesia, and China. In November 2015, the Company launched the *JR TOKYO Wide Pass*, a "free pass" that covers popular tourism areas and snow resorts. Further, the Company prepared for the April 2016 launch of the *Tokyo–Osaka Hokuriku Arch Pass*, which also enables use of the Hokuriku Shinkansen Line, and the *JR East-South Hokkaido Rail Pass*, which also enables use of the Hokkaido Shinkansen Line. The Company also extended the provision of a free public wireless LAN service to all stations within the Yamanote Line and established duty-free counters in station concourses and station buildings. In February 2016, the Company expanded the *JR EAST Travel Service Center* at Haneda Airport and introduced multilingual, online Internet reservation services for non-Japanese customers overseas.

With respect to regional revitalization, the Group advanced such initiatives as promotion of tourism, revitalization of local industries, and town development centered on regional core railway stations. Specifically, the Company advanced initiatives to create attractive trains that serve customers who seek the ride experience itself. For example, the Company proceeded with preparations for the commencement of operations of an art-cafe Shinkansen in April 2016, the *GENBI SHINKANSEN*, which enables customers to enjoy the Niigata area. Also, planning to begin operations in May 2017, the Company publicly announced the route of the *TRAIN SUITE SHIKI-SHIMA* cruise train and other details. Further, the Company implemented measures for the *sextic industrialization* of agriculture, forestry, and fisheries. As part of such efforts, in January 2016 the Company established JR Niigata Farm Co., Ltd., in a National Strategic Special Zone located in Niigata City. The new company will produce rice suitable for use as a basic ingredient of sake. As part of initiatives to transform the northern Tohoku area into a renewable energy base by taking advantage of the region's rich natural environment, in April 2015 we established JR EAST Energy Development Co., Ltd., which is mainly engaged in wind power generation businesses. In addition, in September 2015 Akita Prefecture, Akita City, and the Company concluded a "Partnership Agreement in Relation to the Development of Compact Cities for Regional Revitalization."

With respect to the area surrounding Shinagawa Station and Tamachi Station, as some of the land used for the Shinagawa Depot railway yard will become available for other uses, the Company is endeavoring to develop an international exchange hub by implementing plans for urban development in cooperation with the Government of Japan, the Tokyo Metropolitan Government, relevant wards, and other stakeholders. In April 2016, the urban plan that was prepared received approval from the prime minister as a zone plan of a National Strategic Special Zone.

To enable the Group to make a concerted effort to improve service quality and efficiency, in July 2015 the Company reorganized subsidiaries in the Tokyo metropolitan and Tohoku areas that are responsible for railway station management, railway station concourse, and other businesses.

Business results by business segment were as follows.

Segment Information

TRANSPORTATION

In the Transportation segment, with railway operations as its core operations, the Company promoted the use of its railway networks to secure revenues while ensuring safe and reliable transportation and enhancing customer satisfaction.

With respect to safety, we steadily implemented measures based on our sixth five-year safety plan, "Group Safety Plan 2018." We also implemented seismic reinforcement in preparation for a major earthquake, such as a possible earthquake directly beneath the Tokyo metropolitan area. The Company has earmarked a total of ¥300 billion for investment in such measures for a five-year intensive implementation period ending March 31, 2017. Approximately 70% of the work that is currently planned was completed by the end of fiscal 2016. The Company also commenced the operation of automatic platform gates at five railway stations on the Yamanote Line, including Nippori Station. The new gates increased the total number of stations with such gates to 23 stations as of March 31, 2016. As for lines other than the Yamanote Line, we prepared for the introduction of automatic platform gates to such railway stations as Shin-Koiwa Station on the Sobu Line Rapid Service based on review of line segment conditions, how the stations are used, and other factors. As measures for preventing railway crossing accidents, we continued converting to type-1 railway crossings, eliminating and consolidating railway crossings, and installing more obstruction warning devices and obstacle detection devices for railway crossings. In addition, to improve the safety of personnel that perform maintenance work, we developed a train approach alarm system that utilizes GPS and began using it on the Hachiko Line and the Iiyama Line in April 2016.

In relation to service quality, the Group promoted measures aimed at becoming "No. 1 for customer satisfaction in the Japanese railway industry" based on the "Medium-term Vision for Service Quality Reforms 2017," which was implemented in April 2015. Given the expansion of the direct service network, such as the opening of the Ueno-Tokyo Line, we worked to improve the quality of transportation by expanding contingency shuttle operations when transportation services are disrupted. To provide individual customers with timely information, we extended the range of lines for which the train position information can be received through the *JR-EAST Train Info* app to include the Ueno-Tokyo Line, and the number of application downloads reached approximately 1.8 million on a cumulative basis as of March 31, 2016. We jointly held a "Let's Stop Viewing Smartphones while Walking" campaign with related companies and other organizations and conducted an assistance campaign in which personnel ask nearby customers whether they require assistance.

With respect to transportation, when revising our timetables in March 2016, in conjunction with the opening of the Hokkaido Shinkansen Line, we began direct services connecting the Tohoku Shinkansen Line and the Hokkaido Shinkansen Line. As a result, the shortest journey between Tokyo and Shin-Hakodate Hokuto takes 4 hours and 2 minutes, and the shortest journey between Sendai and Shin-Hakodate Hokuto takes 2 hours and 30 minutes. Further, in light of observed usage following the opening of the Hokuriku Shinkansen Line and the Ueno-Tokyo Line, we sought to improve our transportation systems through such initiatives as reviewing connections and strengthening transportation capabilities during rush hours.

With respect to marketing and sales activities, we conducted such campaigns as the *Fukushima Destination Campaign* and the *Ikuze, Tohoku.* Campaign to increase passenger traffic. Further, we proceeded with preparations for the *Aomori Prefecture and Hakodate Destination Campaign*, which we plan to hold starting in July 2016. In connection with the opening of the Hokuriku Shinkansen Line to Kanazawa, we promoted usage of Shinkansen services such as *Kagayaki*, the fastest service, and *Hakutaka*, a service that stops at most stations between Tokyo and Kanazawa, and took measures to use the expanded railway network to grow inter-regional railway travel. In addition, we used the *Hokuriku Destination Campaign* as an opportunity to increase wide-ranging inter-regional sightseeing that encompasses Hokuriku and Shinshu, for example through the promotion of products that take advantage of the *Tenku no Hida Kairo View Bus* (Hida Mountains Excursion Bus). In November 2015, we commenced sale of the *JR East Dynamic Rail Pack,* a variable-price travel product that allows customers to freely select their choice of train services and lodging accommodations. In January 2016, we enabled the purchase of these travel product via smartphones.

In *Suica* operations, we began mutual usage of *Suica* with the Sendai City Transportation Bureau's *icsca* card in the Sendai area in March 2016. We have also conducted the *10th Anniversary of Mobile Suica* Campaign since January 2016 to further increase usage of *Suica*. The number of *Suica* cards issued and outstanding was approximately 59.23 million as of March 31, 2016.

With respect to participation in overseas railway projects, we proceeded with preparations to begin maintenance operations for the Purple Line (Bangkok, Thailand), an urban mass transit system scheduled to enter service in August 2016. At the same time, the Company's subsidiary, Japan Transport Engineering Company (J-TREC), manufactured *sustina* stainless-steel railcars and delivered them to a railway yard in Thailand. We also jointly held the "9th UIC World Congress on High Speed Rail" with the International Union of Railways (UIC) in July 2015 and strengthened our networks with those involved in high-speed railways and governments outside Japan. We promoted our "Global Human Resource Development Program—Ever Onward" to nurture personnel that can take on global business development. This included continuation of overseas study programs and on-the-job trainee programs in the overseas railway consulting business, among other assignments.

As a result of the above, JR East's railway traffic volume was higher than that of the previous fiscal year, and operating revenues in the Transportation segment increased 5.3%, to ¥2,008.0 billion ($17,770 million), and operating income increased 18.3%, to ¥348.6 billion ($3,085 million).

To advance reconstruction along line segments on the Pacific coast, where severe damage was suffered due to the March 2011 Great East Japan Earthquake, the Company is working in close collaboration with the national government and relevant local authorities to formulate and advance plans for developing towns and rebuilding the area as a whole. We resumed operations on all segments of the Senseki Line and began operations of the Senseki-Tohoku Line, a direct service connecting to the Tohoku Line in May 2015. Further, we began restoration work on the line segment between Miyako and Kamaishi on the Yamada Line to integrate operation of the line segment with that of the North and South Rias Lines by Sanriku Railway Company. With respect to the provisional Bus Rapid Transit ("BRT") systems on the Kesennuma Line and the Ofunato Line, an agreement was reached with the heads of all municipal authorities of the line-side areas to undertake full-scale restoration through the use of BRT systems. In addition, we conducted restoration work with a view to resuming operations between Soma and Hamayoshida on the Joban Line by the end of December 2016. The Company's policy for areas within a 20-kilometer radius of the Fukushima Daiichi Nuclear Power Station is to prepare to resume operations in the areas designated as "areas to which evacuation orders are ready to be lifted" through the cooperation of the national government and local authorities, which are working to decontaminate line-side areas and return residents to their homes. Based on this policy, we conducted restoration work and took other measures with a view to resuming operations between Odaka and Haranomachi on the Joban Line by July 2016, between Namie and Odaka by spring 2017, and between Tatsuta and Tomioka by the end of 2017. Further, in the areas designated as "areas where it is expected that the residents will have difficulties in returning for a long time," in conjunction with the restoration of damaged facilities, we aim to open lines after the completion of decontamination work required for opening lines and the implementation of measures to ensure the safety of users in emergencies with the support and cooperation of the national government and local authorities. To this end, we began implementing trial decontamination work between Yonomori and Futaba on the Joban Line in August 2015. In addition, with respect to the disposal of and other measures relating to waste material and soil arising from decontamination and restoration work, in light of developments, including the fact that a more definite outlook for the resolution of such issues has been established, in March 2016 we began restoration work with a view to resuming operations between Tomioka and Namie on the Joban Line by March 31, 2020.

SHINKANSEN NETWORK

In the Shinkansen network, passenger kilometers increased 9.2% year on year, to 22.8 billion, mainly due to the opening of the Hokuriku Shinkansen Line to Kanazawa and an increase in visitors from abroad boarding as passengers. Revenues from passenger tickets increased 10.9% year on year, to ¥578.2 billion ($5,117 million). Included in this figure, Shinkansen commuter pass revenues increased 1.7% year on year, to ¥23.6 billion ($209 million), and non-commuter pass revenues rose 11.4%, to ¥554.6 billion ($4,908 million).

CONVENTIONAL LINES (KANTO AREA NETWORK)

For conventional lines in the Kanto area network, passenger kilometers increased 2.5% year on year, to 105.9 billion. Revenues from passenger tickets increased 2.2%, to ¥1,156.2 billion ($10,232 million). Included in this figure, commuter pass revenues increased 0.9%, to ¥452.3 billion ($4,003 million), while non-commuter pass revenues increased 3.0%, to ¥703.9 billion ($6,229 million), following impressive usage levels during Silver Week and other extended holidays as well as the opening of the Ueno-Tokyo Line.

CONVENTIONAL LINES (OTHER NETWORK)

In the conventional lines other than the Kanto area network, passenger kilometers decreased 2.4% year on year, to 5.7 billion. Revenues from passenger tickets decreased 3.3%, to ¥70.5 billion ($624 million). Included in this figure, commuter pass revenues decreased 1.3%, to ¥18.5 billion ($164 million), while non-commuter pass revenues decreased 4.0%, to ¥52.0 billion ($460 million).

STATION SPACE UTILIZATION

In the Station Space Utilization segment, we introduced stores with new designs for *NewDays* (convenience stores) and also launched *NewDays KIOSK*, which includes such features as renewed product mixes and store layouts for station kiosks. With the aim of revitalizing regions with restaurants offering regional gourmet cuisines, we opened *B-1 Grand Prix Shokudo* (Tokyo) in July 2015 under a railway viaduct between Akihabara and Okachimachi stations. Further, we proceeded with preparations for the April 2016 opening of phase 2 of *NEWoMan* (Tokyo) at the JR Shinjuku Station New South Exit. In addition, in January 2016 we began improvement work between the central passage and the north passage of Tokyo Station to develop new stores in conjunction with the establishment of more barrier-free routes. Other initiatives included commencement of work for the opening of certain stores in Chiba Station's concourse in November 2016.

As a result of these initiatives as well as factors including the favorable sales at stores in Tokyo Station's concourse, operating revenues of the Station Space Utilization segment increased 1.0%, to ¥416.1 billion ($3,682 million), and operating income increased 1.6%, to ¥35.1 billion ($311 million).

SHOPPING CENTERS & OFFICE BUILDINGS

In the Shopping Centers & Office Buildings segment, in April 2015 we placed under the control of subsidiary atré Co., Ltd., three subsidiaries responsible for managing station buildings in the northern Kanto area in order to strengthen store development capacities and other capabilities for the implementation of a management style that is rooted in regions. Further, we launched *JRE POINT* as a common Groupwide service in February 2016. Also, following the opening of *atré URAWA* (Saitama) in November 2015 and *tekute Nagamachi* (Miyagi) in December 2015, we opened the JR SHINJUKU MIRAINA TOWER (Tokyo), phase 1 of *NEWoMan* (Tokyo), and S-PAL Sendai East Building (Miyagi) in March 2016. In addition, we opened *nonowa Kunitachi EAST* (Tokyo) in April 2015 and *nonowa Musashikoganei WEST* (Tokyo) in December 2015. At the same time, we advanced preparations to open *nonowa Kunitachi WEST* (Tokyo) and atré Ebisu West Building (Tokyo) in April 2016. In addition, we proceeded with the construction of JEBL Akihabara Square (Tokyo), which is scheduled for completion in August 2016; phase 1 of the Shibuya Station Area Development Plan (East Bldg.), which is scheduled for completion in fiscal 2020; and the Yokohama Station West Exit Station Building Plan (provisional name), which is scheduled to open in 2020.

As a result of these initiatives, as well as factors including favorable sales of LUMINE Co., Ltd., and an increase in revenues accompanying the opening of *MIDORI NAGANO* (Nagano), operating revenues of the Shopping Centers & Office Buildings segment increased 0.4% year on year, to ¥267.6 billion ($2,368 million). However, due to factors such as the recognition of costs arising from the opening of JR SHINJUKU MIRAINA TOWER (Tokyo), operating income declined 1.0%, to ¥71.6 billion ($634 million).

OTHERS

In hotel operations, to increase the competitiveness of existing hotels, we renovated *HOTEL METS Musashisakai* (Tokyo), *HOTEL METS Nagaoka* (Niigata), *HOTEL METS Mizonokuchi* (Kanagawa), and *HOTEL METS Urawa* (Saitama). In advertising and publicity operations, we worked to promote advertising sales for *J-AD Vision*, an advertising medium at stations that uses large LCD screens, and *Train Channel*, an advertising medium that shows video commercials on trains.

In credit card operations, we increased convenience for customers who use the Group's services frequently by beginning the *View Gold Plus Card* service in April 2015 and opening *View Gold Lounge* in Tokyo Station in December 2015. In *Suica* shopping services (electronic money), we continued to actively develop the network of participating stores and business establishments through efforts that included introduction of *Suica* electronic money at chain restaurants and chain stores and other business establishments with wide operating areas. As a result of these measures, *Suica* electronic money was usable at approximately 340,000 stores as of March 31, 2016.

In other initiatives, as part of the *HAPPY CHILD PROJECT*, we opened a multipurpose child rearing-support and senior citizen-care facility, *COTONIOR Akabane* (Tokyo), in April 2015. Also, we prepared for the opening of *COTONIOR Nishi-Funabashi* (Chiba) in April 2016. Further, we proceeded with the development of childcare support facilities inside station buildings and at other places, giving us a total of 82 facilities as of March 31, 2016.

As a result of these initiatives, as well as factors including an increase in sales accompanying work related to the Hokkaido Shinkansen Line and favorable performances by advertising and publicity and hotel operations, operating revenues from the Others segment increased 3.2% year on year, to ¥634.0 billion ($5,610 million), and operating income increased 27.4%, to ¥35.0 billion ($310 million).

Notes: 1. The Group applies the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (Accounting Standards Board of Japan (ASBJ) Statement No. 17, June 30, 2010) and the Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Guidance No. 20, March 21, 2008). The operating income of each segment of the Group corresponds to the segment income under the above Accounting Standard and Guidance.
2. *icsca* is a registered trademark of Sendai City.
3. Silver Week refers to an extended period of holidays that sometimes occurs in mid-September as a result of the arrangement of national holidays in that month.

Operating Income

Operating expenses increased 2.2% year on year, to ¥2,379.4 billion ($21,056 million). Operating expenses as a percentage of operating revenues were 83.0%, compared with 84.5% in the previous fiscal year.

Transportation, other services and cost of sales increased 1.9%, to ¥1,841.0 billion ($16,292 million), because of an increase in cost of equipment.

Selling, general and administrative expenses increased 3.0%, to ¥538.4 billion ($4,764 million), which was due to an increase in cost of equipment.

Operating income rose 14.1%, to ¥487.8 billion ($4,317 million), increasing for the sixth consecutive fiscal year and reaching a new record high. Operating income as a percentage of operating revenues was 17.0%, compared with 15.5% in the previous fiscal year.

Income before Income Taxes

Other income decreased 33.4%, to ¥58.3 billion ($516 million), due mainly to a decrease in construction grants received.

Other expenses decreased 19.3%, to ¥161.3 billion ($1,427 million), mainly as a result of lower losses on reduction entry for construction grants.

Interest and dividend income and other financial income, net of interest and other financial expenses, amounted to a ¥72.4 billion ($640 million) expense, which was 7.4% lower than the expense recorded in the previous fiscal year.

Income before income taxes increased 22.1%, to ¥384.9 billion ($3,406 million). Income before income taxes as a percentage of operating revenues was 13.4%, compared with 11.4% in the previous fiscal year.

Profit Attributable to Owners of Parent

Profit attributable to owners of parent increased 36.0%, to a new record high of ¥245.3 billion ($2,171 million), following higher income before income taxes. Earnings per share were ¥626 ($6), up from ¥459 per share. Further, profit attributable to owners of parent as a percentage of operating revenues was 8.6%, compared with 6.5% in the previous fiscal year.

Liquidity and Capital Resources

Cash Flows

In fiscal 2016, net cash provided by operating activities totaled ¥673.1 billion ($5,957 million), ¥50.3 billion more than in the previous fiscal year. This result was mainly due to an increase in income before income taxes.

Net cash used in investing activities amounted to ¥499.6 billion ($4,421 million), ¥22.7 billion more than in the previous fiscal year. This result was mainly due to higher payments for purchases of fixed assets.

Capital expenditures were as follows.

In transportation operations, JR East implemented capital expenditures to further measures for ensuring transportation safety and reliability, institute countermeasures for large-scale earthquakes, install automatic platform gates at Yamanote Line stations, and produce new trains. In station space utilization operations, we opened new stores and conducted renovation work at existing stores. In shopping centers and office buildings operations, JR East made capital expenditures related to JR SHINJUKU MIRAINA TOWER (Tokyo), S-PAL Sendai East Building (Miyagi), and atré URAWA (Saitama). In the Others segment, capital expenditures included those for systems development and functional enhancements as well as the renovation of existing hotels.

Further, free cash flows increased ¥27.6 billion, to a positive ¥173.5 billion ($1,536 million).

Net cash used in financing activities came to ¥110.3 billion ($976 million), ¥23.6 billion more than in the previous fiscal year. This result was mainly due to a decrease in the procurement of funds through interest-bearing debt.

Consequently, cash and cash equivalents as of March 31, 2016, were ¥307.8 billion ($2,724 million), an increase of ¥62.6 billion from ¥245.2 billion on March 31, 2015.

Financial Policy

Interest-bearing debt at March 31, 2016, stood at ¥3,242.0 billion ($28,690 million).

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. ¥44.6 billion ($394 million) payable at a variable interest rate (annual interest rate in fiscal 2016: 4.13%) through March 31, 2017;
b. ¥48.6 billion ($430 million) payable at a fixed annual interest rate of 6.35% through March 31, 2017; and
c. ¥336.4 billion ($2,977 million) payable at a fixed annual interest rate of 6.55% through September 30, 2051.

In addition, at the fiscal year-end JR East had long-term liabilities incurred for purchase of railway facilities of ¥6.8 billion ($60 million) for the Akita hybrid Shinkansen facilities and ¥2.0 billion ($18 million) for Tokyo Monorail Co., Ltd.

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 ¥7.3 billion ($64 million) in fiscal 2016.

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 the Company's total interest-bearing debt. Also, JR East is enhancing capital management methods, including offsetting internal settlements among subsidiaries and consolidating payments by subsidiaries.

In fiscal 2016, JR East issued seven unsecured straight bonds in Japan, with a total nominal amount of ¥100.0 billion ($885 million) and maturities from 2021 through 2046. 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 Ratings Japan K.K. and Moody's Japan K.K. of AA– and Aa3, respectively.

In order to respond to short-term financing requirements, JR East has bank overdraft facilities with its principal banks totaling ¥330.0 billion ($2,920 million). JR East did not have any bank overdrafts on March 31, 2016. R&I and Moody's rated JR East's commercial paper a-1+ and P-1, respectively, as of the end of fiscal 2016. There was no outstanding balance of commercial paper issued by JR East as of March 31, 2016.

In April 2015, JR East established a committed bank credit line (a financing framework that permits unrestricted borrowing within contract limits based on certain conditions) with an amount of ¥60.0 billion ($531 million).

Operational and Other Risk Information

The following are issues related to the 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 the JR East Group as of March 31, 2016.

Legal Issues Relating to Operations

As a railway operator, JR East manages its railway operations pursuant to the stipulations of the Railway Business Act. JR East is generally excluded from the provisions of the Act on 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.

Railway Business Act (Act No. 92 of 1986)

Under the Railway Business Act, railway operators are required to obtain the permission of the Minister of Land, Infrastructure, Transport and Tourism (hereinafter the "Minister") for each type of line and railway business operated (Article 3). Operators receive approval from the Minister 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 Minister 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, paragraphs 1 and 2).

JR Law (Act No. 88 of 1986)

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 (JR Hokkaido), Central Japan Railway Company (JR Central), West Japan Railway Company (JR West), Shikoku Railway Company (JR Shikoku), Kyushu Railway Company (JR Kyushu), 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 Act, the JR Companies are subject to provisions of the JR Law that require the approval of the Minister 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).

AMENDED JR LAW

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

(b) Further, the amended JR Law enables the Minister 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 Minister on or after the date of enactment of the amended JR Law (supplementary provision, Article 2, paragraph 1). Those guidelines were issued on November 7, 2001, and applied on December 1, 2001.

(c) The guidelines stipulate items relating to the following three areas:
- Items relating to ensuring alliances and cooperation among companies (among the new companies or among the new companies and JR Companies) with respect to the establishment of appropriate passenger fares and surcharges, the unhindered utilization of railway facilities, and other factors relating to railway operations.
- Items relating to the appropriate maintenance of railway routes currently in operation reflecting trends in transportation demand and other changes in circumstances following the restructuring of Japanese National Railways (JNR) and items relating to ensuring the convenience of users through the development of stations and other railway facilities.
- Items stating that the new companies should give consideration to the avoidance of actions 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 new companies.

(d) The Minister 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 Minister 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 three JR Honshu 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 Act. 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.

Systems and Procedures for Approval of Fares and Surcharges

The Railway Business Act stipulates that railway operators are required to obtain the approval of the Minister when setting or changing the upper limit for fares and surcharges (Railway Business Act, Article 16, paragraph 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 Act, Article 16, paragraphs 3 and 4).

Currently, fares and surcharges for passengers and freight spanning the use of two or more JR companies are allowed to be added cumulatively based on agreements among the JR companies, with fares adjusted according to the tapering distance rate. This measure was intended to ensure user convenience, etc., when implementing the JNR reforms, and does not prevent the JR Companies from independently setting fares.

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 revisions (April 1997 and April 2014).

Through efficient business operation realized by 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 expenditures 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 expenditures, 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 reliable transportation, offering high-quality services, and implementing other measures. Further, JR East appreciates the need to proactively conduct capital expenditures while clearly defining the responsibilities of management in business operation.

Stance of the Ministry of Land, Infrastructure, Transport and Tourism (hereinafter the "MLIT")

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

(a) The Minister 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 that can be expected to be incurred through the efficient management of those companies (hereinafter "total cost") (Railway Business Act, Article 16, paragraph 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 released at the end of every fiscal 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 Minister, railway operators can set or change fares and surcharges within the upper limits approved along with other charges. However, the Minister 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 Act, Article 16, paragraph 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 (Act No. 71 of 1970). 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; the Tohoku Shinkansen Line between Morioka and Hachinohe on December 1, 2002, and between Hachinohe and Shin-Aomori on December 4, 2010; and then on the Hokuriku Shinkansen Line between Nagano and Joetsumyoko on March 14, 2015.

New Shinkansen lines not under the jurisdiction of JR East are being developed on the Shin-Hakodate Hokuto–Sapporo segment of the Hokkaido Shinkansen Line, the Kanazawa–Tsuruga segment of the Hokuriku Shinkansen Line, and the Takeo-Onsen–Nagasaki segment of the Kyushu Shinkansen Line.

Cost Burden of the Development of New Shinkansen Lines

(a) The national government, local governments, and the JR Companies assume the cost of new Shinkansen lines constructed by the Japan Railway Construction, Transportation and Technology Agency (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 Japan Railway Construction Public Corporation (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 2016 totaled ¥20.8 billion ($184 million), comprising the fixed amount calculated based on the corresponding benefits of ¥17.5 billion ($155 million) and taxes and maintenance fees of ¥3.3 billion ($29 million).

In November 2002, JR East also concluded an agreement with the JRCC regarding the usage fee 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 Minister in November 2002. Usage fees for fiscal 2016 totaled ¥10.3 billion ($91 million), comprising the fixed amount calculated based on the corresponding benefits of ¥7.9 billion ($70 million) and taxes and maintenance fees of ¥2.4 billion ($21 million).

In December 2010, JR East also concluded an agreement with the JRTT regarding the usage fee amount for the Hachinohe–Shin-Aomori segment of the Tohoku Shinkansen Line, which opened in December 2010. The JRTT received approval for those usage fees from the Minister in December 2010. Usage fees for fiscal 2016 totaled ¥8.1 billion ($72 million), comprising the fixed amount calculated based on the corresponding benefits of ¥7.0 billion ($62 million) and taxes and maintenance fees of ¥1.1 billion ($10 million).

IIn March 2016, JR East concluded an agreement with the JRTT regarding the additional usage fee amount to be added to the usage fee amount for the Hachinohe–Shin-Aomori segment of the Tohoku Shinkansen Line in relation to the Shin-Aomori–Shin-Hakodate Hokuto segment of the Hokkaido Shinkansen Line, which opened in March 2016. The usage fee amount to be paid by JR East in each fiscal year is defined as comprising the fixed amount calculated based on the corresponding benefits of ¥2.2 billion ($19 million). However, usage fees for fiscal 2016 were calculated per diem as the line segment opened partway through the fiscal year. These usage fees totaled ¥0.0 billion ($0 million).

In March 2015, JR East concluded an agreement with the JRTT regarding the usage fee amount for the Nagano–Joetsumyoko segment of the Hokuriku Shinkansen Line, which opened in March 2015. The JRTT received approval for those usage fees from the MLIT in March 2015. Usage fees for fiscal 2016 totaled ¥16.6 billion ($147 million), comprising the fixed amount calculated based on the corresponding benefits of ¥16.5 billion ($146 million) and taxes and maintenance fees of ¥0.1 billion ($1 million).

(c) 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 following the opening.

End of Loan Period

The treatment of railway facilities along the Takasaki–Joetsu myoko segment of the Hokuriku Shinkansen Line and the Morioka–Shin-Aomori segment of the Tohoku Shinkansen Line—both on loan from the JRTT—will be discussed and re-determined 30 years after the commence date of the loaning.

Safety Measures

Railway operations can potentially suffer significant damage resulting from accidents due to natural disasters, human error, crime, or terrorism; accidents at nuclear power plants; the large-scale spread of infectious diseases; or other factors.

The JR East Group regards ensuring safety as a top management priority. Accordingly, JR East is taking measures to build a railway with high safety levels by addressing infrastructural and operational issues, and is steadily advancing the measures described in the sixth five-year safety plan, "JR East Group Safety Plan 2018."

Specifically, we implemented seismic reinforcement in preparation for a major earthquake, such as a possible earthquake directly beneath the Tokyo metropolitan area. The Company has earmarked a total of ¥300 billion for investment in such measures for a five-year intensive implementation period ending March 31, 2017. Approximately 70% of the work that is currently planned has been completed. The Company also commenced the operation of automatic platform gates at five railway stations on the Yamanote Line, including Nippori Station. The new gates increased the total number of stations with such gates to 23 stations. As for lines other than the Yamanote Line, we prepared for the introduction of automatic platform gates to such railway stations as Shin-Koiwa Station on the Sobu Line Rapid Service based on review of line segment conditions, how the stations are used, and other factors. As measures for preventing railway crossing accidents, we continued converting to type-1 railway crossings, eliminating and consolidating railway crossings, and installing more obstruction warning devices and obstacle detection devices for railway crossings. In addition, to improve the safety of personnel that perform maintenance work, we developed a train approach alarm system that utilizes GPS and began using it on the Hachiko Line and the Iiyama Line in April 2016.

Information Systems and Protection of Personal Data

The JR East Group currently uses many information systems in its various railway and life-style service businesses, and *Suica* operations. Further, information systems play an important role for travel agencies as well as Railway Information Systems Co., Ltd., and other companies with which the JR East Group has close business relationships. If the functions of those information 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 information systems was leaked to unrelated third parties or altered due to information systems becoming infected by viruses or unauthorized manipulation, it could affect JR East's financial condition and business performance.

The JR East Group takes measures to prevent damage and ensure security, such as continuously upgrading the functions of in-house systems and training related personnel. In the unlikely event of a system problem, 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 the Life-Style Service Business

The JR East Group has positioned the life-style service business as a central pillar of management. In the life-style service business, JR East is developing station space utilization, shopping centers and office buildings, and other operations (hotel operations, advertising and publicity, and other services).

In the life-style service business, 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 defect in manufactured products or sold products, such as an outbreak of food poisoning or a similar incident, could reduce sales, damage trust in the JR East Group, or result in the bankruptcy of tenants or business partners. The occurrence of any of those contingencies could have an impact on the JR East Group's financial condition and business performance. The JR East Group will fully leverage its railway stations as its largest management resource to develop operations. At the same time, the JR East Group will enhance earnings and secure customer trust by implementing stringent management of hygiene and information on business partners.

Competition

The JR East Group's railway business competes with transportation sources including airlines, automobiles, buses, and other railway companies. Further, the JR East Group's life-style service business competes with existing and newly established businesses. The competition of the JR East Group's railway and life-style service businesses with such rivals could have an impact on the JR East Group's financial condition and business performance.

Intensified competition in the transportation market could adversely affect earnings from JR East's railway business. Such competition includes the expansion of low-cost carrier (LCC) routes, toll discounts and other sales promotion measures on expressways, and the advancement of large-scale upgrading works by other railway operators in the Tokyo metropolitan area. Also, developments such as the new entry of other companies into markets or the renovation or reopening of existing commercial facilities could result in increased competition, and thereby adversely affect earnings from JR East's life-style service business.

Reduction of Total Interest-Bearing Debt

On March 31, 2016, total interest-bearing debt stood at ¥3,242.0 billion ($28,690 million). In addition, interest expense in fiscal 2016 amounted to ¥76.3 billion ($676 million), which was equivalent to 15.6% of operating income.

JR East will continue to reduce interest-bearing 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, including the railway and life-style service businesses, and *Suica* operations. These operations are advanced in a manner pursuant to the stipulations of related statutory laws and regulations, such as the Railway Business Act, and 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 enhancing employee education about legal compliance and checking the status of compliance with statutory laws and regulations that relate to all the areas of its operations.

Consolidated Balance Sheets

East Japan Railway Company and Subsidiaries
March 31, 2015 and 2016

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2015	2016	2016
Assets			
Current Assets:			
Cash and cash equivalents (Notes 5 and 9)	¥ 245,171	¥ 307,809	$ 2,724
Receivables (Note 9):			
Accounts receivable–trade	453,620	467,734	4,139
Unconsolidated subsidiaries and affiliated companies	9,313	10,665	94
Other	6,030	5,962	53
Allowance for doubtful accounts (Note 2 (4))	(1,667)	(1,573)	(14)
	467,296	482,788	4,272
Inventories (Notes 2 (5) and 6)	52,856	47,835	423
Real estate for sale (Notes 2 (6) and 7)	1,099	904	8
Deferred tax assets (Note 21)	43,635	49,188	435
Other current assets	45,728	45,995	408
Total current assets	855,785	934,519	8,270
Investments:			
Unconsolidated subsidiaries and affiliated companies (Notes 2 (2), (3) and 8)	52,707	53,529	474
Other (Notes 2 (7), 9 and 10)	197,660	160,574	1,421
	250,367	214,103	1,895
Property, Plant and Equipment (Notes 2 (8), 11, 12 and 22):			
Buildings	2,415,148	2,519,190	22,294
Fixtures	5,706,075	5,798,964	51,318
Machinery, rolling stock and vehicles	2,692,386	2,721,599	24,085
Land	1,991,792	2,002,530	17,722
Construction in progress	254,959	306,398	2,711
Other	228,212	236,498	2,093
	13,288,572	13,585,179	120,223
Less accumulated depreciation	7,199,572	7,351,637	65,059
Net property, plant and equipment	6,089,000	6,233,542	55,164
Other Assets:			
Long-term deferred tax assets (Note 21)	218,974	217,256	1,923
Other	191,564	190,342	1,684
	410,538	407,598	3,607
	¥ 7,605,690	¥ 7,789,762	$ 68,936

See accompanying notes.

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2015	**2016**	**2016**
Liabilities and Net Assets			
Current Liabilities:			
Current portion of long-term debt (Notes 9, 11 and 13)	¥ 173,220	**¥ 187,107**	**$ 1,656**
Current portion of long-term liabilities incurred for purchase of railway facilities (Notes 9, 11 and 14)	106,731	**97,251**	**861**
Prepaid railway fares received	103,439	**102,494**	**907**
Payables (Note 9):			
Accounts payable–trade	47,063	**46,375**	**410**
Unconsolidated subsidiaries and affiliated companies	113,529	**99,192**	**878**
Other	553,704	**611,977**	**5,416**
	714,296	**757,544**	**6,704**
Accrued expenses	110,061	**110,373**	**977**
Accrued consumption taxes (Notes 9 and 15)	41,837	**23,956**	**212**
Accrued income taxes (Notes 2 (13), 9 and 21)	51,772	**83,239**	**737**
Other current liabilities	38,722	**42,996**	**379**
Total current liabilities	1,340,078	**1,404,960**	**12,433**
Long-Term Debt (Notes 9, 11 and 13)	2,584,776	**2,638,337**	**23,348**
Long-Term Liabilities Incurred for Purchase of Railway Facilities (Notes 9, 11 and 14)	438,476	**341,075**	**3,018**
Net Defined Benefit Liability (Notes 2 (9) and 20)	701,731	**675,784**	**5,980**
Deposits Received for Guarantees	132,782	**135,091**	**1,195**
Long-Term Deferred Tax Liabilities (Note 21)	4,073	**3,361**	**30**
Allowance for partial transfer costs of railway operation (Note 2 (10))	16,547	**19,087**	**169**
Other Long-Term Liabilities	82,251	**109,530**	**971**
Contingent Liabilities (Note 16)			
Net Assets (Note 17):			
Common stock:			
Authorized 1,600,000,000 shares;			
Issued, 2016—392,500,000 shares;			
Outstanding, 2016—391,844,097 shares	200,000	**200,000**	**1,770**
Capital surplus	96,833	**96,812**	**857**
Retained earnings	1,915,383	**2,101,845**	**18,600**
Treasury stock, at cost, 655,903 shares in 2016	(4,421)	**(5,295)**	**(47)**
Accumulated other comprehensive income:			
Net unrealized holding gains on securities	68,415	**43,771**	**387**
Net deferred gains (losses) on derivatives under hedge accounting	2,533	**473**	**4**
Revaluation reserve for land (Note 2 (17))	(484)	**(473)**	**(4)**
Remeasurements of defined benefit plans	7,399	**4,996**	**44**
Non-Controlling Interests	19,318	**20,408**	**181**
Total net assets	2,304,976	**2,462,537**	**21,792**
	¥ 7,605,690	**¥7,789,762**	**$68,936**

Consolidated Statements of Income and Comprehensive Income

East Japan Railway Company and Subsidiaries
Years ended March 31, 2015 and 2016

(I) CONSOLIDATED STATEMENTS OF INCOME

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2015	2016	2016
Operating Revenues (Note 23)	¥2,756,165	¥2,867,200	$25,373
Operating Expenses:			
Transportation, other services and cost of sales	1,806,181	1,841,026	16,292
Selling, general and administrative expenses	522,462	538,353	4,764
	2,328,643	2,379,379	21,056
Operating Income (Note 23)	427,522	487,821	4,317
Other Income (Expenses):			
Interest expense on short-and long-term debt	(45,310)	(45,559)	(403)
Interest expense incurred for purchase of railway facilities	(36,652)	(30,773)	(272)
Loss on sales of fixed assets	(2,088)	(1,102)	(10)
Impairment losses on fixed assets (Notes 2 (16), 12 and 23)	(12,738)	(12,297)	(109)
Interest and dividend income	3,756	3,918	35
Equity in net income (loss) of affiliated companies	3,134	2,566	23
Gain on sales of fixed assets	1,212	839	7
Other, net	(23,535)	(20,552)	(182)
	(112,221)	(102,960)	(911)
Income before Income Taxes	315,301	384,861	3,406
Income Taxes (Notes 2 (13) and 21):			
Current	107,540	128,972	1,141
Deferred	26,203	9,327	83
Profit	181,558	246,562	2,182
Profit Attributable to Non-Controlling Interests	(1,160)	(1,252)	(11)
Profit Attributable to Owners of Parent	¥ 180,398	¥ 245,310	$ 2,171

	Yen		U.S. Dollars (Note 2 (1))
Earnings per Share (Note 2 (14))	¥ 459	¥ 626	$ 6
Cash Dividends Applicable to the Year (Note 2 (14))	120	130	1

See accompanying notes.

(II) CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Note 24)

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2015	2016	2016
Profit	¥181,558	¥246,562	$2,182
Other Comprehensive Income:	47,735	(29,143)	(258)
Net unrealized holding gains (losses) on securities	29,310	(24,070)	(213)
Net deferred gains (losses) on derivatives under hedge accounting	1,319	(1,091)	(10)
Remeasurements of defined benefit plans	13,033	(906)	(8)
Share of other comprehensive income of associates accounted for using equity method	4,073	(3,076)	(27)
Comprehensive Income	¥229,293	¥217,419	$1,924
Comprehensive Income Attributable to			
Comprehensive income attributable to owners of parent	¥228,100	¥216,215	$1,913
Comprehensive income attributable to non-controlling interests	1,193	1,204	11

See accompanying notes.

Consolidated Statements of Changes in Net Assets

East Japan Railway Company and Subsidiaries
Years ended March 31, 2015 and 2016

	Shares										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	Revaluation Reserve for Land	Remeasure-ments of Defined Benefit Plans	Non-Controlling Interests	Total
Balance at March 31, 2014	395,000,000	¥200,000	¥96,791	¥1,858,008	¥ (4,327)	¥36,857	¥1,650	¥(504)	¥ (7,842)	¥18,725	¥2,199,358
Cumulative effects of changes in accounting policies	—	—	—	(64,882)	—	—	—	—	—	(82)	(64,964)
Restated balance	395,000,000	200,000	96,791	1,793,126	(4,327)	36,857	1,650	(504)	(7,842)	18,643	2,134,394
Cash dividends (¥120 per share)	—	—	—	(47,272)	—	—	—	—	—	—	(47,272)
Profit attributable to owners of parent	—	—	—	180,398	—	—	—	—	—	—	180,398
Increase due to merger	—	—	—	493	—	—	—	—	—	—	493
Purchase of treasury stock	—	—	—	—	(11,386)	—	—	—	—	—	(11,386)
Disposal of treasury stock	—	—	0	—	1	—	—	—	—	—	1
Retirement of treasury stock	(1,500,000)	—	(0)	(11,361)	11,361	—	—	—	—	—	—
Change in equity in affiliated companiese accounted for by equity method-treasury stock	—	—	—	—	(70)	—	—	—	—	—	(70)
Change of scope of consolidation	—	—	—	(1)	—	—	—	—	—	—	(1)
Capital increase of consolidated subsidiaries	—	—	15	—	—	—	—	—	—	—	15
Purchase of shares of consolidated subsidiaries	—	—	27	—	—	—	—	—	—	—	27
Increase by corporate division in consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	31,558	883	20	15,241	675	48,377
Balance at March 31, 2015	393,500,000	¥200,000	¥96,833	¥1,915,383	¥ (4,421)	¥68,415	¥2,533	¥(484)	¥ 7,399	¥19,318	¥2,304,976
Cumlative effects of changes in accounting policies	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Restated balance	**393,500,000**	**200,000**	**96,833**	**1,915,383**	**(4,421)**	**68,415**	**2,533**	**(484)**	**7,399**	**19,318**	**2,304,976**
Cash dividends(¥130 per share)	**—**	**—**	**—**	**(49,083)**	**—**	**—**	**—**	**—**	**—**	**—**	**(49,083)**
Profit attributable to owners of parent	**—**	**—**	**—**	**245,310**	**—**	**—**	**—**	**—**	**—**	**—**	**245,310**
Increase due to merger	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(11,085)**	**—**	**—**	**—**	**—**	**—**	**(11,085)**
Disposal of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Retirement of treasury stock	**(1,000,000)**	**—**	**—**	**(10,211)**	**10,211**	**—**	**—**	**—**	**—**	**—**	**—**
Change in equity in affiliated companiese accounted for by equity method-treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Change of scope of consolidation	**—**	**—**	**—**	**424**	**—**	**—**	**—**	**—**	**—**	**—**	**424**
Capital increase of consolidated subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Purchase of shares of consolidated subsidiaries	**—**	**—**	**0**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**0**
Increase by corporate division in consolidated subsidiaries	**—**	**—**	**(21)**	**22**	**—**	**—**	**—**	**—**	**—**	**—**	**1**
Other	**—**	**—**	**—**	**—**	**—**	**(24,644)**	**(2,060)**	**11**	**(2,403)**	**1,090**	**(28,006)**
Balance at March 31,2016	**392,500,000**	**¥200,000**	**¥96,812**	**¥2,101,845**	**¥ (5,295)**	**¥ 43,771**	**¥ 473**	**¥(473)**	**¥ 4,996**	**¥20,408**	**¥2,462,537**

	Shares										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	Revaluation Reserve for Land	Remeasure-ments of Defined Benefit Plans	Non-Controlling Interests	Total
Balance at March 31, 2015	393,500,000	$1,770	$857	$16,950	$(39)	$ 605	$ 22	$(4)	$ 65	$171	$20,397
Cumulative effects of changes in accounting policies	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Restated balance	**393,500,000**	**1,770**	**857**	**16,950**	**(39)**	**605**	**22**	**(4)**	**65**	**171**	**20,397**
Cash dividends ($1 per share)	**—**	**—**	**—**	**(435)**	**—**	**—**	**—**	**—**	**—**	**—**	**(435)**
Profit attributable to owners of parent	**—**	**—**	**—**	**2,171**	**—**	**—**	**—**	**—**	**—**	**—**	**2,171**
Increase due to merger	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(98)**	**—**	**—**	**—**	**—**	**—**	**(98)**
Disposal of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Retirement of treasury stock	**(1,000,000)**	**—**	**—**	**(90)**	**90**	**—**	**—**	**—**	**—**	**—**	**—**
Change in equity in affiliated companiese accounted for by equity method-treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Change of scope of consolidation	**—**	**—**	**—**	**4**	**—**	**—**	**—**	**—**	**—**	**—**	**4**
Capital increase of consolidated subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Purchase of shares of consolidated subsidiaries	**—**	**—**	**0**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**0**
Increase by corporate division in consolidated subsidiaries	**—**	**—**	**(0)**	**0**	**—**	**—**	**—**	**—**	**—**	**—**	**0**
Other	**—**	**—**	**—**	**—**	**—**	**(218)**	**(18)**	**0**	**(21)**	**10**	**(247)**
Balance at March 31, 2016	**392,500,000**	**$1,770**	**$857**	**$18,600**	**$(47)**	**$ 387**	**$ 4**	**$(4)**	**$ 44**	**$181**	**$21,792**

See accompanying notes.

Consolidated Statements of Cash Flows

East Japan Railway Company and Subsidiaries
Years ended March 31, 2015 and 2016

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2015	2016	2016
Cash Flows from Operating Activities:			
Income before income taxes	¥ 315,301	**¥ 384,861**	**$ 3,406**
Depreciation	353,251	**359,515**	**3,182**
Impairment losses on fixed assets	12,738	**12,297**	**109**
Amortization of long-term prepaid expense	8,244	**8,720**	**77**
Net change in net defined benefit liability	(24,100)	**(27,649)**	**(245)**
Interest and dividend income	(3,422)	**(3,918)**	**(35)**
Interest expense	81,962	**76,332**	**676**
Construction grants received	(59,206)	**(24,487)**	**(217)**
Loss from disposition and provision for cost reduction of fixed assets	91,856	**55,071**	**487**
Net change in major receivables	(3,898)	**(27,638)**	**(245)**
Net change in major payables	(28,181)	**13,688**	**121**
Other	69,322	**5,468**	**49**
Sub-total	813,867	**832,260**	**7,365**
Proceeds from interest and dividends	4,160	**4,408**	**39**
Payments of interest	(82,205)	**(76,488)**	**(677)**
Insurance proceeds related to earthquake	3,362	**14,688**	**130**
Payments of earthquake-damage losses	(3,060)	**(1,338)**	**(12)**
Payments of partial transfer costs of railway operation	—	**(452)**	**(4)**
Payments of income taxes	(113,362)	**(99,968)**	**(884)**
Net cash provided by operating activities	622,762	**673,110**	**5,957**
Cash Flows from Investing Activities:			
Payments for purchases of fixed assets	(503,747)	**(538,245)**	**(4,763)**
Proceeds from sales of fixed assets	1,039	**11,531**	**102**
Proceeds from construction grants	33,750	**32,123**	**284**
Payments for purchases of investment in securities	(4,158)	**(714)**	**(6)**
Proceeds from sales of investment in securities	4,729	**4,664**	**41**
Other	(8,457)	**(8,934)**	**(79)**
Net cash used in investing activities	(476,844)	**(499,575)**	**(4,421)**
Cash Flows from Financing Activities:			
Proceeds from long-term loans	182,500	**140,600**	**1,244**
Payments of long-term loans	(123,006)	**(118,212)**	**(1,046)**
Proceeds from issuance of bonds	120,000	**100,000**	**885**
Payments for redemption of bonds	(75,000)	**(55,000)**	**(487)**
Payments of liabilities incurred for purchase of railway facilities	(121,209)	**(106,881)**	**(946)**
Payments of acquisition of treasury stock	(11,320)	**(11,086)**	**(98)**
Cash dividends paid	(47,272)	**(49,082)**	**(434)**
Other	(11,329)	**(10,605)**	**(94)**
Net cash used in financing activities	(86,636)	**(110,266)**	**(976)**
Net Change in Cash and Cash Equivalents	59,282	**63,269**	**560**
Cash and Cash Equivalents at Beginning of Year	186,058	**245,171**	**2,170**
Decrease in Cash and Cash Equivalents Resulting from Exclusion of Subsidiaries from Consolidation	(598)	**(631)**	**(6)**
Increase in Cash and Cash Equivalents due to Merger	429	**—**	**—**
Cash and Cash Equivalents at End of Year	¥ 245,171	**¥ 307,809**	**$ 2,724**

See accompanying notes.

Notes to Consolidated Financial Statements

East Japan Railway Company and Subsidiaries
Years ended March 31, 2015 and 2016

NOTE 1: INCORPORATION OF EAST JAPAN RAILWAY COMPANY

In accordance with the provisions of the Law for Japanese National Railways Restructuring (the Law), 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 69 railway lines, 1,665 railway stations and 7,457.3 operating kilometers as of March 31, 2016.

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 ($27,495 million) from the Shinkansen Holding Corporation (see Note 14). 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 13).

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 regulated companies.

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.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

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, 2016, which was ¥113 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, 2016, 67 subsidiaries were consolidated. During the year ended March 31, 2016, one company was newly consolidated, and six 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 or negative goodwill.

Goodwill is amortized using the straight-line method over five years. Negative goodwill is recognized as a profit at the time of occurrence.

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

3) Equity Method

The effective-influence standard is applied according to Regulations for Consolidated Financial Statements. For the year ended March 31, 2016, five affiliated companies were accounted for by the equity method, and there was no change in those companies during the year.

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

4) Allowance for Doubtful Accounts

According to the Japanese Accounting Standards for Financial Instruments, the Companies provide an allowance based on the past loan loss experience for a certain reference period in general.

Furthermore, for receivables from debtors with financial difficulty, which could affect their ability to perform in accordance with their obligations, the allowance is provided for estimated unrecoverable amounts on an individual basis.

5) Inventories

Inventories are stated at cost as follows:

Merchandise and finished goods: mainly retail cost method or gross average cost method (carrying amount in the balance sheet is calculated with consideration of write-downs due to decreased profitability of inventories)

Work in process: mainly identified cost method (carrying amount in the balance sheet is calculated with consideration of write-downs due to decreased profitability of inventories)

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

6) Real Estate for Sale

Real estate for sale is stated at the identified cost (carrying amount in the balance sheet is calculated with consideration of write-downs due to decreased profitability of real estate for sale)

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 year ended March 31, 2016.

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

(3) Equity securities issued by subsidiaries and affiliated companies that are neither 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 non-controlling interests. The cost of sales of such securities is calculated 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 neither consolidated nor accounted for using the equity method or available-for-sale securities, the 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 calculated 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

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). Furthermore, some consolidated subsidiaries have established retirement benefit trusts.

For the calculation of projected benefit obligations, the Companies adopted the benefit formula basis as the method for attributing expected benefits to periods.

The past service costs that are yet to be recognized 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 past 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 expected average remaining working lives commencing with the following year.

10) Allowance for Partial Transfer Costs of Railway Operation

The Company provides an allowance based on the estimated cost of restoration to the original state and other activities aimed at the transfer of management of the section between Miyako and Kamaishi on the Yamada Line from the Company to Sanriku Railway Company.

11) Accounting for Certain Lease Transactions

With respect to finance leases that do not transfer ownership to lessees, depreciation is calculated by the straight-line method based on the lease term and estimated residual is zero.

With regard to finance leases that do not transfer ownership for which the starting date for the transaction is prior to March 31, 2008, they continue to be accounted for by a method used for operating lease.

12) Accounting for Research and Development Costs

According to the Accounting Standards for Research and Development Costs, etc., in Japan, research and development costs are recognized as they are incurred. Research and development costs included in operating expenses for the years ended March 31, 2015 and 2016 were ¥16,424 million and ¥16,886 million ($149 million), respectively.

13) Income Taxes

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

14) Per Share Data

(1) 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.

(2) Cash dividends per share

Cash dividends per share 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.

15) 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 the 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.

16) Impairment of Fixed Assets

Accounting Standards for Impairment of Fixed Assets require that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the book value of an asset or asset group may not be recoverable.

The impairment losses are recognized when the book value of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continuing use and eventual disposition of the asset or asset group.

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

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

17) Revaluation of Land

JTB Corp., an equity-method affiliated of the Company, absorbed JTB Estate Corp. by merger on April 1, 2012. Prior to this absorption merger, JTB Estate Corp. had been revaluating its land for business use pursuant to the Law on Revaluation of Land (Law No. 34 of 1998) and the Law for Partial Revision of the Law on Revaluation of Land (Law No. 19 of 2001). Consequently, the Company's equity-method portion of "Revaluation reserve for land" recorded on JTB Corp.'s balance sheets was recorded in the Company's consolidated balance sheets as "Revaluation reserve for land" under Net assets, Accumulated other comprehensive income.

(1) Revaluation method
Rational adjustment based on roadside land value and other standards pursuant to the Order for Enforcement of the Law on Revaluation of Land (Cabinet Order No. 119 of 1998) Article 2-4

(2) Revaluation date
March 31, 2002

(3) Difference between book value after revaluation and market value on March 31, 2016
Difference was not recorded because the market value of the revaluated land was higher than the book value after revaluation.

18) Changes in Presentation Method

(Adoption of the provisions of Article 39 of the "Revised Accounting Standard for Consolidated Financial Statements")

The Company has adopted the provisions of Article 39 of the "Revised Accounting Standard for Consolidated Financial Statements" (Accounting Standards Board of Japan (ASBJ) Statement No. 22, September 13, 2013); changed the presentation of "Net income," etc.; and changed the presentation of "Minority interests" to "Non-controlling interests." To reflect the said changes in presentation, the Company has reclassified the consolidated financial statement of the previous fiscal year.

(Consolidated statements of income)

From the fiscal year under review, the Company has presented and included "Provision for allowance for partial transfer costs of railway operation" in "Other, net" of "Other expenses" because in the fiscal year under review the monetary significance was negligible. In the previous fiscal year, the Company classified "Provision for allowance for partial transfer costs of railway operation" separately. To reflect this change in presentation method, in the consolidated statement of income for the previous fiscal year the Company has presented and included ¥16,616 million in "Other, net" of "Other expenses" that was classified separately as "Provision for allowance for partial transfer costs of railway operation."

(Consolidated statements of cash flows)

(1) From the fiscal year under review, the Company has presented and included "Insurance proceeds related to earthquake" in "Other" of "Cash flows from operating activities" because in the fiscal year under review the monetary significance was negligible. To reflect this change in presentation method, in the consolidated statement of cash flows for the previous fiscal year the Company has presented and included ¥3,362 million in "Other" of "Cash flows from operating activities" that was classified separately as "Insurance proceeds related to earthquake."

(2) From the fiscal year under review, the Company has presented and included "Provision for allowance for partial transfer costs of railway operation" in "Other" of "Cash flows from operating activities" because in the fiscal year under review the monetary significance was negligible. To reflect this change in presentation method, in the consolidated statement of cash flows for the previous fiscal year the Company has presented and included ¥16,616 million in "Other" of "Cash flows from operating activities" that was classified separately as "Provision for allowance for partial transfer costs of railway operation."

NOTE 3: EARTHQUAKE DAMAGE

The Company's Tohoku Shinkansen Line and conventional lines and various other facilities were damaged severely in the Great East Japan Earthquake on March 11, 2011.

There had also been further damage to the Company's railroad and other facilities due to intermittent earthquakes since April 2011.

For the damages caused by the Great East Japan Earthquake on March 11, 2011, the Companies recorded allowance for earthquake-damage losses as "Other current liabilities" and "Other Long-Term Liabilities" on the consolidated balance sheets for the estimated amount of restoration and other expenses in the fiscal year.

However, restoration and other expenses that are difficult to reasonably estimate at this time are not included in allowance for earthquake-damage losses.

Furthermore, the Company's railway line facilities, railway stop facilities (excluding station buildings), electric cable facilities and other fixtures, which were owned by or leased by the Company, were insured against earthquakes for up to ¥71,000 million ($628 million) (¥10,000 million deductible) as of March 11, 2011.

The aggregate amount of insurance proceeds received for such insurance was ¥51,935 million ($460 million) as of March 31, 2016.

NOTE 4: APPROVAL OF THE ALLOWANCE RESERVE PLAN OF THE MAJOR IMPROVEMENT WORKS OF SHINKANSEN RAILWAYS

With respect to the Tokyo-Morioka section of the Tohoku Shinkansen Line and the Omiya-Niigata section of the Joetsu Shinkansen Line owned by JR East, the need for large-scale renovation to ensure reliable transportation going forward was recognized, and on March 29, 2016, the Allowance Reserve Plan of the Major Improvement Works of Shinkansen Railways was approved by the Minister of Land, Infrastructure, Transport and Tourism based on Article 16, Paragraph 1 of the Nationwide Shinkansen Railway Development Act (Act No. 71 of 1970).

Consequently, for each of the fiscal years starting with the year ending March 31, 2017 and ending with the year ending March 31, 2031, there will be additional operating expenses of ¥24,000 million ($212 million) resulting from the provision to such allowance compared to the operating expenses of the year ended March 31, 2016. The total of the allowance will amount to ¥360,000 million ($3,186 million). Subsequently, for each of the years starting with the year ending March 31, 2032 and ending with the fiscal year ending March 31, 2041, there will be a reversal of such allowance and resulting reduction of operating expenses of ¥36,000 million ($319 million) compared to the operating expenses of the fiscal year ended March 31, 2016.

NOTE 5: 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 6: INVENTORIES

Inventories at March 31, 2015 and 2016 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2015	2016	2016
Merchandise and finished goods	¥ 8,772	¥ 8,890	$ 78
Work in process	16,820	11,283	100
Raw materials and supplies	27,264	27,662	245
	¥52,856	¥47,835	$423

NOTE 7: 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 8: INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATED COMPANIES

Investments in and advances to unconsolidated subsidiaries and affiliated companies at March 31, 2015 and 2016 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2015	2016	2016
Unconsolidated subsidiaries:			
Investments	¥ 4,989	¥ 5,994	$ 53
Advances	500	1,060	10
	5,489	7,054	63
Affiliated companies:			
Investments (including equity in earnings of affiliated companies)	¥47,147	¥46,439	$411
Advances	71	36	0
	47,218	46,475	411
	¥52,707	¥53,529	$474

NOTE 9: 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 taxes 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 interest-bearing debt related to the Company's purchase of Shinkansen railway facilities for a total purchase price of ¥3,106,970 million ($27,495 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 sheets as of March 31, 2015 and 2016, fair values of such items, and the differences between such amounts and values are shown below. Further, items for which fair values were extremely difficult to establish were not included in the following table.

	Millions of Yen						Millions of U.S. Dollars		
	2015			2016			2016		
	Consolidated balance sheet amount	Fair value	Difference	Consolidated balance sheet amount	Fair value	Difference	Consolidated balance sheet amount	Fair value	Difference
a Cash and cash equivalents	¥ 245,171	¥ 245,171	¥ —	**¥ 307,809**	**¥ 307,809**	**¥ —**	**$ 2,724**	**$ 2,724**	**$ —**
b Receivables	468,963	468,963	—	**484,361**	**484,361**	**—**	**4,286**	**4,286**	**—**
c Securities:									
Held-to-maturity debt securities	158	160	2	**157**	**162**	**5**	**1**	**1**	**0**
Available-for-sale securities	186,250	186,250	—	**149,775**	**149,775**	**—**	**1,325**	**1,325**	**—**
Assets	¥ 900,542	¥ 900,544	¥ 2	**¥ 942,102**	**¥ 942,107**	**¥ 5**	**$ 8,336**	**$ 8,336**	**$ 0**
a Payables	¥ 714,296	¥ 714,296	¥ —	**¥ 757,544**	**¥ 757,544**	**¥ —**	**$ 6,704**	**$ 6,704**	**$ —**
b Accrued consumption taxes	41,837	41,837	—	**23,956**	**23,956**	**—**	**212**	**212**	**—**
c Accrued income taxes	51,772	51,772	—	**83,239**	**83,239**	**—**	**737**	**737**	**—**
d Long-term debt:									
Bonds	1,764,854	1,963,353	198,499	**1,809,914**	**2,075,179**	**265,265**	**16,017**	**18,364**	**2,347**
Long-term loans	993,142	1,035,055	41,913	**1,015,530**	**1,089,102**	**73,572**	**8,987**	**9,638**	**651**
e Long-term liabilities incurred for purchase of railway facilities	545,207	902,312	357,105	**438,326**	**867,081**	**428,755**	**3,879**	**7,673**	**3,794**
Liabilities	¥4,111,108	¥4,708,625	¥597,517	**¥4,128,509**	**¥4,896,101**	**¥767,592**	**$36,536**	**$43,328**	**$6,792**
Derivative transactions*1:									
Hedge accounting applied	¥ 3,386	¥ 3,386	¥ —	**¥ 1,738**	**¥ 1,738**	**¥ —**	**$ 15**	**$ 15**	**$ —**

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

Notes: 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 taxes

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 19)

2. Financial instruments whose fair values were extremely difficult to establish

	Consolidated balance sheet amount		
	Millions of Yen		Millions of U.S. Dollars
Classification	2015	2016	2016
Unlisted equity securities	¥6,647	**¥6,653**	**$59**
Unlisted corporate bonds	360	**360**	**3**
Preferred equity securities	1,000	**1,000**	**9**
Natural disaster derivative transactions	1,261	**1,131**	**10**

*1 Because the fair values of these financial instruments were extremely difficult to establish, given that they did not have market prices and future cash flows could not be estimated, they were not included in "c Securities–Available-for-sale securities."

*2 The fair value of natural disaster derivative transactions was not measured because it is extremely difficult to establish a fair value.

3. The amounts recognized in the consolidated balance sheets and fair values related to bonds, long-term loans, and long-term liabilities incurred for purchase of railway facilities included, 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 annual maturities of financial assets and securities with maturities at March 31, 2015 and 2016 were as follows:

	Millions of Yen 2015				2016				Millions of U.S. Dollars 2016			
	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	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	¥245,171	¥ —	¥ —	¥—	¥307,809	¥ —	¥ —	¥—	$2,724	$—	$—	$—
Receivables	462,476	6,472	15	—	477,542	6,407	322	90	4,226	56	3	1
Securities:												
Held-to-maturity debt securities (Government bonds)	—	10	140	10	—	10	150	—	—	0	1	—
Available-for-sale securities which have maturity (Government bonds)	6	—	—	—	—	—	6	—	—	—	0	—
Total	¥707,653	¥6,482	¥155	¥10	¥785,351	¥6,417	¥478	¥90	$6,950	$56	$ 4	$ 1

5. The annual maturities of bonds, long-term loans, and long-term liabilities incurred for purchase of railway facilities at March 31, 2016 (See Notes 13 and 14).

NOTE 10: SECURITIES

For held-to-maturity debt securities, the amount on balance sheets and market value at March 31, 2015 and 2016 were as follows:

	Millions of Yen 2015			2016			Millions of U.S. Dollars 2016		
	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.	¥148	¥150	¥ 2	¥157	¥162	¥5	$1	$1	$0
Of which market value does not exceed the amount on balance sheet:									
Government, municipal bonds, etc.	10	10	(0)	—	—	—	—	—	—
Total	¥158	¥160	¥ 2	¥157	¥162	¥5	$1	$1	$0

For available-for-sale securities, the acquisition cost and amount on balance sheets at March 31, 2015 and 2016 were as follows:

	Millions of Yen 2015			2016			Millions of U.S. Dollars 2016		
	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	¥87,498	¥182,681	¥95,183	¥62,951	¥126,580	¥63,629	$557	$1,120	$563
Debt securities	6	6	0	6	6	0	0	0	0
Of which amount on balance sheet does not exceed the acquisition cost:									
Equity shares	4,984	3,563	(1,421)	29,544	23,189	(6,355)	261	205	(56)
Debt securities	—	—	—	—	—	—	—	—	—
Total	¥92,488	¥186,250	¥93,762	¥92,501	¥149,775	¥57,274	$818	$1,325	$507

Note: In the previous fiscal year and the fiscal year under review, treatment for impairment has not been implemented for other securities with market value.

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.

NOTE 11: PLEDGED ASSETS

Pledged assets at March 31, 2015 and 2016 were summarized as follows:

Pledged assets as a collateral

	Millions of Yen		Millions of U.S. Dollars
	2015	2016	2016
Buildings and fixtures with net book value	¥20,538	¥19,406	$172
Other assets with net book value	978	966	9

Counterpart long-term debt and other liabilities

	Millions of Yen		Millions of U.S. Dollars
	2015	2016	2016
Long-term debt and other liabilities	¥1,484	¥1,232	$11

Pledged assets as a mortgage for long-term liabilities

	Millions of Yen		Millions of U.S. Dollars
	2015	2016	2016
Buildings and fixtures with net book value	¥50,721	¥49,367	$437
Other assets with net book value	11,838	12,377	110

Counterpart long-term liabilities

	Millions of Yen		Millions of U.S. Dollars
	2015	2016	2016
Long-term liabilities incurred for purchase of railway facilities	¥2,443	¥1,968	$18

NOTE 12: 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 or idle. The Companies determine recoverable amounts for the above asset groups by measuring the net selling prices or values in use. In case the Companies determine recoverable amounts for the above asset groups by measuring the net selling prices, the prices and other amounts are adjusted rationally applying the tax-appraised value of fixed assets. Values in use for the measurement of recoverable amounts are based on the present values of expected cash flows with the discount rate of 5.0%.

For assets with fair value in sharp decline compared with book value or with profitability in sharp decline, the book values were reduced to the recoverable amounts and the reductions were recognized as impairment losses on fixed assets.

Impairment losses on fixed assets at March 31, 2015 and 2016 were summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2015	2016	2016
Land	¥ 1,180	¥ 5,146	$ 46
Buildings and fixtures	4,390	6,680	59
Others	7,168	471	4
Total	¥12,738	¥12,297	$109

NOTE 13: LONG-TERM DEBT

Long-term debt at March 31, 2015 and 2016 were summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2015	2016	2016
General mortgage bonds issued in 1997 to 2001 with interest rates ranging from 2.30% to 3.30% due in 2017 to 2021	¥ 179,900	¥ 179,900	$ 1,592
Unsecured bonds issued in 2002 to 2016 with interest rates ranging from 0.13% to 2.55% due in 2016 to 2046	1,345,921	1,390,932	12,309
Secured loans due in 2016 to 2018 principally from banks and insurance companies with interest rates mainly ranging from 1.95% to 6.50%	633	233	2
Unsecured loans due in 2016 to 2045 principally from banks and insurance companies with interest rates mainly ranging from 0.31% to 3.30%	992,509	1,015,297	8,985
Euro-pound bonds issued in 2006 to 2007 with interest rates ranging from 4.50% to 5.25% due in 2031 to 2036	239,033	239,082	2,116
	2,757,996	2,825,444	25,004
Less current portion	173,220	187,107	1,656
	¥2,584,776	¥2,638,337	$23,348

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, 2016 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2017	¥ 80,000	$ 708
2018	159,900	1,415
2019	165,000	1,460
2020	125,000	1,106
2021	120,000	1,062
2022 and thereafter	1,160,959	10,274

The annual maturities of long-term loans at March 31, 2016 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2017	¥107,108	$ 948
2018	116,820	1,034
2019	119,676	1,059
2020	110,423	977
2021	115,663	1,024
2022 and thereafter	445,840	3,945

NOTE 14: 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 ($27,495 million) payable in equal semiannual installments consisting of principal and interest payments in three tranches: ¥2,101,898 million ($18,601 million) and ¥638,506 million ($5,650 million) in principal amounts payable through March 2017; and ¥366,566 million ($3,244 million) payable through September 2051. In March 1997, the liability of ¥27,946 million ($247 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 sheets as of March 31, 2002 included liabilities of Tokyo Monorail Co., Ltd. amounting to ¥36,726 million ($325 million) payable to Japan Railway Construction Public Corporation.

The long-term liabilities incurred for purchase of railway facilities outstanding at March 31, 2015 and 2016 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2015	2016	2016
Long-term liability incurred for purchase of the Tohoku and Joetsu Shinkansen facilities:			
Payable semiannually including interest at a rate currently approximating 4.13% through 2017	¥101,829	¥ 44,585	$ 394
Payable semiannually including interest at 6.35% through 2017	94,166	48,554	430
Payable semiannually including interest at 6.55% through 2051	338,779	336,408	2,977
	534,774	429,547	3,801
Long-term liability incurred for purchase of the Akita hybrid Shinkansen facilities:			
Payable semiannually at an average rate currently approximating 1.52% through 2022	7,990	6,811	60
Long-term liability incurred for purchase of the Tokyo Monorail facilities:			
Payable semiannually at an average rate currently approximating 2.32% through 2029	2,443	1,968	18
	545,207	438,326	3,879
Less current portion:			
The Tohoku and Joetsu Shinkansen purchase liability	105,170	95,668	847
The Akita hybrid Shinkansen purchase liability	1,085	1,093	10
Tokyo Monorail purchase liability	476	490	4
	106,731	97,251	861
	¥438,476	¥341,075	$3,018

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, 2016 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2017	¥ 97,251	$ 861
2018	4,309	38
2019	4,303	38
2020	4,301	38
2021	4,523	40
2022 and thereafter	323,639	2,864

NOTE 15: CONSUMPTION TAXES

The Japanese consumption tax is an indirect tax levied at the rate of 8%. Accrued consumption tax represents the difference between consumption taxes collected from customers and consumption taxes paid on purchases.

NOTE 16: CONTINGENT LIABILITIES

The Company has extended contingent liabilities of ¥11,172 million ($99 million) for orders received by Japan Transportation Technology (Thailand) Co., Ltd.

NOTE 17: 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 a resolution of the general meeting of shareholders, 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 general meeting of shareholders held in June 2016, the shareholders approved cash dividends amounting to ¥25,492 million ($226 million). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2016. Such appropriations are recognized in the period in which they are approved by the shareholders.

NOTE 18: INFORMATION REGARDING CERTAIN LEASES

Future lease payments for non-cancellable operating leases, including those due within one year, at March 31, 2015 and 2016 were as follows:

	Millions of Yen				Millions of U.S. Dollars	
	2015		2016		2016	
	Within one year	Total	Within one year	Total	Within one year	Total
Non-cancellable operating leases	¥2,421	¥34,613	**¥4,066**	**¥47,327**	**$36**	**$419**

NOTE 19: INFORMATION FOR DERIVATIVE TRANSACTIONS

1) Items Regarding Trading Circumstances (See Note 9)

2) Derivative Transactions Applied to Hedge Accounting

		Millions of Yen					
		2015			2016		
Type	Hedged item	Contract amount, etc.	Of which more-than-one-year contract amount, etc.	Fair value*2	Contract amount, etc.	Of which more-than-one-year contract amount, etc.	Fair value*2
Currency swap	Long-term loans	¥ 20,000	¥ 20,000	¥3,756	**¥ 20,000**	**¥ 20,000**	**¥2,699**
Forward exchange	Accounts payable–trade	617	—	15	**56**	**—**	**(0)**
Commodity swap	Fuel purchasing	2,315	1,517	(385)	**2,190**	**1,402**	**(961)**
Currency swap	Foreign currency denominated bonds	239,959	239,959	*1	**239,959**	**239,959**	***1**
Interest swap	Long-term loans	55,400	55,400	*1	**65,400**	**65,400**	***1**
Total		¥318,291	¥316,876	¥3,386	**¥327,605**	**¥326,761**	**¥1,738**

		Millions of U.S. Dollars		
		2016		
Type	Hedged item	Contract amount, etc.	Of which more-than-one-year contract amount, etc.	Fair value*2
Currency swap	Long-term loans	**$ 177**	**$ 177**	**$24**
Forward exchange	Accounts payable–trade	**0**	**—**	**(0)**
Commodity swap	Fuel purchasing	**19**	**12**	**(9)**
Currency swap	Foreign currency denominated bonds	**2,124**	**2,124**	***1**
Interest swap	Long-term loans	**579**	**579**	***1**
Total		**$2,899**	**$2,892**	**$15**

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 9).
2. Fair value is calculated based on the current value presented by financial institutions, etc., with which transactions are conducted.

NOTE 20: NET DEFINED BENEFIT LIABILITY

Net defined benefit liability included in the liability section of the consolidated balance sheets as of March 31, 2015 and 2016 consisted of the following:

1) Movement in Retirement Benefit Obligations

	Millions of Yen		Millions of U.S. Dollars
	2015	2016	2016
Balance at the beginning of the fiscal year	¥651,783	¥709,599	$6,280
Cumulative effects of changes in accounting policies	100,144	—	—
Restated balance	751,927	709,599	6,280
Service costs	28,976	28,003	248
Interest costs	4,623	4,382	39
Actuarial losses (gains)	(20,530)	2,713	24
Benefits paid	(55,704)	(60,309)	(534)
Past service costs	180	261	2
Other	127	(123)	(1)
Balance at the end of the fiscal year	¥709,599	¥684,526	$6,058

2) Movements in Plan Assets

	Millions of Yen		Millions of U.S. Dollars
	2015	2016	2016
Balance at the beginning of the year	¥7,356	¥8,279	$73
Expected return on plan assets	88	98	1
Actuarial losses (gains)	569	23	0
Contributions paid by the employer	713	857	8
Benefits paid	(447)	(402)	(3)
Balance at the end of the year	¥8,279	¥8,855	$79

3) Reconciliation from Retirement Benefit Obligations and Plan Assets to Liability (Asset) for Retirement Benefits

	Millions of Yen		Millions of U.S. Dollars
	2015	2016	2016
Funded retirement benefit obligations	¥ 9,650	¥ 10,793	$ 96
Plan assets	(8,279)	(8,855)	(79)
	1,371	1,938	17
Unfunded retirement benefit obligations	699,949	673,733	5,962
Total net liability (asset) for retirement benefits at March 31	701,320	675,671	5,979
Liability for retirement benefits	701,731	675,784	5,980
Asset for retirement benefits	(411)	(113)	(1)
Total net liability (asset) for retirement benefits at March 31	¥701,320	¥675,671	$5,979

Employees' severance and retirement benefit expenses included in the consolidated statements of income for the years ended March 31, 2015 and 2016 consisted of the following:

4) Retirement Benefit Costs

	Millions of Yen		Millions of U.S. Dollars
	2015	2016	2016
Service costs	¥28,976	¥28,003	$248
Interest costs	4,623	4,382	39
Expected return on plan assets	(88)	(98)	(1)
Net actuarial loss amortization	(1,543)	1,442	13
Past service costs amortization	(433)	(316)	(3)
Other	562	47	0
Total retirement benefit costs for the fiscal year ended March 31	¥32,097	¥33,460	$296

5) Adjustments for Retirement Benefit Costs

Adjustments for retirement benefit costs (before adjustments in tax effect accounting) are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2015	2016	2016
Past service costs that are yet to be recognized	¥ (613)	¥ (578)	$ (5)
Actuarial gains and losses that are yet to be recognized	19,556	(1,247)	(11)
Total balance at March 31	¥18,943	¥(1,825)	$(16)

6) Accumulated Adjustments for Retirement Benefit

Accumulated adjustments for retirement benefit (before adjustments in tax effect accounting) are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2015	2016	2016
Past service costs that are yet to be recognized	¥ 4,703	¥ 4,125	$ 37
Actuarial gains and losses that are yet to be recognized	10,861	9,614	85
Total balance at March 31	¥15,564	¥13,739	$122

7) Plan Assets

	2015	2016
Bonds	7%	7%
Equity securities	32%	30%
Cash and time deposit	9%	—
General account of life insurers	48%	53%
Other	4%	10%

The discount rates are mainly 0.6% in the years ended March 31, 2015 and 2016. The rates of expected return on pension assets used by the Companies were mainly 2.0% and 1.4% in the years ended March 31, 2015 and 2016, respectively.

The required contributions to the defined contribution plans of the Company and its consolidated subsidiaries were ¥750 million and ¥1,057 million ($9 million) in the years ended March 31, 2015 and 2016, respectively.

NOTE 21: INCOME TAXES

The major components of deferred tax assets and deferred tax liabilities at March 31, 2015 and 2016 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2015	2016	2016
Deferred tax assets:			
Net defined benefit liability	¥225,848	¥206,670	$1,829
Reserves for bonuses	23,527	22,640	200
Losses on impairment of fixed assets	22,283	21,518	190
Unrealized holding gains on fixed assets	12,184	12,902	114
Environmental conservation cost	8,621	7,660	68
Allowance for partial transfer costs of railway operation	5,334	6,013	53
Accrued enterprise tax	4,215	5,744	51
Excess depreciation and amortization of fixed assets	6,119	5,202	46
Asset retirement obligations	4,221	4,492	40
Loss carry forwards for tax purposes	5,292	4,367	39
Devaluation losses on fixed assets	4,059	3,856	34
Other	29,718	38,512	341
	351,421	339,576	3,005
Less valuation allowance	(28,396)	(24,897)	(220)
Less amounts offset against deferred tax liabilities	(60,416)	(48,235)	(427)
Net deferred tax assets	262,609	266,444	2,358
Deferred tax liabilities:			
Tax deferment for gain on transfers of certain fixed assets	26,811	25,571	226
Net unrealized holding gains on securities	29,705	18,768	166
Valuation for assets and liabilities of consolidated subsidiaries	2,609	2,341	21
Other	5,570	5,109	45
	64,695	51,789	458
Less amounts offset against deferred tax assets	(60,416)	(48,235)	(427)
Net deferred tax liabilities	¥ 4,279	¥ 3,554	$ 31

For the year ended March 31, 2016, the actual effective income tax rate differed from the effective tax rate for the following reasons:

	2016
The effective tax rate	32.9%
Adjustments:	
Effect of tax rate change	3.8
Other, net	(0.8)
The actual effective rate after applying tax effect accounting	35.9%

Corrections in the amounts posted as deferred tax assets and deferred tax liabilities due to change in the income tax rate

The income tax rate and other tax rates changed from fiscal years commencing on or after April 1, 2016, pursuant to the Act for Partial Revision of the Income Tax Act, etc., and the Act to Amend the Local Taxation Act, etc., which a Diet session enacted on March 29, 2016. As a result, among deferred tax assets and liabilities at the end of the fiscal year under review, the effective tax rate utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016, to March 31, 2018, has changed from 32.1% to 30.7%, mainly. Further, the effective tax rate utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized on or after April 1, 2018, has changed to 30.5%, mainly.

Due to these changes in effective tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥12,290 million ($109 million) as of March 31, 2016, deferred income tax expense recognized for the year ended March 31, 2016 increased by ¥13,408 million ($119 million).

The effect of this change on net unrealized holding gains on securities and remeasurements of defined benefit plans were negligible.

NOTE 22: 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 the years ended March 31, 2015 and March 31, 2016, the amounts of net income related to rental property were ¥71,866 million and ¥70,239 million ($622 million) (rental income is recognized in operating revenues and rental expense is principally charged to operating expenses), respectively. The amounts recognized in the consolidated balance sheets and fair values related to investment and rental property were as follows.

Millions of Yen				Millions of U.S. Dollars	
Consolidated balance sheet amount			Fair value	Consolidated balance sheet amount	Fair value
2015	Difference	2016	2016	2016	2016
¥542,781	¥49,325	¥592,106	¥1,861,419	$5,240	$16,473

Notes: 1. The consolidated balance sheet amount is the amount equal to acquisition cost, less accumulated depreciation.
2. Regarding difference in above the table, the increases in the years ended March 31, 2016, were principally attributable to acquisition of real estate and renewal (¥73,760 million/$653 million), and the decreases were mainly attributable to depreciation expenses (¥21,362 million/$189 million).
3. Regarding fair values at the end of 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 Company based on certain appraisal values or indicators that reflect appropriate market prices. If after obtaining a property from a third party or since the most recent appraisal there has been no material change in the relevant appraisal values or indicators that reflect the appropriate market prices, the amount is based on such appraisal values or indicators.
4. Because fair values are extremely difficult to establish, this table does not include property that is being constructed or developed for future use as investment property.

NOTE 23: SEGMENT INFORMATION

1) General Information about Reportable Segments

Transportation, Station Space Utilization, and Shopping Centers & Office Buildings comprise the Company's three reportable segments. Each reportable segment is in turn comprised of business units within the Group with respect to which separate financial information is obtainable. These reportable segments are reviewed periodically by the Company's Board of Directors and form the basis on which to evaluate business performance and decide on how to allocate management resources of the Company.

The Transportation segment is primarily engaged in passenger transportation services centered on railway operations, and railcar manufacturing operations. The Station Space Utilization segment creates commercial spaces in railway stations and develops various types of businesses, including retail sales and restaurant operations. The Shopping Centers & Office Buildings segment develops railway stations and land near railway stations, operates shopping centers, and leases office buildings, etc.

2) Basis of Measurement about Reportable Segment Operating Revenues, Segment Income or Loss, Segment Assets, and Other Material Items

The accounting treatment for each reportable segment is largely the same as that set forth in the "Significant accounting policies (Note 2)." Moreover, intersegment transactions are between consolidated subsidiaries and based on market prices and other fair values.

Fiscal 2015 (April 1, 2014 to March 31, 2015)

Millions of Yen

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
Operating revenues:							
Outside customers	¥1,852,040	¥396,368	¥254,997	¥ 252,760	¥2,756,165	¥ —	¥2,756,165
Inside group	55,223	15,630	11,560	361,435	443,848	(443,848)	—
Total	1,907,263	411,998	266,557	614,195	3,200,013	(443,848)	2,756,165
Segment income	¥ 294,607	¥ 34,539	¥ 72,324	¥ 27,490	¥ 428,960	¥ (1,438)	¥ 427,522
Segment assets	¥6,027,312	¥203,513	¥976,232	¥1,133,507	¥8,340,564	¥(734,874)	¥7,605,690
Depreciation	273,441	10,361	31,743	37,706	353,251	—	353,251
Increase in fixed assets (Note 5)	432,877	11,442	45,958	62,894	553,171	—	553,171

Notes: 1. "Others" represents categories of business that are not included in reportable segments and include hotel operations, and advertising and publicity services.
2. The ¥(1,438) million downward adjustment to segment income included a ¥(1,798) million elimination of unrealized holding gains (losses) on fixed assets and inventory assets and a ¥317 million elimination for intersegment transactions. Moreover, the ¥(734,874) million downward adjustment to segment assets included a ¥(1,133,269) million elimination of intersegment claims and obligations, offset by ¥398,395 million in corporate assets not allocated to each reportable segment.
3. Segment income was adjusted to ensure consistency with the operating income set forth in the consolidated statements of income.
4. Segment information on liabilities was omitted from record, as it is not a metric used in deciding the allocation of management resources or evaluating earnings performance.
5. Increase in fixed assets included a portion contributed mainly by national and local governments.

Fiscal 2016 (April 1, 2015 to March 31, 2016)

Millions of Yen

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
Operating revenues:							
Outside customers	**¥1,954,588**	**¥399,960**	**¥ 255,979**	**¥ 256,673**	**¥2,867,200**	**¥ —**	**¥2,867,200**
Inside group	**53,411**	**16,090**	**11,614**	**377,284**	**458,399**	**(458,399)**	**—**
Total	**2,007,999**	**416,050**	**267,593**	**633,957**	**3,325,599**	**(458,399)**	**2,867,200**
Segment income	**¥ 348,576**	**¥ 35,100**	**¥ 71,611**	**¥ 35,025**	**¥ 490,312**	**¥ (2,491)**	**¥ 487,821**
Segment assets	**¥6,282,910**	**¥207,259**	**¥1,060,236**	**¥1,169,089**	**¥8,719,494**	**¥(929,732)**	**¥7,789,762**
Depreciation	**277,896**	**10,301**	**31,885**	**39,433**	**359,515**	**—**	**359,515**
Increase in fixed assets (Note 5)	**420,578**	**15,337**	**96,924**	**37,468**	**570,307**	**—**	**570,307**

Millions of U.S. Dollars

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
Operating revenues:							
Outside customers	$17,297	$3,540	$2,265	$ 2,271	$25,373	$ —	$25,373
Inside group	473	142	103	3,339	4,057	(4,057)	—
Total	17,770	3,682	2,368	5,610	29,430	(4,057)	25,373
Segment income	$ 3,085	$ 311	$ 634	$ 310	$ 4,340	$ (23)	$ 4,317
Segment assets	$55,601	$1,834	$9,383	$10,346	$77,164	$(8,228)	$68,936
Depreciation	2,460	91	282	349	3,182	—	3,182
Increase in fixed assets (Note 5)	3,722	136	858	331	5,047	—	5,047

Notes: 1. "Others" represent categories of business that are not included in reportable segments and include hotel operations, and advertising and publicity services.
2. The ¥(2,491) million ($(23) million) downward adjustment to segment income included a ¥(2,681) million ($(24) million) elimination of unrealized holding gains (losses) on fixed assets and inventory assets and a ¥196 million ($2 million) elimination for intersegment transactions. Moreover, the ¥(929,732) million ($(8,228) million) downward adjustment to segment assets included a ¥(1,190,930) million ($(10,539) million) elimination of intersegment claims and obligations, offset by ¥261,198 million ($2,311 million) in corporate assets not allocated to each reportable segment.
3. Segment income was adjusted to ensure consistency with the operating income set forth in the consolidated statements of income.
4. Segment information on liabilities was omitted from record, as it is not a metric used in deciding the allocation of management resources or evaluating earnings performance.
5. Increase in fixed assets included a portion contributed mainly by national and local governments.

3) Relevant Information

i. Information about products and services

Information about products and services was omitted as the Company classifies such segments in the same way as it does its reportable segments.

ii. Information about geographic areas

a. Operating revenues

Information about geographic areas was omitted as operating revenues attributable to outside customers in Japan exceed 90% of the operating revenues reported in the consolidated statements of income.

b. Property, plant and equipment

Information about geographic areas was omitted as property, plant and equipment in Japan exceed 90% of the property, plant and equipment reported in the consolidated balance sheets.

iii. Information about major customers

Information about major customers was omitted as no single outside customer contributes 10% or more to operating revenues in the consolidated statements of income.

4) Information about Impairment Losses on Fixed Assets in Reportable Segments

Fiscal 2015 (Year ended March 31, 2015)

Millions of Yen

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note)	Total
Impairment losses on fixed assets	¥8,439	¥1,056	¥2,471	¥772	¥12,738

Fiscal 2016 (Year ended March 31, 2016)

Millions of Yen

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note)	Total
Impairment losses on fixed assets	¥3,105	¥1,642	¥5,910	¥1,640	¥12,297

Millions of U.S. Dollars

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note)	Total
Impairment losses on fixed assets	$27	$15	$52	$15	$109

Note: The amount in Others is the amount in connection with business segments and other operations excluded from the reportable segments.

5) Information about Amortized Amount of Goodwill and Unamortized Balance of Goodwill by Reportable Segments

Information about amortized amount of goodwill and unamortized balance of goodwill by reportable segments was omitted as the amount was negligible.

6) Information about Gain on Negative Goodwill by Reportable Segments

Information about gain on negative goodwill by reportable segments was omitted as the amount was negligible.

NOTE 24: CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended March 31, 2015 and 2016

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2015	2016	2016
Net unrealized holding gains (losses) on securities			
Amount arising during the year	¥ 41,660	¥(36,478)	$(323)
Reclassification adjustments	(1,268)	(10)	(0)
Sub-total, before tax	40,392	(36,488)	(323)
Tax (expense) benefit	(11,082)	12,418	110
Sub-total, net of tax	29,310	(24,070)	(213)
Net deferred gains (losses) on derivatives under hedge accounting			
Amount arising during the year	2,135	(1,747)	(15)
Reclassification adjustments	(136)	(179)	(2)
Acquisition cost adjustments	(130)	277	2
Sub-total, before tax	1,869	(1,649)	(15)
Tax (expense) benefit	(550)	558	5
Sub-total, net of tax	1,319	(1,091)	(10)
Remeasurements of defined benefit plans			
Amount arising during the year	21,122	(2,951)	(26)
Acquisition cost adjustments	(2,179)	1,126	10
Sub-total, before tax	18,943	(1,825)	(16)
Tax (expense) benefit	(5,910)	919	8
Sub-total, net of tax	13,033	(906)	(8)
Share of other comprehensive income of associates accounted for using equity method			
Amount arising during the year	3,495	(3,798)	(33)
Reclassification adjustments	578	722	6
Sub-total	4,073	(3,076)	(27)
Total other comprehensive income	¥ 47,735	¥(29,143)	$(258)

NOTE 25: SUBSEQUENT EVENT

Share Repurchase

The Board of Directors of the Company resolved at its meeting held on April 27, 2016 matters concerning the Company's repurchase of its common stock pursuant to Article 156 of the Business Corporation Law as applied pursuant to Article 165, Paragraph 3 thereof, as detailed below.

(1) Reason for share repurchase: To enhance returns to shareholders
(2) Class of shares to be repurchased: Common stock
(3) Total number of shares that may be repurchased: 3,300,000 shares (maximum) (0.84% of issued shares (excluding treasury stock))
(4) Aggregate repurchase price: ¥30,000 million (maximum)
(5) Period of repurchase: From April 28, 2016 to July 29, 2016

The repurchase of the Company's common stock based on this resolution was completed after market purchases on the Tokyo Stock Exchange from May 2, 2016 to June 16, 2016. The total repurchased was 3,092,100 shares of common stock at an aggregate repurchase price of ¥29,999 million ($265 million).

Independent Auditor's Report

KPMG

Independent Auditor's Report

To the Board of Directors of East Japan Railway Company:

We have audited the accompanying consolidated financial statements of East Japan Railway Company and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statement of income, statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of East Japan Railway Company and its consolidated subsidiaries as at March 31, 2016, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 4 to the consolidated financial statements, which states that the Allowance Reserve Plan of the Major Improvement Works of Shinkansen Railway was approved on March 29, 2016 by the Minister of Land, Infrastructure, Transport and Tourism based on Article 16, Paragraph 1 of the Nationwide Shinkansen Railway Development Act (Act No.71 of 1970).

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 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 LLC

June 23, 2016
Tokyo, Japan