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, 2017.

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 2017, ended March 31, 2017. JR East continuously assesses those factors. However, actual results may differ materially from those estimates, given the uncertainty of forward-looking statements.

Performance Analysis

Overview

In fiscal 2017, 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, life-style service, and IT & *Suica* businesses.

As a result of these initiatives, during the fiscal year under review, operating revenues increased 0.5% year on year, to ¥2,880.8 billion ($25,721 million), largely due to growth in the Company's transportation revenues. However, due to an increase in operating expenses, mainly arising from the recognition of a provision for large-scale renovation of Shinkansen infrastructure, operating income decreased 4.4%, to ¥466.3 billion ($4,163 million). Profit attributable to owners of parent increased 13.3%, to ¥277.9 billion ($2,481 million), as a result of an increase in gain on sales of fixed assets.

To pursue its priority task of improving the safety and reliability of transportation, JR East is making rigorous efforts to prevent the reoccurrence of accidents and incidents that affect transportation as well as efforts to prevent the occurrence of such accidents and incidents by identifying risks and weaknesses. Specifically, JR East improved its electrical equipment and Shinkansen facilities to address their weaknesses. In addition, to deepen each employee's understanding of the nature of his or her work, the Company introduced training equipment such as simulators at training centers, skill training centers, and operational sites and conducted more practical educational and training activities. Also, JR East took measures to improve the technical capabilities of the Group as a whole by increasing personnel exchanges with Group companies and other organizations and by collaborating with partner companies to solidify safety management with respect to railway construction work. Further, as part of JR East's efforts to provide reliable transportation services, the Company implemented measures related to ground facilities and railcars to prevent service disruptions. In addition, JR East advanced initiatives to minimize the impact of transportation service disruptions, resume operations following such disruptions as soon as possible, and communicate with customers expeditiously, at the time of such disruptions.

With respect to strategies for visitors to Japan from overseas, the Group as a whole took measures to increase the number of and improve products and develop capabilities to serve such customers. Specifically, in April 2016 JR East launched the *Tokyo–Osaka Hokuriku Arch Pass*, which may be used for the Hokuriku Shinkansen Line, and *JR East-South Hokkaido Rail Pass*, which may be used for the Hokkaido Shinkansen Line. In August 2016, the Company launched a new product for the Tohoku area, *TOHOKU BUFFET*, and expanded and improved the lineup of travel products for visitors to Japan under the *JR East Railway Holiday* brand. Further, the Company opened *JAPAN RAIL CAFE* (Singapore) in December 2016 with the aim of distributing information and providing support in relation to travel to Japan. JR East made progress in introducing station name signs in four languages and station numbering that displays both station numbers and line numbers. In addition, the Company opened a new *JR EAST Travel Service Center* at the east exit of Ikebukuro Station and increased the number of service counters in the centers at Tokyo Station and Narita Airport Terminal 2·3 Station. Meanwhile, *Train Hostel HOKUTOSEI* (Tokyo), a lodging facility that offers inexpensive, long-term accommodation for visitors to Japan, was opened in December 2016.

With respect to the area surrounding Shinagawa Station and Tamachi Station, JR East aims to develop an internationally attractive exchange hub, as some of the land used for the Shinagawa Depot railway yard will become available for other uses. As the urban development plans for some of this land were approved in April 2016 for special treatment within the National Strategic Special Zone, JR East is continuing the process of pursuing urban development in cooperation with the Government of Japan, the Tokyo Metropolitan Government, relevant wards, and other stakeholders. In March 2017, the "Guideline for Community Development of the Northern Peripheral Area of Shinagawa Station" was established. Further, the Company began the construction of Shinagawa New Station (provisional name) with a view to its interim opening in spring 2020 and its full opening around 2024, which is scheduled to coincide with the opening of the town.

In June 2016, JR East concluded an agreement with The Tokyo Organising Committee of the Olympic and Paralympic Games as an Official Passenger Rail Transportation Services Partner of the Tokyo 2020 Olympic and Paralympic Games and announced the "JR East 2020 Project," which sets out JR East's objectives. In light of this, the Company took measures to help ensure that the Games proceed smoothly and to contribute to the growing enthusiasm surrounding the event. For example, JR East upgraded railway stations near competition venues and improved the security level of railway facilities. In conjunction with these efforts, the Company announced the slogan of "TICKET TO TOMORROW" in October 2016 with the aims of meeting customers' expectations by offering high-quality services and leaving a legacy for society beyond 2020.

With respect to regional revitalization, JR East made progress in such initiatives as promotion of tourism, revitalization of local industries, and town development centered on regional core railway stations. Specifically, the Company publicly announced the service schedule and route of the *TRAIN SUITE SHIKI-SHIMA* cruise train, which will begin operations in May 2017, and accepted orders for travel products. At Ueno Station, JR East proceeded with development of *New Departure Platform 13.5* and the *PROLOGUE SHIKI-SHIMA* lounge. As initiatives for the *sextic industrialization* of agriculture, fishing, and forestry, JR East's in-station stores and other stores began sales of various products that used tomatoes harvested by JR Tomato Land Iwaki Farm Co., Ltd., as well as *Niigata Shupoppo*, a sake that uses brewer's rice from JR Niigata Farm Co., Ltd. At the same time, the Company jointly established JR Agri Sendai Co., Ltd., with local farmers. Further, based on the "Partnership Agreement in Relation to the Development of Compact Cities for Regional Revitalization" concluded with Akita Prefecture and Akita City, JR East established a tourist center in Akita Station. At the same time, the Company proceeded with preparations for the station's west exit parking garage building, which opened in April 2017; a sports medicine clinic, which is scheduled for completion in spring 2018; and *JR Akita Gate Arena* (provisional name), which is scheduled for completion in winter 2019.

With respect to participation in overseas railway projects, in August 2016 the *Purple Line* (Bangkok, Thailand), an urban mass transit system, began operations, and *sustina* stainless-steel railcars manufactured by subsidiary Japan Transport Engineering Company (J-TREC) began operations. Further, a local subsidiary established through a joint investment with other companies began maintenance operations for railway systems. In relation to high-speed railways in India, subsidiary Japan International Consultants for Transportation Co., Ltd., received orders for "The Follow-up Study for the Mumbai-Ahmedabad High-Speed Railway Corridor" and the "General Consultancy of the Mumbai-Ahmedabad High-Speed Railway Project" from the Japan International Cooperation Agency (JICA) and provided consultation services accordingly. In conjunction with these efforts, JR East took advantage of its experience as a Shinkansen operator to provide technological support. In addition, the Company promoted its "Global Human Resource Development Program—Ever Onward" to nurture personnel who can effectively take on global business development.

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, JR East steadily implemented measures based on its sixth five-year safety plan, "Group Safety Plan 2018." The Company steadily implemented measures in preparation for a major earthquake, such as a possible earthquake directly beneath the Tokyo metropolitan area. JR East earmarked a total of ¥300.0 billion for investment in such measures for a five-year intensive implementation period ended March 31, 2017. In accordance with plans, approximately 80% of the work that is currently planned was completed by the end of the fiscal year under review. Further, JR East proceeded with the installation of automatic platform gates based on a policy of introducing them to all railway stations on the Yamanote Line and to all railway stations on the line segment between Omiya Station and Sakuragicho Station on the Keihin-Tohoku and Negishi Lines. The use of automatic platform gates began at Shinagawa Station on the Yamanote Line and at Akabane Station on the Keihin-Tohoku Line. Also, the Company announced that it would proceed with installation ahead of schedule in light of an accident involving a fatality in Warabi Station's platform in January 2017. In addition, to shorten construction periods and reduce costs, JR East commenced the trial introduction of a new type of automatic platform gate at Machida Station on the Yokohama Line in December 2016. As for other initiatives, the Company kicked off the Station Platform Safety Campaign together with other railway operators to promote safe usage of station platforms. Further, as measures for preventing railway crossing accidents, JR East continued eliminating and consolidating railway crossings, installing crossing gates, and installing more obstruction warning devices and obstacle detection devices for railway crossings. The Company also introduced a train approach alarm system that utilizes GPS to more line segments in order to improve the safety of personnel who perform maintenance work.

With respect 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." For the expansion of the direct service network, JR East took measures to improve the quality of transportation by expanding contingency shuttle operations when transportation services are disrupted. In addition, the Company increased the line segments for which the *JR EAST APP* provides train position information, and the number of app downloads reached approximately 2.46 million on a cumulative basis as of March 31, 2017. JR East made efforts jointly with other companies to eliminate areas in tunnels where mobile phone connection is poor and established environments that enable usage between Takasaki and Annakaharuna on the Hokuriku Shinkansen Line, between Iwate-Numakunai and (before) Ninohe on the Tohoku Shinkansen Line, between Takasaki and (before) Jomo-Kogen Station on the Joetsu Shinkansen Line, between Tokyo and Shinagawa on the Yokosuka Line, and between Tokyo and Shiomi on the Keiyo Line. Further, the Company implemented a *Let's Stop Viewing Smartphones while Walking* campaign together with other railway operators and other organizations from across Japan for the first time. In regard to the *assistance* campaign in which personnel ask nearby customers whether they require assistance, the Company commenced new collaborative initiatives with other railway operators in the Tokyo metropolitan area.

With respect to transportation, JR East revised timetables in March 2017 to increase the frequency of *Hayabusa* services between Tokyo and Sendai on the Tohoku Shinkansen Line as well as to increase the frequency of and add railcars to *Narita Express* services, which many visitors to Japan use. In addition, as part of efforts to increase the convenience of the "Tokyo Megaloop," JR East increased the frequency of services on the Keiyo Line.

With respect to marketing and sales activities, the Company conducted such campaigns as the *Ikuze, Tohoku. SPECIAL Fuyu no Gohobi* Campaign and the *Japanese Beauty Hokuriku* Campaign to increase inter-regional railway travel. Further, JR East began operating an art-cafe Shinkansen, the *GENBI SHINKANSEN*, between Echigo-Yuzawa and Niigata in April 2016 and collaborated with IZUKYU CORPORATION to commence operations of the resort train *IZU CRAILE* between Odawara and Izukyu-Shimoda in July 2016. In relation to the *JR East Dynamic Rail Pack*, a travel product that allows a customer to purchase a combined train–accommodation product based on his or her choice, in November 2016 the Company launched the new *Dynamic TYO* brand with the aim of increasing the flow of tourists to the Tokyo metropolitan area from the Tohoku and Shinetsu regions. In addition, from December 2016 JR East made it possible to receive tickets for all areas of Hokkaido through eki-net, which is an Internet service for applying for JR tickets.

In *Suica* operations, in October 2016 JR East introduced compatibility with Apple Inc.'s Apple Pay payment service, enabling usage of the service through iPhone 7 and other terminals. The number of *Suica* cards issued and outstanding was approximately 63.98 million as of March 31, 2017. Also, the Company proceeded with preparations for an increase from April 2017 in the number of railway stations on the Shinonoi Line, the Chuo Main Line, and the Banetsu West Line in which *Suica* is usable.

As a result of these initiatives, JR East's number of passengers for railway operations exceeded that of the previous fiscal year, and operating revenues in the Transportation segment increased 0.2% year on year, to ¥2,013.0 billion ($17,973 million). However, due to an increase in operating expenses, mainly arising from the recognition of a provision for large-scale renovation of Shinkansen infrastructure, operating income decreased 6.4% year on year, to ¥326.4 billion ($2,914 million).

To restore line segments on the Pacific coast severely damaged by the Great East Japan Earthquake, JR East worked in consultation with the national government and relevant local authorities as the Company moved forward with collaborative initiatives for rebuilding the area as a whole. JR East proceeded with 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. Further, with respect to the Bus Rapid Transit ("BRT") systems on the Kesennuma Line and the Ofunato Line, the Company improved services and other aspects of operations. In addition, JR East resumed operations between Soma and Hamayoshida on the Joban Line in December 2016.

JR East'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 that are working to decontaminate line-side areas and return residents to their homes. Based on this policy, JR East resumed operations between Odaka and Haranomachi on the Joban Line in July 2016 and conducted restoration work and took other measures with a view to resuming operations between Namie and Odaka by April 2017 and between Tatsuta and Tomioka by approximately October 2017. In the areas designated as "areas where it is expected that the residents will have difficulties in returning for a long time," the Company aims to open lines after the restoration of damaged facilities, 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. JR East proceeded with 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 1.4% year on year, to 23.2 billion, mainly due to the opening of the Hokkaido Shinkansen Line and an increase in visitors to Japan among passengers. Revenues from passenger tickets increased 1.1% year on year, to ¥584.4 billion ($5,218 million). Included in this figure, Shinkansen commuter pass revenues increased 1.1% year on year, to ¥23.9 billion ($213 million), and non-commuter pass revenues rose 1.1%, to ¥560.5 billion ($5,004 million).

CONVENTIONAL LINES (KANTO AREA NETWORK)

For conventional lines in the Kanto area network, passenger kilometers increased 0.4% year on year, to 106.3 billion. Revenues from passenger tickets increased 0.6%, to ¥1,163.1 billion ($10,385 million). Included in this figure, commuter pass revenues increased 0.8%, to ¥456.1 billion ($4,072 million), while non-commuter pass revenues increased 0.4%, to ¥707.0 billion ($6,313 million).

CONVENTIONAL LINES (OTHER NETWORK)

In the conventional lines other than the Kanto area network, passenger kilometers decreased 1.7% year on year, to 5.6 billion. Revenues from passenger tickets decreased 2.5%, to ¥68.8 billion ($614 million). Included in this figure, commuter pass revenues were approximately unchanged at ¥18.5 billion ($165 million), while non-commuter pass revenues decreased 3.4%, to ¥50.3 billion ($449 million).

STATION SPACE UTILIZATION

In the Station Space Utilization segment, JR East opened phase 2 of *NEWoMan* (Tokyo) at the JR Shinjuku Station New South Exit in April 2016. Following the July 2016 openings of phase 1 of *GranSta Marunouchi* (Tokyo) and a new area of *GranSta* (Tokyo), which are in the Marunouchi underground area of Tokyo Station, JR East proceeded with preparations to open phase 2 of both areas in April 2017. Further, in November 2016 JR East opened the renovated *Ekibenya Matsuri GranSta* (Tokyo), which features a menu boasting an assortment of local tastes from across Japan. In addition, JR East opened *PERIE CHIBA EKINAKA* (IN-STATION) (3rd floor) (Chiba) in November 2016 in accordance with a plan to rebuild Chiba Station and its buildings. JR East continued introducing stores with new designs for *NewDay*s (convenience stores) and introducing *NewDays KIOSK*, a new type of *KIOSK* store.

As a result of these initiatives, as well as favorable sales at stores in Sendai Station and other stations, operating revenues of the Station Space Utilization segment increased 0.3%, to ¥417.1 billion ($3,724 million). Operating income decreased 6.0%, to ¥33.0 billion ($294 million), due to the impacts of factors including store closures due to obstruction caused by work.

SHOPPING CENTERS & OFFICE BUILDINGS

In the Shopping Centers & Office Buildings segment, JR East expanded in stages the common Groupwide service *JRE POINT* to a total of 71 station buildings and other facilities. For example, JR East made this service usable at *S-PAL Sendai* (Miyagi) and *FES'AN* (Iwate). In addition, JR East opened *nonowa Kunitachi WEST* (Tokyo) in April 2016 and *nonowa Musashisakai EAST* (Tokyo) in June 2016 in order to increase the value of the Chuo Line. Further, JR East opened *atré Ebisu West Building* (Tokyo) in April 2016, *JEBL Akihabara Square* (Tokyo) in September 2016, and *LUSCA Atami* (Shizuoka) in November 2016. In addition, JR East proceeded with the construction of *JR Saitama-Shintoshin Building* (Saitama), which opened fully in June 2017; phase 1 of the *Shibuya Station Area Development Plan* (East Building), which is scheduled for completion in the fiscal year ending March 31, 2020; and the *Yokohama Station West Exit Station Building* (provisional name), which is scheduled for completion in 2020.

As a result of these initiatives, as well as factors including the earnings contributions from the opening of *JR SHINJUKU MIRAINA TOWE*R (Tokyo), phase 1 of *NEWoMan* (Tokyo), and *S-PAL Sendai East Building* (Miyagi), operating revenues of the Shopping Centers & Office Buildings segment increased 4.8%, to ¥280.6 billion ($2,505 million). Similarly, operating income increased 4.8%, to ¥75.0 billion ($670 million).

OTHERS

In hotel operations, to increase the competitiveness of existing hotels JR East opened and renovated *HOTEL METS Shibuya* (Tokyo) and *HOTEL METS Kitakami* (Iwate). In addition, JR East proceeded with construction work on *Hotel Metropolitan Sendai East* (Miyagi), *Hotel Metropolitan Saitama-Shintoshi*n (Saitama), and *Hotel Dream Gate Maihama Annex* (provisional name).

In advertising and publicity services, JR East made efforts to promote advertising sales for *11 Tokyo Metropolitan Area Railway Operators Nakazuri (Hanging Posters) Dream Network Set*, which enables the simultaneous posting of advertisements that hang inside railcars on all target lines, including those of other railway operators.

In credit card operations, JR East installed cash dispensers exclusively for credit cards issued overseas at eight railway stations in the Tokyo metropolitan area, including Shinjuku Station and Ueno Station.

In *Suica* shopping services (electronic money), JR East began providing downloads of the *Suica Point App* in July 2016 to enhance the convenience of the *Suica Point Club* service. JR East continued to develop the network of participating stores and business establishments actively through efforts that included introduction of *Suica* electronic money to chain stores with wide operating areas. As a result of these measures, *Suica* electronic money was usable at approximately 380,000 stores as of March 31, 2017. Further, JR East proceeded with preparations to unify *Suica Point* with *JRE POINT*.

In other initiatives, as part of the *HAPPY CHILD PROJECT*, the Group opened *COTONIOR Nishi-Funabashi* (Chiba) and *COTONIOR Kunitachi* (Tokyo), both of which are multi-purpose child-rearing support and senior citizen care facilities. In addition, the Group proceeded with the development of child-rearing support facilities inside station buildings and other buildings, giving it a total of 96 facilities as of March 31, 2017. Further, the Group announced that it aims to establish 130 child-rearing support facilities by April 2020.

As a result of these initiatives, as well as higher revenues from advertising and publicity services and credit card operations, operating revenues from Others increased 0.4% year on year, to ¥636.7 billion ($5,685 million). Operating income, meanwhile, decreased 0.1% year on year, to ¥35.0 billion ($312 million), following the rebound from system and work sales related to the Hokkaido Shinkansen Line recorded in the previous fiscal year.

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. The names "Apple Pay" and "iPhone" are registered trademarks of Apple Inc.

Operating Income

Operating expenses increased 1.5% year on year, to ¥2,414.5 billion ($21,558 million). Operating expenses as a percentage of operating revenues were 83.8%, compared with 83.0% in the previous fiscal year.

Transportation, other services and cost of sales increased 0.6%, to ¥1,852.2 billion ($16,538 million), because of an increase in cost of equipment.

Selling, general and administrative expenses increased 4.4%, to ¥562.3 billion ($5,020 million), which was due to an increase in cost of equipment.

Operating income declined 4.4%, to ¥466.3 billion ($4,163 million). Operating income as a percentage of operating revenues was 16.2%, compared with 17.0% in the previous fiscal year.

Income before Income Taxes

Other income increased 28.6%, to ¥75.0 billion ($670 million), due mainly to an increase in gain on sales of fixed assets.

Other expenses decreased 15.0%, to ¥137.0 billion ($1,223 million), mainly as a result of a decrease in provision for allowance for earthquake-damage losses.

Interest and dividend income and other financial income, net of interest and other financial expenses, amounted to a ¥66.3 billion ($592 million) expense, which was 8.4% lower than the expense recorded in the previous fiscal year.

Income before income taxes increased 5.0%, to ¥404.3 billion ($3,610 million). Income before income taxes as a percentage of operating revenues was 14.0%, compared with 13.4% in the previous fiscal year.

Profit Attributable to Owners of Parent

Profit attributable to owners of parent increased 13.3%, to ¥277.9 billion ($2,481 million), mainly due to higher income before income taxes. Moreover, profit attributable to owners of parent increased for the second consecutive year to reach a new record high. Earnings per share were ¥714 ($6), up from ¥626 per share. Further, profit attributable to owners of parent as a percentage of operating revenues was 9.6%, compared with 8.6% in the previous fiscal year.

Liquidity and Capital Resources

Cash Flows

In fiscal 2017, net cash provided by operating activities totaled ¥652.9 billion ($5,830 million), ¥20.2 billion less than in the previous fiscal year. This result was mainly due to an increase in payments of income taxes.

Net cash used in investing activities amounted to ¥557.5 billion ($4,978 million), ¥58.0 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, and produce new trains. In station space utilization operations, JR East opened new stores and conducted renovation work at existing stores. These efforts included *GranSta Marunouchi* (Tokyo) and a new area of *GranSt*a (Tokyo) in the Marunouchi underground area of Tokyo Station and *PERIE CHIBA EKINAKA (IN-STATION)* (3rd floor) (Chiba). In shopping centers and office buildings operations, capital expenditures included those for *LUSCA Atami* (Shizuoka), *nonowa Kunitachi WEST* (Tokyo), and *JEBL Akihabara Square* (Tokyo). In the Others segment, capital expenditures included those for the new construction of a wind-power generation facility as well as the renovation of existing hotels.

Further, free cash flows decreased ¥78.2 billion, to a positive ¥95.4 billion ($852 million).

Net cash used in financing activities came to ¥116.3 billion ($1,038 million), ¥6.0 billion more than in the previous fiscal year. This result was mainly due to an increase in payments of acquisition of treasury stock.

Consequently, cash and cash equivalents as of March 31, 2017, were ¥287.1 billion ($2,564 million), a decrease of ¥20.7 billion from ¥307.8 billion on March 31, 2016.

Financial Policy

Interest-bearing debt at March 31, 2017, stood at ¥3,211.1 billion ($28,670 million).

Long-term liabilities incurred for purchase of railway facilities associated with JR East's assumption of Shinkansen railway facilities stood at ¥333.9 billion ($2,981 million), payable at a fixed annual interest rate of 6.55% through September 30, 2051. These liabilities are paid in equal semi-annual installments, consisting of principal and interest payments.

In addition, at the fiscal year-end JR East had long-term liabilities incurred for purchase of railway facilities of ¥5.6 billion ($50 million) for the Akita hybrid Shinkansen facilities and ¥1.5 billion ($13 million) for Tokyo Monorail Co., Ltd.

JR East operates a cash management system that integrates the management of the surplus funds and the fund-raising of companies participating in the cash management system, with the aim of reducing the Company's total interest-bearing debt. Also, JR East employs such capital management methods as the offsetting of internal settlements among subsidiaries and the operation of a payment agency system that consolidates payment operations within the Group.

In fiscal 2017, JR East issued eight unsecured straight bonds in Japan, with a total nominal amount of ¥110.0 billion ($982 million) and maturities from 2026 through 2057. Rating and Investment Information, Inc. (R&I), a Japanese rating agency, rated these bonds AA+. Further, JR East received long-term debt ratings from S&P Global Ratings Japan Inc. 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 ($2,946 million). R&I and Moody's rated JR East's commercial paper a-1+ and P-1, respectively, as of the end of fiscal 2017. As of March 31, 2017, the Company did not have any outstanding balance of commercial paper issued by JR East and did not have any bank overdrafts.

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 ($536 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, 2017.

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.

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 reasonable 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) × 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 × 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

New Shinkansen Line Segment Openings

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.

Usage Fees for New Shinkansen Lines

(a) 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).

(b) That enforcement ordinance stipulates that the Japan Railway Construction, Transport and Technology Agency (hereinafter 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 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.

Note:
The amount to be paid on top of the usage fee amount for the Hachinohe–Shin-Aomori segment of the Tohoku Shinkansen Line, which has been on loan from the JRTT since December 2010, as a result of the March 2016 opening of the Shin-Aomori–Shin-Hakodate Hokuto segment of the Hokkaido Shinkansen Line will be fixed for the 25-year period leading up to 2040.

(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–Joetsumyoko segment of the Hokuriku Shinkansen Line and the Morioka–Shin-Aomori segment of the Tohoku Shinkansen Line will be discussed and re-determined 30 years after the commence date of the loaning. The new Shinkansen line segments on loan from the JRTT and the end years of their loan periods are as follows.

(a) Takasaki–Nagano segment of the Hokuriku Shinkansen Line; 2027
(b) Nagano–Joetsumyoko segment of the Hokuriku Shinkansen Line; 2044
(c) Morioka–Hachinohe segment of the Tohoku Shinkansen Line; 2032
(d) Hachinohe–Shin-Aomori segment of the Hokkaido Shinkansen Line; 2040

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, JR East implemented seismic reinforcement in preparation for a major earthquake, such as a possible earthquake directly beneath the Tokyo metropolitan area. JR East earmarked a total of ¥300.0 billion for investment in such measures for a five-year intensive implementation period ended March 31, 2017. Approximately 80% of the work that is currently planned was completed by the end of the fiscial year review. Further, JR East proceeded with the installation of automatic platform gates based on a policy of introducing them to all railway stations on the Yamanote Line and to all railway stations on the line segment between Omiya Station and Sakuragicho Station on the Keihin-Tohoku and Negishi lines. Accordingly, the use of automatic platform gates began at Shinagawa Station on the Yamanote Line and at Akabane Station on the Keihin-Tohoku Line. In addition, JR East prepared for the introduction of automatic platform gates at such railway stations as Sendagaya Station and Shinanomachi Station on the Chuo Line and Shin-Koiwa Station on the Sobu Line Rapid Service. As measures for preventing railway crossing accidents, JR East continued eliminating and consolidating railway crossings, installing alarms and crossing gates, and increasing the number of obstruction warning devices and obstacle detection devices for railway crossings. In addition, to improve the safety of personnel that perform maintenance work, JR East expanded the range of lines on which it will introduce the train approach alarm system that utilizes GPS.

Information Systems and Protection of Personal Data

The JR East Group currently uses many information systems in its various railway, life-style service, and IT & *Suica* businesses. 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 its 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, 2017, total interest-bearing debt stood at ¥3,211.0 billion ($28,670 million). In addition, interest expense in fiscal 2017 amounted to ¥70.2 billion ($627 million), which was equivalent to 15.1% 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, life-style service, and IT & *Suica* businesses. 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, 2016 and 2017

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2016	2017	2017
Assets			
Current Assets:			
Cash and cash equivalents (Notes 5 and 9)	¥ 307,809	¥ 287,126	$ 2,564
Receivables (Note 9):			
Accounts receivable–trade	467,734	479,729	4,283
Unconsolidated subsidiaries and affiliated companies	10,665	10,370	93
Other	5,962	4,938	44
Allowance for doubtful accounts (Note 2 (4))	(1,573)	(1,486)	(13)
	482,788	493,551	4,407
Inventories (Notes 2 (5) and 6)	47,835	50,862	454
Real estate for sale (Notes 2 (6) and 7)	904	500	4
Deferred tax assets (Note 21)	49,188	43,025	384
Other current assets	45,995	40,561	362
Total current assets	934,519	915,625	8,175
Investments:			
Unconsolidated subsidiaries and affiliated companies (Notes 2 (2), (3) and 8)	53,529	57,324	512
Other (Notes 2 (7), 9 and 10)	160,574	208,679	1,863
	214,103	266,003	2,375
Property, Plant and Equipment (Notes 2 (8), 11, 12 and 22):			
Buildings	2,519,190	2,611,797	23,320
Fixtures	5,798,964	5,955,928	53,178
Machinery, rolling stock and vehicles	2,721,599	2,768,599	24,720
Land	2,002,530	2,013,900	17,981
Construction in progress	306,398	286,275	2,556
Other	236,498	246,065	2,196
	13,585,179	13,882,564	123,951
Less accumulated depreciation	7,351,637	7,539,804	67,319
Net property, plant and equipment	6,233,542	6,342,760	56,632
Other Assets:			
Long-term deferred tax assets (Note 21)	217,256	204,594	1,827
Other	190,342	182,133	1,626
	407,598	386,727	3,453
	¥ 7,789,762	¥ 7,911,115	$ 70,635

See accompanying notes.

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2016	**2017**	**2017**
Liabilities and Net Assets			
Current Liabilities:			
Current portion of long-term debt (Notes 9, 11 and 13)	¥ 187,107	**¥ 276,731**	**$ 2,471**
Current portion of long-term liabilities incurred for purchase of railway facilities (Notes 9, 11 and 14)	97,251	**4,290**	**38**
Prepaid railway fares received	102,494	**99,217**	**886**
Payables (Note 9):			
Accounts payable–trade	46,375	**44,825**	**400**
Unconsolidated subsidiaries and affiliated companies	99,192	**105,361**	**941**
Other	611,977	**568,280**	**5,074**
	757,544	**718,466**	**6,415**
Accrued expenses	110,373	**109,904**	**981**
Accrued consumption taxes (Notes 9 and 15)	23,956	**19,513**	**174**
Accrued income taxes (Notes 2 (14), 9 and 21)	83,239	**55,639**	**497**
Other current liabilities	42,996	**53,631**	**479**
Total current liabilities	1,404,960	**1,337,391**	**11,941**
Long-Term Debt (Notes 9, 11 and 13)	2,638,337	**2,609,616**	**23,300**
Long-Term Liabilities Incurred for Purchase of Railway Facilities (Notes 9, 11 and 14)	341,075	**336,679**	**3,006**
Net Defined Benefit Liability (Notes 2 (9) and 20)	675,784	**641,394**	**5,727**
Deposits Received for Guarantees	135,091	**139,764**	**1,248**
Long-Term Deferred Tax Liabilities (Note 21)	3,361	**3,190**	**28**
Allowance for partial transfer costs of railway operation (Note 2 (10))	19,087	**16,164**	**144**
Provision for large-scale renovation of Shinkansen infrastructure (Note 2 (11))	—	**24,000**	**214**
Other Long-Term Liabilities	109,530	**127,564**	**1,140**
Contingent Liabilities (Note 16)			
Net Assets (Note 17):			
Common stock:			
Authorized 1,600,000,000 shares;			
Issued, 2017—389,407,900 shares;			
Outstanding, 2017—388,750,243 shares	200,000	**200,000**	**1,786**
Capital surplus	96,812	**96,812**	**864**
Retained earnings	2,101,845	**2,298,925**	**20,526**
Treasury stock, at cost, 657,657 shares in 2017	(5,295)	**(5,162)**	**(46)**
Accumulated other comprehensive income:			
Net unrealized holding gains (losses) on securities	43,771	**52,940**	**473**
Net deferred gains (losses) on derivatives under hedge accounting	473	**1,847**	**16**
Revaluation reserve for land (Note 2 (18))	(473)	**(474)**	**(4)**
Remeasurements of defined benefit plans	4,996	**8,531**	**76**
Non-Controlling Interests	20,408	**21,934**	**196**
Total net assets	2,462,537	**2,675,353**	**23,887**
	¥7,789,762	**¥7,911,115**	**$70,635**

Consolidated Statements of Income and Comprehensive Income

East Japan Railway Company and Subsidiaries
Years ended March 31, 2016 and 2017

(I) CONSOLIDATED STATEMENTS OF INCOME

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2016	2017	2017
Operating Revenues (Note 23)	¥2,867,200	¥2,880,802	$25,721
Operating Expenses:			
Transportation, other services and cost of sales	1,841,026	1,852,221	16,538
Selling, general and administrative expenses	538,353	562,271	5,020
	2,379,379	2,414,492	21,558
Operating Income (Note 23)	487,821	466,310	4,163
Other Income (Expenses):			
Interest expense on short- and long-term debt	(45,559)	(44,957)	(401)
Interest expense incurred for purchase of railway facilities	(30,773)	(25,301)	(226)
Loss on sales of fixed assets	(1,102)	(723)	(6)
Impairment losses on fixed assets (Notes 2 (17), 12 and 23)	(12,297)	(6,605)	(59)
Interest and dividend income	3,918	3,943	35
Equity in net income (loss) of affiliated companies	2,566	2,057	18
Gain on sales of fixed assets	839	11,834	106
Other, net	(20,552)	(2,292)	(20)
	(102,960)	(62,044)	(553)
Income before Income Taxes	384,861	404,266	3,610
Income Taxes (Notes 2 (14) and 21):			
Current	128,972	111,481	996
Deferred	9,327	13,350	119
Profit	246,562	279,435	2,495
Profit Attributable to Non-Controlling Interests	(1,252)	(1,510)	(14)
Profit Attributable to Owners of Parent	¥ 245,310	¥ 277,925	$ 2,481

	Yen		U.S. Dollars (Note 2 (1))
Earnings per Share (Note 2 (15))	¥ 626	¥ 714	$ 6
Cash Dividends Applicable to the Year (Note 2 (15))	130	130	1

See accompanying notes.

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

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2016	2017	2017
Profit	¥246,562	¥279,435	$2,495
Other Comprehensive Income:	(29,143)	14,036	125
Net unrealized holding gains (losses) on securities	(24,070)	9,117	81
Net deferred gains (losses) on derivatives under hedge accounting	(1,091)	20	0
Remeasurements of defined benefit plans	(906)	2,210	20
Share of other comprehensive income of associates accounted for using equity method	(3,076)	2,689	24
Comprehensive Income	¥217,419	¥293,471	$2,620
Comprehensive Income Attributable to:			
Comprehensive income attributable to owners of parent	¥216,215	¥291,968	$2,607
Comprehensive income attributable to non-controlling interests	1,204	1,503	13

See accompanying notes.

Consolidated Statements of Changes in Net Assets

East Japan Railway Company and Subsidiaries
Years ended March 31, 2016 and 2017

	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, 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
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 of scope of consolidation	—	—	—	424	—	—	—	—	—	—	424
Purchase of shares of consolidated subsidiaries	—	—	0	—	—	—	—	—	—	—	0
Increase by corporate division in consolidated subsidiaries	—	—	(21)	22	—	—	—	—	—	—	1
Reversal of revaluation reserve for land	—	—	—	—	—	—	—	—	—	—	—
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
Cash dividends (¥130 per share)	**—**	**—**	**—**	**(50,782)**	**—**	**—**	**—**	**—**	**—**	**—**	**(50,782)**
Profit attributable to owners of parent	**—**	**—**	**—**	**277,925**	**—**	**—**	**—**	**—**	**—**	**—**	**277,925**
Increase due to merger	**—**	**—**	**—**	**86**	**—**	**—**	**—**	**—**	**—**	**—**	**86**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(30,018)**	**—**	**—**	**—**	**—**	**—**	**(30,018)**
Disposal of treasury stock	**—**	**—**	**—**	**(0)**	**1**	**—**	**—**	**—**	**—**	**—**	**1**
Retirement of treasury stock	**(3,092,100)**	**—**	**—**	**(30,150)**	**30,150**	**—**	**—**	**—**	**—**	**—**	**—**
Change of scope of consolidation	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Purchase of shares of consolidated subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Increase by corporate division in consolidated subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Reversal of revaluation reserve for land	**—**	**—**	**—**	**1**	**—**	**—**	**—**	**—**	**—**	**—**	**1**
Other	**—**	**—**	**—**	**—**	**—**	**9,169**	**1,374**	**(1)**	**3,535**	**1,526**	**15,603**
Balance at March 31,2017	**389,407,900**	**¥200,000**	**¥96,812**	**¥2,298,925**	**¥ (5,162)**	**¥ 52,940**	**¥ 1,847**	**¥(474)**	**¥ 8,531**	**¥21,934**	**¥2,675,353**

	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, 2016	392,500,000	$1,786	$864	$18,766	$ (47)	$391	$ 4	$(4)	$45	$182	$21,987
Cash dividends ($1 per share)	**—**	**—**	**—**	**(453)**	**—**	**—**	**—**	**—**	**—**	**—**	**(453)**
Profit attributable to owners of parent	**—**	**—**	**—**	**2,481**	**—**	**—**	**—**	**—**	**—**	**—**	**2,481**
Increase due to merger	**—**	**—**	**—**	**1**	**—**	**—**	**—**	**—**	**—**	**—**	**1**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(268)**	**—**	**—**	**—**	**—**	**—**	**(268)**
Disposal of treasury stock	**—**	**—**	**—**	**(0)**	**0**	**—**	**—**	**—**	**—**	**—**	**—**
Retirement of treasury stock	**(3,092,100)**	**—**	**—**	**(269)**	**269**	**—**	**—**	**—**	**—**	**—**	**—**
Change of scope of consolidation	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Purchase of shares of consolidated subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Increase by corporate division in consolidated subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Reversal of revaluation reserve for land	**—**	**—**	**—**	**0**	**—**	**—**	**—**	**—**	**—**	**—**	**0**
Other	**—**	**—**	**—**	**—**	**—**	**82**	**12**	**0**	**31**	**14**	**139**
Balance at March 31,2017	**389,407,900**	**$1,786**	**$864**	**$20,526**	**$ (46)**	**$473**	**$16**	**$(4)**	**$76**	**$196**	**$23,887**

See accompanying notes.

Consolidated Statements of Cash Flows

East Japan Railway Company and Subsidiaries
Years ended March 31, 2016 and 2017

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2016	2017	2017
Cash Flows from Operating Activities:			
Income before income taxes	¥ 384,861	¥ 404,266	$ 3,610
Depreciation	359,515	364,129	3,251
Impairment losses on fixed assets	12,297	6,605	59
Amortization of long-term prepaid expense	8,720	7,923	71
Net change in provision for large-scale renovation of Shinkansen infrastructure	—	24,000	214
Net change in net defined benefit liability	(27,649)	(31,255)	(279)
Interest and dividend income	(3,918)	(3,943)	(35)
Interest expense	76,332	70,258	627
Construction grants received	(24,487)	(27,541)	(246)
Insurance proceeds related to earthquake	(3,625)	(13,640)	(122)
Loss from disposition and provision for cost reduction of fixed assets	55,071	67,361	601
Net change in major receivables	(27,638)	(11,105)	(99)
Net change in major payables	13,688	11,309	101
Other	9,093	(19,604)	(175)
Sub-total	832,260	848,763	7,578
Proceeds from interest and dividends	4,408	4,500	40
Payments of interest	(76,488)	(70,721)	(631)
Insurance proceeds related to earthquake	14,688	19,065	170
Payments of earthquake-damage losses	(1,338)	(4,353)	(39)
Payments of partial transfer costs of railway operation	(452)	(1,296)	(11)
Payments of income taxes	(99,968)	(143,051)	(1,277)
Net cash provided by operating activities	673,110	652,907	5,830
Cash Flows from Investing Activities:			
Payments for purchases of fixed assets	(538,245)	(581,672)	(5,194)
Proceeds from sales of fixed assets	11,531	14,334	128
Proceeds from construction grants	32,123	54,363	485
Payments for purchases of investment in securities	(714)	(35,561)	(318)
Proceeds from sales of investment in securities	4,664	1,053	9
Other	(8,934)	(10,056)	(88)
Net cash used in investing activities	(499,575)	(557,539)	(4,978)
Cash Flows from Financing Activities:			
Proceeds from long-term loans	140,600	137,950	1,232
Payments of long-term loans	(118,212)	(107,108)	(956)
Proceeds from issuance of bonds	100,000	110,000	982
Payments for redemption of bonds	(55,000)	(80,000)	(714)
Payments of liabilities incurred for purchase of railway facilities	(106,881)	(97,356)	(869)
Payments of acquisition of treasury stock	(11,086)	(50,782)	(453)
Cash dividends paid	(49,082)	(30,018)	(268)
Other	(10,605)	1,034	8
Net cash used in financing activities	(110,266)	(116,280)	(1,038)
Net Change in Cash and Cash Equivalents	63,269	(20,912)	(186)
Cash and Cash Equivalents at Beginning of Year	245,171	307,809	2,748
Decrease in Cash and Cash Equivalents Resulting from Exclusion of Subsidiaries from Consolidation	(631)	—	—
Increase in Cash and Cash Equivalents due to Merger	—	229	2
Cash and Cash Equivalents at End of Year	¥ 307,809	¥ 287,126	$ 2,564

See accompanying notes.

Notes to Consolidated Financial Statements

East Japan Railway Company and Subsidiaries
Years ended March 31, 2016 and 2017

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, 2017.

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 ($27,741 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, 2017, which was ¥112 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, 2017, 67 subsidiaries were consolidated.

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, 2017, 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.

Further, 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, 2017.

(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. Buildings (excluding related fixtures) acquired from April 1, 1998 onward, facilities attached to buildings and structures acquired on or after April 1, 2016 and some of the property, plant and equipment of consolidated subsidiaries are depreciated using the straight-line method according to the Japanese Tax Law. Replacement assets included in structures of railway fixed assets are depreciated using the replacement method. 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.

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). Further, 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) Provision for Large-Scale Renovation of Shinkansen Infrastructure

The provision for large-scale renovation of Shinkansen infrastructure has been recognized based on Article 17 of the Nationwide Shinkansen Railway Development Act (Act No. 71 of 1970).

On March 29, 2016, the Company received approval for a Plan for Provision for Large-Scale Renovation of Shinkansen Infrastructure from the Minister of Land, Infrastructure, Transport and Tourism based on Article 16, Paragraph 1 of the Nationwide Shinkansen Railway Development Act. As a result, from the fiscal year ending March 31, 2017, until the fiscal year ending March 31, 2031, a provision of ¥24,000 million (total: ¥360,000 million) will be recognized each fiscal year, and from the fiscal year ending March 31, 2032, until the fiscal year ending March 31, 2041, a reversal of ¥36,000 million (total: ¥360,000 million) will be recognized each fiscal year.

12) 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.

13) 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, 2016 and 2017 were ¥16,886 million and ¥17,914 million ($160 million), respectively.

14) 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.

15) 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.

16) 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.

17) 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.

18) 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, 2017
Difference was not recorded because the market value of the revaluated land was higher than the book value after revaluation.

19) Changes in Accounting Policies

In accordance with an amendment of Japan's Corporation Tax Act, the Company has applied the "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Practical Issues Task Force No.32 issued on June 17, 2016) beginning with this fiscal year and has changed its depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016, from the declining balance method to the straight-line method.

The effect of this change on consolidated financial statements is negligible.

20) Changes in Presentation Method

(Consolidated statements of cash flows)

From the fiscal year under review, the Company has classified "Insurance proceeds related to earthquake" of "Other" of "Cash Flows from Operating Activities" separately because in the fiscal year under review the monetary significance increased. In the previous fiscal year, the Company presented and included "Insurance proceeds related to earthquake" in "Other" of "Cash Flows from Operating Activities." To reflect this change in the presentation method, in the consolidated statement of cash flows for the previous fiscal year the Company has reclassified ¥3,625 million that was presented and included in "Other" as "Insurance proceeds related to earthquake" of "Cash Flows from Operating Activities."

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.

Further, 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 ($634 million) (¥10,000 million deductible) as of March 11, 2011.

The aggregate amount of insurance proceeds received for such insurance was ¥71,000 million ($634 million) as of March 31, 2017.

NOTE 4: APPLICATION OF THE REVISED IMPLEMENTATION GUIDANCE ON RECOVERABILITY OF DEFERRED TAX ASSETS

The Company applies the Revised Implementation Guidance on Recoverability of Deferred Tax Assets (Accounting Standards Board of Japan Guidance No. 26, March 28, 2016) from this fiscal year.

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, 2016 and 2017 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2016	**2017**	**2017**
Merchandise and finished goods	¥ 8,890	**¥ 8,997**	**$ 80**
Work in process	11,283	**14,956**	**134**
Raw materials and supplies	27,662	**26,909**	**240**
	¥47,835	**¥50,862**	**$454**

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, 2016 and 2017 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2016	2017	2017
Unconsolidated subsidiaries:			
Investments	¥ 5,994	¥ 5,963	$ 53
Advances	1,060	310	3
	7,054	6,273	56
Affiliated companies:			
Investments (including equity in earnings of affiliated companies)	¥46,439	¥51,051	$456
Advances	36	—	—
	46,475	51,051	456
	¥53,529	¥57,324	$512

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 flows. 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 ($27,741 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 flows 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, 2016 and 2017, 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
			2016			2017			2017
	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	¥ 307,809	¥ 307,809	¥ —	**¥ 287,126**	**¥ 287,126**	**¥ —**	**$ 2,564**	**$ 2,564**	**$ —**
b. Receivables	484,361	484,361	—	**495,037**	**495,037**	**—**	**4,420**	**4,420**	**—**
c. Securities:									
Held-to-maturity debt securities	157	162	5	**157**	**161**	**4**	**1**	**1**	**0**
Available-for-sale securities	149,775	149,775	—	**194,337**	**194,337**	**—**	**1,735**	**1,735**	**—**
Assets	¥ 942,102	¥ 942,107	¥ 5	**¥ 976,657**	**¥ 976,661**	**¥ 4**	**$ 8,720**	**$ 8,720**	**$ 0**
a. Payables	¥ 757,544	¥ 757,544	¥ —	**¥ 718,466**	**¥ 718,466**	**¥ —**	**$ 6,415**	**$ 6,415**	**$ —**
b. Accrued consumption taxes	23,956	23,956	—	**19,513**	**19,513**	**—**	**174**	**174**	**—**
c. Accrued income taxes	83,239	83,239	—	**55,639**	**55,639**	**—**	**497**	**497**	**—**
d. Long-term debt:									
Bonds	1,809,914	2,075,179	265,265	**1,839,975**	**2,058,593**	**218,618**	**16,428**	**18,380**	**1,952**
Long-term loans	1,015,530	1,089,102	73,572	**1,046,372**	**1,108,612**	**62,240**	**9,343**	**9,899**	**556**
e. Long-term liabilities incurred for purchase of railway facilities	438,326	867,081	428,755	**340,969**	**727,697**	**386,728**	**3,044**	**6,497**	**3,453**
Liabilities	¥4,128,509	¥4,896,101	¥767,592	**¥4,020,934**	**¥4,688,520**	**¥667,586**	**$35,901**	**$41,862**	**$5,961**
Derivative transactions*1:									
Hedge accounting applied	¥ 1,738	¥ 1,738	¥ —	**¥ 1,767**	**¥ 1,767**	**¥ —**	**$ 16**	**$ 16**	**$ —**

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

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	2016	2017	2017
Unlisted equity securities	¥6,653	**¥6,826**	**$61**
Unlisted corporate bonds	360	**360**	**3**
Investment in anonymous associations (*tokumei kumiai*)	—	**3,629**	**32**
Preferred equity securities	1,000	**1,000**	**9**
Natural disaster derivative transactions	1,131	**1,153**	**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, 2016 and 2017 were as follows:

	Millions of Yen								Millions of U.S. Dollars			
	2016				2017				2017			
	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	¥307,809	¥ —	¥ —	¥—	**¥287,126**	**¥ —**	**¥ —**	**¥—**	**$2,564**	**$—**	**$—**	**$—**
Receivables	477,542	6,407	322	90	**488,040**	**6,554**	**396**	**47**	**4,358**	**58**	**4**	**0**
Securities:												
Held-to-maturity debt securities (Government bonds)	—	10	150	—	**—**	**150**	**10**	**—**	**—**	**1**	**0**	**—**
Available-for-sale securities which have maturity (Government bonds)	—	—	6	—	**—**	**—**	**6**	**—**	**—**	**—**	**0**	**—**
Total	¥785,351	¥6,417	¥478	¥90	**¥775,166**	**¥6,704**	**¥412**	**¥47**	**$6,922**	**$59**	**$ 4**	**$ 0**

5. The annual maturities of bonds, long-term loans and long-term liabilities incurred for purchase of railway facilities at March 31, 2017 (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, 2016 and 2017 were as follows:

	Millions of Yen						Millions of U.S. Dollars		
	2016			2017			2017		
	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.	¥157	¥162	¥5	**¥157**	**¥161**	**¥4**	**$1**	**$1**	**$0**
Of which market value does not exceed the amount on balance sheet:									
Government, municipal bonds, etc.	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Total	¥157	¥162	¥5	**¥157**	**¥161**	**¥4**	**$1**	**$1**	**$0**

For available-for-sale securities, the acquisition cost and amount on balance sheets at March 31, 2016 and 2017 were as follows:

	Millions of Yen						Millions of U.S. Dollars		
	2016			2017			2017		
	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	¥62,951	¥126,580	¥63,629	**¥ 92,713**	**¥166,259**	**¥73,546**	**$ 828**	**$1,484**	**$656**
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	29,544	23,189	(6,355)	**30,973**	**28,072**	**(2,901)**	**277**	**251**	**(26)**
Debt securities	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Total	¥92,501	¥149,775	¥57,274	**¥123,692**	**¥194,337**	**¥70,645**	**$1,105**	**$1,735**	**$630**

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, 2016 and 2017 were summarized as follows:

Pledged assets as a collateral

	Millions of Yen		Millions of U.S. Dollars
	2016	2017	2017
Buildings and fixtures with net book value	¥19,406	¥ 51	$0
Other assets with net book value	966	967	9

Counterpart long-term debt and other liabilities

	Millions of Yen		Millions of U.S. Dollars
	2016	2017	2017
Long-term debt and other liabilities	¥1,232	¥1,086	$10

Pledged assets as a mortgage for long-term liabilities

	Millions of Yen		Millions of U.S. Dollars
	2016	2017	2017
Buildings and fixtures with net book value	¥49,367	¥48,150	$430
Other assets with net book value	12,377	13,284	119

Counterpart long-term liabilities

	Millions of Yen		Millions of U.S. Dollars
	2016	2017	2017
Long-term liabilities incurred for purchase of railway facilities	¥1,968	¥1,477	$13

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 4.0% in the fiscal year.

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 were ¥12,297 million and ¥6,605 million ($59 million) in the years ended March 31, 2016 and 2017, respectively.

NOTE 13: LONG-TERM DEBT

Long-term debt at March 31, 2016 and 2017 were summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2016	2017	2017
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	¥ 139,900	$ 1,249
Unsecured bonds issued in 2002 to 2017 with interest rates ranging from 0.06% to 2.55% due in 2017 to 2057	1,390,932	1,460,943	13,044
Secured loans due in 2017 to 2018 from banks with interest rates 1.95%	233	29	0
Unsecured loans due in 2017 to 2045 principally from banks and insurance companies with interest rates mainly ranging from 0.10% to 2.80%	1,015,297	1,046,343	9,343
Euro-pound bonds issued in 2006 to 2007 with interest rates ranging from 4.50% to 5.25% due in 2031 to 2036	239,082	239,132	2,135
	2,825,444	2,886,347	25,771
Less current portion	187,107	276,731	2,471
	¥2,638,337	¥2,609,616	$23,300

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, 2017 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2018	¥ 159,900	$ 1,428
2019	165,000	1,473
2020	125,000	1,116
2021	120,000	1,071
2022	90,000	804
2023 and thereafter	1,180,959	10,544

The annual maturities of long-term loans at March 31, 2017 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2018	¥116,831	$1,043
2019	119,665	1,069
2020	110,423	986
2021	115,663	1,033
2022	133,290	1,190
2023 and thereafter	450,500	4,022

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 ($27,741 million) payable in equal semiannual installments consisting of principal and interest payments in three tranches: ¥2,101,898 million ($18,767 million) and ¥638,506 million ($5,701 million) in principal amounts payable through March 2017; and ¥366,566 million ($3,273 million) payable through September 2051. In March 1997, the liability of ¥27,946 million ($250 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 ($328 million) payable to Japan Railway Construction Public Corporation.

The long-term liabilities incurred for purchase of railway facilities outstanding at March 31, 2016 and 2017 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2016	2017	2017
Long-term liability incurred for purchase of the Tohoku and Joetsu Shinkansen facilities:			
Payable semiannually including interest at a rate currently approximating 4.09% through 2017	¥ 44,585	¥ —	$ —
Payable semiannually including interest at 6.35% through 2017	48,554	—	—
Payable semiannually including interest at 6.55% through 2051	336,408	333,879	2,981
	429,547	333,879	2,981
Long-term liability incurred for purchase of the Akita hybrid Shinkansen facilities:			
Payable semiannually at an average rate currently approximating 1.48% through 2022	6,811	5,613	50
Long-term liability incurred for purchase of the Tokyo Monorail facilities:			
Payable semiannually at an average rate currently approximating 2.05% through 2029	1,968	1,477	13
	438,326	340,969	3,044
Less current portion:			
The Tohoku and Joetsu Shinkansen purchase liability	95,668	2,697	24
The Akita hybrid Shinkansen purchase liability	1,093	1,090	10
Tokyo Monorail purchase liability	490	503	4
	97,251	4,290	38
	¥341,075	¥336,679	$3,006

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, 2017 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2018	¥ 4,290	$ 38
2019	4,283	38
2020	4,281	38
2021	4,501	40
2022	4,738	43
2023 and thereafter	318,876	2,847

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 ¥11,249 million ($100 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 2017, the shareholders approved cash dividends amounting to ¥25,290 million ($226 million). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2017. 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, 2016 and 2017 were as follows:

	Millions of Yen				Millions of U.S. Dollars	
	2016		2017		2017	
	Within one year	Total	Within one year	Total	Within one year	Total
Non-cancellable operating leases	¥4,066	¥47,327	**¥4,451**	**¥44,717**	**$40**	**$399**

NOTE 19: INFORMATION FOR DERIVATIVE TRANSACTIONS

1) Items Regarding Trading Circumstances (See Note 9)

2) Derivative Transactions Applied to Hedge Accounting

		Millions of Yen					
		2016			2017		
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	¥2,699	**¥ 20,000**	**¥ 20,000**	**¥2,235**
Forward exchange	Accounts payable–trade	56	—	(0)	**16**	**—**	**(0)**
Commodity swap	Fuel purchasing	2,190	1,402	(961)	**1,402**	**776**	**(468)**
Currency swap	Foreign currency-denominated bonds	239,959	239,959	*1	**239,959**	**239,959**	***1**
Interest swap	Long-term loans	65,400	65,400	*1	**65,400**	**65,400**	***1**
Total		¥327,605	¥326,761	¥1,738	**¥326,777**	**¥326,135**	**¥1,767**

		Millions of U.S. Dollars		
		2017		
Type	Hedged item	Contract amount, etc.	Of which more-than-one-year contract amount, etc.	Fair value*2
Currency swap	Long-term loans	**$ 179**	**$ 179**	**$20**
Forward exchange	Accounts payable–trade	**0**	**—**	**(0)**
Commodity swap	Fuel purchasing	**13**	**7**	**(4)**
Currency swap	Foreign currency-denominated bonds	**2,142**	**2,142**	***1**
Interest swap	Long-term loans	**584**	**584**	***1**
Total		**$2,918**	**$2,912**	**$16**

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, 2016 and 2017 consisted of the following:

1) Movement in Retirement Benefit Obligations

	Millions of Yen		Millions of U.S. Dollars
	2016	2017	2017
Balance at the beginning of the fiscal year	¥709,599	**¥684,526**	**$6,112**
Service costs	28,003	**27,489**	**245**
Interest costs	4,382	**4,063**	**36**
Actuarial losses (gains)	2,713	**(2,270)**	**(20)**
Benefits paid	(60,309)	**(62,966)**	**(562)**
Past service costs	261	**(69)**	**(1)**
Other	(123)	**2**	**0**
Balance at the end of the fiscal year	¥684,526	**¥650,775**	**$5,810**

2) Movements in Plan Assets

	Millions of Yen		Millions of U.S. Dollars
	2016	2017	2017
Balance at the beginning of the fiscal year	¥8,279	**¥8,855**	**$79**
Expected return on plan assets	98	**97**	**1**
Actuarial losses (gains)	23	**224**	**2**
Contributions paid by the employer	857	**768**	**7**
Benefits paid	(402)	**(402)**	**(4)**
Balance at the end of the fiscal year	¥8,855	**¥9,542**	**$85**

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

	Millions of Yen		Millions of U.S. Dollars
	2016	2017	2017
Funded retirement benefit obligations	¥ 10,793	**¥ 10,931**	**$ 97**
Plan assets	(8,855)	**(9,542)**	**(85)**
	1,938	**1,389**	**12**
Unfunded retirement benefit obligations	673,733	**639,844**	**5,713**
Total net liability (asset) for retirement benefits at March 31	675,671	**641,233**	**5,725**
Liability for retirement benefits	675,784	**641,394**	**5,727**
Asset for retirement benefits	(113)	**(161)**	**(2)**
Total net liability (asset) for retirement benefits at March 31	¥675,671	**¥641,233**	**$5,725**

Employees' severance and retirement benefit expenses included in the consolidated statements of income for the years ended March 31, 2016 and 2017 consisted of the following:

4) Retirement Benefit Costs

	Millions of Yen		Millions of U.S. Dollars
	2016	2017	2017
Service costs	¥28,003	**¥27,489**	**$245**
Interest costs	4,382	**4,063**	**36**
Expected return on plan assets	(98)	**(97)**	**(1)**
Net actuarial loss amortization	1,442	**1,276**	**11**
Past service costs amortization	(316)	**(688)**	**(6)**
Other	47	**214**	**3**
Total retirement benefit costs for the fiscal year ended March 31	¥33,460	**¥32,257**	**$288**

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
	2016	2017	2017
Past service costs that are yet to be recognized	¥ (578)	¥ (619)	$ (5)
Actuarial gains and losses that are yet to be recognized	(1,247)	3,770	33
Total balance at March 31	¥(1,825)	¥3,151	$28

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
	2016	2017	2017
Past service costs that are yet to be recognized	¥ 4,125	¥ 3,506	$ 31
Actuarial gains and losses that are yet to be recognized	9,614	13,384	120
Total balance at March 31	¥13,739	¥16,890	$151

7) Plan Assets

	2016	2017
Bonds	7%	7%
Equity securities	30%	30%
Cash and time deposits	—	—
General account of life insurers	53%	52%
Other	10%	11%

The discount rates are mainly 0.6% in the years ended March 31, 2016 and 2017. The rates of expected return on pension assets used by the Companies were mainly 1.4% and 1.5% in the years ended March 31, 2016 and 2017, respectively.

The required contributions to the defined contribution plans of the Company and its consolidated subsidiaries were ¥1,057 million and ¥900 million ($8 million) in the years ended March 31, 2016 and 2017, respectively.

NOTE 21: INCOME TAXES

The major components of deferred tax assets and deferred tax liabilities at March 31, 2016 and 2017 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2016	2017	2017
Deferred tax assets:			
Net defined benefit liability	¥206,670	¥196,033	$1,750
Reserves for bonuses	22,640	22,672	202
Losses on impairment of fixed assets	21,518	21,409	191
Unrealized holding gains on fixed assets	12,902	13,989	125
Allowance for partial transfer costs of railway operation	6,013	6,013	54
Excess depreciation and amortization of fixed assets	5,202	5,233	47
Advances received of insurance proceeds related to earthquake	3,401	5,030	45
Asset retirement obligations	4,492	4,780	43
Loss carry forwards for tax purposes	4,367	4,193	37
Devaluation losses on fixed assets	3,856	3,665	33
Other	48,515	43,979	393
	339,576	326,996	2,920
Less valuation allowance	(24,897)	(25,279)	(226)
Less amounts offset against deferred tax liabilities	(48,235)	(54,098)	(483)
Net deferred tax assets	266,444	247,619	2,211
Deferred tax liabilities:			
Tax deferment for gain on transfers of certain fixed assets	25,571	27,504	246
Net unrealized holding gains on securities	18,768	21,927	196
Valuation for assets and liabilities of consolidated subsidiaries	2,341	2,315	21
Other	5,109	5,567	49
	51,789	57,313	512
Less amounts offset against deferred tax assets	(48,235)	(54,098)	(483)
Net deferred tax liabilities	¥ 3,554	¥ 3,215	$ 29

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%

Note: The differences between the aggregate standard effective tax rate and the actual effective rate after applying tax effect accounting were omitted for the year ended March 31, 2017, as the variance between them was less than 5%.

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, 2016 and 2017, the amounts of net income related to rental property were ¥70,239 million and ¥73,829 million ($659 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
2016	Difference	2017	2017	2017	2017
¥592,106	¥30,298	**¥622,404**	**¥1,925,417**	**$5,557**	**$17,191**

Notes: 1. The consolidated balance sheet amount is the amount equal to acquisition cost, less accumulated depreciation.
2. Regarding difference in the above table, the increases in the year ended March 31, 2017 were principally attributable to acquisition of real estate and renewal (¥47,324 million ($423 million)), and the decreases were mainly attributable to depreciation expenses (¥23,663 million ($211million)).
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 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

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 ¥(2,491) million ($(22) million) downward adjustment to segment income included a ¥(2,681) million ($(24) million) elimination of unrealized holding gains (losses) on fixed assets and inventory assets and a ¥196 million ($2 million) elimination for intersegment transactions. Moreover, the ¥(929,732) million ($(8,301) million) downward adjustment to segment assets included a ¥(1,190,930) million ($(10,633) million) elimination of intersegment claims and obligations, offset by ¥261,198 million ($2,332million) 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 2017 (April 1, 2016 to March 31, 2017)

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	**¥1,959,805**	**¥399,679**	**¥ 267,638**	**¥ 253,680**	**¥2,880,802**	**¥ —**	**¥2,880,802**
Inside group	**53,208**	**17,435**	**12,926**	**383,033**	**466,602**	**(466,602)**	**—**
Total	**2,013,013**	**417,114**	**280,564**	**636,713**	**3,347,404**	**(466,602)**	**2,880,802**
Segment income	**¥ 326,419**	**¥ 32,991**	**¥ 75,032**	**¥34,978**	**¥ 469,420**	**¥ (3,110)**	**¥ 466,310**
Segment assets	**¥6,307,560**	**¥224,782**	**¥1,101,036**	**¥1,218,731**	**¥8,852,109**	**¥(940,994)**	**¥7,911,115**
Depreciation	**275,234**	**12,190**	**34,793**	**41,912**	**364,129**	**—**	**364,129**
Increase in fixed assets (Note 5)	**414,644**	**22,830**	**72,089**	**28,653**	**538,216**	**—**	**538,216**

							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	**$17,498**	**$3,568**	**$2,390**	**$ 2,265**	**$25,721**	**$ —**	**$25,721**
Inside group	**475**	**156**	**115**	**3,420**	**4,166**	**(4,166)**	**—**
Total	**17,973**	**3,724**	**2,505**	**5,685**	**29,887**	**(4,166)**	**25,721**
Segment income	**$ 2,914**	**$ 294**	**$ 670**	**$ 312**	**$ 4,190**	**$ (27)**	**$ 4,163**
Segment assets	**$56,318**	**$2,007**	**$9,831**	**$10,882**	**$79,038**	**$(8,403)**	**$70,635**
Depreciation	**2,457**	**109**	**311**	**374**	**3,251**	**—**	**3,251**
Increase in fixed assets (Note 5)	**3,702**	**204**	**644**	**256**	**4,806**	**—**	**4,806**

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 ¥(3,110) million ($(27) million) downward adjustment to segment income included a ¥(2,811) million ($(25) million) elimination of unrealized holding gains (losses) on fixed assets and inventory assets and a ¥(299) million ($(3) million) elimination for intersegment transactions. Moreover, the ¥(940,994) million ($(8,403) million) downward adjustment to segment assets included a ¥(1,262,512) million ($(11,273) million) elimination of intersegment claims and obligations, offset by ¥321,518 million ($2,870 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 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

Fiscal 2017 (Year ended March 31, 2017)

					Millions of Yen
	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note)	Total
Impairment losses on fixed assets	**¥360**	**¥889**	**¥4,636**	**¥720**	**¥6,605**

					Millions of U.S. Dollars
	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note)	Total
Impairment losses on fixed assets	**$3**	**$8**	**$41**	**$7**	**$59**

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, 2016 and 2017

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
	2016	2017	2017
Net unrealized holding gains (losses) on securities:			
Amount arising during the year	¥(36,478)	¥13,954	$125
Reclassification adjustments	(10)	(645)	(6)
Sub-total, before tax	(36,488)	13,309	119
Tax (expense) benefit	12,418	(4,192)	(38)
Sub-total, net of tax	(24,070)	9,117	81
Net deferred gains (losses) on derivatives under hedge accounting:			
Amount arising during the year	(1,747)	(148)	(2)
Reclassification adjustments	(179)	(134)	(1)
Acquisition cost adjustments	277	311	3
Sub-total, before tax	(1,649)	29	0
Tax (expense) benefit	558	(9)	(0)
Sub-total, net of tax	(1,091)	20	0
Remeasurements of defined benefit plans:			
Amount arising during the year	(2,951)	2,563	23
Acquisition cost adjustments	1,126	588	5
Sub-total, before tax	(1,825)	3,151	28
Tax (expense) benefit	919	(941)	(8)
Sub-total, net of tax	(906)	2,210	20
Share of other comprehensive income of associates accounted for using equity method:			
Amount arising during the year	(3,798)	1,707	15
Reclassification adjustments	722	982	9
Sub-total	(3,076)	2,689	24
Total other comprehensive income	¥(29,143)	¥14,036	$125

NOTE 25: SUBSEQUENT EVENTS

Change in Segment Classification

At the Board of Directors' meeting held on April 28, 2017, JR East decided to revise its reportable segment classifications to focus on operational headquarters in order to better enforce its management approach based on segments that carry out managerial decision-making.

Accordingly, JR East changed the segment classification used in the fiscal year under review, ended March 31, 2017, which was "Transportation," "Station Space Utilization," "Shopping Centers & Office Buildings," and "Others," to "Transportation," "Retail & Services," "Real Estate & Hotels," and "Others" as of the current fiscal year, ending March 31, 2018.

The information below presents each reportable segment's operating revenues and segment income in the fiscal year under review if the revised segment classification was applied.

Fiscal 2017 (April 1, 2016 to March 31, 2017)

Millions of Yen

	Transportation	Retail & Services	Real Estate & Hotels	Others	Total	Adjustment (Note 1)	Consolidated (Note 2)
Operating revenues:							
Outside customers	**¥1,989,839**	**¥502,414**	**¥326,312**	**¥ 62,237**	**¥2,880,802**	**¥ —**	**¥2,880,802**
Inside group	**80,760**	**63,585**	**19,107**	**148,693**	**312,145**	**(312,145)**	**—**
Total	**2,070,599**	**565,999**	**345,419**	**210,930**	**3,192,947**	**(312,145)**	**2,880,802**
Segment income	**¥ 334,215**	**¥ 36,842**	**¥ 80,362**	**¥ 16,578**	**¥ 467,997**	**¥ (1,687)**	**¥ 466,310**

Notes: 1. The ¥(1,687) million downward adjustment to segment income includes a ¥(1,300) million elimination of unrealized holding gains (losses) on fixed assets and inventory assets and a ¥(387) million elimination for intersegment transactions.
2. Segment income was adjusted to ensure consistency with the operating income set forth in the consolidated statements of income.

The summary of each reportable segment is as follows.

- Transportation: The Transportation segment includes passenger transportation operations centered on railway operations, as well as travel agency services, cleaning services, station operations, facilities maintenance operations, railcar manufacturing operations and railcar maintenance operations.
- Retail & Services: The Retail & Services segment consists of the part of JR East's life-style service business that includes retail sales and restaurant operations, wholesale business, truck transportation business, and advertising and publicity.
- Real Estate & Hotels: The Real Estate & Hotels segment consists of the part of JR East's life-style service business that includes shopping center operations, leasing of office buildings and other properties, and hotel operations.
- Others: In addition to the above, JR East conducts IT & *Suica* business including credit card business, information processing and certain other businesses.

Share Repurchase

The Board of Directors of the Company resolved at its meeting held on April 28, 2017 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:
4,500,000 shares (maximum) (1.16% of issued shares (excluding treasury stock))
(4) Aggregate repurchase price: ¥40,000 million (maximum)
(5) Period of repurchase: From May 1, 2017 to July 28, 2017

During May 2017, repurchase of shares of the Company's common stock was as follows.

(1) Class of shares to be repurchased: Common stock
(2) Total number of shares repurchased: 1,631,400 shares
(3) Aggregate repurchase price: ¥17,032 million ($152 million)
(4) Period of repurchase: From May 1, 2017 to May 31, 2017
(5) Method of repurchase: Placement of purchase orders on the Tokyo Stock Exchange

Note: Period of repurchase is on a trade date basis. Total number of shares repurchased and aggregate repurchase price are on a delivery date basis.

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, 2017, 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, 2017, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 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, 2017
Tokyo, Japan