1. Significant Accounting Policies

Basis of presentation of financial statements

The accompanying consolidated semi-annual financial statements should be read in conjunction with the financial statements and related notes included in the Annual Report of EAST JAPAN RAILWAY COMPANY (the "Company") for the year ended March 31, 2002.

The Company and its consolidated subsidiaries maintain their books of account in accordance with the Japanese Commercial Code and accounting principles generally accepted in Japan. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices. The Company's and certain consolidated subsidiaries' books are also subject to the Law for Railway Business Enterprise and related regulations for a regulated company. The accompanying consolidated financial statements are translated into English from the consolidated financial statements prepared for Securities and Exchange Law of Japan purposes.

The consolidated financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollars are included solely for convenience of readers, using the prevailing exchange rate at September 30, 2002, which was ¥123 to U.S.$1.00. 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.

Consolidated subsidiaries and equity method affiliated companies

The consolidated financial statements of the Company include the accounts of all significant subsidiaries (together the "Companies").

For the interim period ended September 30, 2002, 99 subsidiaries were consolidated. As of March 31, 2002, 101 subsidiaries were consolidated. Two subsidiaries were deconsolidated because of merger and liquidation.

Investments in Central Security Patrols Co., Ltd. and JTB Corporation are accounted for by the equity method.

Allowance for doubtful accounts

According to the Japanese Accounting Standards for Financial Instruments, the Companies provide the allowance based on the past loan loss experience for a certain reference period in general. Furthermore, for receivables from debtors with financial difficulty which could affect their ability to perform in accordance with their obligations, the allowance is provided for estimated unrecoverable amounts on an individual basis.

Securities

According to the Japanese Accounting Standards for Financial Instruments, securities are classified and stated as follows:

(1) Trading securities are stated at fair market value. The Companies had no trading securities through the interim periods ended September 30, 2001 and 2002.

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

(3) Equity securities issued by subsidiaries and affiliated companies which are not consolidated nor accounted for using the equity method are mainly stated at moving average cost.

(4) Available-for-sale securities were mainly stated at moving average cost in the interim period ended September 30, 2000. According to the Japanese Accounting Standards for Financial Instruments, beginning with the interim period ended September 30, 2001, available-for-sale securities are stated as follows:

① Available-for-sale securities with market value

Available-for-sale securities for which market quotations are available are stated at fair market value as of the end of the each period. Net unrealized gains or losses on these securities are reported as a separate item in shareholders' equity at an amount net of applicable income taxes and minority interests. The cost of sales of such securities is determined mainly by the moving average method.

As a result, as of September 30, 2001, the balances of securities decreased by ¥29,677 million, deferred income taxes increased by ¥12,881 million and minority interest increased by ¥245 million as well as unrealized holding losses on securities of ¥17,040 million were recorded in shareholders' equity.

② Available-for-sale securities without market value

Available-for-sale securities for which market quotations are not available are mainly stated at moving average cost.

If there are significant declines in the market values of held-to-maturity debt securities, equity securities issued by subsidiaries and affiliated companies which are not consolidated nor accounted for using the equity method or available-for-sale securities, the said securities are stated at market values in the balance sheet, and the difference between the market value and the original book value is recognized as a loss in the period. Losses in the interim period ended September 30, 2001 amounted to ¥38,640 million. There was no such loss in the interim period ended September 30, 2002.

Property, plant and equipment

Property, plant and equipment are substantially stated at cost. To comply with the regulations, contributions received in connection with construction of certain railway improvements are deducted from the cost of acquired assets.

Depreciation is determined primarily by the declining balance method based on the estimated useful lives of the assets as prescribed by the Japanese Tax Law. Regarding the replacement method for certain fixtures, the initial acquisition costs are depreciated to 50% of the costs under the condition that subsequent replacement costs are charged to income.

The range of useful lives is mainly as follows:

Buildings	3 to 50 years
Fixtures	3 to 60 years
Rolling stock and vehicles	3 to 20 years
Machinery	3 to 20 years

Accounting for the payment for transfer to Welfare Pension

In accordance with the enforcement of revision of the Welfare Pension Law and the related regulations in 1996 (1996 Law No. 82), a shortage of the assets to be transferred to the Welfare Pension from Japan Railways Group Mutual Aid Association was shared by Japanese National Railways Settlement Corporation and JR Group Companies.

The portion shared by the Company amounting to ¥77,566 million was paid in a lump sum. This was accounted for as a long-term prepaid expense included in the other item of other assets on the balance sheet and was charged to income from the year ended March 31, 1998 to the year ended March 31, 2002 on a straight-line basis. As a result, amortization completed as of March 31, 2002.

Accounting for retirement benefits

Almost all employees of the Companies are generally entitled to receive lump sum severance and retirement benefits (some subsidiaries have adopted a pension plan of their own).The amounts of the severance and retirement benefits are determined by the length of service and basic salary at the time of severance or retirement of the employees.

The Japanese Accounting Standards for Retirement Benefits became effective beginning with the year ended March 31, 2001. The Companies accrue liabilities for post-employment benefits at the balance sheet date in an amount calculated based on the actuarial present value of all post-employment benefits attributed to employee services rendered prior to the year-end date, and plan assets at that date.

The unrecognized transition obligation is being charged to income over 10 years from the year ended March 31, 2001 on a straight-line basis. The balance of unrecognized net transition obligation as of September 30, 2002 is ¥373,350 million ($3,035 million).

The unrecognized prior service costs are amortized by the straight-line method and charged to income over the number of years (10 years) which does not exceed the average remaining service years of employees at the time when the prior service costs incurred.

Actuarial gains and losses are recognized in expenses using the straight-line basis over constant years (mainly 10 years) within the average of the estimated remaining service lives commencing with the following year.

Earnings per share

Earnings per share of common stock shown in the consolidated statements of income and retained earnings is computed based on the number of shares of common stock outstanding during each interim period. Effective from April 1, 2002, the new Accounting Standards for Earnings per Share were applied to the Companies, but it has no significant effect on the result of the Companies' earnings per share computation.

Derivative transactions

All derivative transactions of the Companies are used for hedging purposes and are accounted for in the following manner:

(1) Regarding forward exchange contracts and foreign currency swap contracts, the hedged foreign currency receivable and payable are recorded using the Japanese yen amount of the contracted forward rate or swap rate, and no gains or losses on the forward exchange contracts or foreign currency swap contracts are recorded.

(2) Regarding interest rate swap contracts, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

2. 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.

3. Market Value Information for Securities

According to the Japanese Accounting Standards for Financial Instruments, available-for-sale securities with market value are stated at fair market value beginning with the interim period ended September 30, 2001. The unrealized gain or loss is reported, net of applicable income taxes and minority interests, as a separate component of shareholders' equity.

For available-for-sale securities with market value, acquisition cost and amount on balance sheets as of September 30, 2001 and 2002 were as follows:

Available-for-sale securities with market value

September 30, 2001 and 2002

	Millions of Yen						Millions of U.S. Dollars		
	2001			2002			2002		
	Acquisition cost	Amount on balance sheets	Difference	Acquisition cost	Amount on balance sheets	Difference	Acquisition cost	Amount on balance sheets	Difference
(1) Equity shares	¥112,698	¥ 81,958	¥(30,740)	¥ 68,095	¥106,960	¥ 38,865	$554	$870	$316
(2) Debt securities									
① Government, Municipal bonds, etc.	298	335	37	280	314	34	2	3	1
② Other	2,416	2,301	(115)	2,105	2,125	20	17	17	0
(3) Other	398	376	(22)	35	32	(3)	0	0	(0)
Total	¥115,810	¥ 84,970	¥(30,840)	¥ 70,515	¥109,431	¥ 38,916	$573	$890	$317

4. Contingent Liabilities

The outstanding amounts contingently liable under a debt assumption agreement and cross currency swap agreement as of September 30, 2002 were ¥99,970 million ($813 million) and $600 million, respectively.

5. Treasury Stock

Effective from April 1, 2002, the Companies adopted the new Accounting Standards for Treasury Stock and Reduction of Legal Reserves, and shares issued by the Company and held by an affiliated company that is accounted for by equity-method are treated as treasury stock under the new accounting standard. Treasury stock is presented in the consolidated balance sheets as a deduction item in shareholders' equity.

6. Real Estate for Sale

Devaluation losses on real estate for sale included in the other, net item of other expenses on the statements of income and retained earnings for the interim periods ended September 30, 2000 and 2001 were ¥6,725 million and ¥4,284 million, respectively. There was no loss in the interim period ended September 30, 2002.

7. Segment Information

The Companies' primary business activities include (1) Transportation, (2) Station space utilization, (3) Shopping centers & office buildings and (4) Other services. A summary of operating revenues and costs and expenses for the interim periods ended September 30, 2000, 2001 and 2002 are shown in the table on pages 12 and 13.

Change in business segmentation

The Company previously classified businesses of the Companies into four business segments, i.e., Transportation, Merchandise sales, Real estate leasing and Other services in order to disclose actual operational diversification concretely and appropriately in accordance with the Japanese standard industrial classification. However, from the interim period ended September 30, 2001, the segmentation was changed to four new segments, i.e., Transportation, Station space utilization, Shopping centers & office buildings and Other services.

This change was made in order to reflect more appropriately the changes in positioning and actual situation of the Companies' businesses as a whole, following a review of the operational management units based on the medium-term business plan which aimed mainly at effective use of management resources of the Companies. The information for the interim period ended September 30, 2000 is reclassified according to the new business segmentation, and shown based on the new business segmentation.

Segment Information

Six months ended September 30, 2000, 2001 and 2002

	Millions of Yen					
	Transportation	Station space utilization	Shopping centers & office buildings	Other services	Elimination and/or corporate	Consolidated
2000:						
Operating revenues:						
Outside customers	¥902,471	¥173,622	¥81,598	¥102,483	¥ —	¥1,260,174
Inside group	24,616	5,089	3,632	117,104	(150,441)	—
	927,087	178,711	85,230	219,587	(150,441)	1,260,174
Costs and expenses	788,724	165,188	68,514	213,316	(150,039)	1,085,703
Operating income	¥138,363	¥ 13,523	¥16,716	¥ 6,271	¥ (402)	¥ 174,471
2001:						
Operating revenues:						
Outside customers	¥898,091	¥183,428	¥81,461	¥ 98,575	¥ —	¥1,261,555
Inside group	25,647	5,515	3,752	124,837	(159,751)	—
	923,738	188,943	85,213	223,412	(159,751)	1,261,555
Costs and expenses	782,904	175,022	66,341	218,288	(159,519)	1,083,036
Operating income	¥140,834	¥ 13,921	¥18,872	¥ 5,124	¥ (232)	¥ 178,519
2002:						
Operating revenues:						
Outside customers	¥903,237	¥184,824	¥84,293	¥ 97,221	¥ —	¥1,269,575
Inside group	25,766	4,682	3,543	129,819	(163,810)	—
	929,003	189,506	87,836	227,040	(163,810)	1,269,575
Costs and expenses	767,467	175,567	65,713	222,551	(163,205)	1,068,093
Operating income	¥161,536	¥ 13,939	¥22,123	¥ 4,489	¥ (605)	¥ 201,482

	Millions of U.S. Dollars					
	Transportation	Station space utilization	Shopping centers & office buildings	Other services	Elimination and/or corporate	Consolidated
2002:						
Operating revenues:						
Outside customers	$7,343	$1,503	$685	$ 791	$ —	$10,322
Inside group	210	38	29	1,055	(1,332)	—
	7,553	1,541	714	1,846	(1,332)	10,322
Costs and expenses	6,240	1,428	534	1,810	(1,328)	8,684
Operating income	$1,313	$ 113	$180	$ 36	$ (4)	$ 1,638

The main activities of each business segment are as follows:

Transportation: Passenger transportation mainly by passenger railway;

Station space utilization: Retail sales, food and convenience stores, etc., which utilize space at the stations;

Shopping centers & office buildings: Operation of shopping centers other than Station space utilization business, and leasing of office buildings, etc.; and

Other services: Advertising and publicity, hotel operations, wholesales, truck delivery, cleaning, information processing, housing development and sales, credit card business and other services.

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

8. Subsequent Events

On November 15, 2002, the board of directors of the Company resolved the payment of an interim cash dividend of ¥4,000 ($33) per share, aggregating ¥16,000 million ($130 million), including a special dividend of ¥1,500 ($12) per share, aggregating ¥6,000 million ($49 million), to commemorate the completion of the full privatization.

On October 16, 2002, the Company issued 2.34% coupon unsecured bond due May 20, 2032, with an aggregate nominal principal amount of ¥20,000 million ($163 million). On December 17, 2002, the Company issued 1.07% coupon unsecured bond due December 20, 2012, with an aggregate nominal principal amount of ¥30,000 million ($244 million), and 1.71% coupon unsecured bond due September 20, 2022, with an aggregate nominal principal amount of ¥16,000 million ($130 million).

On November 14, 2002, the Company sold part of the shares of Japan Telecom Holdings Co., Ltd. at the total price of ¥16,100 million ($131 million), ¥322,000 ($2,618) per share. In connection with this transaction, ¥14,894 million ($121 million) is expected to be recorded as a gain on sale of securities for the year ending March 31, 2003.