Eleven-Year Summary

East Japan Railway Company and Subsidiaries
Years ended March 31

	1994	1995	1996	1997
Operating results				
Operating revenues	2,343,346	2,447,955	2,473,200	2,513,790
Operating expenses	1,902,465	2,034,546	2,059,384	2,097,388
Operating income	440,881	413,409	413,816	416,402
Net income	56,688	65,545	68,431	70,661
Segment information (*1)				
Operating revenues from outside customers:				
Transportation	N/A	N/A	N/A	N/A
Station space utilization	N/A	N/A	N/A	N/A
Shopping centers & office buildings	N/A	N/A	N/A	N/A
Other services	N/A	N/A	N/A	N/A
Total	N/A	N/A	N/A	N/A
Segment information (*2)				
Operating revenues from outside customers:				
Transportation	1,861,786	1,837,806	1,839,095	1,855,994
Merchandise sales	319,862	355,958	357,598	363,403
Real estate leasing Other services	161,698	254,191	276,507	144,927 149,466
Total	2,343,346	2,447,955	2,473,200	2,513,790
Financial Position				
Total assets	7,054,909	7,291,152	7,345,760	7,384,463
Long-term debt (including current portion)	2,232,203	2,255,471	2,247,931	2,223,163
Railway facilities purchase liabilities (including current portion) (*3)	2,969,802	2,912,176	2,851,373	2,812,547
Total long-term debt (sum of two items above)	5,202,005	5,167,647	5,099,304	5,035,710
Total shareholders' equity	586,714	621,292	669,291	719,510
Cash flows (*4)				
Cash flows from operating activities	474,146	419,935	504,761	497,242
Cash flows from investing activities	(314,868)	(351,321)	(342,507)	(419,923)
Cash flows from financing activities	(142,502)	(54,251)	(99,288)	(77,240)
Per share data				
Earnings	14,172	16,386	17,108	17,665
Shareholders' equity	146,679	155,323	167,323	179,878
Cash dividends (*5)	5,000	5,000	5,000	5,000
Ratios				
Net income as a percentage of revenues	2.4	2.7	2.8	2.8
Return on average equity (ROE)	10.0	10.9	10.6	10.2
Ratio of operating income to average assets (ROA)	6.3	5.8	5.7	5.7
Equity ratio	8.3	8.5	9.1	9.7
Debt-to-equity ratio	1,100.9	1,070.3	994.6	923.4
Other data				
Depreciation	269,777	288,138	275,589	274,133
Capital expenditures (*6)	N/A	N/A	261,582	325,066
Interest expense	314,903	291,266	279,783	256,063
Number of consolidated subsidiaries (As of March 31)	12	69	72	73
Number of employees (*7)	N/A	91,520	90,405	89,593

*1 The business segmentation was changed to four new segments beginning with the year ended March 31, 2002.
The information for the year ended March 31, 2001, has been reclassified according to the new business segmentation.
*2 Real estate leasing was separated from other services beginning with the year ended March 31, 1998.
*3 Long-term liabilities incurred for purchase of the Tohoku and Joetsu Shinkansen facilities, the Akita hybrid Shinkansen facilities, and the Tokyo Monorail facilities.
*4 Due to a change in accounting standards, statements of cash flows after the year ended March 31, 2000, use presentation methods different to those of previous years.
*5 The total amount of dividends for the year ended March 31 comprises interim dividends for the interim period ended September 30 and year-end dividends for the year ended March 31, which was decided at the shareholders' annual meeting in June.
*6 These figures exclude expenditures funded by third parties, mainly governments and their agencies, which will benefit from the resulting facilities.
*7 Beginning with the year ended March 31, 2000, number of employees excludes employees assigned to other companies and employees on temporary leave.
*8 Upon the merger of Japan Railways Group Mutual Aid Association into the Welfare Pension, the Company shared the shortage of the assets to be transferred amounting to ¥77,566 million. This was paid in a lump sum and was accounted for as a long-term prepaid expense included in the other item of other assets on the balance sheets and was charged to income from the year ended March 31, 1998, to the year ended March 31, 2002, on a straight-line basis. (See note 2 to consolidated financial statements)

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

1998	1999	2000	2001	2002	2003	**2004**
2,514,808	2,483,594	2,502,909	2,546,041	2,543,378	2,565,671	**2,542,297**
2,146,109	2,149,122	2,160,952	2,222,290	2,227,038	2,222,576	**2,190,877**
368,699	334,472	341,957	323,751	316,340	343,095	**351,420**
66,235	21,929	66,963	69,174	47,551	97,986	**119,866**
N/A	N/A	N/A	1,801,370	1,789,599	1,800,434	**1,798,132**
N/A	N/A	N/A	348,994	368,553	368,961	**366,438**
N/A	N/A	N/A	165,818	165,276	170,321	**175,180**
N/A	N/A	N/A	229,859	219,950	225,955	**202,547**
N/A	N/A	N/A	2,546,041	2,543,378	2,565,671	**2,542,297**
1,836,237	1,808,925	1,799,051	1,805,663	N/A	N/A	**N/A**
365,964	356,260	379,213	386,033	N/A	N/A	**N/A**
154,905	158,515	143,432	152,438	N/A	N/A	**N/A**
157,702	159,894	181,213	201,907	N/A	N/A	**N/A**
2,514,808	2,483,594	2,502,909	2,546,041	N/A	N/A	**N/A**
7,381,794	7,287,033	7,308,391	7,247,089	7,022,271	6,853,403	**6,781,692**
2,285,063	2,320,246	2,319,664	2,307,483	2,060,838	1,942,983	**1,940,321**
2,713,737	2,610,966	2,499,023	2,392,241	2,318,997	2,174,581	**2,034,203**
4,998,800	4,931,212	4,818,687	4,699,724	4,379,835	4,117,564	**3,974,524**
765,424	766,880	856,401	923,568	930,746	981,856	**1,100,176**
410,662	365,296	474,715	455,470	455,045	433,304	**387,061**
(379,156)	(282,082)	(292,438)	(266,319)	(105,645)	(196,422)	**(234,591)**
(52,674)	(72,298)	(168,133)	(161,109)	(433,589)	(310,658)	**(196,193)**
16,559	5,482	16,741	17,294	11,888	24,453	**29,928**
191,356	191,720	214,100	230,892	232,687	245,463	**275,052**
5,000	5,000	5,000	5,000	5,000	8,000	**6,000**
2.6	0.9	2.7	2.7	1.9	3.8	**4.7**
8.9	2.9	8.3	7.8	5.1	10.2	**11.5**
5.0	4.6	4.7	4.4	4.4	4.9	**5.2**
10.4	10.5	11.7	12.7	13.3	14.3	**16.2**
861.3	846.9	750.4	681.5	650.7	594.6	**513.7**
283,711	319,687	329,583	329,651	321,995	322,564	**322,300**
268,425	258,080	288,106	296,957	301,781	307,579	**313,911**
243,017	230,887	220,421	205,155	187,601	173,298	**160,944**
80	81	96	96	101	101	**98**
89,008	87,880	82,747	82,285	80,200	78,760	**77,009**

*9 Net income decreased significantly in the year ended March 31, 1999, mainly because "cash charges for additional obligation related to transfer to Welfare Pension" was accounted for in other expenses. This additional obligation of ¥70,475 million, including the interest portion, was paid in accordance with the enactment of the Law for Disposal of Debts and Liabilities of the Japanese National Railways Settlement Corporation. (See page 79, "JR East Background—Disposition of Long-Term Liabilities of JNR")

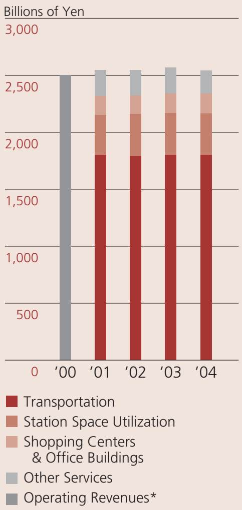
*10 Beginning with the year ended March 31,1999, the declining balance method has generally been applied with respect to depreciation for structures related to Shinkansen railway fixtures. The straight-line method had been applied prior to the year ended March 31, 1999.

*11 Accounting Standards for Financial Instruments were adopted beginning with the year ended March 31, 2001. (See note 2 to consolidated financial statements)

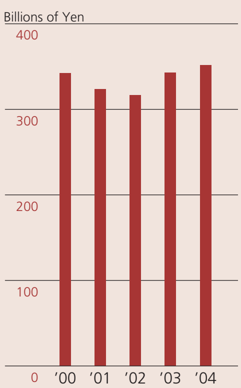
*12 Tax effect accounting was adopted beginning with the year ended March 31, 2000.

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

Operating Revenues
Years ended March 31



Operating Income
Years ended March 31



Forward-looking statements in the following discussion and analysis are judgments of JR East as of March 31, 2004.

KEY ACCOUNTING POLICIES AND ESTIMATES

JR East prepares financial statements in accordance with accounting principles generally accepted in Japan. Forward-looking estimates included in those financial statements are based on a variety of factors that, in light of JR East's past performance and 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 2004. JR East continuously assesses those factors. Actual results may differ materially from those estimates, given the uncertainty of forward-looking statements.

PERFORMANCE

Overview

During the fiscal year ended March 31, 2004, the Japanese economy continued to improve, with support from favorable exports and capital investment as well as a turn toward increased production in the second half of the fiscal year. Although the employment situation continued to be difficult, with unemployment remaining at a high level, consumer spending was steady and corporate profitability improved, and business conditions gradually began to pick up by the end of the fiscal year. In this economic environment, JR East worked to maximize revenues by making optimal use of its management resources, including the Shinkansen and other railway networks as well as stations. At the same time, JR East took steps to increase its operational efficiency, including thorough overall expense reviews and asset streamlining measures.

As a result, operating revenues decreased 0.9%, to ¥2,542.3 billion ($23,984 million), due to a decline in revenues from the station space utilization segment and to a restructuring of the other services segment. However, operating income rose 2.4%, to ¥351.4 billion ($3,315 million), as a result of reduced personnel expenses and other factors. Net income was up 22.3%, to ¥119.9 billion ($1,131 million), as a result of a decline in interest expense stemming from a reduction in interest-bearing debt and a decrease in loss on sales of fixed assets and other factors.

Transportation

JR East worked to encourage rail travel and to generate revenues by enhancing the Shinkansen network and the conventional rail network in the Tokyo metropolitan area. Specifically, JR East promoted the *Attaka Kita-Tohoku* (heartwarming northern Tohoku)—*Hayate 1st Anniversary* campaign and worked together with the communities in the northern area of the Tohoku district to expand tourism demand to the region. In addition, JR East endeavored to boost tourism from the Tohoku and Shinetsu districts to Tokyo and worked to raise sales of ski travel products through the *JR SKI* campaign.

* The business segmentation was changed to four new segments beginning with the year ended March 31, 2002.
The information for the year ended March 31, 2001, has been reclassified according to the new business segmentation.

A number of steps were taken to improve the Shinkansen network. On the Joetsu Shinkansen, Honjo Waseda station was opened and the maximum operating speed of the Joetsu Shinkansen *Toki*, which connects to the *Hakutaka* limited express service, was set at 240km/h, shortening the time to the Hokuriku district. The operating speed of the Tohoku Shinkansen was also increased. In the Tokyo metropolitan area, JR East increased train frequency in the morning peak hour on the Keihin-Tohoku line and Yokohama line, thereby alleviating overcrowding.

In IT-based services, JR East initiated *Suica,* a large-scale IC card automatic fare collecting system, in the Sendai area and began the *Suica FREX Commuter Pass* service, which adds *Suica* features to Shinkansen commuter passes.

As a result, the number of passengers increased from fiscal 2003 due to steady growth on the Shinkansen network and the conventional rail network in the Tokyo metropolitan area, as well as to the effect of the leap year in fiscal 2004.

However, operating revenues decreased 0.1%, to ¥1,798.1 billion ($16,963 million). Although revenues from passenger tickets increased, revenues from railroad track usage fees were down and revenues from Tokyo Monorail declined as transportation volume decreased. Operating expenses declined 0.4%, to ¥1,587.9 billion ($14,980 million), due to reduced personnel expenses following workforce reductions. Operating income increased 2.3%, to ¥262.8 billion ($2,479 million).

Station Space Utilization

JR East continued to implement its *Station Renaissance* business strategy, the aim of which is to create new station environments for the 21st century. This business strategy includes large-scale development projects, principally targeting terminal stations in the Tokyo metropolitan area. In addition to completing two such projects in Tokyo, *Dila Asagaya* and *Dila Nishi-Ogikubo,* JR East renovated existing stores and conducted detailed store development at such stations as Sendai, Ikebukuro, Fukushima, and Kawagoe. In addition, JR East Station Retailing Co., Ltd., was established to conduct commercial development that creates new station environments and takes maximum advantage of the potential of stations.

However, as a result of sluggish sales at existing station outlets, operating revenues decreased 0.7%, to ¥366.4 billion ($3,457 million), and, due to a 0.6% decline in operating expenses, to ¥348.9 billion ($3,292 million), operating income declined 3.5%, to ¥27.2 billion ($256 million).

Shopping Centers & Office Buildings

In Tokyo, JR East opened the large-scale *JR Shinagawa East Building,* which combines office and commercial space, and in the commercial zone of that building opened the shopping center, *atré Shinagawa*. JR East opened *Arcade Akabane* in Tokyo, a shopping center that effectively uses the space under elevated railway tracks, and continued to open shopping centers featuring outlets that are closely linked to lifestyles, such as eating and drinking establishments and stores for food and general merchandise. One example of such a shopping center opened during the year is *Lumine Kawagoe* in Saitama. In addition, a number of existing shopping centers were renovated, including *Shapo Motoyawata* and *Perie Inage* in Chiba, *Kokubunji L* in Tokyo, and *FES'AN* in Iwate. At the same time, JR East worked to bring in major retailers as tenants that have the ability to draw customers.

Measures to restructure group companies in this business segment included four mergers involving eight shopping center management companies. LUMINE Co., Ltd., merged with Lumine Ogikubo Co., Ltd.; Sendai Terminal Building Co., Ltd., with Fukushima Station Development Co., Ltd.; Mito Station Development Co., Ltd., with Tsuchiura Station Development Co., Ltd.; and Nagano Station Building Co., Ltd. (presently, Station Building MIDORI Co., Ltd.), with Matsumoto Station Building Co., Ltd. These mergers were designed to strengthen marketing capabilities and financial structures.

As a result, operating revenues increased 2.9%, to ¥175.2 billion ($1,653 million). JR East promoted thorough low-cost operations, but operating expenses rose 1.4%, to ¥136.1 billion ($1,284 million), due to the opening of new shopping centers and other factors. Operating income rose 6.3%, to ¥46.3 billion ($437 million).

Other Services

In hotels, JR East opened *HOTEL METS Mejiro,* in Tokyo, and *Hotel Dream Gate Maihama,* which was built under elevated railway tracks using a new construction method in Chiba. In advertising, JR East reviewed its product structure and charges for advertising on trains and at stations to boost the attractiveness of transportation advertising. At the same time, JR East introduced railcar body advertising on more lines and promoted sales of in-train video advertising. JR East also continued to establish and improve station advertising media and to target increased sales as part of its *Station Renaissance* business strategy. In housing development and sales, JR East conducted sales of housing properties, such as *Makuhari Bay Town Marine Fort* in Chiba and *View Verger Annaka Haruna* in Gunma, and commenced sales of *Makuhari Bay Town Cities Fort* in Chiba. In credit card business, JR East commenced services based on *View Suica* card, which combines the functions of the *View Card* credit card and *Suica IO card*. In addition, JR East expanded its lineup with the issuance of cards with the JCB and MasterCard brands, in addition to the VISA card that was already available. In March 2004, a *Suica* based shopping service (electronic money) started on a full-fledged basis.

However, operating revenues decreased 10.4%, to ¥202.5 billion ($1,911 million), in part because of a withdrawal from the construction materials business by East Japan Railway Trading Co., Ltd. Operating expenses declined 8.6%, to ¥458.4 billion ($4,325 million). Operating income increased 2.8%, to ¥17.9 billion ($169 million), because of an increase in operating income from advertising and publicity, sport and leisure services, and other areas.

Other Income (Expenses)

Other expenses fell 14.1%, to ¥128.6 billion ($1,212 million). JR East achieved a further reduction of interest expense on total long-term debt by lowering interest-bearing debt through the expansion of its cash management system for the integrated management of the group's cash and funding. Despite decisive steps to streamline assets, gains and losses on sales of fixed assets and gains on sales of investment in securities decreased. In fiscal 2003, JR East recorded devaluation losses on investment in securities, related to the shares of financial institutions and other organizations, and devaluation losses on fixed assets. However, JR East did not post such losses in fiscal 2004.

Income before Income Taxes

Income before income taxes climbed 15.2%, to ¥222.9 billion ($2,103 million). Income before income taxes as a percentage of operating revenues increased from 7.5% in fiscal 2003 to 8.8%.

Income Taxes

The actual effective income tax rate, after applying tax effect accounting, decreased from 47.8% in fiscal 2003 to 44.8%. The aggregate standard effective tax rate was 41.8%. That reduction was primarily due to the recognition of devaluation losses on fixed assets recorded in other expenses as a valuation allowance amount against deferred income taxes in fiscal 2003.

Minority Interests in Net Income of Consolidated Subsidiaries

Minority interests in net income of consolidated subsidiaries—mainly minority interests in income of Tokyo Monorail Co., Ltd., and Union Construction Co., Ltd.—increased 5.2%, to ¥3.1 billion ($29 million).

Net Income

Net income was up 22.3%, to ¥119.9 billion ($1,131 million), a record high for JR East. Earnings per share increased from ¥24,453 in fiscal 2003 to ¥29,928 ($282). The ratio of net income to operating revenues rose from 3.8% in fiscal 2003 to 4.7% in fiscal 2004.

LIQUIDITY AND CAPITAL RESOURCES

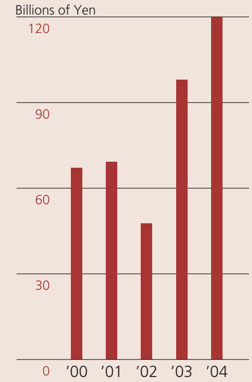
Cash Flows

Net cash provided by operating activities decreased ¥46.2 billion, to ¥387.1 billion ($3,651 million). While income before income taxes increased, payments of income taxes rose due to the abolishment of a tax break for accrued severance and retirement benefits as a result of an amendment to the tax system.

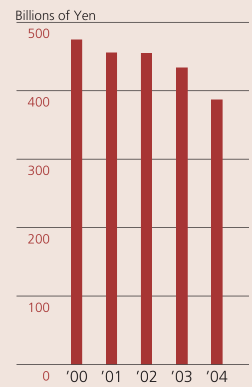
Net cash used in investing activities rose ¥38.2 billion, to ¥234.6 billion ($2,213 million). In addition to a decline in proceeds from sales of fixed assets, JR East recorded increased payments for purchases of fixed assets that included the following items.

In transportation, JR East's capital expenditures mainly comprised investments aimed at ensuring safety, enhancing services for passengers, and upgrading transportation services. In station space utilization, capital expenditures primarily focused on the

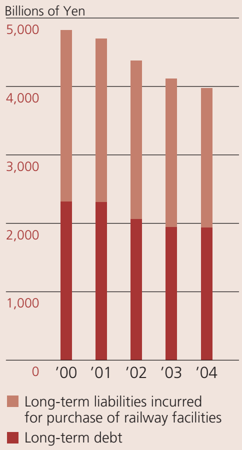
Net Income
Years ended March 31



Cash Flows from Operating Activities
Years ended March 31



Total Long-Term Debt
As of March 31



construction and renewal of retail outlets at or near stations. In shopping centers & office buildings, capital expenditures were largely accounted for by the construction in Tokyo of the large-scale *JR Shinagawa East Building,* which combines office space and commercial premises, and the renewal of existing shopping centers. In other services segment, capital expenditures targeted the development and upgrading of information systems.

In addition, free cash flows declined ¥84.4 billion from fiscal 2003, to ¥152.5 billion ($1,438 million).

Net cash used in financing activities was down ¥114.5 billion, to ¥196.2 billion ($1,851 million), which was attributable to a ¥143.1 billion decrease in total long-term debt that was lower than the year-on-year reduction in fiscal 2003. As a result, cash and cash equivalents at end of year, which were ¥126.5 billion at the end of fiscal 2003, declined ¥43.6 billion, to ¥82.9 billion ($782 million).

Financial Policy

Total long-term debt at the end of fiscal 2004 was ¥3,974.5 billion ($37,496 million). That debt consists of long-term liabilities incurred for purchase of railway facilities associated with JR East's assumption of Shinkansen railway facilities and other facilities, bonds, and long-term loans.

Long-term liabilities incurred for purchase of railway facilities related to Tohoku and Joetsu Shinkansen lines are paid in equal semi-annual installments, consisting of principal and interest payments and are divided into the following three tranches.

a. ¥1,195.9 billion ($11,282 million) payable at a variable interest rate (annual interest rate in fiscal 2004: 4.57%) through March 31, 2017.

b. ¥445.7 billion ($4,205 million) payable at a fixed annual interest rate of 6.35% through March 31, 2017.

c. ¥356.9 billion ($3,367 million) payable at a fixed annual interest rate of 6.55% through September 30, 2051.

(Amounts as of March 31, 2004)

In addition to the abovementioned liabilities, JR East has long-term liabilities incurred for purchase of railway facilities of ¥20.2 billion ($190 million) in relation to the Akita hybrid Shinkansen. Further, JR East has long-term liabilities of ¥15.5 billion ($147 million) incurred for the purchase of Tokyo Monorail facilities.

From the fiscal year ended March 31, 1998, JR East made annual early repayments of a part of long-term liabilities incurred for purchase of railway facilities based on an agreement with Corporation for Advanced Transport & Technology, currently the Japan Railway Construction, Transport and Technology Agency. JR East made early repayments of ¥41.9 billion ($396 million) in fiscal 2004. Plans call for annual early repayments through fiscal 2007.

In fiscal 2002, JR East introduced a cash management system that has integrated the management of the group's cash and funding, which used to be carried out separately by subsidiaries, with the aim of reducing JR

East's total long-term debt. Also, JR East is enhancing capital management methods that include offsetting internal settlements among subsidiaries and consolidating payments by subsidiaries.

JR East believes that it has adequate cash flows to meet various capital-related demands. However, JR East expects that increases in retirement and severance benefit payments stemming from the demographic characteristics of JR East's workforce will affect future levels of cash provided by operating activities.

In the year ended March 31, 2004, JR East issued six unsecured straight bonds—with a total nominal amount of ¥140.0 billion ($1,321 million), with maturities from 2008 through 2033—as follows.

Issue date	21 Apr. 2003	21 Apr. 2003	22 Oct. 2003	4 Dec. 2003	11 Dec. 2003	25 Mar. 2004
Maturity date	19 Mar. 2013	20 Dec. 2022	20 Sep. 2013	20 Sep. 2033	20 Sep. 2023	19 Mar. 2008
Amount	¥30 billion ($283 million)	¥10 billion ($94 million)	¥40 billion ($377 million)	¥10 billion ($94 million)	¥10 billion ($94 million)	¥40 billion ($377 million)
Coupon	0.79%	1.19%	1.46%	2.47%	2.01%	0.39%

R&I, a Japanese rating agency, rated these bonds AA+. Further, JR East's long-term ratings from Standard & Poor's and Moody's were AA– and Aa2, respectively, through the fiscal year ended March 31, 2004.

In order to respond to short-term financing requirements, JR East has bank overdraft facilities with its principal banks totaling ¥60.0 billion. R&I and Moody's rated JR East's commercial paper a–1+ and P–1, respectively, as of the end of fiscal 2004. JR East had no outstanding commercial paper or bank overdrafts on March 31, 2004.

JR East does not maintain committed bank credit lines.

Consolidated Balance Sheets

East Japan Railway Company and Subsidiaries
March 31, 2003 and 2004

	Millions of Yen		Millions of U.S. Dollars (Note 2)
	2003	2004	2004
Assets			
Current Assets:			
Cash and cash equivalents (Note 3)	¥ 126,478	¥ 82,935	$ 782
Receivables:			
Accounts receivable–trade	160,967	151,062	1,425
Unconsolidated subsidiaries and affiliated companies	5,202	5,152	49
Other	20,838	21,723	204
Allowance for doubtful accounts (Note 2)	(1,523)	(1,720)	(16)
	185,484	176,217	1,662
Inventories (Notes 2 and 4)	27,373	39,069	369
Real estate for sale (Notes 2 and 5)	16,710	12,005	113
Deferred income taxes (Note 12)	50,586	55,270	521
Other current assets	32,365	23,605	224
Total current assets	438,996	389,101	3,671
Investments:			
Unconsolidated subsidiaries and affiliated companies (Notes 2 and 6)	38,768	38,004	359
Other (Notes 2 and 7)	81,218	113,463	1,070
	119,986	151,467	1,429
Property, Plant and Equipment (Note 2):			
Buildings	1,816,634	1,855,382	17,504
Fixtures	4,836,471	4,885,143	46,086
Machinery, rolling stock and vehicles	2,149,851	2,174,301	20,512
Land	2,133,209	2,117,484	19,976
Construction in progress	144,666	140,068	1,321
Other	139,566	148,672	1,404
	11,220,397	11,321,050	106,803
Less accumulated depreciation	5,206,330	5,382,325	50,777
Net property, plant and equipment	6,014,067	5,938,725	56,026
Other Assets:			
Long-term deferred income taxes (Note 12)	140,212	159,702	1,507
Consolidation difference (Note 2)	4,078	3,340	32
Other	136,064	139,357	1,313
	280,354	302,399	2,852
	¥ 6,853,403	¥ 6,781,692	$ 63,978

See accompanying notes.

	Millions of Yen		Millions of U.S. Dollars (Note 2)
	2003	**2004**	**2004**
Liabilities and Shareholders' Equity			
Current Liabilities:			
Short-term bank loans (Note 9)	¥ 4,418	**¥ —**	**$ —**
Current portion of long-term debt (Note 9)	297,241	**124,367**	**1,173**
Current portion of long-term liabilities incurred for purchase of railway facilities (Note 10)	134,948	**143,179**	**1,351**
Prepaid railway fares received	114,682	**104,909**	**990**
Payables:			
Accounts payable–trade	59,794	**47,884**	**452**
Unconsolidated subsidiaries and affiliated companies	40,596	**39,975**	**377**
Other	383,513	**382,527**	**3,609**
	483,903	**470,386**	**4,438**
Accrued expenses	112,750	**116,852**	**1,102**
Accrued consumption tax (Note 11)	15,604	**13,397**	**126**
Accrued income taxes (Note 12)	97,029	**68,479**	**646**
Other current liabilities	35,322	**28,177**	**266**
Total current liabilities	1,295,897	**1,069,746**	**10,092**
Long-Term Debt (Note 9)	1,645,742	**1,815,954**	**17,132**
Long-Term Liabilities Incurred for Purchase of Railway Facilities (Note 10)	2,039,633	**1,891,024**	**17,840**
Accrued Severance and Retirement Benefits (Notes 2 and 13)	578,176	**595,569**	**5,619**
Deposits Received for Guarantees	214,817	**196,006**	**1,849**
Long-Term Deferred Tax Liabilities (Note 12)	5,198	**3,781**	**36**
Other Long-Term Liabilities	59,102	**79,949**	**753**
Minority Interests	32,982	**29,487**	**278**
Contingent Liabilities (Note 14)			
Shareholders' Equity (Notes 15 and 19):			
Common stock:			
Authorized 16,000,000 shares;			
Issued, 2003 and 2004—4,000,000 shares;			
Outstanding, 2003 and 2004—3,999,235 shares	200,000	**200,000**	**1,887**
Capital surplus:			
Additional paid-in capital	96,600	**96,600**	**911**
Total capital surplus	96,600	**96,600**	**911**
Retained earnings	679,196	**771,233**	**7,276**
Net unrealized holding gains on securities	6,511	**32,794**	**309**
Treasury stock, at cost, 765 shares in 2003 and 2004	(451)	**(451)**	**(4)**
Total shareholders' equity	981,856	**1,100,176**	**10,379**
	¥6,853,403	**¥6,781,692**	**$63,978**

Consolidated Statements of Income

East Japan Railway Company and Subsidiaries
Years ended March 31, 2002, 2003 and 2004

	Millions of Yen			Millions of U.S. Dollars (Note 2)
	2002	2003	**2004**	**2004**
Operating Revenues (Note 16)	¥2,543,378	¥2,565,671	**¥2,542,297**	**$ 23,984**
Operating Expenses (Note 16):				
Transportation, other services and cost of sales	1,712,324	1,712,629	**1,695,026**	**15,991**
Selling, general and administrative expenses	514,714	509,947	**495,851**	**4,678**
	2,227,038	2,222,576	**2,190,877**	**20,669**
Operating Income (Note 16)	316,340	343,095	**351,420**	**3,315**
Other Income (Expenses):				
Interest expense on short- and long-term debt	(61,272)	(54,331)	**(49,889)**	**(470)**
Interest expense incurred for purchase of railway facilities	(126,329)	(118,967)	**(111,055)**	**(1,048)**
Devaluation losses on investment in securities	(89,218)	(17,029)	**—**	**—**
Loss on sales of fixed assets	(33,365)	(28,869)	**(10,674)**	**(101)**
Social insurance charges (Note 2)	—	—	**(9,697)**	**(91)**
Interest and dividend income	1,518	1,789	**2,211**	**21**
Equity in net income of affiliated companies	2,816	324	**352**	**3**
Gain on sales of investment in securities	104,330	17,134	**12,816**	**121**
Gain on sales of fixed assets	11,087	42,205	**18,177**	**171**
Devaluation losses on fixed assets	—	(14,809)	**—**	**—**
Other, net	(9,462)	22,866	**19,204**	**182**
	(199,895)	(149,687)	**(128,555)**	**(1,212)**
Income before Income Taxes	116,445	193,408	**222,865**	**2,103**
Income Taxes (Note 12):				
Current	108,403	150,114	**142,901**	**1,348**
Deferred	(41,989)	(57,607)	**(42,970)**	**(405)**
Minority Interests in Net Income of Consolidated Subsidiaries	(2,480)	(2,915)	**(3,068)**	**(29)**
Net Income	¥ 47,551	¥ 97,986	**¥ 119,866**	**$ 1,131**

	Yen			U.S. Dollars (Note 2)
Earnings per Share (Note 2)	¥11,888	¥24,453	**¥29,928**	**$282**

See accompanying notes.

Consolidated Statements of Shareholders' Equity

East Japan Railway Company and Subsidiaries
Years ended March 31, 2002, 2003 and 2004

	Number of Issued Shares of Common Stock	Millions of Yen				
		Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Holding Gains on Securities	Treasury Stock
Balance at March 31, 2001	4,000,000	¥200,000	¥96,600	¥626,968	¥ —	¥ —
Increase due to addition of consolidated subsidiaries, and other	—	—	—	10	—	—
Increase due to addition of equity method affiliated companies	—	—	—	4,103	—	—
Net income	—	—	—	47,551	—	—
Cash dividends (¥5,000 per share)	—	—	—	(20,000)	—	—
Bonuses to directors and corporate auditors	—	—	—	(176)	—	—
Decrease due to removal of equity method affiliated companies	—	—	—	(51,080)	—	—
Adoption of new accounting standard for financial instruments (Note 2)	—	—	—	—	26,770	—
Balance at March 31, 2002	4,000,000	200,000	96,600	607,376	26,770	—
Increase due to addition of consolidated subsidiaries, and other	—	—	—	10	—	—
Net income	—	—	—	97,986	—	—
Cash dividends (¥6,500 per share)	—	—	—	(26,000)	—	—
Bonuses to directors and corporate auditors	—	—	—	(176)	—	—
Net unrealized holding losses on securities	—	—	—	—	(20,259)	—
Adoption of new accounting standard for treasury stock (Note 15)	—	—	—	—	—	(451)
Balance at March 31, 2003	4,000,000	200,000	96,600	679,196	6,511	(451)
Increase due to merger of nonconsolidated subsidiaries	—	—	—	177	—	—
Increase due to change in accounting period of consolidated subsidiaries	—	—	—	185	—	—
Net income	—	—	—	119,866	—	—
Cash dividends (¥7,000 per share)	—	—	—	(28,000)	—	—
Bonuses to directors and corporate auditors	—	—	—	(191)	—	—
Net unrealized holding gains on securities	—	—	—	—	26,283	—
Balance at March 31, 2004	**4,000,000**	**¥200,000**	**¥96,600**	**¥771,233**	**¥ 32,794**	**¥(451)**

	Millions of U.S. Dollars (Note 2)				
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Holding Gains on Securities	Treasury Stock
Balance at March 31, 2003	$1,887	$911	$6,407	$ 61	$ (4)
Increase due to merger of nonconsolidated subsidiaries	—	—	2	—	—
Increase due to change in accounting period of consolidated subsidiaries	—	—	2	—	—
Net income	—	—	1,131	—	—
Cash dividends ($66 per share)	—	—	(264)	—	—
Bonuses to directors and corporate auditors	—	—	(2)	—	—
Net unrealized holding gains on securities	—	—	—	248	—
Balance at March 31, 2004	**$1,887**	**$911**	**$7,276**	**$309**	**$ (4)**

See accompanying notes.

Consolidated Statements of Cash Flows

East Japan Railway Company and Subsidiaries
Years ended March 31, 2002, 2003 and 2004

	Millions of Yen			Millions of U.S. Dollars (Note 2)
	2002	2003	**2004**	**2004**
Cash Flows from Operating Activities:				
Income before income taxes	¥ 116,445	¥ 193,408	**¥ 222,865**	**$ 2,103**
Depreciation (Note 16)	321,995	322,564	**322,300**	**3,041**
Amortization of long-term prepaid expense	19,941	4,533	**5,202**	**49**
Increase in accrued severance and retirement benefits	48,630	43,427	**17,398**	**164**
Interest and dividend income	(1,518)	(1,789)	**(2,211)**	**(21)**
Interest expense	187,601	173,298	**160,944**	**1,518**
Construction grants received	(51,914)	(65,382)	**(79,708)**	**(752)**
Devaluation losses on investment in securities	89,218	17,029	**—**	**—**
Gain on sales of investment in securities	(104,330)	(17,134)	**(12,816)**	**(121)**
Loss from disposition and provision for cost reduction of fixed assets	78,421	86,233	**106,572**	**1,005**
Decrease (Increase) in major receivables	(11,990)	(2,888)	**2,242**	**21**
Increase (Decrease) in major payables	10,427	(15,234)	**(5,497)**	**(52)**
Other	40,867	(16,096)	**(19,183)**	**(180)**
Sub-total	743,793	721,969	**718,108**	**6,775**
Proceeds from interest and dividends	1,957	1,924	**2,367**	**22**
Payments of interest	(189,574)	(173,806)	**(162,568)**	**(1,534)**
Payments of income taxes	(101,131)	(116,783)	**(170,846)**	**(1,612)**
Net cash provided by operating activities	455,045	433,304	**387,061**	**3,651**
Cash Flows from Investing Activities:				
Payments for purchases of fixed assets	(342,352)	(352,962)	**(374,642)**	**(3,534)**
Proceeds from sales of fixed assets	25,431	81,344	**34,684**	**327**
Proceeds from construction grants	61,074	60,843	**76,765**	**724**
Payments for purchases of investment in securities	(6,677)	(12,408)	**(6,638)**	**(63)**
Proceeds from sales of investment in securities	156,664	19,398	**23,057**	**218**
Cash decreased due to purchases of shares of companies newly consolidated, net of cash acquired	(12,085)	—	**—**	**—**
Other	12,300	7,363	**12,183**	**115**
Net cash used in investing activities	(105,645)	(196,422)	**(234,591)**	**(2,213)**
Cash Flows from Financing Activities:				
Proceeds from long-term loans	87,438	123,670	**155,000**	**1,462**
Payments of long-term loans	(296,888)	(357,743)	**(297,625)**	**(2,808)**
Proceeds from issuance of bonds	60,000	115,983	**139,914**	**1,320**
Payment for redemption of bonds	(99,970)	—	**—**	**—**
Payments of liabilities incurred for purchase of railway facilities	(109,970)	(144,416)	**(140,377)**	**(1,324)**
Cash dividends paid	(20,000)	(26,000)	**(28,000)**	**(264)**
Other	(54,199)	(22,152)	**(25,105)**	**(237)**
Net cash used in financing activities	(433,589)	(310,658)	**(196,193)**	**(1,851)**
Net Decrease in Cash and Cash Equivalents	(84,189)	(73,776)	**(43,723)**	**(413)**
Cash and Cash Equivalents at Beginning of Year	283,817	200,022	**126,478**	**1,193**
Increase due to Addition of Consolidated Subsidiaries, and Other	394	232	**189**	**2**
Decrease due to Change in Accounting Period of Consolidated Subsidiaries	—	—	**(9)**	**0**
Cash and Cash Equivalents at End of Year	¥ 200,022	¥ 126,478	**¥ 82,935**	**$ 782**

See accompanying notes.

Notes to Consolidated Financial Statements

East Japan Railway Company and Subsidiaries
Years ended March 31, 2002, 2003 and 2004

1. INCORPORATION OF EAST JAPAN RAILWAY COMPANY

In accordance with the provisions of the Law for Japanese National Railways Restructuring (the Law), the Japanese National Railways (JNR) was privatized into six passenger railway companies, one freight railway company and several other organizations (JR Group Companies), on April 1, 1987.

East Japan Railway Company (the Company) is one of the six passenger railway companies and serves eastern Honshu (mainland Japan) in Japan. The Company operates 70 railway lines, 1,697 stations and 7,526.8 operating kilometers as of March 31, 2004.

In the wake of the split-up of JNR, assets owned by and liabilities incurred by JNR were transferred to JR Group Companies, 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 accrued 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 net book value of JNR. Nonrailway assets such as investments and other operating property and equipment were valued at prices determined by the Evaluation Council.

The land and railway fixtures of the Tohoku and Joetsu Shinkansen lines were owned by Shinkansen Holding Corporation until September 30, 1991, and the Company leased such land and railway fixtures at a rent determined by Shinkansen Holding Corporation in accordance with related laws and regulations. On October 1, 1991, the Company purchased such Shinkansen facilities for a total purchase price of ¥3,106,970 million from Shinkansen Holding Corporation (See note 10). Subsequent to the purchase, Shinkansen Holding Corporation was dissolved. Railway Development Fund succeeded to all rights and obligations of Shinkansen Holding Corporation. In October 1997, Railway Development Fund and Maritime Credit Corporation merged to form Corporation for Advanced Transport & Technology. In October 2003, Japan Railway Construction Public Corporation and Corporation for Advanced Transport & Technology merged to form 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 (the JR Law), the Company was required to obtain approval from the Minister of Land, Infrastructure and Transport 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 9).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation of financial statements

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

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements prepared for Securities and Exchange Law of Japan purposes. Certain modifications and reclassifications, including the presentation of the Consolidated Statements of Shareholders' Equity, have been made for the convenience of readers outside Japan.

The consolidated financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2004, which was ¥106 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.

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, 2004, 98 subsidiaries were consolidated. One subsidiary was established and newly consolidated in the year ended March 31, 2004. Furthermore, four subsidiaries were deconsolidated in the year ended March 31, 2004 because of their merger with four other consolidated subsidiaries.

All significant intercompany transactions and accounts have been eliminated. Cost in excess of net assets of consolidated subsidiaries purchased is analyzed and allocated to appropriate accounts so long as the reason is clear and the remaining unknown portion is accounted for as consolidation difference. Such consolidation differences are amortized over 5 years on a straight-line basis.

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

Equity method

The effective-influence standard is applied according to Regulations for Consolidated Financial Statements. For the year ended March 31, 2004, two affiliated companies were accounted for by the equity method, and there was no change in those companies during that year.

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

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.

Inventories

Inventories are stated at cost as follows:

Merchandise inventories: the retail cost method or first-in, first-out method;

Rails, materials and supplies: the moving average cost method; and

Other: the last purchased cost method

Real estate for sale

Real estate for sale is stated at the identified cost , which is reduced for significant decline in value. Devaluation losses on real estate for sale included in the other, net item of other expenses on the statements of income for the years ended March 31, 2002, 2003 and 2004 were ¥9,043 million, ¥347 million and ¥4,383 million ($41 million), respectively.

Securities

Securities are classified and stated as follows:

(1) Trading securities are stated at fair market value. The Companies had no trading securities through the years ended March 31, 2002, 2003 and 2004.

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

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

(4) Available-for-sale securities are stated as follows:

(a) Available-for-sale securities with market value

Available-for-sale securities with market value were mainly stated at moving average cost in the year ended March 31, 2001. According to the Japanese Accounting Standards for Financial Instruments, beginning with the year ended March 31, 2002, available-for-sale securities for which market quotations are available are stated at fair market value as of the balance sheet date. 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.

(b) Available-for-sale securities without market value

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

If there are significant declines in the market values of held-to-maturity debt securities, equity securities issued by subsidiaries and affiliated companies which are not consolidated nor accounted for using the equity method or available-for-sale securities, the said securities are stated at market values in the balance sheet, and the difference between the market value and the original book value is recognized as a loss in the period. The Company's policy for such write-offs stipulates that if the market value as of the year end has declined by 50% or more of the acquisition cost 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. Such losses amounted to ¥89,218 million and ¥17,029 million in the years ended March 31, 2002 and 2003, respectively. The Company did not have such losses in the year ended March 31, 2004.

Property, plant and equipment

Property, plant and equipment are stated at cost or the transfer value referred to in Note 1. To comply with the regulations, contributions received in connection with construction of certain railway improvements are deducted from the cost of acquired assets.

Depreciation is determined primarily by the declining balance method based on the estimated useful lives of the assets as prescribed by the Japanese Tax Law. Regarding the replacement method for certain fixtures, the initial acquisition costs are depreciated to 50% of the costs under the condition that subsequent replacement costs are charged to income. Certain property, plant and equipment of the consolidated subsidiaries were depreciated using the straight-line method. Buildings (excluding related fixtures) acquired from April 1, 1998 onward are depreciated using the straight-line method according to the Japanese Tax Law.

The range of useful lives is mainly as follows:

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

Devaluation losses on fixed assets recorded in the consolidated statements of income for the year ended March 31, 2003 mainly consist of losses on land of the Company that has not been used for any operation and is unlikely to be used practically in the future.

Accounting for the payment for transfer to Welfare Pension

At the merger of mutual aid associations of three public corporations including Japan Railways Group Mutual Aid Association (the Association) to the Welfare Pension (national pension) in accordance with the enforcement of revision of the Welfare Pension Law and the related regulations in 1996 (1996 Law No. 82), fund assets of the respective mutual aid associations were transferred to the Welfare Pension. The shortage of the assets to be transferred to the Welfare Pension from the Association was shared by JNRSC and JR Group Companies on the basis that JNRSC would be liable for the period during which each member of the Association was employed by JNR, and the JR Group Companies for the period during which the member of the Association was in their employment.

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 was completed in the year ended 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. Previously, most of the Companies accrued a liability for such obligation equal to 40% of the amount required if all eligible employees had voluntarily terminated their employment at the balance sheet date.

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

The excess of the projected benefit obligations over the total of the fair value of plan assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") is being charged to income over 10 years from the year ended March 31, 2001 on a straight-line basis. The balance of unrecognized net transition obligation as of March 31, 2004 was ¥298,633 million ($2,817 million).

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

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

Accounting for certain lease transactions

Finance leases which do not transfer titles to lessees are accounted for in the same manner as operating leases under Japanese GAAP.

Accounting for research and development costs

According to the Accounting Standards for Research and Development Costs, etc., in Japan, research and development costs are recognized as they incur. Research and development costs included in operating expenses for the years ended March 31, 2002, 2003 and 2004 were ¥13,548 million, ¥15,310 million and ¥15,836 million ($149 million), respectively.

Social insurance charges

Amendment of the Health Insurance Law and other laws led to the introduction of a total compensation system for health insurance and welfare pension insurance charges from April 1, 2003. As a result, the employer's contribution for summer wages in 2003 amounted to ¥9,697million ($91 million) was included in other expenses in the statement of income for the year ended March 31, 2004.

Income taxes

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

Earnings per share

Effective April 1, 2002, the Companies adopted the new accounting standard for earnings per share (Accounting Standards Board Statement No. 2). The effect on earnings per share of the adoption of the new accounting standard was immaterial.

Earnings per share shown in the consolidated statements of income for the years ended March 31, 2003 and 2004 are computed by dividing income available to common shareholders by the weighted average number of common stock outstanding during the year according to the new accounting standards. Diluted earnings per share are not shown, since there are no outstanding securities with dilutive effect on earnings per share such as convertible bonds. If computed under this accounting standard and the related application guideline, earnings per share for the year ended March 31, 2002 would have amounted to ¥11,846.

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.

Impairment of fixed assets

In August 2002, the Business Accounting Council issued "Opinion Concerning Establishment of Accounting Standards for Impairment of Fixed Assets." In consideration of preparation for implementation, the standards become effective for fiscal years beginning after March 31, 2005. An earlier adoption is permitted for fiscal years beginning after March 31, 2004 and also for fiscal years ending between March 31, 2004 and March 30, 2005.

The Companies have decided on early voluntary adoption of the standards in its financial settlement of accounts in the year ending March 31, 2005. The effect that this will have has not yet been determined.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all cash balances and highly liquid investments with maturities not exceeding three months at the time of purchase.

4. INVENTORIES

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

5. REAL ESTATE FOR SALE

Real estate for sale represents the cost, as adjusted for significant decline in value, of land acquired and related land improvements in connection with residential home site developments in eastern Honshu.

6. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATED COMPANIES

Investments in and advances to unconsolidated subsidiaries and affiliated companies at March 31, 2003 and 2004, consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2003	2004	2004
Unconsolidated subsidiaries:			
Investments	¥ 5,927	¥ 5,990	$ 57
Advances	2,524	2,362	22
	8,451	8,352	79
Affiliated companies:			
Investments (including equity in earnings of affiliated companies)	28,938	29,252	276
Advances	1,379	400	4
	30,317	29,652	280
	¥38,768	¥38,004	$359

7. SECURITIES

For held-to-maturity debt securities with market value, amount on balance sheets and market value at March 31, 2003 and 2004, were as follows:

	Millions of Yen						Millions of U.S. Dollars		
	2003			2004			2004		
	Amount on Balance Sheets	Market Value	Difference	Amount on Balance Sheets	Market Value	Difference	Amount on Balance Sheets	Market Value	Difference
Of which market value exceeds the amount on balance sheet:									
Government, Municipal bonds, etc.	¥185	¥186	¥ 1	¥101	¥101	¥ 0	$1	$1	$ 0
Of which market value does not exceed the amount on balance sheet:									
Government, Municipal bonds, etc.	150	150	(0)	234	234	(0)	2	2	(0)
Total	¥335	¥336	¥ 1	¥335	¥335	¥(0)	$3	$3	$(0)

For available-for-sale securities with market value, acquisition cost and amount on balance sheets at March 31, 2003 and 2004, were as follows:

	Millions of Yen						Millions of U.S. Dollars		
	2003			2004			2004		
	Acquisition Cost	Amount on Balance Sheets	Difference	Acquisition Cost	Amount on Balance Sheets	Difference	Acquisition Cost	Amount on Balance Sheets	Difference
Of which amount on balance sheet exceeds the acquisition cost:									
Equity shares	¥ 7,568	¥30,484	¥ 22,916	**¥38,750**	**¥94,043**	**¥55,293**	**$365**	**$887**	**$522**
Debt securities	1,980	2,039	59	**1,758**	**1,829**	**71**	**17**	**17**	**(0)**
Of which amount on balance sheet does not exceed the acquisition cost:									
Equity shares	42,459	31,268	(11,191)	**3,819**	**3,258**	**(561)**	**36**	**31**	**(5)**
Debt securities	31	29	(2)	**21**	**20**	**(1)**	**0**	**0**	**(0)**
Other	34	29	(5)	**—**	**—**	**—**	**—**	**—**	**—**
Total	¥52,072	¥63,849	¥ 11,777	**¥44,348**	**¥99,150**	**¥54,802**	**$418**	**$935**	**$517**

Available-for-sale securities sold during the years ended March 31, 2003 and 2004 amounted to ¥18,640 million and ¥22,614 million ($213 million), respectively. Within other income (expenses) on the statements of income for the years ended March 31, 2003 and 2004, gains on sales of available-for-sale securities amounted to ¥17,099 million and ¥12,799 million ($121 million), respectively, and were included in the gain on sales of investment in securities, and losses on sales of available-for-sale securities amounted to ¥249 million and ¥922 million ($9 million), respectively, and were included in other, net.

The major components of available-for-sale securities without market value at March 31, 2003 and 2004, were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2003	2004	2004
Available-for-sale securities without market value:			
Unlisted equity securities	¥14,532	**¥11,684**	**$110**
Preferred equity securities	1,000	**1,000**	**9**

Annual maturities of available-for-sale securities with maturities and held-to-maturity debt securities as of March 31, 2004, were as follows:

	Millions of Yen			Millions of U.S. Dollars		
	2004			2004		
	1 Year or Less	5 Years or Less But More than 1 Year	10 Years or Less But More than 5 Years	1 Year or Less	5 Years or Less But More than 1 Year	10 Years or Less But More than 5 Years
Debt securities	**¥29**	**¥2,049**	**¥10**	**$0**	**$19**	**$0**
Other	**2**	**—**	**—**	**0**	**—**	**—**
Total	**¥31**	**¥2,049**	**¥10**	**$0**	**$19**	**$0**

8. PLEDGED ASSETS

At March 31, 2003 and 2004, buildings and fixtures with net book value of ¥41,679 million and ¥39,701 million ($375 million) and other assets with net book value of ¥2,880 million and ¥690 million ($7 million), respectively, were pledged as collateral for long-term debt and other liabilities totaling ¥8,628 million and ¥5,911 million ($56 million), at the respective dates.

In addition, at March 31, 2003 and 2004, buildings and fixtures with net book value of ¥51,334 million and ¥48,851 million ($461 million) and other assets with net book value of ¥8,711 million and ¥8,517 million ($80 million), respectively, were pledged as collateral for long-term liabilities incurred for purchase of the Tokyo Monorail facilities amounting to ¥22,335 million and ¥15,544 million ($147 million) at March 31, 2003 and 2004, respectively (See note 10).

9. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans are represented by notes maturing generally within one year. The annual interest rates applicable to such loans outstanding at March 31, 2003 principally ranged from 0.43% to 1.88%. There were no short-term bank loans outstanding at March 31, 2004.

Long-term debt at March 31, 2003 and 2004, is summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2003	**2004**	**2004**
General Mortgage Bonds issued in 1995 to 2001 with interest rates ranging from 1.70% to 4.90% due in 2009 to 2021	¥ 629,900	**¥ 629,900**	**$ 5,942**
Unsecured Bonds issued in 2002 to 2004 with interest rates ranging from 0.39% to 2.47% due in 2008 to 2033	176,000	**316,000**	**2,981**
Secured Loans due in 2004 to 2016 principally from banks and insurance companies with interest rates mainly ranging from 4.70% to 5.80%	8,139	**5,285**	**50**
Unsecured Loans due in 2004 to 2021 principally from banks and insurance companies with interest rates mainly ranging from 1.045% to 3.30%	1,040,984	**901,176**	**8,502**
7.25% Euro U.S. dollar bonds due in 2006	87,960	**87,960**	**830**
	1,942,983	**1,940,321**	**18,305**
Less current portion	297,241	**124,367**	**1,173**
	¥1,645,742	**¥1,815,954**	**$17,132**

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 7.25% Euro U.S. dollar bonds in the amount of $800 million were issued in October 1996. These bonds have been hedged by a foreign currency swap contract with a bank.

The annual maturities of long-term debt at March 31, 2004, were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2005	¥124,367	$1,173
2006	158,453	1,495
2007	203,524	1,920
2008	241,397	2,277
2009	234,064	2,208
2010 and thereafter	978,516	9,232

10. LONG-TERM LIABILITIES INCURRED FOR PURCHASE OF RAILWAY FACILITIES

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

The long-term liabilities incurred for purchase of railway facilities outstanding at March 31, 2003 and 2004, were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2003	**2004**	**2004**
The long-term liability incurred for purchase of the Tohoku and Joetsu Shinkansen facilities:			
Payable semiannually including interest at a rate currently approximating 4.57% through 2017	¥1,305,700	**¥1,195,872**	**$11,282**
Payable semiannually including interest at 6.35% through 2017	467,289	**445,747**	**4,205**
Payable semiannually including interest at 6.55% through 2051	357,963	**356,868**	**3,367**
	2,130,952	**1,998,487**	**18,854**
The long-term liability incurred for purchase of the Akita hybrid Shinkansen facilities:			
Payable semiannually at an average rate currently approximating 0.29% through 2022	21,294	**20,172**	**190**
The long-term liability incurred for purchase of the Tokyo Monorail facilities:			
Payable semiannually at an average rate currently approximating 3.61% through 2022	22,335	**15,544**	**147**
	2,174,581	**2,034,203**	**19,191**
Less current portion:			
The Tohoku and Joetsu Shinkansen purchase liability	132,828	**141,350**	**1,334**
The Akita hybrid Shinkansen purchase liability	1,086	**1,076**	**10**
The Tokyo Monorail purchase liability	1,034	**753**	**7**
	134,948	**143,179**	**1,351**
	¥2,039,633	**¥1,891,024**	**$17,840**

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, 2004, were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2005	¥ 143,179	$ 1,351
2006	146,890	1,386
2007	141,433	1,334
2008	99,555	939
2009	104,593	987
2010 and thereafter	1,398,553	13,194

11. CONSUMPTION TAX

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

12. INCOME TAXES

The major components of deferred income taxes and deferred tax liabilities at March 31, 2003 and 2004, were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2003	2004	2004
Deferred income taxes:			
Accrued severance and retirement benefits	¥159,941	**¥197,917**	**$1,867**
Reserves for bonuses	28,628	**32,574**	**307**
Devaluation losses on real estate for sale	—	**9,973**	**94**
Accrued enterprise tax	8,645	**6,124**	**58**
Excess depreciation and amortization of fixed assets	5,555	**6,081**	**57**
Devaluation losses on fixed assets	6,020	**5,645**	**53**
Loss carry forwards for tax purposes	3,019	**2,233**	**21**
Net unrealized holding losses on securities	4,538	**—**	**—**
Other	22,155	**20,444**	**194**
	238,501	**280,991**	**2,651**
Less valuation allowance	(9,731)	**(11,771)**	**(111)**
Less amounts offset against deferred tax liabilities	(37,972)	**(54,248)**	**(512)**
Net deferred income taxes	¥190,798	**¥214,972**	**$2,028**
Deferred tax liabilities:			
Tax deferment for gain on transfers of certain fixed assets	¥ 23,843	**¥ 26,343**	**$ 249**
Net unrealized holding gains on securities	9,342	**22,430**	**212**
Valuation for assets and liabilities of consolidated subsidiaries	4,625	**4,153**	**39**
Other	5,382	**5,104**	**48**
	43,192	**58,030**	**548**
Less amounts offset against deferred income taxes	(37,972)	**(54,248)**	**(512)**
Net deferred tax liabilities	¥ 5,220	**¥ 3,782**	**$ 36**

Income taxes consist of corporation, enterprise and inhabitants taxes. The aggregate standard effective rate of taxes on consolidated income before income taxes was approximately 41.8% for the years ended March 31, 2002, 2003 and 2004. After applying tax effect accounting, the actual effective income tax rate was approximately 57.0%, 47.8% and 44.8% for the years ended March 31, 2002, 2003 and 2004, respectively.

For the years ended March 31, 2002, 2003, and 2004, the actual effective income tax rate differed from the aggregate standard effective tax rate for the following reasons:

	2002	2003	2004
The aggregate standard effective tax rate	41.8%	41.8%	**41.8%**
Adjustments:			
Non-deductible expenses for tax purposes	1.1	0.6	**0.5**
Non-taxable incomes	(0.9)	(0.5)	**—**
Per capita inhabitants tax	0.9	0.5	**0.5**
Equity on net income of affiliated companies	(1.0)	—	**—**
Tax credits	—	—	**(1.0)**
Increase in valuation allowance	—	—	**0.9**
Difference due to tax rate change	—	1.9	**1.7**
Devaluation losses on fixed assets	—	3.1	**—**
Adjustment of gain on sale of investment in equity method affiliated company	15.1	—	**—**
Other, net	0.0	0.4	**0.4**
The actual effective rate after applying tax effect accounting	57.0%	47.8%	**44.8%**

Effective for the years commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred income taxes and deferred tax liabilities, the Companies used the revised aggregate standard effective tax rates for the years ended March 31, 2003 and 2004.

As the result of the change in the aggregate standard effective tax rates, deferred income taxes decreased by ¥3,447 million and provision for deferred income taxes increased by ¥3,590 million and net income decreased by ¥3,613 million in the year ended March 31, 2003, compared with what would have been recorded under the previous local tax law. The impact on items relating to investment securities is immaterial.

13. ACCRUED SEVERANCE AND RETIREMENT BENEFITS AND SEVERANCE AND RETIREMENT BENEFIT EXPENSES

As mentioned in Note 2, beginning with the year ended March 31, 2001, the Companies adopted the Japanese Accounting Standards for Retirement Benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2003 and 2004, consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2003	**2004**	**2004**
Projected benefit obligation	¥(932,919)	**¥(899,814)**	**$(8,489)**
Plan assets	8,196	**8,626**	**82**
Unfunded projected benefit obligation	(924,723)	**(891,188)**	**(8,407)**
Unrecognized net transition obligation	348,464	**298,633**	**2,817**
Unrecognized actuarial differences	(11,734)	**(21,510)**	**(203)**
Unrecognized prior service costs	9,911	**18,576**	**175**
Book value (net)	(578,082)	**(595,489)**	**(5,618)**
Prepaid pension expense	(94)	**(80)**	**(1)**
Accrued severance and retirement benefits	¥(578,176)	**¥(595,569)**	**$(5,619)**

Severance and retirement benefit expenses included in the consolidated statements of income for the years ended March 31, 2002, 2003 and 2004, consisted of the following:

	Millions of Yen			Millions of U.S. Dollars
	2002	2003	**2004**	**2004**
Service costs	¥ 37,696	¥ 36,569	**¥ 40,218**	**$ 379**
Interest costs	28,099	28,076	**27,719**	**262**
Expected return on plan assets	(141)	(190)	**(80)**	**(1)**
Amortization of net transition obligation	49,823	49,854	**49,831**	**470**
Amortization of actuarial differences	(66)	344	**(971)**	**(9)**
Amortization of prior service costs	1,197	1,234	**2,177**	**21**
Severance and retirement benefit expenses	¥116,608	¥115,887	**¥118,894**	**$1,122**

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years.

The discount rates used by the Companies are mainly 3.0%. The rates of expected return on pension assets used by the Companies were mainly 3.0% in the years ended March 31, 2002 and 2003, and mainly 1.0% in the year ended March 31, 2004.

14. CONTINGENT LIABILITIES

The Company is contingently liable for the in-substance defeasance of general mortgage bonds issued by the Company, which were assigned to certain banks under debt assumption agreements. The outstanding amount contingently liable under such debt assumption agreements at March 31, 2004 was ¥99,970 million ($943 million).

15. SHAREHOLDERS' EQUITY

Effective on October 1, 2001, the Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve or additional paid-in capital may be used to reduce a deficit by a resolution of the shareholders' meeting or may be capitalized by a resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of the shareholders' meeting. The legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company and in accordance with the Commercial Code of Japan. Appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period when the shareholders' approval has been obtained. Retained earnings at March 31, 2004 include amounts representing the year-end cash dividends and bonuses for directors and corporate auditors, which were approved at the shareholders' meeting held in June 2004 as discussed in Note 19.

The Commercial Code of Japan allows companies to repurchase treasury stock by a resolution of the board of directors in adherence with articles of incorporation or by a resolution of the shareholders' meeting and to dispose of such treasury stock by a resolution of the Board of Directors.

Effective on April 1, 2002, the Companies adopted the new accounting standards for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1).

As a result, the shares issued by the Company and held by its equity-method affiliated companies are reported as a treasury stock, a deduction item of shareholders' equity on the consolidated balance sheets. In fiscal 2003 and 2004, 765 shares, stated at ¥451 million ($4 million), are recorded as treasury stock in the consolidated balance sheets.

16. SEGMENT INFORMATION

The Companies' primary business activities include (1) Transportation, (2) Station space utilization, (3) Shopping centers & office buildings and (4) Other services.

	Millions of Yen					
	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Other Services	Elimination and/or Corporate	Consolidated
2002:						
Operating revenues:						
Outside customers	¥1,789,599	¥368,553	¥165,276	¥219,950	¥ —	¥2,543,378
Inside group	51,417	10,161	7,709	278,942	(348,229)	—
	1,841,016	378,714	172,985	498,892	(348,229)	2,543,378
Costs and expenses	1,605,431	351,904	134,491	482,808	(347,596)	2,227,038
Operating income	¥ 235,585	¥ 26,810	¥ 38,494	¥ 16,084	¥ (633)	¥ 316,340
Identifiable assets	¥5,713,944	¥142,815	¥750,135	¥547,150	¥(131,773)	¥7,022,271
Depreciation	256,116	7,043	25,193	33,643	—	321,995
Capital investments	267,178	11,890	24,176	49,641	—	352,885

	Millions of Yen					
	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Other Services	Elimination and/or Corporate	Consolidated
2003:						
Operating revenues:						
Outside customers	¥1,800,434	¥368,961	¥170,321	¥225,955	¥ —	¥2,565,671
Inside group	51,183	10,148	7,463	292,867	(361,661)	—
	1,851,617	379,109	177,784	518,822	(361,661)	2,565,671
Costs and expenses	1,594,874	350,974	134,265	501,364	(358,901)	2,222,576
Operating income	¥ 256,743	¥ 28,135	¥ 43,519	¥ 17,458	¥ (2,760)	¥ 343,095
Identifiable assets	¥5,668,361	¥148,092	¥733,801	¥566,974	¥(263,825)	¥6,853,403
Depreciation	253,959	8,100	25,807	34,698	—	322,564
Capital investments	296,052	9,111	22,348	41,149	—	368,660
2004:						
Operating revenues:						
Outside customers	**¥1,798,132**	**¥366,438**	**¥175,180**	**¥202,547**	**¥ —**	**¥2,542,297**
Inside group	**52,552**	**9,605**	**7,235**	**273,805**	**(343,197)**	**—**
	1,850,684	**376,043**	**182,415**	**476,352**	**(343,197)**	**2,542,297**
Costs and expenses	**1,587,913**	**348,892**	**136,143**	**458,411**	**(340,482)**	**2,190,877**
Operating income	**¥ 262,771**	**¥ 27,151**	**¥ 46,272**	**¥ 17,941**	**¥ (2,715)**	**¥ 351,420**
Identifiable assets	**¥5,602,010**	**¥152,036**	**¥731,078**	**¥591,825**	**¥(295,257)**	**¥6,781,692**
Depreciation	**250,720**	**8,416**	**25,213**	**37,951**	**—**	**322,300**
Capital investments	**292,707**	**12,789**	**33,375**	**44,501**	**—**	**383,372**

	Millions of U.S. Dollars					
	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Other Services	Elimination and/or Corporate	Consolidated
2004:						
Operating revenues:						
Outside customers	**$16,963**	**$3,457**	**$1,653**	**$1,911**	**$ —**	**$23,984**
Inside group	**496**	**91**	**68**	**2,583**	**(3,238)**	**—**
	17,459	**3,548**	**1,721**	**4,494**	**(3,238)**	**23,984**
Costs and expenses	**14,980**	**3,292**	**1,284**	**4,325**	**(3,212)**	**20,669**
Operating income	**$ 2,479**	**$ 256**	**$ 437**	**$ 169**	**$ (26)**	**$ 3,315**
Identifiable assets	**$52,849**	**$1,434**	**$6,897**	**$5,583**	**$(2,785)**	**$63,978**
Depreciation	**2,365**	**80**	**238**	**358**	**—**	**3,041**
Capital investments	**2,761**	**121**	**315**	**420**	**—**	**3,617**

The main activities of each business segment are as follows:

Transportation:

Passenger transportation mainly by passenger railway;

Station space utilization:

Retail sales, food and convenience stores, etc., which utilize space at stations;

Shopping centers & office buildings:

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

Other services:

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

Capital investments include a portion contributed mainly by national and local governments. Identifiable assets in the corporate column mainly comprise current and non-current securities held by the Company.

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.

17. INFORMATION REGARDING CERTAIN LEASES

Finance leases other than those which transfer ownership to lessees are accounted for in the same manner as operating leases. Under such finance leases, lease payments, which were charged to income for the years ended March 31, 2003 and 2004, amounted to ¥16,554 million and ¥15,864 million ($150 million), respectively. Lease income which was credited to income for the years ended March 31, 2003 and 2004 was ¥3,644 million and ¥4,286 million ($40 million), respectively.

Future lease payments inclusive of interest were ¥41,111 million ($388 million), including due in one year of ¥13,726 million ($129 million), and future lease receipts inclusive of interest were ¥14,046 million ($133 million), including due in one year of ¥4,281 million ($40 million), at March 31, 2004.

Future lease payments for operating leases amount to ¥1,224 million ($12 million), including those due within one year of ¥612 million ($6 million), at March 31, 2004.

18. INFORMATION FOR DERIVATIVE TRANSACTIONS

The Companies deal with forward exchange, foreign currency swap and interest rate swap transactions to hedge the risks resulting from future changes in foreign exchange rates and interest rates (market risk) with regard to bonds, loans and other obligations.

The Companies believe there is extremely low risk of default by derivative transaction counterparties as all such transactions are with financial institutions having sound reputations.

Contracts for derivative transactions are executed only after prudent consideration by the finance section of each of the Companies and upon resolution of its Board of Directors or other appropriate internal approval process.

19. SUBSEQUENT EVENTS

At the June 2004 annual meeting, the shareholders of the Company approved (1) the payment of a year-end cash dividend of ¥3,000 ($28) per share, aggregating ¥12,000 million ($113 million) and (2) the payment of bonuses to directors and corporate auditors of ¥176 million ($2 million).

On April 30, 2004, the Company issued a 1.58% coupon unsecured bond due on March 19, 2014, with an aggregate nominal principal amount of ¥20,000 million ($189 million), and a 2.26% coupon unsecured bond due on March 19, 2024 with an aggregate nominal principal amount of ¥10,000 million ($94 million).

KPMG

Independent Auditors' Report

To the Board of Directors of East Japan Railway Company:

We have audited the accompanying consolidated balance sheets of East Japan Railway Company and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2004, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of East Japan Railway Company and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
As discussed in Note 2 to the consolidated financial statements, effective April 1, 2001, East Japan Railway Company and subsidiaries prospectively adopted the new Japanese accounting standards for market valuation for available-for-sale securities.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 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 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 23, 2004

KPMG AZSA & Co., an audit corporation incorporated under the Japanese Certified Public Accountants Law, is the Japan member firm of KPMG International, a Swiss cooperative