



Initiatives Responding to Change

ANNUAL REPORT 2016

For the year ended March 31, 2016

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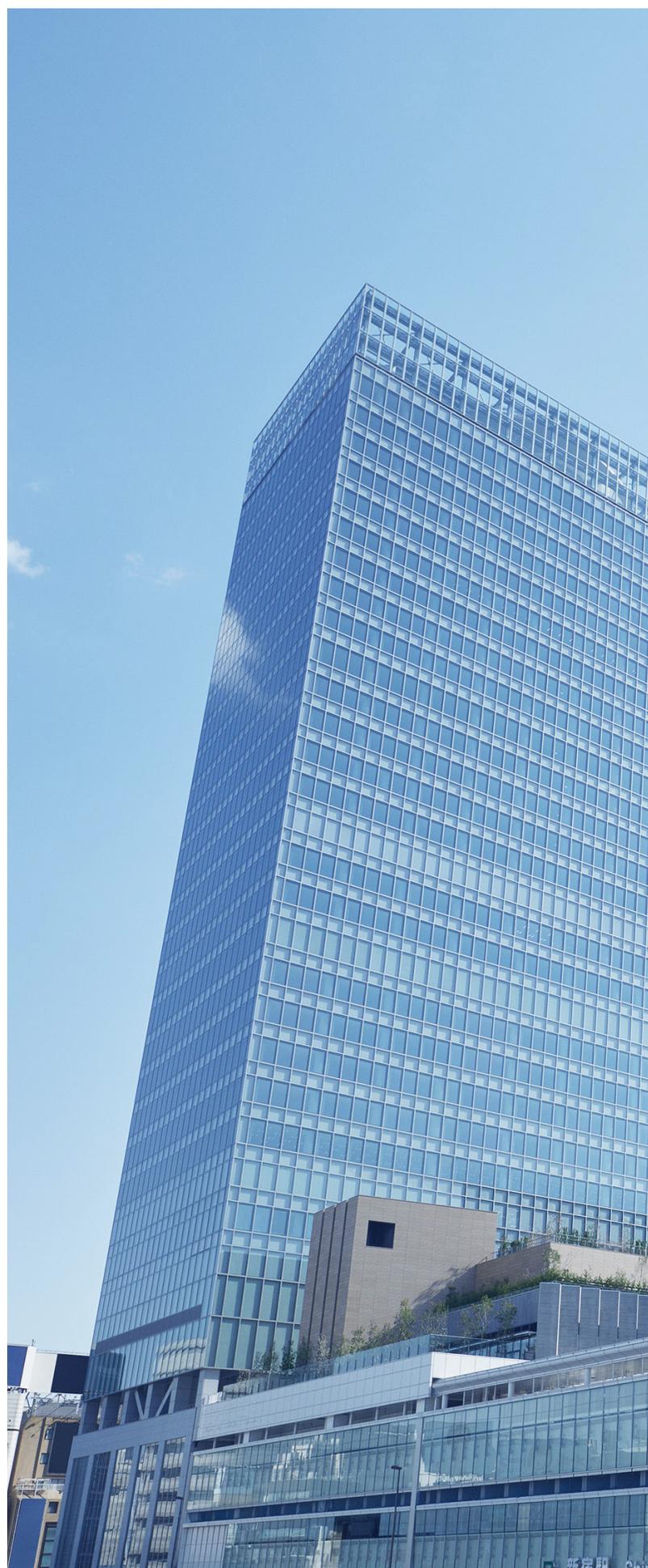
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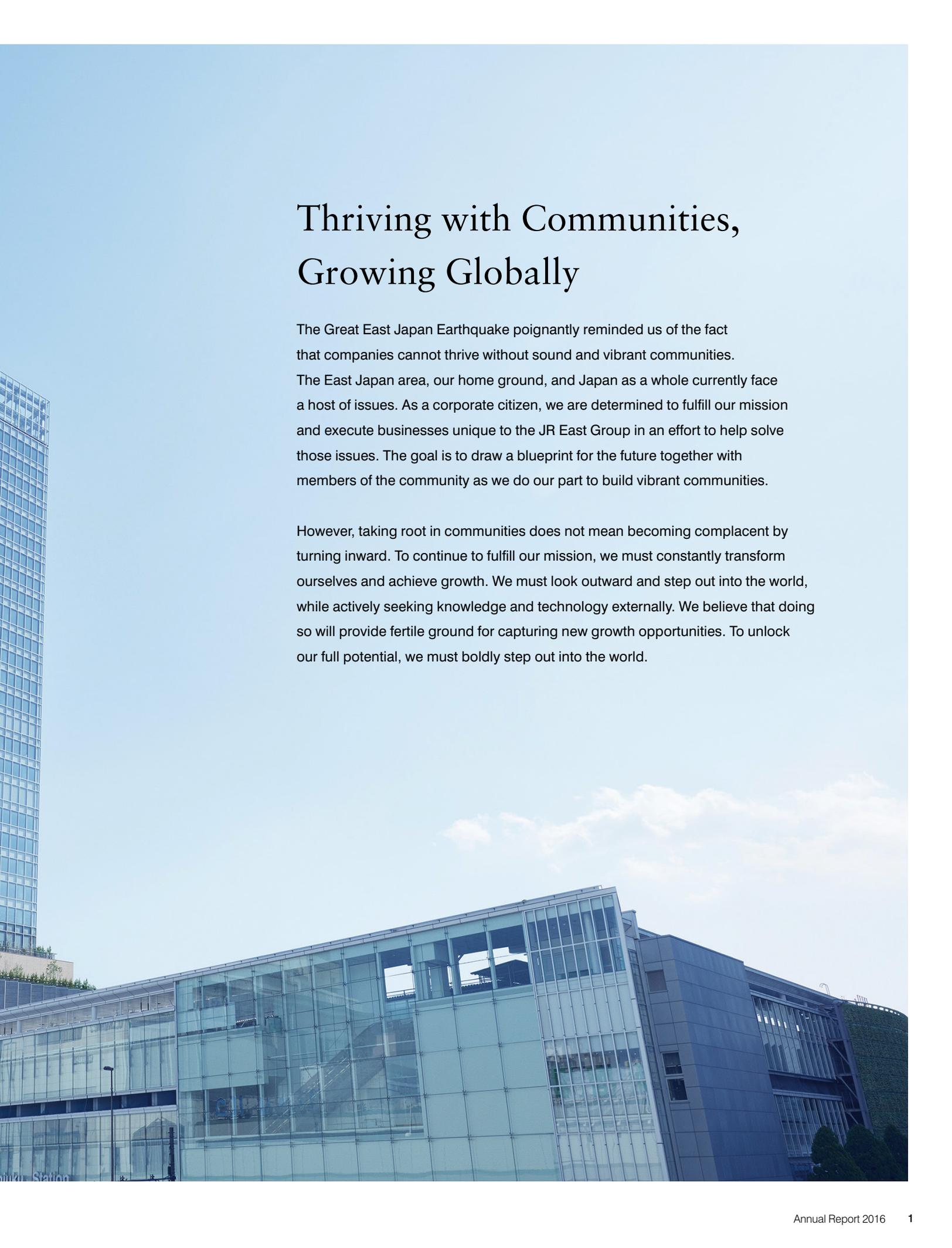
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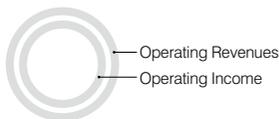
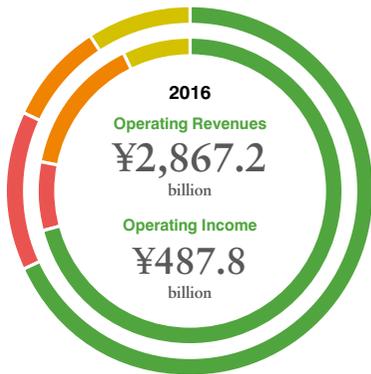
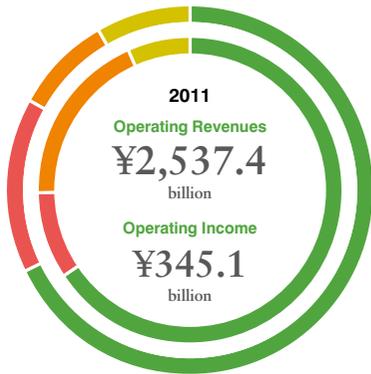
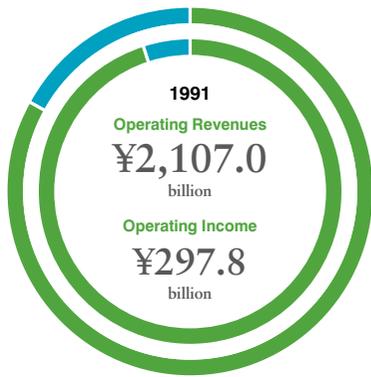


Thriving with Communities, Growing Globally

The Great East Japan Earthquake poignantly reminded us of the fact that companies cannot thrive without sound and vibrant communities. The East Japan area, our home ground, and Japan as a whole currently face a host of issues. As a corporate citizen, we are determined to fulfill our mission and execute businesses unique to the JR East Group in an effort to help solve those issues. The goal is to draw a blueprint for the future together with members of the community as we do our part to build vibrant communities.

However, taking root in communities does not mean becoming complacent by turning inward. To continue to fulfill our mission, we must constantly transform ourselves and achieve growth. We must look outward and step out into the world, while actively seeking knowledge and technology externally. We believe that doing so will provide fertile ground for capturing new growth opportunities. To unlock our full potential, we must boldly step out into the world.

Our History



April 1987
 Establishment of JR East

July 1992
 Launch of the Yamagata Shinkansen *Tsubasa* service

March 1997
 Launch of the Akita Shinkansen *Komachi* service

November 2001
 Launch of *Suica*

February 2002
 Launch of the *Station Renaissance* program with the opening of *atré Ueno*

March 2004
 Start of *Suica* electronic money service

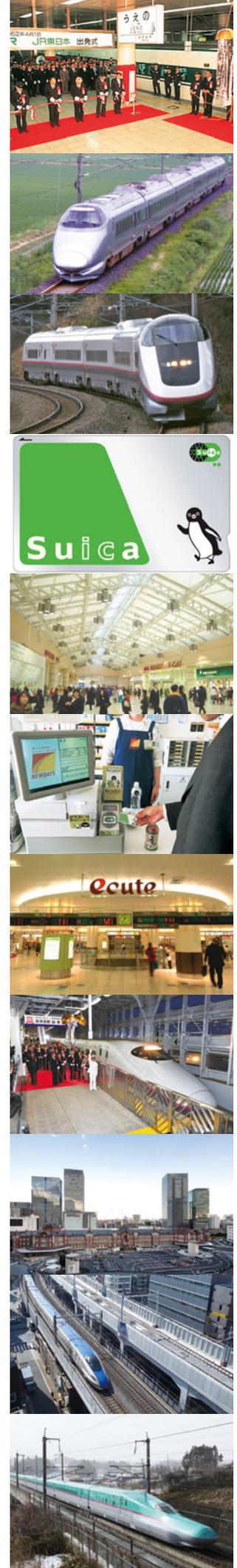
March 2005
 Opening of *ecute* Omiya

December 2010
 Opening of the Tohoku Shinkansen Line to Shin-Aomori

October 2012
 Grand reopening of the Tokyo Station Marunouchi Building

March 2015
 Opening of the Hokuriku Shinkansen Line to Kanazawa
 Opening of the Ueno-Tokyo Line

March 2016
 Opening of the Hokkaido Shinkansen Line to Shin-Hakodate Hokuto



Business Portfolio

-  Shinkansen (JR East)
-  Shinkansen (JR West)
-  Shinkansen (JR Hokkaido)
-  Conventional Lines (Kanto Area Network)
-  Conventional Lines (Other Network)

(As of June 2016)



Railway Transportation

- Railway Business, Bus Services, Railcar Manufacturing Operations

Growth drivers: Expansion and improvement of network, enhancement of transportation quality, and encouragement of tourism



Station Space Utilization

- Retailing, Restaurants in Stations

Growth drivers: Maximization of railway stations' value through creation of appealing commercial spaces and reinvigoration of regional industry



Shopping Centers & Office Buildings

- Shopping Center Operation, Office Leasing

Growth drivers: Development of large terminal stations and development of desirable line-side area brands



Others

- Advertising, Hotel Operations, Credit Card Business, etc.



Business Assets and Attributes

The JR East Group has many assets and attributes with significant potential as growth drivers. Our railway network is approximately 7,500 km in length and has roughly 1,700 railway stations. Further, our life-style service business operates stores and restaurants, and we boast many attractive line-side areas. Also, we operate safe, reliable train services every day and have the technology, expertise, experience, and other management resources needed to offer customers traveling on our network an array of everyday services. Further, since its launch in 2001 *Suica* has become an integral part of society's infrastructure. It is indispensable not only when using train services but also in a host of different day-to-day situations.

Risks and Opportunities

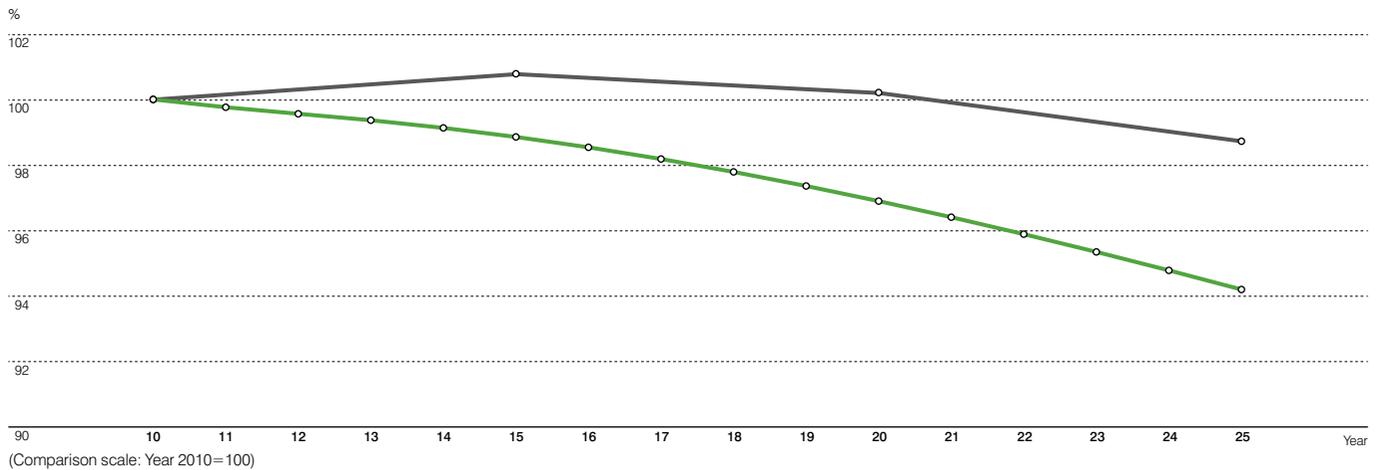
Changes in Business Conditions

In Japan, economic conditions promise to recover modestly as the employment market and personal income continue to improve and the benefits of government policies emerge. Over the medium-to-long term, Japan's population is expected to decline, age, and concentrate in cities at an accelerated pace. At the same time, technological innovation, globalization, and demand from visitors to Japan are likely to increase.

Japan's Demographics

In Japan, population decline and the population's concentration in cities will advance. Further, in eastern Japan the working-age population is decreasing. By 2020, the elderly will account for approximately 30% of Japan's population. These trends will significantly affect the businesses of the JR East Group, particularly its railway business.

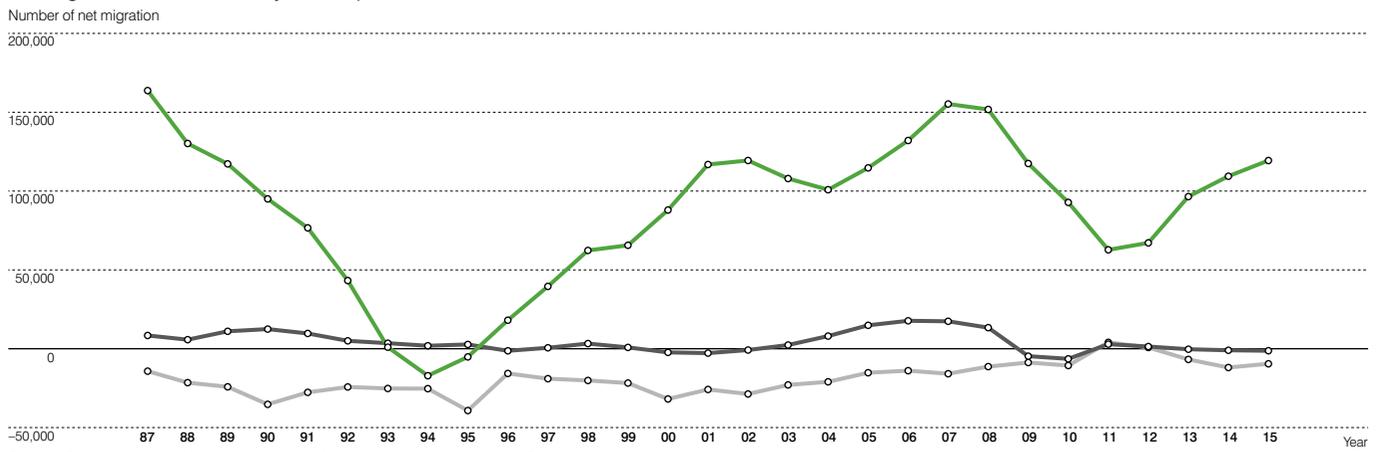
Total Population of Japan



Source: Population projection for Japan, National Institute of Population and Social Security Research, Jan. 2012.
Population projection for prefectures, National Institute of Population and Social Security Research, Mar. 2013.

— Nationwide (2012 estimate) — Tokyo metropolitan area (2013 estimate)

Net Migration in the Three Major Metropolitan Areas

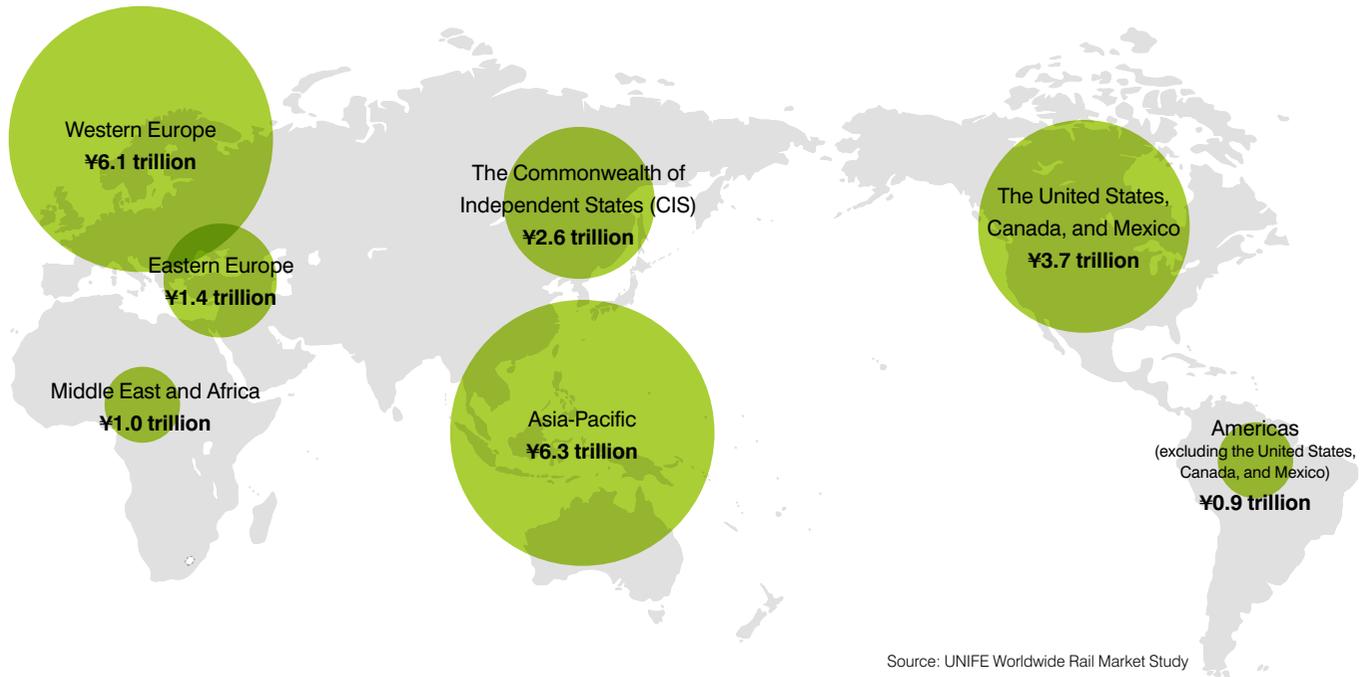


Source: Report on Internal Migration in Japan, Ministry of Internal Affairs and Communications, Apr. 2016.

— Tokyo metropolitan area — Nagoya metropolitan area — Osaka metropolitan area

Expansion of the Overseas Railway Market

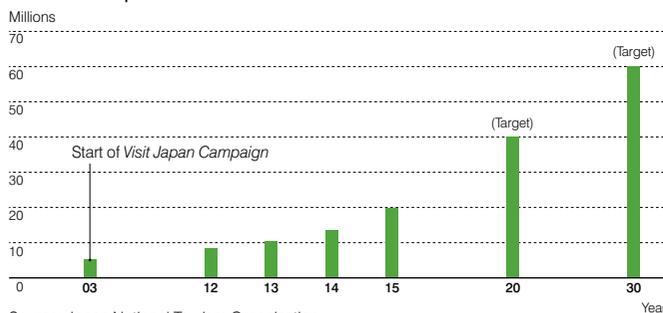
The overseas railway market is expected to see average annual growth of 2.5% and account for revenues ¥22 trillion by 2020.



Increase in Tourists Visiting Japan

In 2015, 19.7 million tourists visited Japan, up 47% year on year. Further, the government's "Council for the Development of a Tourism Vision to Support the Future of Japan" has set out as targets for the number of tourists visiting Japan of 40 million by 2020 and 60 million by 2030. Also, the council aims to increase spending by such tourists to ¥8 trillion by 2020 and ¥15 trillion by 2030.

Visitors to Japan



Competition with Other Companies

The JR East's railway business competes with other railway operators and other modes of transportation, such as aircraft, automobiles, and buses. Intensified competition in the transportation market arising from the advancement of large-scale improvement work by other companies in the Tokyo metropolitan area, an increase in low-cost airlines' routes, or lower expressway tolls could affect the earnings of the JR East's railway business.

Competition with Airlines

	Distance from Tokyo km	Time Required	JR Share %
Aomori	713.7	2:59	78
Akita	662.6	3:37	60
Morioka	535.3	2:10	100
Sendai	351.8	1:30	100
Yamagata	359.9	2:26	97
Niigata	333.9	1:37	100
Kanazawa	450.5	2:28	76

Note: Data shown here is as of March 31, 2016. Information concerning required time is according to the JR Time Table, June 2016 issue. Market shares of trains and flights are calculated based on the number of flight departures and arrivals at Haneda Airport. Approximate time required for trains is indicated using the maximum speed of a regularly-operated train from Tokyo.

Through the experience of the Great East Japan Earthquake, gained a real sense of our ties to local communities and the expectations of society

Eternal Mission

Pursuing “extreme safety levels”

Building a railway capable of withstanding natural disasters

Service quality reforms

Enhancing railway transportation networks and other measures

Strengthening collaboration with local communities

Supporting earthquake recovery, stimulating tourism, and revitalizing communities



Local
Communities
and Society

Customers

The JR

Thriving with Communities,

Our slogan for sustaining growth amid the volatility since the Great East Japan Earthquake

Pursuing Unlimited Potential

Technological innovation

Forging strategies for conserving energy and the environment, utilizing ICT (information and communication technology), and operating Shinkansen at faster speeds

Tackling new business areas

Globalization

Developing employees and creating a corporate culture that maximizes human potential

Sustained Growth



Shareholders and Investors

Employees

East Group

Growing Globally

Financial Highlights

East Japan Railway Company and Subsidiaries
Years ended March 31

	2006	2007	2008	2009	2010
Operating results					
Operating revenues	¥2,592,393	¥2,657,346	¥2,703,564	¥2,697,000	¥2,573,724
Operating expenses	2,196,293	2,229,248	2,258,404	2,264,445	2,228,875
Operating income	396,100	428,098	445,160	432,555	344,849
Profit attributable to owners of parent	157,575	175,871	189,673	187,291	120,214
Comprehensive income *1	N/A	N/A	N/A	N/A	N/A
Segment information					
Operating revenues from outside customers:					
Transportation	1,805,406	1,825,387	1,857,756	1,831,933	1,757,994
Station Space Utilization	383,904	399,998	404,006	415,020	387,104
Shopping centers & office buildings	190,466	197,140	205,347	222,628	226,932
Others	212,617	234,821	236,455	227,419	201,694
Total	2,592,393	2,657,346	2,703,564	2,697,000	2,573,724
Financial position					
Total assets	6,821,584	6,968,032	6,942,003	6,965,793	6,995,494
Interest-bearing debt	3,681,192	3,574,822	3,535,343	3,429,871	3,394,970
Shareholders' equity *2	1,357,359	1,488,554	1,596,398	1,718,587	1,780,584
Cash flows					
Cash flows from operating activities	447,722	541,850	475,601	584,360	479,180
Cash flows from investing activities	(309,489)	(348,800)	(400,789)	(396,796)	(391,682)
Cash flows from financing activities	(141,599)	(172,027)	(80,407)	(159,238)	(115,327)
Per share data *3					
Earnings	39,370	44,008	47,464	469	303
Shareholders' equity *2	339,599	372,493	399,483	4,301	4,501
Cash dividends *4	8,000	9,000	10,000	110	110
Ratios					
Profit attributable to owners of parent as a percentage of revenues	6.1	6.6	7.0	6.9	4.7
Return on average equity (ROE)	12.4	12.4	12.3	11.3	6.9
Ratio of operating income to average assets (ROA)	5.9	6.2	6.4	6.2	4.9
Equity ratio	19.9	21.4	23.0	24.7	25.5
Interest-bearing debt to shareholders' equity	2.7	2.4	2.2	2.0	1.9
Interest coverage ratio	3.2	4.2	3.8	4.8	4.2
Interest-bearing debt / Net cash provided by operating activities	8.2	6.6	7.4	5.9	7.1
Dividend payout ratio	20.3	20.5	21.1	23.5	36.3
Other data					
Depreciation	316,038	318,526	335,587	343,101	356,365
Capital expenditures *5	361,372	413,310	417,144	402,582	434,754
Interest expense	136,548	131,376	126,047	120,395	112,596
Number of consolidated subsidiaries (As of March 31)	86	85	82	82	73
Number of employees	72,802	71,316	72,214	72,550	71,854
Electric power: Independent (Billions of kWh)	3.5	3.4	3.5	3.5	3.4
Electric power: Purchased (Billions of kWh)	2.8	2.7	2.7	2.7	2.7

Average Stock Price*3
(Calculated quarterly using closing prices)



*1 Accounting Standard for Presentation of Comprehensive Income was adopted beginning the year ended March 31, 2011.

*2 Shareholders' equity equals total net assets less non-controlling interests beginning with the year ended March 31, 2007 (as in the balance sheets).

*3 JR East implemented a stock split at a ratio of 100 shares for 1 share of common stock with an effective date of January 4, 2009. Per share data for fiscal 2009 reflects the stock split.

*4 The total amount of dividends for the year ended March 31 comprises interim dividends for the interim period ended September 30 and year-end dividends for the year ended March 31, which were decided at the annual shareholders' meetings in June.

*5 These figures exclude expenditures funded by third parties, mainly governments and their agencies, which will benefit from the resulting facilities.

*6 Yen figures have been translated into U.S. dollars, solely for the convenience of readers, at the rate of ¥113 to U.S.\$1, the prevailing exchange rate at March 31, 2016.

Millions of Yen (except for Per share data, Ratios, Number of consolidated subsidiaries, and Number of employees)						YoY Change %	Millions of U.S. Dollars *6 (except for Per share data)
2011	2012	2013	2014	2015	2016	2016 / 2015	2016
¥2,537,353	¥2,532,174	¥2,671,823	¥2,702,917	¥2,756,165	¥2,867,200	4.0%	\$25,373
2,192,266	2,172,149	2,274,260	2,296,123	2,328,643	2,379,379	2.2%	21,056
345,087	360,025	397,563	406,794	427,522	487,821	14.1%	4,317
76,224	108,738	175,385	199,940	180,398	245,310	36.0%	2,171
73,644	109,304	197,740	214,632	229,293	217,419	-5.2%	1,924
1,721,922	1,705,794	1,809,554	1,827,467	1,852,040	1,954,588	5.5%	17,297
385,891	396,168	404,207	400,948	396,368	399,960	0.9%	3,540
223,293	229,637	238,945	251,070	254,997	255,979	0.4%	2,265
206,247	200,575	219,117	223,432	252,760	256,673	1.5%	2,271
2,537,353	2,532,174	2,671,823	2,702,917	2,756,165	2,867,200	4.0%	25,373
7,042,900	7,060,409	7,223,205	7,428,304	7,605,690	7,789,762	2.4%	68,936
3,433,010	3,340,233	3,307,483	3,288,401	3,275,523	3,241,979	-1.0%	28,690
1,809,355	1,874,404	2,030,666	2,180,633	2,285,658	2,442,129	6.8%	21,611
508,846	558,650	588,529	562,764	622,762	673,110	8.1%	5,957
(433,179)	(370,685)	(465,952)	(474,698)	(476,844)	(499,575)	4.8%	(4,421)
(27,512)	(152,428)	(101,151)	(91,367)	(86,636)	(110,266)	27.3%	(976)
193	275	444	507	459	626	36.4%	6
4,574	4,739	5,136	5,529	5,818	6,232	7.1%	55
110	110	120	120	120	130	8.3%	1
3.0	4.3	6.6	7.4	6.5	8.6		
4.2	5.9	9.0	9.5	8.1	10.4		
4.9	5.1	5.6	5.6	5.7	6.3		
25.7	26.5	28.1	29.4	30.1	31.4		
1.9	1.8	1.6	1.5	1.4	1.3		
4.8	5.5	6.2	6.3	7.6	8.8		
6.7	6.0	5.6	5.8	5.3	4.8		
57.1	40.0	27.0	23.7	26.1	20.8		
366,415	358,704	346,808	348,042	353,251	359,515	1.8%	3,182
425,835	370,199	480,717	525,708	522,127	541,949	3.8%	4,796
105,918	101,073	95,312	88,279	81,962	76,332	-6.9%	676
75	72	72	73	72	67		
71,749	71,729	73,017	73,551	73,329	73,053		
3.5	3.4	3.3	3.3	3.3	3.3		
2.6	2.4	2.6	2.6	2.6	2.5		



Long-Term Credit Rating

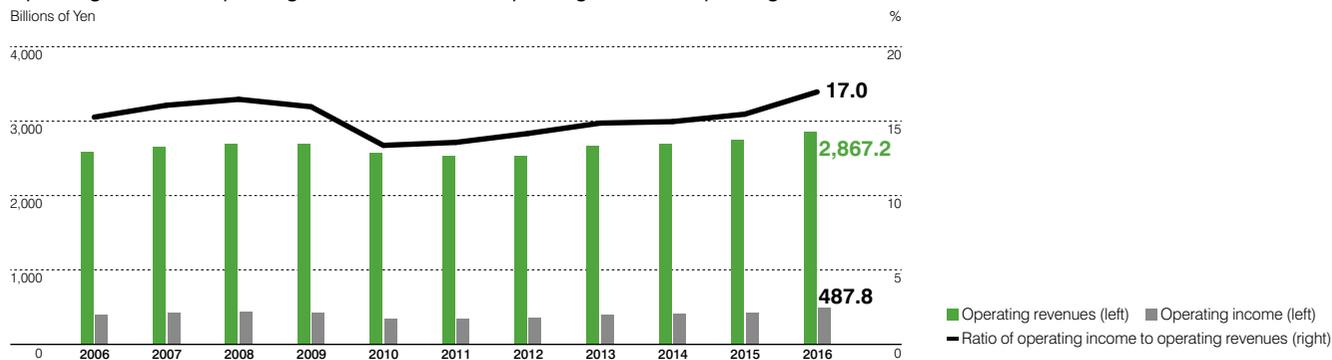
Rating agency	Rating
Moody's	Aa3 [Stable]
Standard & Poor's (S&P)	AA- [Stable]
Rating & Investment Information (R&I)	AA+ [Stable]

*7 Pursuant to an amendment of the Japanese Tax Law, from the year ended March 31, 2008, a depreciation method based on the amended Japanese Tax Law has been used for property, plant and equipment acquired on or after April 1, 2007. Further, for property, plant and equipment acquired on or before March 31, 2007, from the fiscal year following the fiscal year in which assets reach 5% of acquisition cost through the application of a depreciation method based on the Japanese Tax Law prior to amendment, the difference between the amount equivalent to 5% of the acquisition cost and the memorandum value (residual value under the amended Japanese Tax Law) is depreciated evenly over a five-year period and recognized in depreciation.

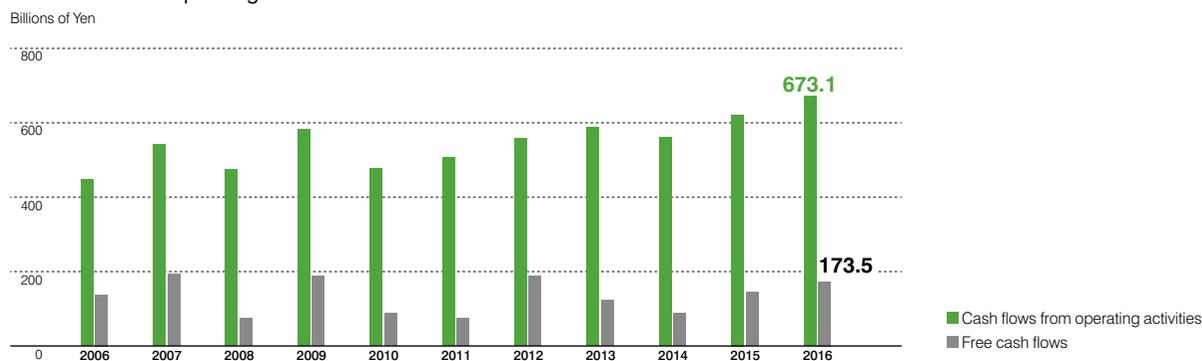
Selected Financial Data

East Japan Railway Company and Subsidiaries
Years ended March 31

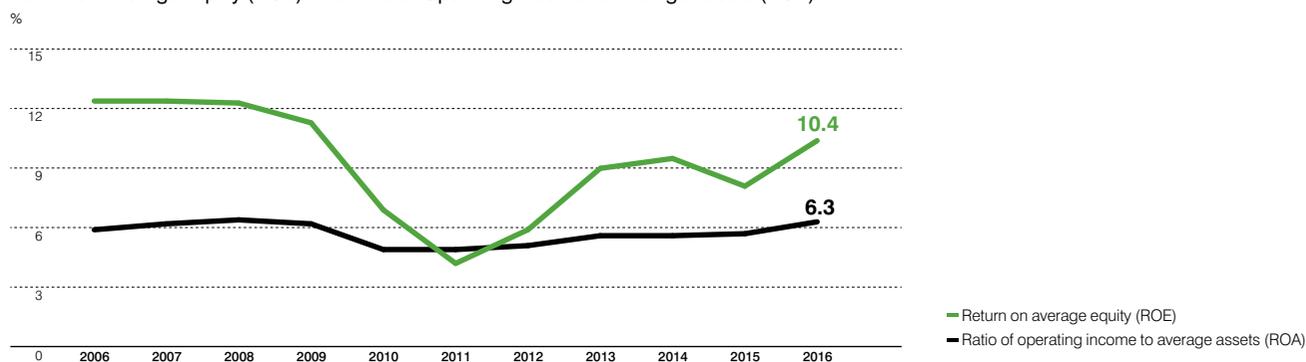
Operating Revenues, Operating Income, and Ratio of Operating Income to Operating Revenues



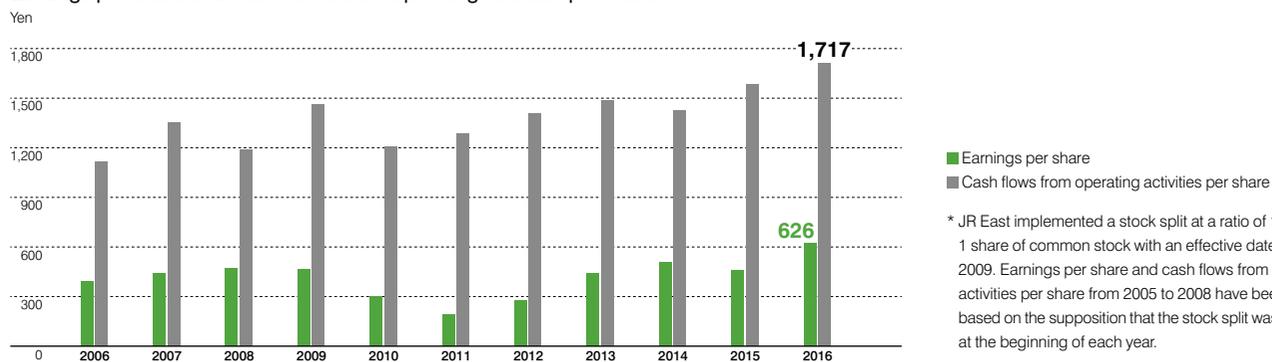
Cash Flows from Operating Activities and Free Cash Flows



Return on Average Equity (ROE) and Ratio of Operating Income to Average Assets (ROA)

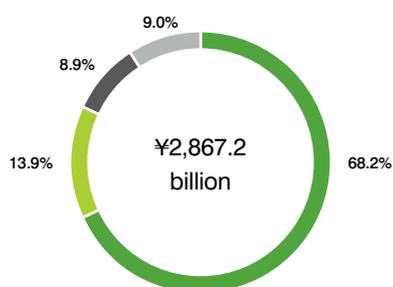


Earnings per Share and Cash Flows from Operating Activities per Share*



* JR East implemented a stock split at a ratio of 100 shares for 1 share of common stock with an effective date of January 4, 2009. Earnings per share and cash flows from operating activities per share from 2005 to 2008 have been calculated based on the supposition that the stock split was implemented at the beginning of each year.

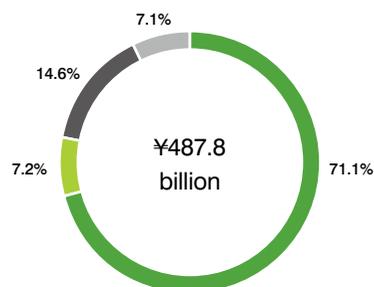
Operating Revenues



(For the year ended March 31, 2016)

■ Transportation ■ Station Space Utilization ■ Shopping Centers & Office Buildings ■ Others

Operating Income



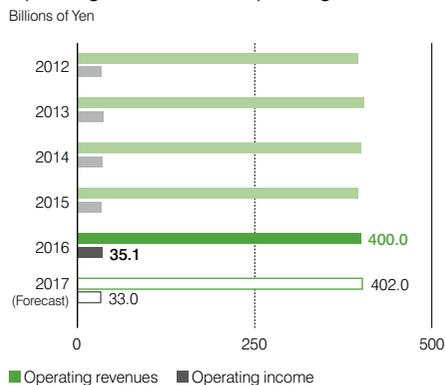
TRANSPORTATION

Operating Revenues and Operating Income



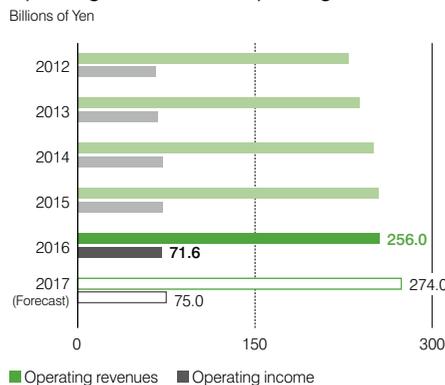
STATION SPACE UTILIZATION

Operating Revenues and Operating Income



SHOPPING CENTERS & OFFICE BUILDINGS

Operating Revenues and Operating Income



OTHERS

Operating Revenues and Operating Income



Principal Businesses

Retailing:

Retailing activities, such as kiosk outlets, convenience stores, and *ecute* shopping centers at railway stations and sales of snacks, drinks, and other goods inside trains

Restaurants:

Fast-food restaurants and a variety of other restaurants operated mainly at or near railway stations

Principal Businesses

Shopping Centers:

Development and leasing of space to retailers and other tenants in shopping centers at railway stations

Office Buildings:

Development and operation of buildings used primarily as office space

Principal Businesses

Suica:

Electronic money that enables rapid payment inside and outside railway stations

Hotel Operations:

Chain hotel businesses, including *Metropolitan Hotels* and *HOTEL METS*, operated as part of the JR East Hotel Chain

Advertising and Publicity:

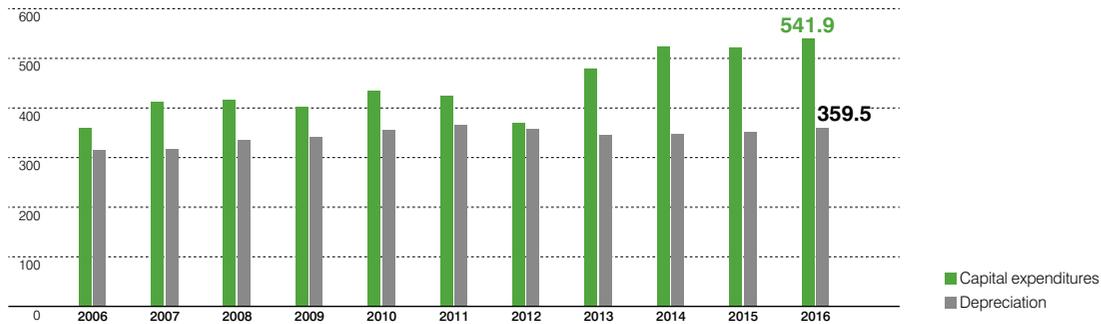
Advertising and publicity in railway stations and in and on railcars

Selected Financial Data

East Japan Railway Company and Subsidiaries
Years ended March 31

Capital Expenditures and Depreciation

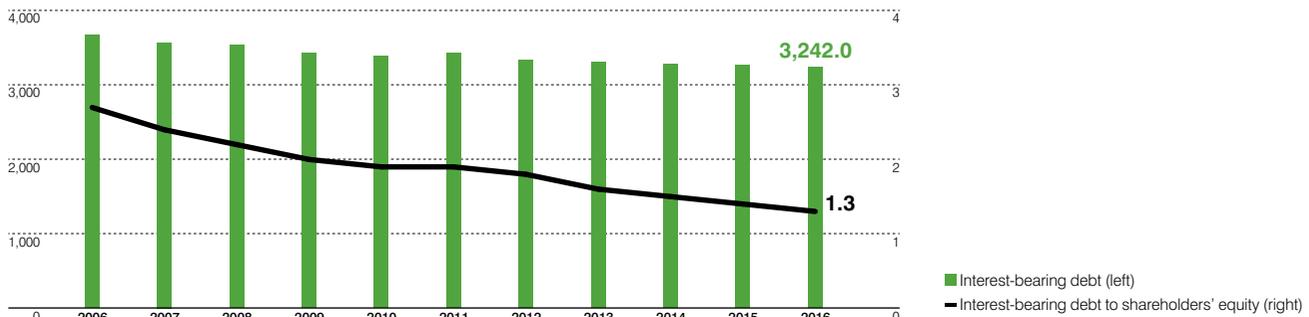
Billions of Yen



Interest-Bearing Debt and Interest-Bearing Debt to Shareholders' Equity

Billions of Yen

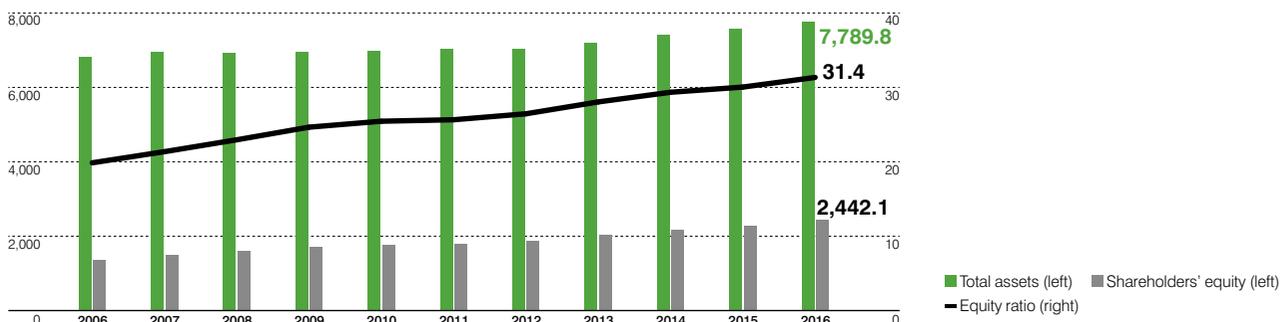
Times



Total Assets, Shareholders' Equity, and Equity Ratio

Billions of Yen

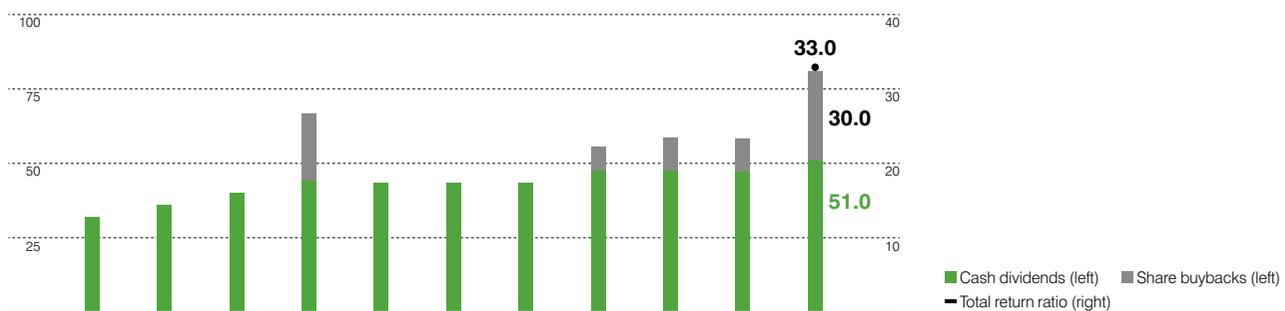
%



Cash Dividends, Share Buybacks, and Total Return Ratio

Billions of Yen

%





SATOSHI SEINO
Chairman

TETSURO TOMITA
President and CEO

Group Philosophy

The JR East Group aims to contribute to the growth and prosperity of the East Japan area by providing quality leading-edge services, with train station and railway businesses at its core, to customers and communities.

We will continue to embrace the challenge of pursuing “extreme safety levels” and service quality reforms. Through technological innovation and globalization, we will strive to attain goals such as nurturing personnel with an expansive perspective, spurring the advancement of railways, and making line-side areas more attractive and convenient. To this end, JR East will continue to rigorously pursue its unlimited potential.

We aim to grow continuously while meeting our social responsibilities as a Trusted Life-Style Service Creating Group.

We would like to thank our shareholders and other investors sincerely for their remarkable support.

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

As a result, during the fiscal year under review, operating revenues increased 4.0%, to ¥2,867.2 billion, and operating income increased 14.1%, to ¥487.8 billion, mainly due to growth in JR East's transportation revenues primarily from Shinkansen revenues. Further, mainly due to a decrease in interest expense, and profit attributable to owners of parent increased 36.0%, to ¥245.3 billion.

As employment and income conditions continue improving, the Japanese economy is expected to trend toward gradual recovery, in part due to the effect of various government initiatives. Medium-to-long-term projections include further decreases in population and further aging of society, concentration of population on the Tokyo metropolitan area, technological innovation, advances in globalization, and a rise in demand from tourists visiting Japan.

Amid these economic conditions, as it approaches the 30th anniversary of its establishment, the JR East Group faces a range of different "change points," such as the transition to the next generation of employees, the increasingly flat division of work with respect to which the JR East Group and partner companies share responsibilities and roles, and the operation of trains at higher speeds and the introduction of the direct-through operation of trains accompanying changes in systems.

To respond appropriately to these changes, in October 2012 the JR East Group formulated a management vision entitled "JR East Group Management Vision V—Ever Onward" and set forth a management policy for "Thriving with Communities, Growing Globally." Based on this, the Group has made efforts to meet the expectations of customers and local communities by fulfilling its "Eternal Mission" and taking on the ongoing challenge of "Pursuing Unlimited Potential." Every year, JR East has reviewed the progress under "Priority Initiatives Going Forward" and updated its initiatives. These are initiatives that JR East will work particularly hard to advance in the future with a view to accelerating the realization of "JR East Group Management Vision V—Ever Onward." This year, JR East will focus on improving the safety and reliability of transportation.

We will do our utmost to realize sustainable growth and satisfy our shareholders and other investors in the medium-to-long term. As we pursue this management goal, we would like to ask our shareholders and other investors for their continued support and understanding.

August 2016



Chairman



President and CEO

We will achieve tangible results by continuing concerted efforts focused on two important pillars: realizing our “Eternal Mission” and “Pursuing Unlimited Potential” in accordance with “JR East Group Management Vision V.”

Also, through the concrete action of each employee as well as teamwork, we aim to realize our commitment to “Thriving with Communities, Growing Globally.”



TETSURO TOMITA
President and CEO

Question 1

What is the JR East Group's approach to ensuring safe and reliable transportation?

- As we near our 30th anniversary, we will return to our starting point and through the actions of all Group employees build safety, our highest management priority.
- By focusing on the fundamentals—ensuring safety and enhancing the quality of railway transportation services—we want to give customers peace of mind based on assured safety.

Having reached the 30th year since our establishment, I think this is an appropriate point at which to reexamine where we stand. The aging of society and the concentration of the population in cities are becoming more marked. Further, Japan's overall growth potential is weakening. Meanwhile, a large wave of technological innovation, the so-called fourth industrial revolution, is approaching, and economic activities are globalizing. Given the unprecedented conditions that we are facing, I think we need to reconfirm fundamentals. At the same time, we have to respond to changing conditions and prepare for the future. Through to 2020 and beyond will be an extremely important period for the JR East Group.

Our starting point was the privatization of Japanese National Railways (JNR) almost 30 years ago. Recognizing that we are a private company providing public services in the form of train services and that the services we provide are technology-based, we will reexamine our current status. In these efforts, safety will be our highest management priority. Safety underpins everything we do, and I believe it is extremely important that each employee views safety as their responsibility rather than someone else's and performs all common tasks properly. With this in mind, we will establish systems for advancing measures to reinforce each employee's capabilities. Specifically, we need to conduct practical training rigorously and renew and increase training facilities. Further, I want to have individual employees understand the practical ramifications of each component of their jobs. To this end, we will revise teaching materials

with a view to explaining why certain procedures are needed, what would happen if they were not implemented, and what we have learned from past experience. In this way, I want to further cultivate professionalism and a strong awareness of safety among employees.

Increasingly, our operations are dependent upon the capabilities of partner companies and Group companies. In other words, the division of responsibility for operations is becoming increasingly horizontal. As a result, concerted efforts among JR East, Group companies, and partner companies to upgrade safety-related technological capabilities across the Group are critical. Therefore, personnel exchanges are needed at a range of different employee ranks. Further, I want to encourage open communication within the Group by sharing information on and discussing areas of danger and other risks. In addition, physical infrastructure measures are, of course, extremely important. For this reason, we are continuing seismic reinforcement work. However, new problems are arising due to such factors as the operation of Shinkansen at higher speeds. Responding to such problems calls for additional capital investment and the strengthening of aged facilities.

Raising safety to a level that gives customers peace of mind is an important theme. To give customers peace of mind based on assured safety, we will rigorously ensure that each employee conducts operations based on a commitment to pursuing ultimate safety levels, considering what they should do, and fulfilling their duties.

Question 1-2

What is your approach to enhancing safety and service quality?

When considering peace of mind based on assured safety, it is very important to think about how to heighten service quality. With meeting safety requirements as a major premise, we have to upgrade service quality. Every fall, we conduct a customer satisfaction survey. Looking at the results, compared with other railway operators in Japan, transportation reliability is our main weakness. I think railway station facilities, railcar facilities, and employees' attitude toward customers have improved to a certain level. However, customers evaluated us harshly and indicated

that we have significant scope for improvement with regard to transportation reliability, the provision of information to customers when transportation service disruptions occur, and the restoration of timetabled services following such disruptions.

The provision of reliable transportation services begins with each employee performing their duties properly. Since 2015, there has been a series of significant accidents and incidents that have led to transportation service disruptions. We will check whether we are consistently taking



preventive measures established in response to these accidents and incidents and reiterate the importance of preventive measures where necessary. These efforts will include JR East, Group companies, and partner companies. Specifically, we are implementing countermeasures based on lessons learned from past experience, including severed overhead wires, incinerated cables, and railcar and railcar door failures. However, we need to check again where problems actually remain and revise countermeasures accordingly. Also, to increase our ability to respond during transportation service disruptions, we need training based on specific scenarios. To minimize the effect of transportation service disruptions, we use contingency shuttle and alternative line operations. However, we have to enhance these measures even further. At the same time, through simulation training, we must hone our ability to provide customers with accurate guidance information in a timely manner.

I think our greatest responsibility and task is to meet the expectations of customers and give them peace of mind based on assured safety by increasing efforts aimed at ensuring safe and reliable transportation. We must satisfy fundamental requirements by ensuring safety and enhancing the quality of railway transportation services.

Question 2

What priority management measures will the JR East Group tackle?

- We aim to use the expansion of our railway network that has resulted from such initiatives as the opening of the Hokkaido Shinkansen Line, the extension of the Hokuriku Shinkansen Line, and the opening of the Ueno-Tokyo Line to grow inter-regional railway travel.
- In the life-style service business, we will accelerate the realization of projects with our sights set on the next five years as well as the coming decade.

As a private company, generating earnings is important. To grow earnings, we have to be hungrier and step up the pace of measures. In fiscal 2016, our business results were comparatively favorable. At times like these, complacency is a danger. Treating water lowers employee morale and saps a company's vitality. To grow amid today's dramatically changing business conditions, companies must aim for ambitious goals rather than preserve the status quo. Also, such goals contribute greatly to employees' job satisfaction. I want us to believe in our own potential and strengthen our appetite for taking on initiatives that will generate more earnings.

For example, we will take advantage of our high-speed railway network centered on Shinkansen service to create new passenger flows. In the first fiscal year following the extension of the Hokuriku Shinkansen Line, total passenger traffic, including airline passengers, between the

Tokyo metropolitan area and Kanazawa / Toyama rose approximately 1.6 times year on year, from approximately 5 million passengers to 8 million passengers. Initially, we set an ambitious target, seeking to increase total passenger traffic 2.0 times, to 10 million. In reality, however, total passenger traffic grew 1.6 times. Nonetheless, we are steadily nearing our goal. Rather than simply having customers use Shinkansen services instead of aircraft, our goal is to increase overall passenger flows, thereby invigorating regional economies and energizing local communities. Further, significant potential remains that we can unearth by promoting Toyama and Kanazawa as well as areas beyond these destinations, such as Fukui and the Noto Peninsula, and by encouraging passenger flows across a wide area that includes the surrounding prefectures, such as Niigata, Nagano, and Gifu. We are committed to working in

partnership with local communities to grow passenger flows with a view to boosting total passenger traffic between the Tokyo metropolitan area and the Hokuriku region to 10 million passengers.

Also, we want to increase passenger flows between the Tokyo metropolitan area and southern Hokkaido and between the Tohoku region and southern Hokkaido by exploiting the Hokkaido Shinkansen Line, which opened in March 2016. From Tokyo Station to Shin-Hakodate Hokuto Station takes about four hours. However, from Sendai Station to Shin-Hakodate Hokuto Station only takes roughly two and a half hours. In other words, by straddling the Tsugaru Straits, the Hokkaido Shinkansen Line has brought the Tohoku region and southern Hokkaido much closer together. We are keen to collaborate closely with local communities to create appealing new tourism routes, encourage tourism from overseas, and boost business activities. Not many visitors to Japan travel to the Tohoku region, but many of them visit Hokkaido. We believe that we can attract tourists from overseas to the Tohoku region by working with local communities to create new tourism routes. For example, we can encourage tourists from overseas who are visiting Hokkaido to use the Hokkaido Shinkansen and Tohoku Shinkansen lines to visit Aomori,

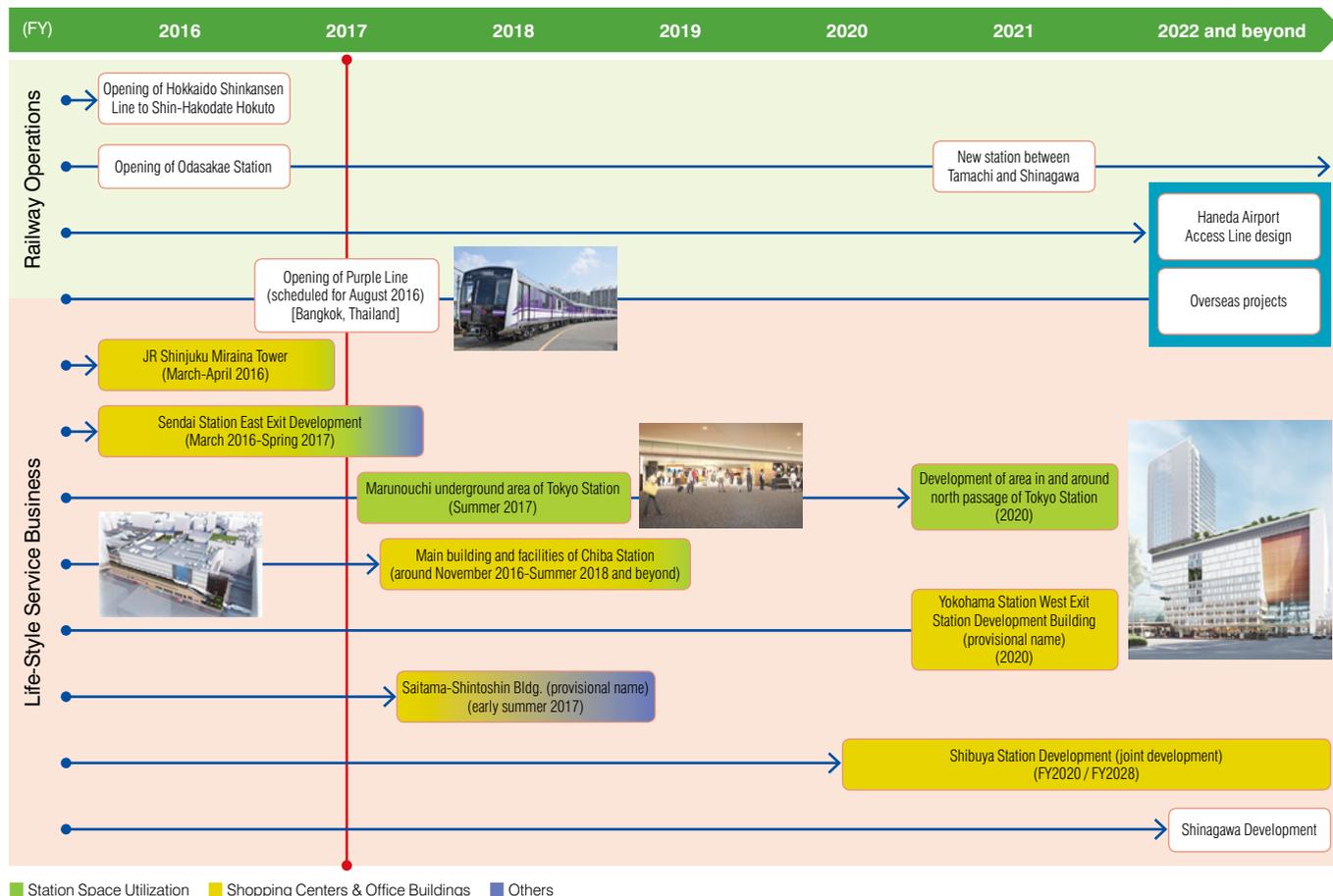
Morioka, Sendai, and Fukushima or Yamagata and Akita and return home via Tokyo. Another promising idea is a tourism route taking advantage of the newly privatized Sendai Airport to integrate air and land transportation services. Given the burgeoning potential of our high-speed railway network centered on Shinkansen services, we intend to develop it into a major source of earnings.

Further, revenues from conventional lines in the Tokyo metropolitan area are the mainstay of JR East, accounting for approximately two-thirds of its revenues from railways. Currently, as well as competition with other modes of transportation, competition between railway operators is becoming fiercer. In response, we aim to redouble efforts aimed at ensuring safe and reliable transportation so that customers choose our conventional line services. By achieving this goal, I believe we can increase passenger flows, even in the Tokyo metropolitan area, which is expected to see its working-age population and total population decline.

In addition, the life-style service business will play a significant role in growing revenues. Currently, businesses other than the railway business account for roughly one-third of the Group's revenues, or revenues of approximately ¥900.0 billion. Moreover, we plan to increase these

Major Projects Going Forward

(as of June 2016)





revenues. Until now, although we have described the railway business and the life-style service business as the two pillars of the Group, there has always been a sense of railways as the mainstay with life-style services in attendance. Going forward, however, we must aim for an era in which the life-style service business drives the growth of the railway business. With this in mind, we intend to make railway stations more appealing. In doing so, the surrounding towns will become more attractive, thereby generating new passenger flows. I think the life-style service business will play a major role in developing appealing railway stations, increasing passenger flows, and energizing towns. We have enhanced shopping centers, office buildings, hotels, and businesses inside railway stations considerably, but if we fail to do anything further customers will begin to lose interest. With our sights set five or 10 years ahead, we have to adopt fresh approaches to developing railway stations, the areas inside railway stations, shopping centers, office buildings, and hotels. Fortunately, our service area includes the Tokyo metropolitan area, which is a significant advantage, and I believe we will be able to rise to the challenge of capitalizing on the many business opportunities that this area offers. To put this another way, the life-style service business provides a wide range of opportunities for employees to realize their

capabilities. I would like such employees to welcome these opportunities, avoid complacency, and become more ambitious. Already, we are redeveloping Tokyo, Shinjuku, Shibuya, Yokohama, Chiba, and Sendai stations. However, we aim to accelerate such efforts and create further appealing spaces.

One of the JR East Group's major roles is to energize towns and invigorate local communities by combining the railway and life-style service businesses to increase passenger flows while heightening the appeal of railway stations. By sharpening our appetite for establishing additional revenue sources, I want to vitalize local economies and have local communities feel that their regions are becoming energized. We should have high aspirations as we tackle initiatives for local communities and feel privileged that we have the opportunities to do so. I think our employees find benefiting the public makes their work enjoyable and rewarding. Therefore, I trust that all employees will make a concentrated effort to realize our ambitions.

Question 3

What are the Group's management strategies for growth?

- We aim to post operating revenues of approximately ¥3,000.0 billion and operating income of ¥500.0 billion in fiscal 2019.
- Our target for total consolidated cash flows from operating activities between fiscal 2017 and fiscal 2019 is approximately ¥2,000.0 billion. Of this, we will allocate ¥1,600.0 billion to capital investment. We intend to pay stable cash dividends and maintain a flexible policy on share buybacks. Also, aiming to strengthen our financial position, we will steadily move toward our goal of reducing consolidated interest-bearing debt to ¥3,000.0 billion during the 2020s.

As significant targets for the coming three fiscal years, we aim to achieve operating revenues of ¥2,967.0 billion and operating income of ¥498.0 billion by fiscal 2019. We will maintain ROA at the current level of 6% and ROE at the current level of 10%.

Over the coming three fiscal years, we will generate total consolidated cash flows from operating activities of approximately ¥2,000.0 billion, of which ¥1,600.0 billion is earmarked for capital investment. We want to realize a total return ratio target of 33% by continuing to pay stable cash dividends and using surplus funds to buyback and cancel shares. We also want to reduce consolidated interest-bearing debt from the present level of approximately ¥3,200.0 billion to ¥3,000.0 billion during the 2020s. Although interest rates are unprecedentedly low or even negative, we cannot predict interest rates. Therefore, we will adhere to our existing approach of steadily reducing debt.

Anticipating the use of cash flows five years, 10 years, and further ahead is paramount. Of the ¥1,600.0 billion we have earmarked for capital investment, we will invest roughly ¥1,000.0 billion in maintenance and renewal. Further, we want to invest ¥600.0 billion of this amount in measures aimed at ensuring safe and reliable transportation, including seismic reinforcement measures, safety measures for platforms and railway crossings, and disaster countermeasures. Also, during the next three fiscal years plans call for approximately ¥600.0 billion of growth investment, which will cover such initiatives as redeveloping railway stations and introducing new railcars. Given that we expect consolidated cash flows from operating activities to be comparatively plentiful for some time to come, we want to use them in effective, farsighted ways that will facilitate business management going forward.

We have set targets for revenues and earnings at conservative levels because the economic outlook for Japan remains uncertain in some respects. Further, we plan to control costs steadily. Each year roughly 3,000 employees will retire, which will reduce personnel expenses. On the other hand, we face the problems of how to increase efficiency and how to compensate for a shortage of manpower. We intend to respond to the problem of growing numbers of retirees by increasing productivity through technological innovation, outsourcing operations, and utilizing Group companies and partner companies. While personnel expenses are decreasing, outsourcing expenses are rising slightly. Despite this increase, we are confident that we can reduce total personnel expenses and outsourcing expenses steadily. Although we have set a conservative target for revenues, I think that we will be able to generate stable operating income by controlling costs steadily. In-house, I am urging employees to aim higher because the revenue target represents the lowest limit. In addition, I am calling on the life-style service business to increase its pace of development. This is a challenge because there are significant time restrictions on work conducted at busy railway stations in the Tokyo metropolitan area and other railway stations that large numbers of customers use. Nonetheless, I would like to bring forward development initiatives as much as we can.

Question 4

Can you please outline the Group's long-term vision for growth after 2020?

- Aiming to capture demand from visitors to Japan, we will publicize the Tohoku and Joshinetsu regions.
- We will collaborate with region municipal authorities to contribute to town development centered on railway stations.
- We will incorporate open innovation to advance technological innovation.
- We aim to be a corporate group in which diverse personnel can realize their capabilities and play important roles.

I would like to begin with tourism. Developing tourism into a robust growth industry has become a national mission in Japan. We will step up initiatives aimed at encouraging more tourists to visit the Tohoku and Joshinetsu regions and energize local communities through tourism. The government aims to attract 40 million visitors to Japan by 2020 and 60 million by 2030. Moreover, the government has set out targets for spending by visitors to Japan of ¥8,000.0 billion by 2020 and ¥15,000.0 billion by 2030. With a view to regional revitalization, I think we should attract some of this large number of tourists from the Tokyo–Kyoto–Osaka route to the Tohoku and Joshinetsu regions. As well as forming these efforts into a major pillar of our operations, I believe such efforts aimed at regional revitalization are a role we should fulfill.

Currently, efforts to attract tourists from overseas to the Tohoku region are gathering a great deal of momentum. For example, the region's six prefectures are planning to conduct a joint promotional campaign targeting tourists from overseas. This initiative began at a symposium aimed at

revitalizing the Tohoku region through tourism, which was held in April 2016 in Sendai and attended by the governors of the Tohoku region's six prefectures. We want to play an active role in supporting such efforts. The Tohoku region has many hidden tourism resources. We will unearth appealing tourism resources with which even Japanese people are unfamiliar and that showcase history and culture, hot springs, cuisine, and nature and then develop and publicize them. Through such efforts, I believe we can further realize the Tohoku region's significant potential. *TRAIN SUITE SHIKI-SHIMA*, a luxury sleeper and cruise train, will begin operations in May 2017. I want to exploit train services such as this to distribute information about new tourism resources on the sightseeing routes that they follow.

Next, we will expand the life-style service business in areas beyond railways. In the Tokyo metropolitan area, we will proceed with development on the former site of the JR Shinagawa Depot railway yard. By downsizing the railway yard between Shinagawa and Tamachi stations, we will free up for development a 13-hectare plot of land, equivalent to half of the railway yard's original area. Our goal is to develop this prime downtown location into a new gateway that welcomes the world to Tokyo, Japan, and Asia. As for regional initiatives, we are proceeding with development in Sendai. Also, I think we need to revitalize other core regional cities and their railway stations, including Akita, Aomori, and Niigata, by advancing town development centered on railway stations. I am confident that we can bring new vitality to cities by collaborating with regional municipal authorities' efforts based on the "compact cities" concept and helping to concentrate the development of not only shopping centers, offices, and hotels but also medical, childcare, nursing care, university, and cultural facilities around railway stations.

In addition, technological innovation is important for the Group's growth and employee motivation. Railways still have abundant scope for technological innovation, and I want to realize this potential. Currently, the applications for ICT (information and communications technology) are increasing steadily. No exception to this trend, we plan to use ICT to enable completely novel approaches to maintenance. For example, using wireless train control systems such as ATACS (Advanced Train Administration and Communications System) enables us to minimize



signaling equipment, communications equipment, and other ground equipment, thereby reducing maintenance and costs. Another example is the use of big data and the Internet of Things (IoT). We need to use the IoT to collect online data about the status of railcars, railway tracks, and electrical facilities so that we can identify failure precursors. This will allow us to prevent accidents and increase efficiency by conducting condition-based maintenance, which entails timing maintenance optimally in light of the condition of target facilities. In addition, we want to make more use of sensor-based technology and monitoring technology to facilitate disaster countermeasures and the safety of platforms and railway crossings. Using such technology will enable us to detect earthquakes earlier, identify suspicious persons, take terrorism countermeasures, and identify signs of landslides rapidly. Further, we will advance technological development in relation to countermeasures for gusts of wind that incorporate Doppler radar. Such technological innovation will reduce accidents, strengthen disaster countermeasures, and heighten safety. In other fields, given the progress in developing hydrogen batteries and fuel cells that power automobiles, the development of fuel cells for trains is a natural progression I think. As for energy resources, we are already developing wind and solar power generation and other renewable energy sources, and we plan to move forward with technological innovation in this field. Further, I believe we can use robots to clean railway stations and provide customers with guidance information. In particular, robots are an effective way of compensating for manpower shortages and increasing productivity. Focusing on this range of initiatives, we are having in-house discussions about accelerating efforts and setting out targets and timeframes with a view to preparing plans. Establishing targets and timeframes and proceeding with technological innovation is absolutely essential I feel. We have many young, ambitious employees. Therefore, I would like to incorporate open innovation and work with outside manufacturers in Japan and overseas as well as universities to drive technological innovation forward. I want to make such initiatives the third pillar of our operations.

Lastly, personnel are indispensable to the JR East Group. We aim to create a workplace culture that enables the Group's various talented personnel to fully realize their potential. With this in mind, we must create conditions conducive to taking on new challenges. We will cultivate a proactive culture in the Group by continuing to seek new overseas projects in such areas as high-speed railways and urban railways. Due to the nature of their business, railway operators tend to be inward looking. Consequently, it is important for us to expand our horizons and transform our culture by developing initiatives to grow revenues based on promoting tourism, tackling technological innovation, and participating in overseas projects. Specifically, we will develop personnel who are able to work internationally by sending more than 600 employees a year overseas to study under short- and long-term programs or to receive a range of on-the-job training. By continuing such initiatives we intend to foster personnel with global, outward-looking viewpoints and become a

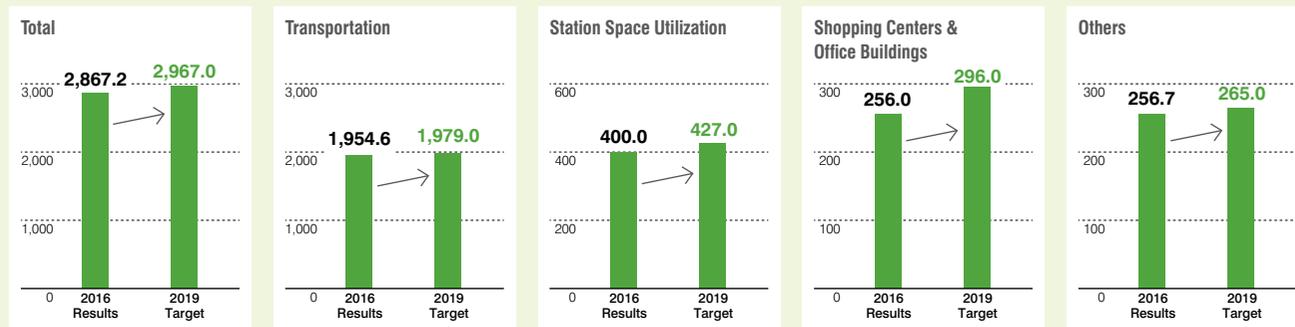
corporate group that can take advantage of these attributes. Further, with a focus on female employees and promoting diversity, we will encourage a variety of different personnel to play important roles in our organization. The percentage of female employees in JR East has risen to 11%, and female employees account for approximately 30% of new recruits. Moreover, we have more than 400 female managers. Thus, female employees make a major contribution to our operations. I have said this before, however, given that half of our customers are women, we definitely need to reflect women's viewpoints in our business management. Therefore, I want to see female employees playing important roles in an even broader range of workplaces.

Beyond 2020—when initiatives in the life-style service business and overseas projects will have expanded our business area—will be a good time to change as a company and as an organization. However, our fundamental commitment to giving customers peace of mind based on assured safety through efforts to ensure safety and enhance service quality will remain unchanged. Exploiting an expanded railway network, we will take measures to increase inter-regional railway travel while promoting tourism and developing towns to energize local communities. Also, we will give priority to tackling overseas projects, technological innovation, and personnel development as we step up efforts to pursue our unlimited potential.

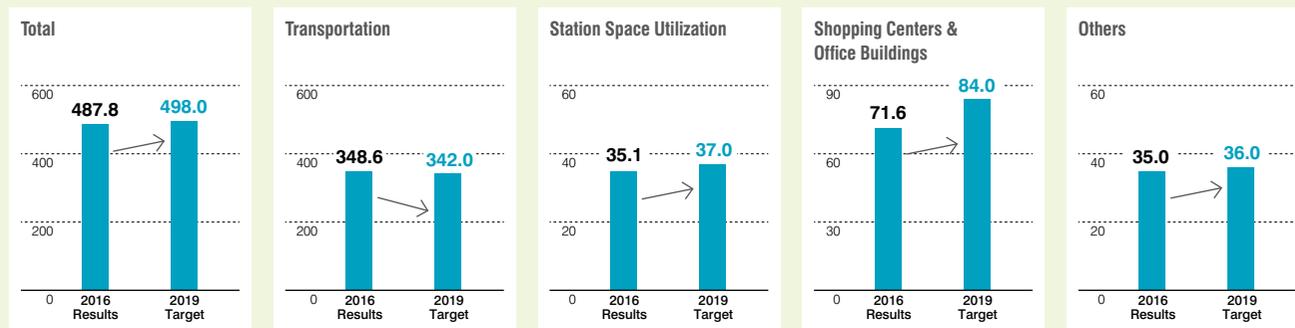
Shinagawa Development Project



Consolidated Operating Revenues Billions of Yen (Years ended / ending March 31)



Consolidated Operating Income Billions of Yen (Years ended / ending March 31)



Consolidated ROA (Ratio of operating income to average assets)

Fiscal 2016 Results **6.3%** → At the end of fiscal 2019 **Around 6%**

Consolidated ROE (Return on average equity)

Fiscal 2016 Results **10.4%** → At the end of fiscal 2019 **Around 10%**

Uses of Consolidated Cash Flows

	Targets	Fiscal 2017
Consolidated cash flows from operating activities	Approx. ¥2.0 trillion (Three-year total to fiscal 2019)	
Capital expenditures	Approx. ¥1.6 trillion (Three-year total to fiscal 2019)	¥520.0 billion*<!--1</b-->
Investment needed for the continuous operation of business (Safety practice and transportation stability)	Approx. ¥1,000.0 billion (Approx. ¥600.0 billion)	¥342.0 billion
Growth investment	Approx. ¥600.0 billion	¥178.0 billion
Shareholder returns	[Medium- to long-term target] 33% total return ratio (to profit attributable to owners of parent)	¥130/share dividend Share buybacks**2
Debt reduction	(During the 2020s) ¥3.0 trillion interest-bearing debt balance	Reduce interest-bearing debt Around ¥30.0 billion

*1 In addition, priority budget allocation maximum of ¥30.0 billion from the deposit balance on March 31, 2016 (capital expenditures of approximately ¥550.0 billion in total)

**2 Share buybacks of maximum 3.3 million shares or ¥30.0 billion (April 28 to July 29, 2016)

JR East Group Management Vision V—Ever Onward: Priority Initiatives Going Forward

With continued fulfillment of its “Eternal Mission,” including the safety and reliability of transportation, and sustaining growth by “Pursuing Unlimited Potential” positioned as the two important management pillars of the Group, JR East has set out the six basic policies below.

Eternal Mission

KIWAMERU (Excel):
Pursuing
“extreme safety levels”

MIGAKU (Improve):
Service quality reforms

TOMO NI IKIRU (Together):
Strengthening
collaboration with local
communities

1. Advance “Group Safety Plan 2018” steadily

- Advance concrete measures that reflect the basic approach of “Group Safety Plan 2018,” including renewal of facilities and revision of educational materials aimed at practical safety education and training
- Advance measures aimed at “prevention of recurrence of incidents” and “prevention through understanding of risks and weaknesses” in response to such incidents as the collapse of an electrical pole on the Yamanote Line
- Improvement of technical capabilities as a Group in collaboration with Group companies and partner companies
- Implement rigorous accident prevention measures (tangible and intangible) reflecting the lessons from the derailment accident in Kawasaki Station

2. Build a railway capable of withstanding natural disasters

- Expect to complete approximately 80% of the planned seismic reinforcements by the end of fiscal 2017
- Properly renew aging facilities such as structures, track equipment, and station buildings

1. Advance the “Medium-term Vision for Service Quality Reforms 2017”

- Prevent transportation service disruptions including through the advancement of countermeasures for natural disasters and enhancement of security
- Minimize the impact of transportation service disruptions, respond to customers rapidly, and resume operations as soon as possible following disruptions
- Enhance information provision and support that use ICT and other technologies through such measures as increasing the number of lines covered by services providing information on the operational status of trains

2. Promote usage of the Hokuriku Shinkansen Line and the Hokkaido Shinkansen Line

- Promote usage of the Hokuriku Shinkansen Line and the Hokkaido Shinkansen Line by advancing the development of destination-driven tourism and establishing inter-regional sightseeing routes

- Review business schemes including through the development of a specific plan for a Haneda Airport Access Line

1. Steadily promote the three approaches to town development

- Establish the brand power of and improve the convenience of Shinagawa and other large-scale stations

>> 02

- Promote the line-side brand appeal of railway lines including through promotion of the *Chuo Line Mall Project* and the *HAPPY CHILD PROJECT*

- Develop towns around Akita and other core train stations in regional areas in collaboration with local municipal authorities and other bodies

2. Revitalize local industries

- Expand sales of local products in Tokyo metropolitan area and improve trend-setting capabilities
- Promote the *sextic industrialization* of agriculture, fishing, and forestry including through the *NOMONO 1-2-3 Project*

3. Promote Japan as a tourism-oriented nation

- Create appealing trains that are ridden for the ride experience itself
- Prepare for introduction of the *TRAIN SUITE SHIKI-SHIMA* cruise train

Pursuing Unlimited Potential

HIRAKU (Pioneer): Technological innovation

1. Promote energy and environmental strategies

- Introduce catenary and battery-powered hybrid railcars to alternating current (AC) segments
- Transform the northern Tohoku region into a renewable energy base (solar power, wind power, geothermal power, biomass)

2. Utilize ICT to innovate operations

- Innovate maintenance operations including through the introduction of monitoring devices to model line segments
- Build new sales systems through such initiatives as the establishment of capabilities for selling View travel products online
- Innovate the transportation system through the introduction of wireless train control systems

3. Advance technological innovation

NOBIRU (Grow): Tackling new business areas

1. Take on the challenge of overseas projects

- Advance operations for the Purple Line urban mass transit railway system in Bangkok, Thailand
- Expand technological support provided to and other measures for railway operators in Indonesia and Myanmar
- Advance initiatives aimed at participation in overseas high-speed rail projects
- Market *sustina* stainless-steel railcars proactively and win orders for railway projects
- Develop the life-style service business overseas

2. Incorporate outstanding technologies and services from outside the Company

HABATAKU (Empower): Developing employees and creating a corporate culture that maximizes human potential

1. Provide further growth opportunities to motivate employees

- Enhance open-application programs for personnel transfer and training
- Strengthen the development of global human resources through the continued development of a diverse overseas assignment program
- Promote diversity

2. Promote cohesive Group management

- Establish "Group Stretch Targets"
- Expand and improve *JRE POINT* as a common service throughout the JR East Group

3. Reform the work style and streamline organizational management

◆ Initiatives in preparation for Tokyo 2020 Olympic and Paralympic Games*

- Enhance stations and other facilities near game venues and, during events, reinforce transportation capacity
- Promote barrier-free environments through such measures as installing more lifts and multi-functional restrooms

◆ Advance strategies for visitors to Japan

- Increase the profile of the Tohoku area through collaboration with Tohoku Tourism Promotion Organization and other organizations
- Capture demand from non-Japanese tourists on a Group basis by increasing and improving stores that offer duty-free shopping services
- Establish an environment that accommodates the needs of visitors to Japan and increase convenience through such measures as increasing the number of and improving tourism centers for visitors to Japan

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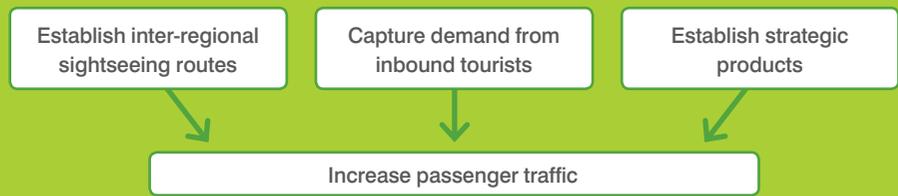
* East Japan Railway Company is an Official Passenger Rail Transportation Services Partner of the Tokyo 2020 Olympic and Paralympic Games.

Feature: Priority Initiative 01

Railway Network Expansion

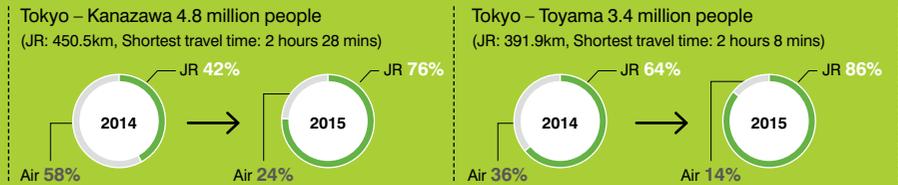


Following on from the March 2015 opening of the Hokuriku Shinkansen Line from Nagano to Kanazawa, March 2016 saw the opening of the Hokkaido Shinkansen Line. JR East will take full advantage of this expanded railway network to increase railway use even further.



Total Passenger Traffic between the Tokyo Metropolitan Area and Kanazawa / Toyama

In the first fiscal year following the extension of the Hokuriku Shinkansen Line, fiscal 2016, total passenger traffic (including airlines) between the Tokyo metropolitan area and Kanazawa / Toyama increased approximately 1.6 times year on year.



* Between Joetsumiyoko and Kanazawa section lies within the area of JR West

Opening of the Hokkaido Shinkansen Line to Shin-Hakodate Hokuto

In March 2016, to coincide with the opening of the Hokkaido Shinkansen Line from Shin-Aomori to Shin-Hakodate Hokuto, which JR Hokkaido operates, JR East began direct services between the Tohoku Shinkansen Line and the new Shinkansen line. As a result, the shortest journey between Tokyo and Shin-Hakodate Hokuto takes 4 hours and 2 minutes, and the shortest journey between Sendai and Shin-Hakodate Hokuto takes 2 hours and 30 minutes.

Aiming to increase passenger flows between the Tokyo metropolitan area, the Tohoku region, and Hokkaido, the entire JR Group will attract

tourists by holding the *Aomori Prefecture and Hakodate Destination Campaign* from July to September 2016. Moreover, plans call for exploiting the Hokkaido Shinkansen Line to increase passenger flows between the Tohoku region and Hokkaido. Further, low-cost carriers (LCCs) began flying to Sendai Airport, following its privatization in July 2016. We will exploit this development in combination with the new Hokkaido Shinkansen Line to generate even more interest and passenger flows.

JR East-South Hokkaido Rail Pass

JR East and JR Hokkaido have launched the *JR East-South Hokkaido Rail Pass*, using the opening of the Hokkaido Shinkansen Line as an opportunity to encourage visitors to Japan to enjoy wide-ranging sightseeing. The rail pass enables discount travel on Shinkansen and limited express services in JR Hokkaido's service area—southern Hokkaido, including Sapporo, Hakodate, and the New Chitose Airport—and JR East's service area, which comprises eastern Japan and includes the Tohoku region. Based on such discount tickets, we will step up collaborations with local communities to promote wide-ranging sightseeing routes.



JR East-South Hokkaido Rail Pass poster

Benefits of Extending the Hokuriku Shinkansen Line

The opening of the Hokuriku Shinkansen Line from Nagano to Kanazawa in March 2015 has reduced travel time between Tokyo and Kanazawa significantly, from 3 hours and 51 minutes to 2 hours and 28 minutes (from Tokyo to Kanazawa).

In fiscal 2016, the extension of the Hokuriku Shinkansen Line added ¥45.5 billion to passenger revenues year on year. This contribution

mainly reflected increased passenger flows not only between the Tokyo metropolitan area and the Hokuriku region but also between the Hokuriku region and areas outside the Tokyo metropolitan area, such as the Joshinetsu and Tohoku regions, and favorable usage of *GranClass* and *Green Car* services.

Sales Initiatives in the Second Year since the Extension of the Hokuriku Shinkansen Line

From March to September 2016, the JR East Group is collaborating with JR West to conduct a campaign marking the first anniversary of the extension of the Hokuriku Shinkansen Line. We hope this campaign will offset a year-on-year dip in passenger numbers expected during this period due to the absence of *Zenkoji Gokaicho**, which was held in April and May 2015. Following on from the first anniversary campaign, we will roll out a continuous series of sales initiatives, including the *Hokuriku After Destination Campaign* in the fall and the *Japanese Beauty Hokuriku Campaign* in the winter. In conjunction with these initiatives, we will establish products aimed at increasing use of wide-ranging sightseeing routes that include *View Buses*, and we plan to develop new wide-ranging sightseeing routes.

* A special event held every seven years in Zenkoji Temple in Nagano.



The logo of the campaign marking the first anniversary of the extension of the Hokuriku Shinkansen Line

Feature: Priority Initiative 02

Shinagawa Development Project



Under the Shinagawa development project, JR East has scheduled the provisional opening of a new railway station between Tamachi and Shinagawa stations for 2020 and the unveiling of a new town around 2023 or 2024.

Basic Summary of Town Development of the Shinagawa Development Project

The Shinagawa development project is one of the largest development initiatives in Japan. The project has a site that covers roughly 130,000 square meters, and will create around 1,000,000 square meters of floor space. We are passionate about developing a new type of town that symbolizes Japan's openness to the world. The investment will total approximately ¥500.0 billion, and while the development will include hotels, commercial facilities, and cultural facilities, it will mainly be comprised of offices and condominiums.

In April 2016, the town plan, which the JR East Group prepared in collaboration with other parties, received approval from the Prime Minister of Japan as a zone plan of a national strategic special zone. Further, under this project, based on the Global Gateway Shinagawa concept, JR East will develop a town that enables innovative, internationally appealing companies and personnel to gather and create new businesses and cultures through diverse exchanges.



Global Gateway Shinagawa

- Access to downtown Tokyo

Tokyo metropolitan area network
Access to highly appealing downtown areas

- Japan's terminal

Opening of Linear Chuo Shinkansen scheduled for 2027
Enhanced access to regions around Japan

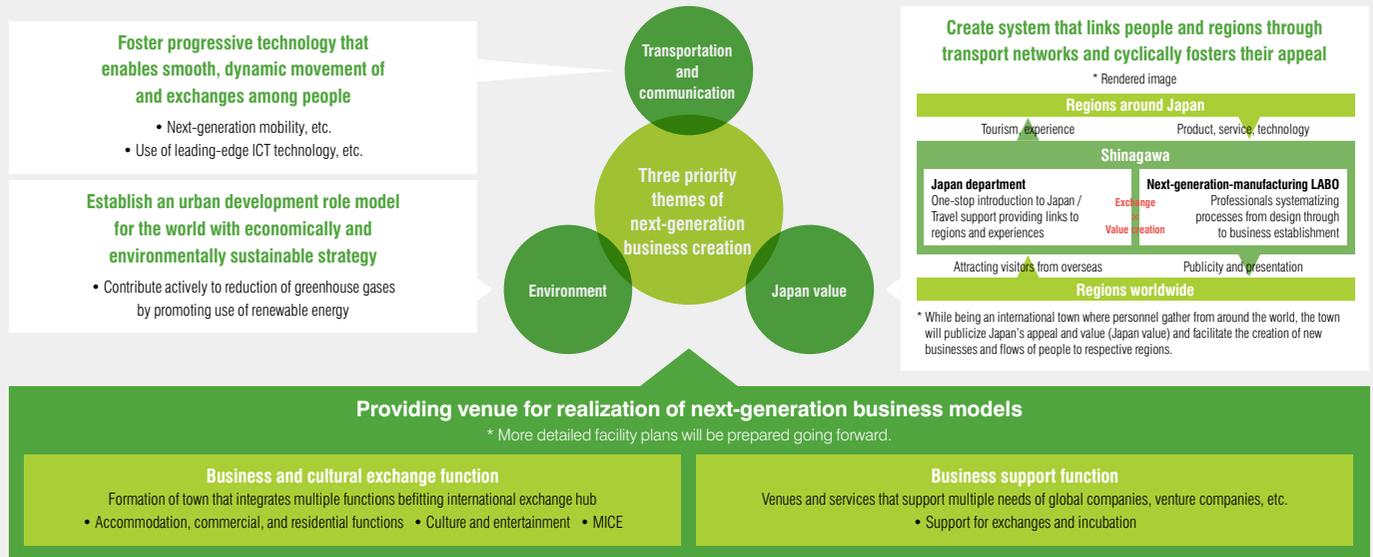
- Gateway to the world

Accessibility of Haneda Airport
Hub connecting Tokyo to the world

Vision of the International Exchange Hub

New international town

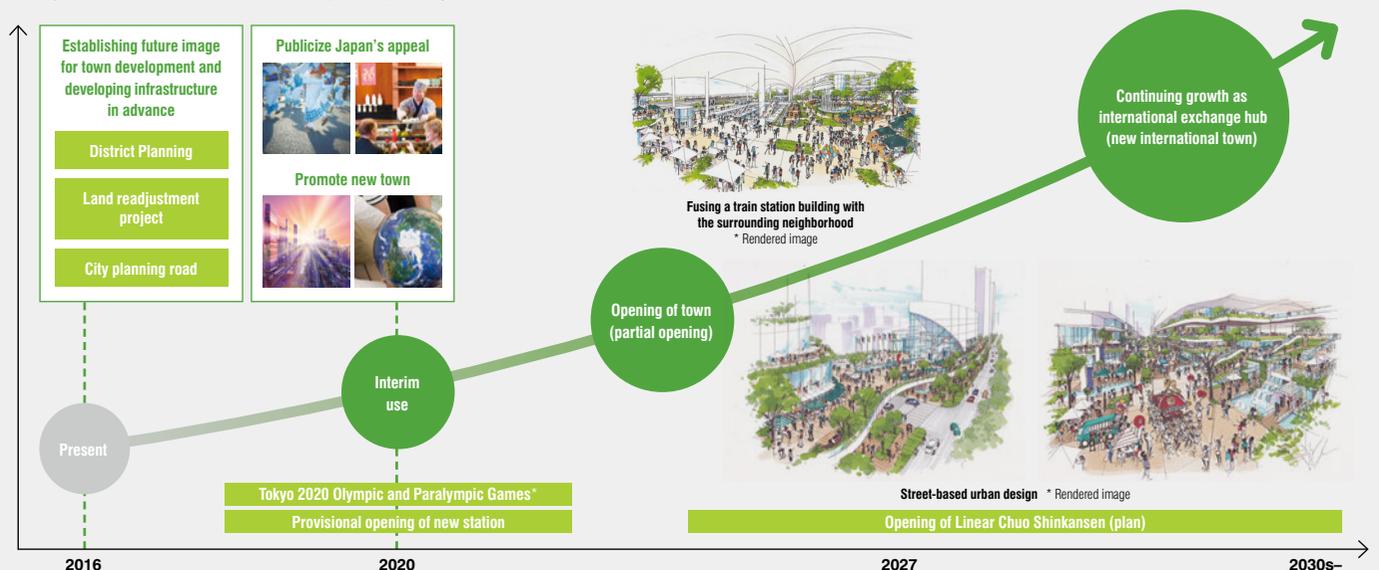
Using the new town as a platform, JR East will create and facilitate next-generation businesses continuously based on three priority themes: transportation and communication, environment, and Japan value.



Schedule for the Formation of an International Exchange Hub

Town able to continue growing

We aim to create a town that can continue growing as an international exchange hub through interim use with a view to Tokyo 2020 Olympic and Paralympic Games* and the subsequent opening of the town.



* East Japan Railway Company is an Official Passenger Rail Transportation Services Partner of the Tokyo 2020 Olympic and Paralympic Games.

Feature: Priority Initiative 03

Advancement of Strategies for Visitors to Japan from Overseas



As part of strategies aimed at capturing demand from visitors to Japan from overseas, which has continued to increase in recent years, the JR East Group as a whole took measures to increase and improve products and develop capabilities to service such customers.

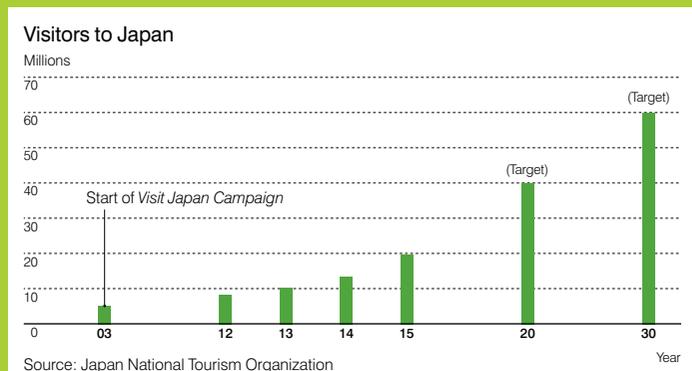
Summary of Strategies for Visitors to Japan from Overseas

In July 2015, a JR East subsidiary entered into comprehensive operational alliances with two travel companies that have particular competence in Thailand, Indonesia, and China. In November 2015, JR East launched the *JR TOKYO Wide Pass*, a “free pass” that covers popular tourism areas and winter resorts. Furthermore, in April 2016 JR East launched the *Tokyo-Osaka Hokuriku Arch Pass*, which includes the Hokuriku Shinkansen Line, and the *JR East-South Hokkaido Rail Pass*, which includes the Hokkaido Shinkansen Line.

Also, the JR East Group extended the provision of a free public wireless LAN service to all stations within the Yamanote Line and established duty-free counters in station concourses and station buildings. In February 2016, the JR East Group expanded the *JR EAST Travel Service Center* at Haneda Airport and introduced multilingual, online Internet reservation services for non-Japanese customers overseas.

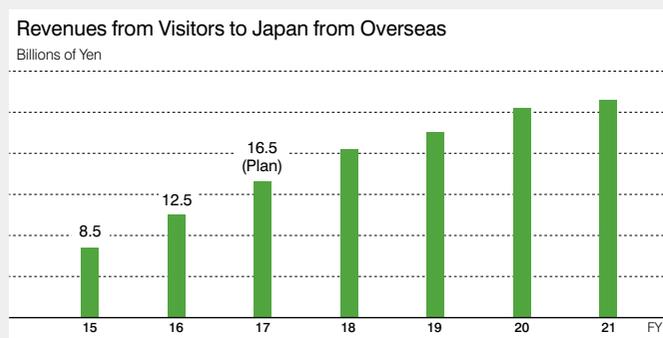
Visitors to Japan from Overseas

In 2015, visitors to Japan from overseas increased 47% year on year, to 19.7 million, surpassing the record set in the previous year by 6.3 million. Further, we expect visitors to Japan from overseas to reach 40 million by 2020, and we are looking forward to revenues from visitors to Japan from overseas growing in step with this increase.



Revenues from Visitors to Japan from Overseas

We intend to boost revenues from visitors to Japan from overseas even further by attracting them to the Tohoku and Shinetsu regions and other regions in our service area. In fiscal 2016, JR East's range of rail passes for visitors to Japan from overseas generated ¥12.5 billion in revenues. In fiscal 2017, we plan to increase this by ¥4.0 billion, to ¥16.5 billion.



JR TOKYO Wide Pass poster



Tokyo-Osaka Hokuriku Arch Pass poster



JR East-South Hokkaido Rail Pass poster

Expansion of Free Public Wireless LAN Service for Visitors to Japan from Overseas

In October 2012, JR East began a free public wireless LAN service for visitors to Japan from overseas: *JR-EAST FREE Wi-Fi*. Initially, this service was available at 41 railway stations and five *JR EAST Travel Service Center* sites. We have introduced *JR-EAST FREE Wi-Fi* to a further 47 railway stations that many visitors to Japan from overseas are likely to use. As a result, from the current fiscal year visitors to Japan from overseas can use the service at 88 railway stations and five *JR EAST Travel Service Center* sites. Other initiatives to provide visitors to Japan from overseas with Internet access include our introduction of a free public wireless LAN service onboard the *Narita Express*.

In addition, the JR East Group provides a free public wireless LAN service at 44 shopping centers, 39 hotels, and one sports and leisure facility. We plan to extend this service to include more facilities.



Narita Express

Duty-Free Sales in Station Concourses and Station Buildings

The JR East Group has begun to establish duty-free counters in the commercial facilities of station concourses and station buildings. As well as expanding our network of duty-free counters, we will provide duty-free sales in an increasing number of facilities.



Duty-free counter

Expansion of the JR EAST Travel Service Center at Haneda Airport

Because service counters were becoming congested due to the increasing numbers of visitors to Japan from overseas, the JR East Group expanded the Haneda Airport *JR EAST Travel Service Center*, which is inside the Tokyo Monorail's Haneda Airport International Terminal Station, in February 2016. This center provides in exchange for vouchers the *JAPAN RAIL PASS*; sells, or provides in exchange for vouchers, JR East rail passes for visitors to Japan from overseas; and sells other JR tickets.



JR EAST Travel Service Center

Opening of a Center to Attract Visitors from Singapore to Japan, JAPAN RAIL CAFE

Amid the rising number of visitors to Japan from overseas, the number of visitors from countries in the ASEAN region is increasing steadily. In particular, more than 70% of visitors to Japan from Singapore make return visits. Such visitors not only seek general tourist information but also want the latest, in-depth information about diverse aspects of Japan. With this in mind, we aim to create a new type of center for promoting travel to Japan in the ASEAN region by unveiling the *JAPAN RAIL CAFE* in Singapore in November 2016. As well as providing information about Japan's various regions, the center will encourage exchanges of information among Japan travel fans.



A rendered image of the *JAPAN RAIL CAFE*

Transportation > Tokyo Metropolitan Area Network, Intercity Network, and Shinkansen



Creation of Attractive Trains Ridden for the Experience

As one of our initiatives to open the way toward a new future for railways, over the past several years we have been creating attractive trains that, rather than simply being a means of transportation, cater to customers who are focused on the ride experience itself and which offer a range of novel travel experiences. For example, on conventional lines JR East operates the *Pokémon with YOU train*, which began operating in December 2012 on the Ofunato Line; the *Tohoku Emotion* restaurant train, which began operating in October 2013 on the Hachinohe Line; the *SL Ginga* steam locomotive train, which began operating in April 2014 on the Kamaishi Line; and the *Koshino Shu*Kura* service, which began operating in May 2014 from Takada Station*1 on the Shin-etsu Main Line to Tokamachi Station on the Iiyama Line. As for Shinkansen lines, we operate the *Toreiju Tsubasa* service, which began operating in July 2014 on the Yamagata Shinkansen Line between Fukushima and Shinjo

stations and the *GENBI SHINKANSEN*, which began operating on April 29, 2016, on the Joetsu Shinkansen Line between Echigo-Yuzawa and Niigata stations.

Further, in accordance with “JR East Group Management Vision V—Ever Onward,” which calls on the Group to promote Japan as a tourism-oriented nation, JR East is preparing to begin operating the *TRAIN SUITE SHIKI-SHIMA* cruise train. The cruise train will offer trips that give customers a variety of options for enjoying the abundant, beautiful countryside of Japan, its industries rooted in local communities, and its regional cultures that are still part of day-to-day life. Our themed trains will carry customers through a rich series of experiences and places in a manner unique to train travel.

*1 At the time, the railway station was operated by what is now Echigo TOKImeki Railway Company.



TRAIN SUITE SHIKI-SHIMA cruise train



GENBI SHINKANSEN

Fiscal 2016 Summary

In transportation, JR East began direct services between the Tohoku Shinkansen and Hokkaido Shinkansen lines, after revising timetables in March 2016 for the opening of the Hokkaido Shinkansen Line. As a result, the shortest journey between Tokyo and Shin-Hakodate Hokuto takes 4 hours and 2 minutes, and the shortest journey between Sendai and Shin-Hakodate Hokuto takes 2 hours and 30 minutes. Further, in light of observed usage following the opening of the Hokuriku Shinkansen Line and the Ueno-Tokyo Line, JR East improved the transportation network through such initiatives as reviewing connections and strengthening transportation capabilities during rush hours. Also, given the expansion of the direct service network, such as the opening of the Ueno-Tokyo Line, JR East improved the quality of transportation by expanding contingency shuttle operations when transportation services are disrupted.

As for marketing and sales activities, JR East conducted the *Fukushima Destination Campaign* and the *Ikuze, Tohoku Campaign* to increase passenger traffic. Also, JR East prepared for the *Aomori Prefecture and Hakodate Destination Campaign*, scheduled for July 2016. In addition, we promoted further use of the Hokuriku Shinkansen Line and implemented initiatives to grow inter-regional railway travel. In November 2015, JR East launched the *JR East Dynamic Rail Pack*, which allows customers to purchase travel products that combine the train services and accommodation of their choice. Moreover, JR East enabled purchasing of these products via smartphones in January 2016.

Revitalization of Communities and Stimulation of Tourism

In March 2016, the Hokkaido Shinkansen Line opened to Shin-Hakodate Hokuto. Aiming to attract visitors and encourage the use of its services, JR East will conduct the *Aomori Prefecture and Hakodate Destination Campaign* from July to September 2016 in close collaboration with local municipal authorities, developers of local tourism, and travel companies. Such initiatives and the new Shinkansen line segment are likely to boost interest in southern Hokkaido. At the same time, interest in JR East's service area promises to increase in Hokkaido.

Also, November 2011 saw the launch of a year-round promotional campaign, *Ikuze, Tohoku*, which is aimed at supporting the Tohoku region's restoration by stimulating tourism. Since then, JR East has been advertising the particular charm of the Tohoku region's different areas in each season through television commercials, posters, and Internet-based promotions.

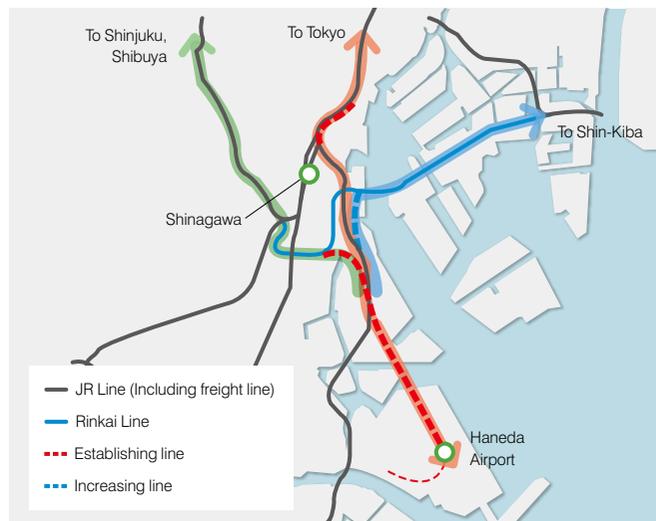


Ikuze, Tohoku. Campaign poster

Improvement of Access to Haneda Airport

Strengthening the capabilities of Haneda Airport is expected to be possible through such measures as increasing its capacity for international flights. Moreover, the government aims to attract 40 million visitors to Japan by 2020 and 60 million by 2030. Therefore, the airport's passenger numbers are expected to grow.

Further, in April 2016 a council on transportation policy tasked with examining the future of urban railways in the Tokyo metropolitan area concluded that the Haneda Airport Access Line will help strengthen international competitiveness. With this in mind, we aim to develop a specific plan for the Haneda Airport Access Line by reviewing facility plans and business schemes in greater depth and coordinating with stakeholders.



Haneda Airport Access Line design (Under examination)

>Numbers

Conventional network (Kanto area)
Operating Kilometers

2,535.9 kilometers

(as of March 31, 2016)

Fiscal 2016 Conventional revenues
(Kanto area) from passenger tickets

¥1,156.2 billion

Conventional network (Outside Kanto area)
Operating kilometers

3,727.2 kilometers

(as of March 31, 2016)

Fiscal 2016 Conventional revenues
(Outside Kanto area) from passenger tickets

¥70.5 billion

Shinkansen network
operating kilometers:

1,194.2 kilometers

(as of March 31, 2016)

Fiscal 2016 Shinkansen revenues
from passenger tickets:

¥578.2 billion

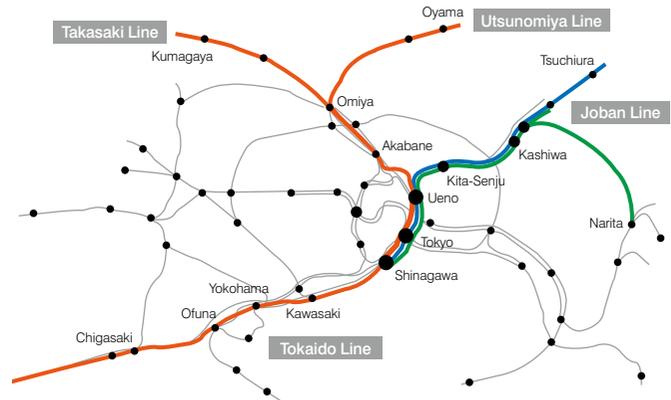
>Priority Initiatives

- Promote use of the Hokuriku Shinkansen and Hokkaido Shinkansen lines
- Expand and improve Tokyo metropolitan area network
- Improve transportation quality
- Stimulate tourism

Expansion of the Direct-Service Network

To expand and improve the Tokyo metropolitan area network further, on March 14, 2015, JR East opened the Ueno-Tokyo Line, which established a main artery linking Tokyo Station, located in an area that is a political and economic hub, with Ueno Station, located in an area known for art and culture. The new line has enabled direct services from the Utsunomiya, Takasaki, and Joban lines to Tokyo and Shinagawa stations and from the Tokaido Line to Ueno Station. The elimination of transfers has reduced travel times and increased convenience.

In a separate initiative, direct services are to be established between the Sotetsu Line and JR lines by constructing a new connecting line of approximately 2.7 km between Nishiya Station on the Sotetsu Line and a location near Yokohama-Hazawa Station on the Tokaido Freight Line. Although the Japan Railway Construction, Transport and Technology Agency (JRTT) has primary responsibility for development of the connecting line, JR East will build the frameworks of structures connecting the location to Yokohama-Hazawa Station on the Tokaido Freight Line and implement renovation work within the railway station. The establishment of this connecting line will directly link western Yokohama and central Kanagawa Prefecture to downtown Tokyo and establish a wide-ranging railway network. Further, this project promises to heighten the convenience of railway services by shortening travel times and reducing transfers.



Operating framework of the Ueno-Tokyo Line



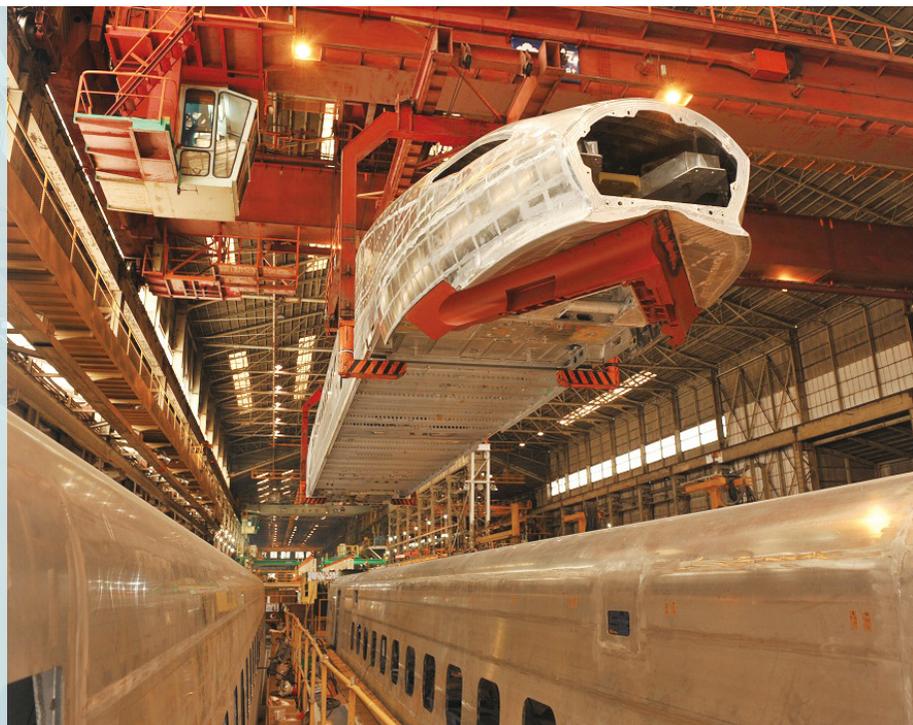
The Ueno-Tokyo Line

Fiscal 2016 Summary

JR East prepared to begin maintenance operations in Bangkok, Thailand, for the Purple Line, an urban mass transit system scheduled to enter service in August 2016. At the same time, JR East subsidiary Japan Transport Engineering Company (J-TREC) manufactured *sustina* stainless-steel railcars and delivered them to a railway yard in Thailand.

> Priority Initiatives

- Establish railcar manufacturing operations as a fourth business pillar
- Market *sustina* stainless-steel railcars proactively and win orders for railway projects



Introduction of Series E235 *sustina* Railcars

The brand name *sustina* refers to the stainless-steel railcars that JR East designs and manufactures and which incorporate next-generation technologies. For many years, J-TREC has developed and marketed JR East's leading-edge *sustina* stainless-steel railcars. Recently, the company manufactured and delivered Series E235 railcars for the Yamanote Line, which are the first mass-production commuter railcars for large cities in the *sustina* series. The features of *sustina* stainless-steel railcars are attractive designs; frequent use of common platforms for railcar structures and equipment systems; advanced safety features, such as impact-absorbing structures and built-in roll bars; environment-friendly, 100% recyclable stainless-steel railcar bodies; and simultaneous realization of reliability and lower railcar life-cycle costs.

In the *sustina* series, JR East has designed and manufactured Tokyu Corporation Series 5050, car no. 5576, railcars, which incorporate laser-welded railcar bodies; *sustina Hybrid* Series EV-E301 railcars for trains that include rechargeable batteries for JR East's Karasuyama Line; and Series HB-E210 diesel hybrid railcars for use on JR East's lines in the Sendai area.

As a railway operator, JR East will continue offering solutions based on *sustina* stainless-steel railcars.



Series E235 railcars debut on the Yamanote Line



Series HB-E210 diesel hybrid railcars for use in the Sendai area

Non-Transportation > Station Space Utilization

Fiscal 2016 Summary

In the Station Space Utilization segment, the JR East Group introduced newly designed *NewDays* convenience stores and revamped the product mixes and store layouts of station kiosks, which it renamed *NewDays KIOSK*. Aiming to revitalize regions through restaurants offering regional gourmet cuisines, the JR East Group opened *B-1 Grand Prix Shokudo* (Tokyo) in July 2015 under a railway viaduct between Akihabara and Okachimachi stations. Further, the JR East Group proceeded with preparations for the opening phase 2 of *NEWoMan* (Tokyo) at the Shinjuku Station's New South Exit in April 2016. Also, in January 2016 JR East began improvement work between the central passage and the north passage of Tokyo Station to develop new stores in conjunction with the establishment of more barrier-free routes. Other initiatives included commencement of work for the fall 2016 opening of certain stores in the Chiba Station's concourse.



NewDays KIOSK

Mainly in JR East's railway stations, approximately 500 *NewDays* convenience stores carry product lineups reflecting their locations. For example, those on Shinkansen platforms have more souvenirs and travel accessories, those in downtown areas carry product lineups reflecting commuters' needs, while those in front of suburban railway stations cater to local residents. *NewDays* convenience stores average 1,600 store visits per day—far above the normal level in the convenience store industry.

Further, our roughly 360 station kiosks make good use of limited space to maximize customer convenience. In light of the changing and diversifying usage trends and needs among customers in recent years, we are revamping the product mixes and store layouts of station kiosks and renaming them *NewDays KIOSK*.



NewDays KIOSK

Development of Tokyo Station

Based on the *Tokyo Station City* concept of developing Tokyo Station into a complete city, the JR East Group has been developing Tokyo Station's concourse and surrounding area in stages. As part of these efforts, we have preserved and restored the Marunouchi Building; opened *GranTokyo North Tower*, *GranTokyo South Tower*, and *GranRoof*; and developed a station-front plaza to the Yaesu entrances. Following on from the development of the north passage in the area inside Tokyo Station's ticket gates, which we began in 2012, we began improvement work between the central passage and the north passage.

As well as renewing stores in and around the first floor of the north passage, we will use newly created space to develop appealing stores and restaurants. Furthermore, this initiative will enable us to meet the needs of a greater number of customers by, for example, increasing the amount of restaurant seating available in the area.



Rendering of the area in and around Tokyo Station's north passage near the station concourse on the first basement floor

> Numbers

Railway stations used by more than 100,000 passengers per day:

94 (as of March 31, 2016)

Railway stations used by more than 200,000 passengers per day:

39 (as of March 31, 2016)

* The number of station users represents twice the number of passengers embarking.

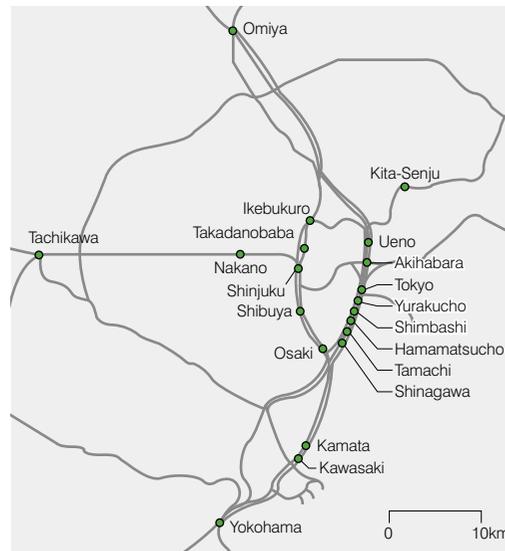
> Priority Initiatives

- Maximize the value of railway stations by creating appealing commercial spaces
- Revitalize regional industries

> Environment

Top 20 Stations with Large Daily Passenger Use

* The number of station users represents twice the number of passengers embarking.



Station	Number of Passengers per Day
1 Shinjuku	1,520,086
2 Ikebukuro	1,113,560
3 Tokyo	869,266
4 Yokohama	822,766
5 Shibuya	744,468
6 Shinagawa	722,932
7 Shimbashi	531,910
8 Omiya	500,958
9 Akihabara	487,842
10 Kita-Senju	419,988
11 Kawasaki	415,450
12 Takadanobaba	405,108
13 Ueno	363,176
14 Yurakucho	334,848
15 Tachikawa	327,806
16 Hamamatsucho	310,668
17 Osaki	309,088
18 Tamachi	297,668
19 Nakano	289,832
20 Kamata	286,544

Rediscovering the Region Project

Under the *Rediscovering the Region Project*, the JR East Group collaborates with local communities to invigorate regions by promoting the circulation of people and goods. As part of these efforts, we opened *NOMONO* shops, featuring foods grown and processed in various regions, in Ueno Station in January 2012 and in Akihabara Station in March 2014. Mainly through *NOMONO Kitchen Ikebukuro Higashiguchi*, opened in November 2015, and *NOMONO Izakaya Kayojiji*, opened in January 2016, we offer dishes featuring regional and seasonal ingredients and emphasize food culture.

The JR East Group will help reinvigorate local communities by expanding *NOMONO* as a brand that is based on regional food culture and which provides customers in the Tokyo metropolitan area with surprises, discoveries, and enjoyment.



NOMONO Izakaya Kayojiji

Ekiben

Ekiben, which are boxed lunches sold at railway stations, add flavor to a memorable railway journey by featuring recommended or popular dishes unique to each season or region. Opened in August 2012, *the Ekibenya Matsuri* in Tokyo Station has a lineup of approximately 170 varieties of *ekiben* sold in stations throughout Japan. Also, *the Ekibenya Matsuri* has gained popularity for its two demonstration booths where cooks prepare and sell fresh *ekiben*.

Further, as part of efforts to take on new business areas, we held special events in Singapore and Taiwan to promote sales of *ekiben*. Also, in March 2016, we opened a store, *EKIBEN*, which sold *ekiben* for a limited period at Paris-Gare de Lyon Station, in France. By providing traditional Japanese *ekiben* and original *Paris-Gare de Lyon Bento*, the store introduced customers to *makunouchi orizuru bento*, a popular part of Japan's food culture for more than a century.

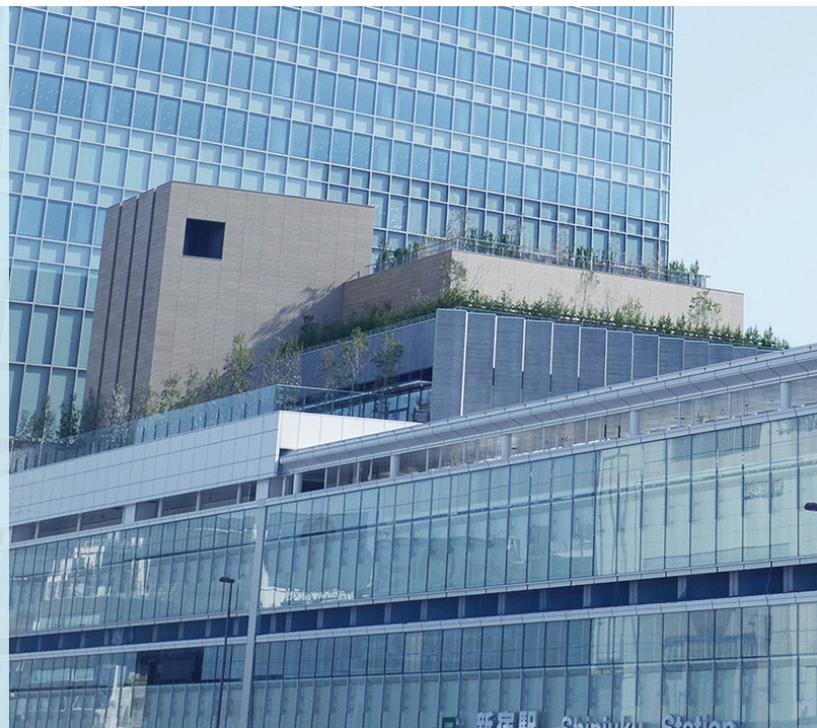


EKIBEN, our store at Paris-Gare de Lyon Station

Non-Transportation > Shopping Centers & Office Buildings

Fiscal 2016 Summary

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



Opening of JR SHINJUKU MIRAINA TOWER and NEWoMan

March 2016 saw the completion of Shinjuku's new landmark: JR SHINJUKU MIRAINA TOWER. Approximately 170 meters high, the new multipurpose building is located on the former site of Shinjuku Station's New South Exit station building. The tower's 5th to 32nd floors comprise offices. Meanwhile, the commercial facility *NEWoMan* occupies six of the tower's floors; one floor of Shinjuku Station's New South Exit concourse, and three floors of an elevated structure above the train tracks, including the roof. We plan to create an integrated multipurpose facility that includes stores and a host of other amenities, such as the culture-creating space *LUMINE ZERO*, a clinic including a gynecology department, a nursery facility, an outdoor plaza, and a rooftop garden. A further aim is to develop and manage facilities with town development in mind. To this end, we will unify the designs of facilities near the Shinjuku Station and develop its environs.



NEWoMan

nonowa

Established in December 2010, JR Chuo Line Mall Co., Ltd., leads the *Chuo Line Mall Project*, tasked with heightening the line-side value of the Chuo Line. Currently, the project is developing the area between Mitaka and Tachikawa based on the concept of "green × people × linking towns." For the JR East Group, the project represents a completely new, highly significant mission: fostering an overall brand that establishes the line-side area as a desirable residential zone while advancing painstaking collaborations with local communities.

Approaching development, railway station operations, and commercial facility management in an integrated manner, we will work with store owners' associations, commerce and industry associations, and other stakeholders living and working near railway stations to develop prosperous regions and develop sales areas, railway stations, and communities that generate regional value.



nonowa Kunitachi EAST

> Numbers

JR East's shopping centers:

159

(as of March 31, 2016)

Shopping centers

Total floor space:

2,250,000 m²

(as of March 31, 2016)

Office buildings

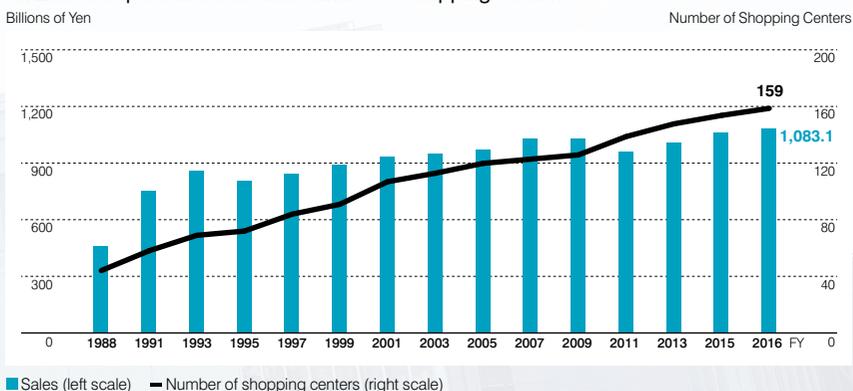
Leased floor space:

340,000 m²

(as of March 31, 2016)

> Environment

JR East Group's Sales from and Number of Shopping Centers



> Priority Initiatives

- Develop large-scale terminal stations
- Create desirable line-side area brands

Major Projects Going Forward

Chiba Station

Elevating the station concourse and station buildings from the first floor to a third-floor area above the tracks will create an open, easy-to-understand concourse. Furthermore, we will help reinvigorate the area surrounding Chiba Station by reconstructing station buildings, integrating development of the railway station and commercial facilities, and providing access via a pedestrian deck.

Shibuya Station

We aim to make Shibuya Station easier to use by creating a single platform for all services on the Yamanote Line; moving the Saikyo Line platform, currently on the south side of the railway station, to a location parallel with the new Yamanote Line platform; widening the station

concourse; and establishing barrier-free facilities. Furthermore, we will undertake integrated development of the railway station and city block and jointly construct three buildings with Tokyu Corporation and Tokyo Metro Co., Ltd.

Yokohama Station

In fiscal 2016, we began work on a station-front tower on the west side of Yokohama Station that will concentrate commercial and office facilities in one area. At the same time, this project will expand and improve the pedestrian network to form routes facilitating movement between railway lines and the surrounding facilities. Also, the plan will reflect environmental and disaster-prevention requirements by incorporating progressive environmental initiatives and establishing a disaster management center and integrated regional base for disaster preparedness.

	Opening	Total Floor Space (m ²)			
		Offices (m ²)	Commercial (m ²)	Hotel (Rooms)	
Sendai Station East Exit Development	Spring 2017	Approx. 14,000	—	—	Approx. 280
Marunouchi underground area of Tokyo Station	Summer 2017	Approx. 19,000	—	Approx. 4,100	—
Main building and facilities of Chiba Station	around November 2016 - summer 2018 and beyond	Approx. 73,800	—	Approx. 57,400	—
Shibuya Station Development (Joint development)	(East Tower) FY2020	Approx. 276,000	(Leased floor) Approx. 73,000	(Store space) Approx. 70,000	—
	(Central & West Tower) FY2028	Approx. 181,000	(East Tower) Approx. 73,000	(East Tower) Approx. 30,000	—
Development of area in and around north passage of Tokyo Station	2020	Approx. 8,900	—	Approx. 6,300	—
Yokohama Station West Exit Station Development Building (Provisional name)	2020	Approx. 122,000	Approx. 28,000	Approx. 70,000	—
Shinagawa Development Project		Area for development : Approx. 130,000 m ²			



Image of the plaza in front of Yokohama Station's west exit

Fiscal 2016 Summary

In *Suica* operations, JR East began mutual usage of *Suica* with the Sendai City Transportation Bureau's *icsca* card in the Sendai area in March 2016. From December 14, 2015, to heighten the convenience of *Suica* further, JR East began *Mobile Suica* services for SIM-free handsets*1 that are compatible with the services of MVNO*2. The 10th anniversary of the launch of *Mobile Suica* services was in January 2016.

*1 SIM-free handsets are mobile phone handsets that allow users to insert and use a SIM (subscriber identity module) card of their choice.
 *2 An MVNO (mobile virtual network operator) is a communications services provider that uses the network of a major mobile phone company.



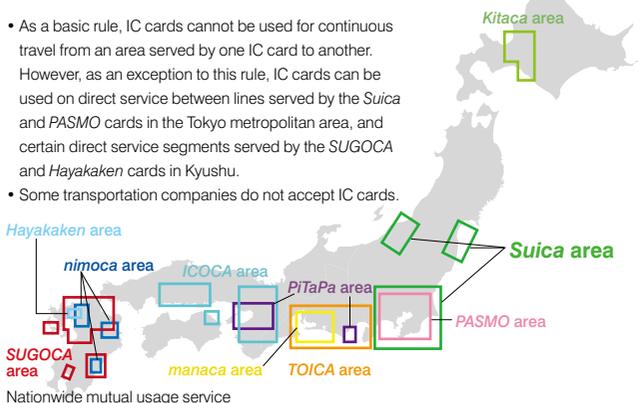
Suica Usage Area

JR East introduced *Suica* as a prepaid fare collection system based on IC cards in November 2001 and launched *Suica* electronic money services in March 2004. The *Suica* card's convenience has earned it strong customer support. Customers can use the card to make purchases from beverage vending machines and at stores inside as well as outside railway stations.

As for the *Suica* usage area, efforts to improve customer convenience culminated in the launch of a nationwide mutual service network linking 10 public transportation IC cards*3 in March 2013. To make this network possible, transportation companies abandoned bilateral agreements on mutual usage in favor of a blanket approach. Today, travelers can use *Suica*, or any one of the IC public transportation cards, for most train and bus services—and some other modes of public transportation—in almost every major city in Japan. *Suica* was usable at approximately 4,670 railway stations and for approximately 28,000 bus services nationwide as of March 31, 2016.

*3. *Kitaca*, *PASMO*, *Suica*, *manaca*, *TOICA*, *PiTaPa*, *ICOCA*, *Hayakaken*, *nimoca*, and *SUGOCA*

- As a basic rule, IC cards cannot be used for continuous travel from an area served by one IC card to another. However, as an exception to this rule, IC cards can be used on direct service between lines served by the *Suica* and *PASMO* cards in the Tokyo metropolitan area, and certain direct service segments served by the *SUGOCA* and *Hayakaken* cards in Kyushu.
- Some transportation companies do not accept IC cards.



Suica Electronic Money

Since launching *Suica* electronic money in March 2004, JR East has been expanding business partnerships for the card with the aim of popularizing its usage in a wide variety of settings. We have extended the card's usability beyond in-station stores and vending machines to include convenience stores, shopping centers, and mass retailers of electronics and home appliances outside railway stations. In addition, JR East is broadening *Suica*'s usage environment to include various other aspects of daily life, such as online shopping, domestic in-flight shopping, home video game consoles, and gas stations.

As a result of these efforts, usage of *Suica* electronic money has grown continually. As of March 31, 2016, *Suica* was usable at approximately 342,600 stores, and the record for daily transactions for public transportation electronic money reached approximately 5.2 million. The target record for daily transactions for public transportation electronic money is eight million by fiscal 2021.



Using *Suica* electronic money at a vending machine

>Numbers

Suica cards issued:

59.2 million

(as of March 31, 2016)

Public transportation electronic money, record daily transactions:

5.2 million (Highest ever)

(as of March 31, 2016)

Public transportation electronic money, compatible stores:

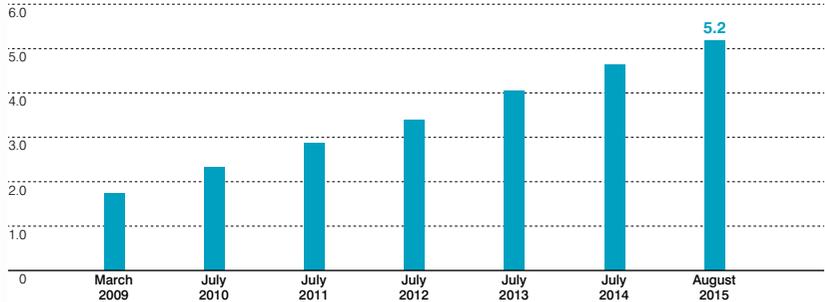
342,600

(as of March 31, 2016)

>Environment

Record Daily Transaction Volume of Public Transportation Electronic Money Cards*1

Million Transactions



*1 Comprising Kitaca, PASMO, Suica, manaca, TOICA, ICOCA, Hayakaken, nimoca, and SUGOCA

>Priority Initiatives

- Enhance convenience as IC railway ticket
- Promote further growth in electronic money business

Mobile Suica

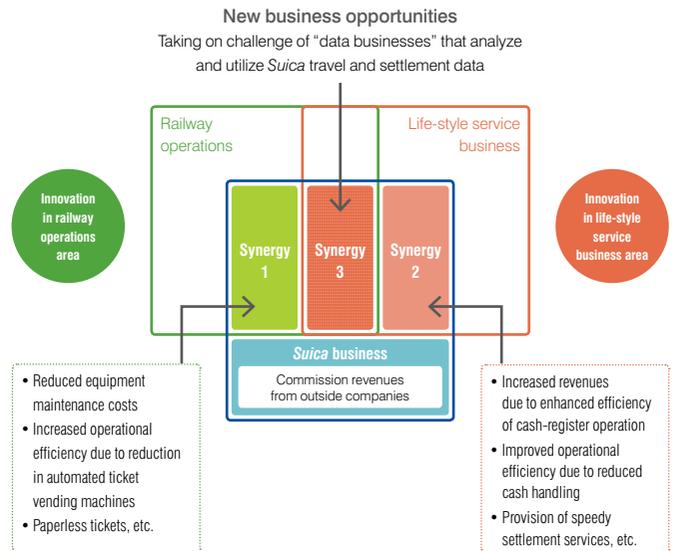
An evolved version of *Suica* that uses the telecommunications and display functions of mobile phone handsets, *Mobile Suica* was launched in January 28, 2006. By using a pre-registered credit card to add credit to their mobile phone handsets, customers can use them as *Suica* cards to pay for railway services or purchase goods. In addition, *Mobile Suica* caters to customers' needs by enabling the purchase of a wide range of tickets and services. These include commuter passes; a *Suica Green* ticket; *EASY Mobile Suica*, for which credit card registration is not required; *Mobile Suica* limited express tickets, which enable ticketless use of the Hokkaido, Tohoku, Yamagata, Akita, Joetsu, and Hokuriku Shinkansen services; and ticketless use of the Tokaido and Sanyo Shinkansen *EX-IC* services.



The *Mobile Suica* interface Using *Mobile Suica* on a smartphone

Synergies between Suica and Non-Suica Businesses

In addition to functioning as an IC railway ticket and as electronic money, *Suica* has a variety of other functions. This convenience leads to synergy benefits for JR East's non-*Suica* businesses. For example, increasing use of IC railway tickets is allowing us to remove more automated ticket vending machines, freeing up space in station concourses. Group companies use these spaces to build restaurants or stores or to install in-station *VIEW ALTE* ATMs, thereby creating new business opportunities.



Synergies between *Suica* and non-*Suica* businesses

Others > Hotel Operations

Fiscal 2016 Summary

Exploiting its network, the JR East Group operates various hotels, ranging from city hotels near railway stations through to relaxing hotels surrounded by nature. The Group plans to continue development initiatives that take full advantage of its management resources.

> Numbers

Hotels: **45** **Guest rooms:** **6,687**

(as of March 31, 2016)

Metropolitan Hotels occupancy:

82.5% (as of March 31, 2016)

HOTEL METS occupancy:

82.6% (as of March 31, 2016)

The Tokyo Station Hotel

First opened in 1915, *The Tokyo Station Hotel* suspended operations in March 2006 while Tokyo Station Marunouchi Building underwent restoration. The hotel reopened in October 2012 as a unique leading-edge facility housed in the historically restored splendor of the station building, designated as an Important Cultural Property of Japan. Occupying two basement floors and four above-ground floors, the hotel has a floor area of 20,800 m² and 150 guest rooms.

HOTEL METS: Accommodation-Based Hotels Providing Comfortable Environments

Near railway stations and used mainly for accommodation, *HOTEL METS* hotels are ideal bases for business or tourism. These new-type business hotels have become popular by offering comfortable, reasonably priced rooms with facilities comparable with those of city hotels. Aiming to strengthen the competitiveness of existing hotels, the JR East Group renewed *HOTEL METS Musashisakai* (Tokyo), *HOTEL METS Nagaoka* (Niigata), *HOTEL METS Mizonokuchi* (Kanagawa), and *HOTEL METS Urawa* (Saitama).



Guestroom in *The Tokyo Station Hotel*

Others > Credit Card Business

View Card

In April 2015, Viewcard Co., Ltd., began soliciting applications for the JR East Group's first gold credit card, *View Gold Plus Card*. The credit card is designed to make day-to-day life more convenient by being highly useful. Customers can use it to pay for daily travel on railways in the JR East Group's service area and a range of services in railway stations. Moreover, *View Gold Plus Card* offers benefits not only to card holders but also their family members.

Further, we opened the *View Gold Lounge* on the first floor of *GranRoof* at Tokyo Station's Yaesu Central Exit in December 2015. *View Gold Plus Card* members riding in the *Green Cars* of Shinkansen or limited express services departing from Tokyo Station and customers riding in the *GranClass* railcars of Shinkansen services departing from Tokyo Station can use the lounge free of charge. It offers beverages, light snacks, and other services before departure on the day of travel.



View Gold Plus Card



View Gold Lounge

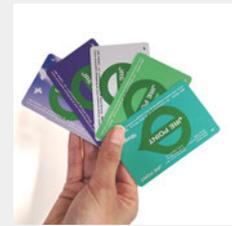
Column 1 JRE POINT

To promote cohesive Group management in accordance with “JR East Group Management Vision V—Ever Onward,” we have launched *JRE POINT* as a common Groupwide points service. Our goal is to establish a service that makes points easy to save and use.

To this end, the JR East Group made *JRE POINT* the common points service for the points services of *atré*, *Boxhill*, *GRANDUO*, *Shapo*, and *TERMINA* on February 23, 2016. The next step will be to incorporate the points services of other station buildings into *JRE POINT*. Ultimately, plans call for unification of *View Thanks Point* and *Suica Point* with *JRE POINT*.



JRE POINT Logo



JRE POINT Card

Service Details

Collect Points at a Range of Different Station Buildings!

Customers receive one point for every ¥100* spent on goods, food, and other items at *JRE POINT*-affiliated station buildings. Points are easy to save because saved points automatically become valid for a further two years each time customers use points.

* Not including tax

Website: <http://www.jrepoint.jp/> (in Japan)

1 Point = ¥ 1 !

When shopping at *JRE POINT*-affiliated station buildings, one *JRE POINT* is worth ¥1. Also, customers can exchange points for railway-related products.

Customers Can Check Points Anytime!

Customers can use the *JRE POINT* website to check their point balance or history and campaign information. In addition, we will use the website to inform customers about *JRE POINT*.

Column 2 JR East Dynamic Rail Pack

JR East Dynamic Rail Pack is a variable-price travel product that allows customers to combine Shinkansen or limited express services within the JR East Group's service area and hotels. Prices of train services and accommodation vary depending on when customers buy them, the season they travel in, and demand trends. Through the *JR East Dynamic Rail Pack* website, customers are free to choose and buy products suited to their plans and aims. Further, individual customers can buy the travel product.



JR East Dynamic Rail Pack (rendered image)

Website:

eki-net, in JR East domestic tours section under *JR East Dynamic Rail Pack*

Personal computers: <http://www.eki-net.com/travel/>

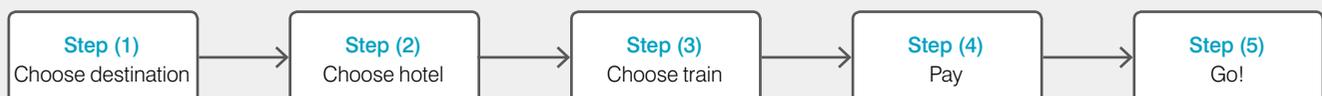
Smartphones: <http://www.eki-net.com/travel/sp/>

Business hours: 5:30 a.m.–11:40 p.m., year round

Train services included:

Shinkansen services and main limited express services on conventional lines in JR East's service area

Note: Hokuriku Shinkansen services (in JR West's service area beyond Joetsumiyoko Station), Tokaido Shinkansen services, limited express services between JR East's service area and those of other railway operators, and certain limited express direct services between JR East's service area and those of private railway operators are not included.



Pursuing “Extreme Safety Levels”

Our Basic Approach to Safety

Safety has been the JR East Group’s top management priority since its establishment, and the Company has worked constantly to heighten safety levels. Learning from unfortunate accidents in the past, we are continuing accident prevention efforts, which focus on physical infrastructure as well as less tangible systemic and personnel initiatives.

Safety measures never end. We will continue to work tirelessly to improve safety by pursuing a goal of zero accidents involving passenger injuries or fatalities and zero accidents involving employee fatalities, including employees of Group companies and partner companies.

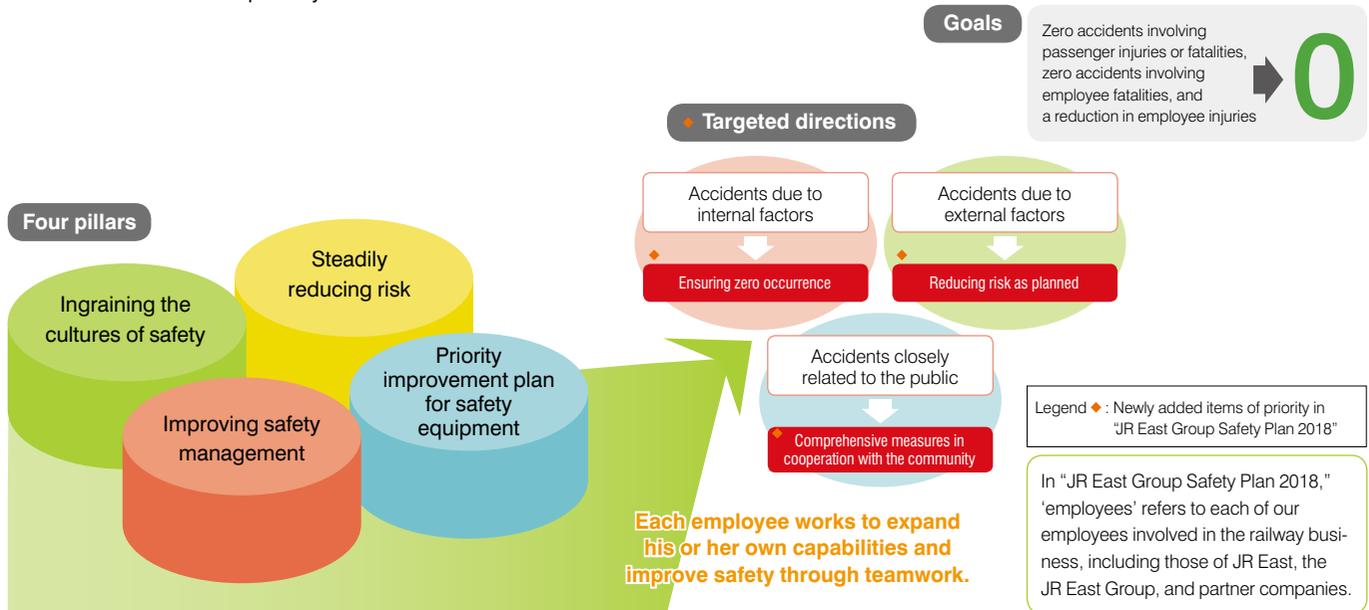
“JR East Group Safety Plan 2018”

Reflecting the high priority of safety, we have completed a series of five-year safety plans since our establishment.

In fiscal 2015, we began a sixth five-year safety plan, “JR East Group Safety Plan 2018.” Through the safety improvement efforts of each employee in the railway business, the whole JR East Group will take on the challenge of realizing “extreme safety levels.”

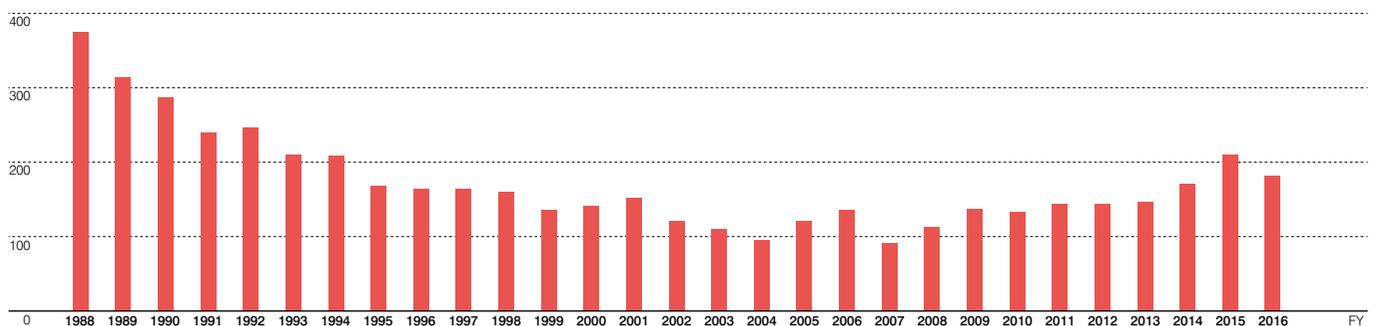
“JR East Group Safety Plan 2018” clarifies policies in relation to preventing accidents, such as accidents due to internal factors, and sets out specific measures. Under the plan, we will improve safety management capabilities by ensuring skills and expertise are passed on and promoting an appreciation of the gravity of accidents to foster safety-conscious personnel.

Overview of “JR East Group Safety Plan 2018”



Trends in Railway Accidents

Railway Accidents



Sangen Principle: Three Actualities Principle

Accidents and incidents always occur at the *Genba**. This means that the sources of accident prevention can also be found at the *Genba*.

Reflecting the *Three Actualities Principle*, which emphasizes actual locations, actual objects, and actual people, the JR East Group will continue seeking solutions that cannot be found through abstract theorizing.

* *Genba*: *Genba* means the actual locations, objects, and people that directly affect the safety of our operations. These locations, objects, and people are our points of contact with our customers and the basis of our transportation and services.



The Three Actualities Principle in effect

The Three Actualities Principle

- Genchi (Actual location):** Go to the actual location to comprehend the circumstances
- Genbutsu (Actual object):** Examine the actual object (rolling stock, equipment, machine, or tool) to comprehend its condition
- Genjin (Actual people):** Meet face-to-face with the people actually involved to comprehend the situation

Reducing Risk Steadily

We have categorized accidents into accidents due to internal factors, accidents due to external factors, and accidents closely related to the public and established policies for each type of accident. Based on these policies, we will take measures aimed at steadily reducing risk.

Eradicating Accidents Due to Internal Factors Completely

Our goal is to eradicate preventable accidents due to internal factors by further upgrading railway operation and maintenance systems. In addition to our risk reduction measures for personnel and management, such as education and training, we will further strengthen risk reduction measures that we have been implementing. Also, we intend to use all possible means to reduce risk, including reforming systems through the utilization of technological developments in ICT, big data, and GPS.

Reducing the Risk of Accidents Due to External Factors

We will steadily reduce the risk of damage due to abnormal weather, such as the increasing occurrence of torrential localized rain and gusts of wind; floods; and volcanic eruptions. To minimize damage caused by natural disasters due to external factors, the JR East Group will take planned risk reduction measures immediately after natural disasters.

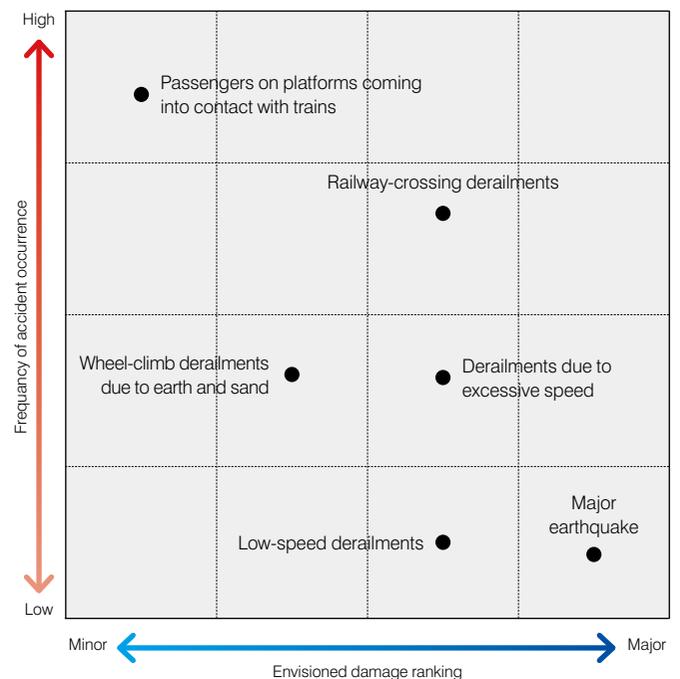
Reducing the Risk of Accidents Closely Related to the Public

We will steadily take measures to prevent accidents at railway crossings and to prevent customers from falling from platforms. At the same time, we will continue furthering understanding of the risks associated with railways among customers and local residents and seeking their cooperation to prevent the occurrence of such accidents. The JR East Group intends to take comprehensive measures, including the conducting of accident prevention campaigns for platforms, escalators, and railway crossings and the elimination of railway crossings in cooperation with local municipalities.

Unearthing Hidden Risks and Advancing Preemptive Measures

Phenomena not currently viewed as risks can emerge as risks due to changes in conditions surrounding railways. We will continue to monitor risk regularly, identify emerging risks, and take preemptive measures. Furthermore, we will use risk evaluation methods to regularly monitor changes in the risk of accidents occurring and analyze the prioritization of countermeasures.

An example of our risk evaluation methods



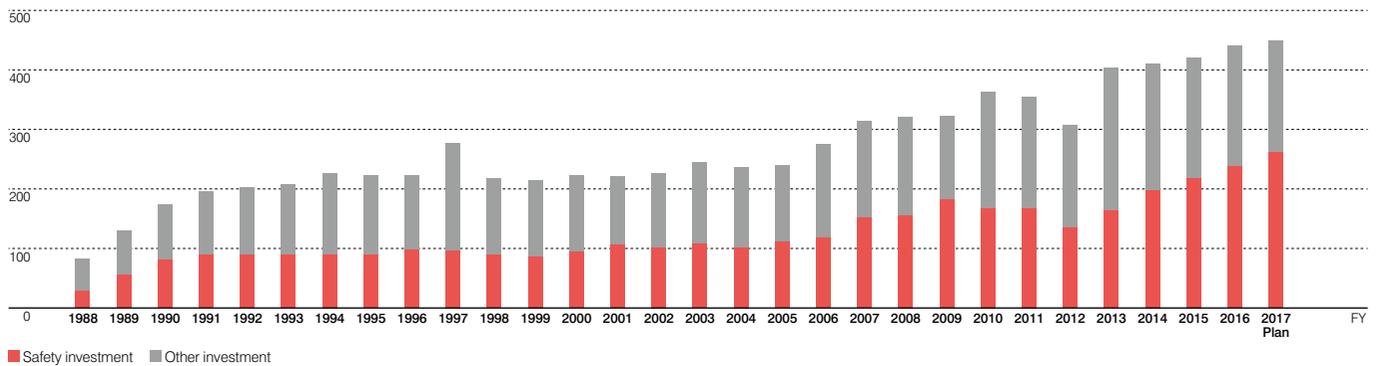
Pursuing “Extreme Safety Levels”

Priority Improvement Plan for Safety Equipment

- JR East has invested more than ¥3 trillion in priority improvements to safety equipment since the Company’s establishment in 1987.
- We will continue priority improvements to safety equipment in fiscal 2017.
- During the five-year period from 2014, we expect to invest approximately ¥1 trillion in safety.

Trends in Safety Investment

Billions of Yen



Building a Railway Capable of Withstanding Natural Disasters

Learning from past earthquakes, such as the Great Hanshin-Awaji Earthquake, the Sanriku Minami Earthquake, and the Niigata Chuetsu Earthquake, JR East has been focusing on the following three earthquake countermeasures.

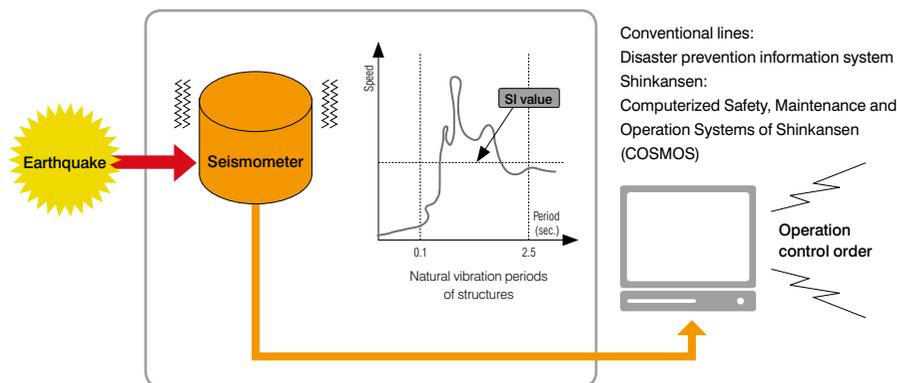
- (1) Stopping trains immediately (emergency train-stop measures)
- (2) Preventing structural damage (seismic reinforcement measures)
- (3) Minimizing secondary accidents following derailments (measures to prevent derailed trains leaving track area)

Although the Great East Japan Earthquake damaged some seismically reinforced viaduct columns, in seismically reinforced locations it did not

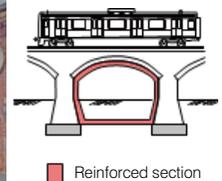
cause shear failure or the falling or collapsing of railway viaducts. On conventional lines, however, the earthquake damaged some bridges that were not seismically reinforced. Further, the earthquake caused electric poles to collapse and materials to fall from the ceilings of station buildings.

In light of the lessons of the Great East Japan Earthquake, JR East aims to build a railway capable of withstanding natural disasters. To this end, we have designated the five-year period from fiscal 2013 as a priority improvement period in which we plan to invest approximately ¥300 billion. During the remainder of this period, we will continue implementing seismic reinforcement in preparation for a possible earthquake directly beneath the Tokyo metropolitan area, increasing seismic reinforcement in Sendai and other areas, and strengthening seismic observation systems and telecommunications capabilities during disasters.

Operational Restrictions when Earthquakes Occur



Seismic reinforcement measures
Arch viaducts built from bricks



Reinforced section



Rail rollover prevention devices

Our Basic Approach to Service Quality

“JR East Group Management Vision V—Ever Onward” cites “Service Quality Reforms” as part of the Group’s “Eternal Mission.” To become a corporate group that is the preferred choice of customers and local communities, JR East will reform service quality through cross-divisional and cross-sectional teamwork with the aim of becoming Japan’s No. 1 railway in terms of customer satisfaction.

We prepared the “Medium-term Vision for Service Quality Reforms 2017,” a three-year plan that began in 2015. This vision is founded on increasing mutual communication with customer feedback as the starting point and developing personnel and organizations that proactively think and act from the customer’s perspective. On these foundations, the vision positions five pillars for further improvement: reliability, information provision during service disruptions, confidence, comfort, and service.

Provide Reliable Transportation Services

We are implementing various measures to improve transportation quality by preventing transportation service disruptions, realizing prompt resumption of train operations after transportation service disruptions, and minimizing the effects of disruptions on other line segments.

Our ongoing disruption countermeasures include the introduction of railcars with dual systems*, the increased installation of next-generation track switches that are less likely to fail, and the prevention of lightning strike damage to electric facilities.

To realize prompt resumption of operations, we are continuing to enhance our post-disruption response capabilities through such measures as drills for dealing with accidents that have resulted in casualties and rescuing passengers.

In addition, to minimize the impact on customers, on line segments in which operations have not been disrupted, wherever possible we use contingency shuttle operations—which turn trains back before they enter a disrupted line segment—as well as alternative line operations.

* Railcars with dual systems: Railcars that have increased reliability thanks to their duplication of major equipment based on the concept of build-in redundancy.

“Medium-term Vision for Service Quality Reforms 2017”



Enhance Information Provision during Transportation Service Disruptions

To enhance information provision during transportation service disruptions, JR East is taking steps to provide customers with more accurate information by announcing the expected time of transportation service resumption within 10 minutes of suspending operations due to an accident that has caused casualties and providing subsequent updates.

In addition, we have installed displays for providing information on transportation service disruptions (at 249 stations as of March 31, 2016).

For smartphones, we offer the “JR East Train Operation Information Push Notification” service, which provides timely information on train services on conventional and Shinkansen lines in our service area. Also, JR East provides *JR-EAST Train Info* app, *Doko-Train*, and *NETRAINS+*, which distribute real-time information on train services and enable customers to use smartphones or tablet computers to check the operational status of individual trains without going to a railway station.



JR-EAST Train Info app



Doko-Train

Our Basic Approach to Environment

The JR East Group formalized its basic philosophy and policies in 1992 and established activity guidelines in 1996. Our specific environmental protection measures are based on these.

Basic philosophy

- The entire JR East Group, as a member of society, will diligently strive to balance global environmental protection with its business activities.

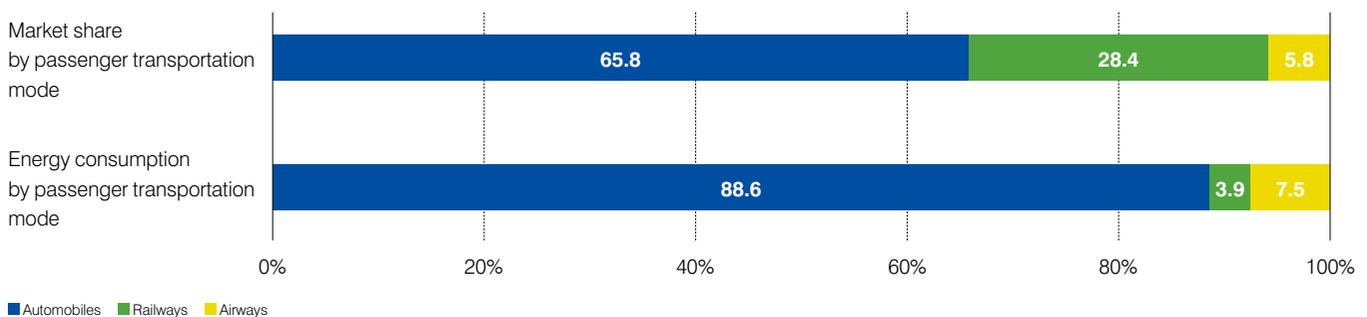
Basic policies

- To contribute to creating a global environment for the future through our business activities for our customers and local communities
- To develop and provide the technology needed to protect the global environment
- To maintain our concern for the global environment and raise the global environmental awareness of our employees

Environmental Superiority of Railways

Regarding passenger transportation in Japan, railways provide approximately 28% of passenger transportation but only account for roughly 3.9% of total energy consumption. This clearly demonstrates that trains have better energy efficiency per unit of transportation volume than automobiles and other means of transportation.

Energy Consumption Volume and Transportation Market Share (Fiscal 2014 result)



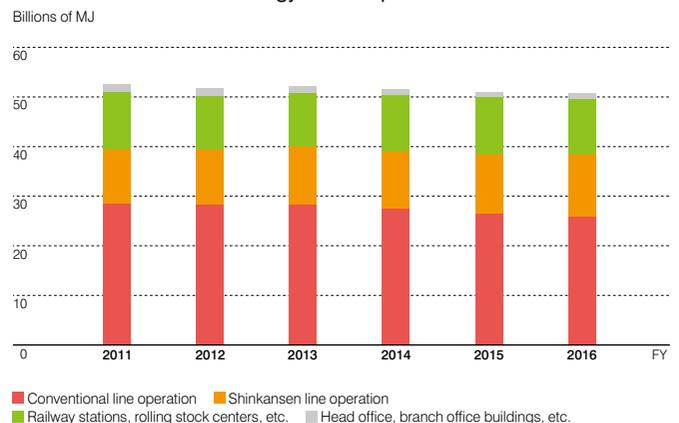
Source: Compiled based on data from the Energy Conservation Center, Japan (ECCJ)'s Handbook of Energy & Economic Statistics in Japan 2016

Energy Conservation and CO₂ Reduction

—Measures to prevent global warming—

The electricity consumed by JR East for train operations as well as for lighting and air-conditioning at railway stations and in offices is supplied by its own power plants and electric power companies. Besides electricity, we use diesel fuel and kerosene for diesel train operations and for air-conditioning at stations and in offices. We will continue saving energy in train operations, which account for about 80% of our total energy consumption, and taking a range of measures at operating bases to reduce CO₂ emissions.

Breakdown of JR East's Energy Consumption



Calculation Method

Figures have been calculated pursuant to the calculation methods stipulated in the Act on the Rational Use of Energy and the Act on Promotion of Global Warming Countermeasures. However, figures for electricity generated by JR East have been multiplied by 9.76 MJ/kWh.

Our Basic Approach to Research and Development

In accordance with “JR East Group Management Vision V—Ever Onward,” we are stepping up the pursuit of “extreme safety levels” through efforts aimed at “building a railway capable of withstanding natural disasters” and the “development of railways that passengers can utilize reliably.” Also, in a range of fields we are energetically advancing technological innovation with particular emphasis on the three pillars of technological innovation: “establishing energy and environmental strategies,” “utilizing ICT,” and “operating Shinkansen at faster speeds.”

Pursuing “Extreme Safety Levels”

Our R&D activities include research on human factors, which seeks to understand accidents and their causes accurately and prevent accidents through cause analysis; research on the safety of railcars to prevent wheel-climb derailments at low speeds; development of safety systems for maintenance work; research on safety evaluation in relation to natural disasters such as wind gusts, earthquakes, torrential rain, and snow; and research to ensure the safety of customers at railway stations.

Establishing Energy and Environmental Strategies

To advance initiatives for the prevention of global warming steadily, the JR East Group has set out environmental goals and proceeded with a range of environmental preservation measures. However, reaching our environmental goals will require stepped-up innovation in the environmental technology field. Aiming to establish energy and environmental strategies, we are pursuing R&D activities focused on three areas: utilizing renewable energy sources, energy conservation, and smart grid technology for railways.

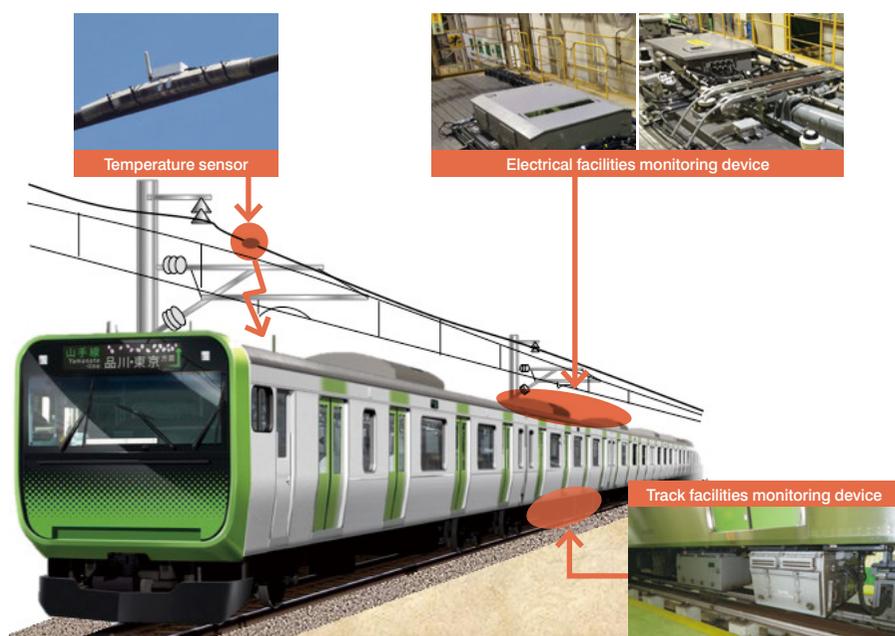
Utilizing ICT

We are actively utilizing ICT (information and communications technology), which has advanced rapidly in recent years, and are furthering R&D with a view to realizing the provision of information that caters to the needs of each customer. Also, we are advancing R&D aimed at using ICT to innovate transportation systems, maintenance work, and other frontline operations. In the transportation system field, with a view to transforming the Tokyo metropolitan area transportation system, we have tackled such initiatives as R&D for a next-generation train control system. In the maintenance field, viewing target facilities and equipment as assets, we have introduced a “smart maintenance strategy” that maximizes asset performance. We are conducting R&D to realize this strategy.

Operating Shinkansen at Faster Speeds

Aiming to operate Shinkansen at speeds of up to 360 km/h, we are proceeding with R&D focused on such areas as improving stability during high-speed operation. Also, by reflecting the achievements of this research in the operation of Shinkansen at 320 km/h, we will enhance safety and reliability even further.

Development of a system for monitoring device from trains in operation * Rendered image



JR East is currently developing a system that will allow constant monitoring of onboard devices and wayside equipment by trains in operation. We are testing the durability of the system by conducting trial monitoring. At the same time, we are proceeding with R&D on data transfer technologies.

If, through monitoring, we can assess each piece of equipment’s state of deterioration, we will be able to predict failures and conduct repairs in a more systematic manner, thereby further enhancing our ability to provide safe and reliable transportation. In conjunction with this initiative, we are studying ways of utilizing the frequency data that we acquire through monitoring.

Strengthening Collaboration with Local Communities

Our Basic Approach to Collaboration with Local Communities

The JR East Group's existence depends on the vitality of eastern Japan and of Japan as a whole. Therefore, as a company responsible for railways—which form part of society's infrastructure—and as a member of local communities, we will work with each community to establish and move toward its target profile. In addition, the Group will take advantage of its unique capabilities to invigorate local communities and promote tourism while advancing the development of appealing railway station-centered towns.

NOMONO 1-2-3 Project

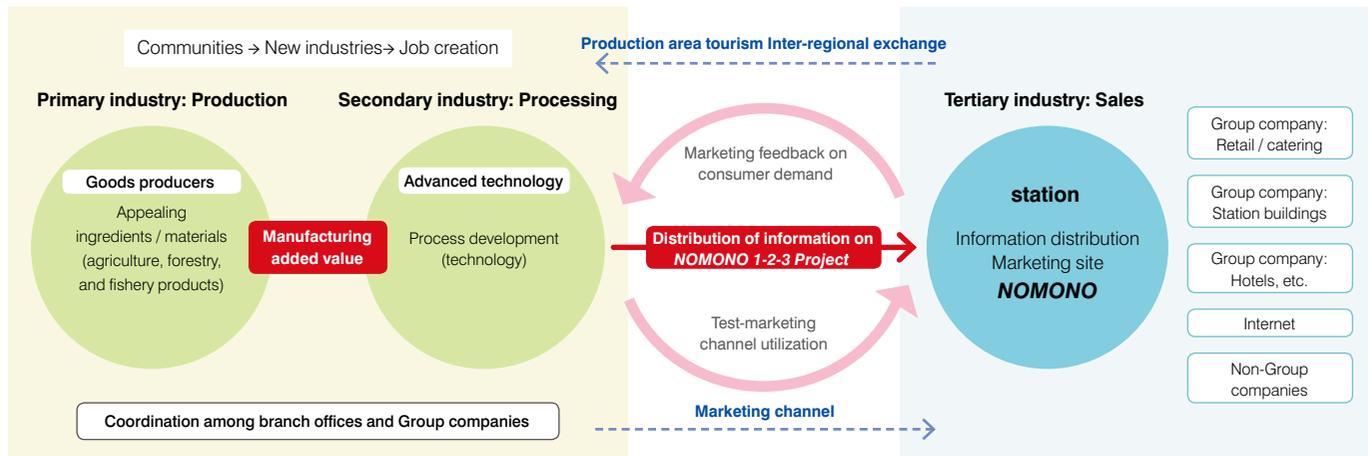
To strengthen collaboration with local communities further, our *Rediscovering the Regions Project* has been creating attractive products by applying advanced processing technology to local produce and other high-quality regional ingredients. Through this initiative, the JR East Group is encouraging manufacturing that integrates regions' primary, secondary, and tertiary industries to achieve *sextic industrialization**.

The *NOMONO 1-2-3 Project* is a manufacturing initiative aimed at supporting eastern Japan through product development and sales in collaboration with regional farming, forestry, and fishery industries. The name "NOMONO 1-2-3" derives from the idea of discovering seasonal goods, *shun no mono*; local goods, *chi no mono*; and traditional goods, *yukari no mono*; and JR East's promotion of manufacturing that integrates primary, secondary, and tertiary industries to achieve *sextic industrialization*.



* The expansion of agriculture, forestry, and fisheries to include food processing, logistics, and marketing

NOMONO 1-2-3 Project Conceptual Diagram



JR Tomato Land Iwaki Farm Co., Ltd.—Thriving in Partnership with Communities

We are expanding sales channels for local products and introducing *sextic industrialization* to regions. For example, we collaborated with progressive farmers in Iwaki, Fukushima Prefecture, to establish a new company engaged in tomato production on September 4, 2014.

The new company constructed a sunlight-based plant factory, which would safely and reliably produce high-quality tomatoes. At the same time, JR East will collaborate with the local community and Group companies to integrate production, distribution, and sales, thereby increasing railway travel and invigorating the region.

Business Scheme

JR East formed an alliance with leading tomato producer Tomatolandiwaki Co., Ltd., a pioneer in the construction of sunlight-based plant factories. With this partner, JR East established JR Tomato Land Iwaki Farm Co., Ltd., which is growing tomatoes for Group Companies in the Tokyo metropolitan area to use in their operations. Moreover, *Wonder Farm* processes, sells, and features tomato dishes in its restaurant.



Tackling New Business Areas

Our Basic Approach to Tackling New Business Areas

Based on “JR East Group Management Vision V—Ever Onward,” the JR East Group continues to venture into new business areas. The overseas railway market is expected to see average annual growth of 2.5% and account for revenues of ¥22 trillion by 2020.

Given this expected market expansion, the JR East Group is actively planning and participating in international railway business projects in partnership with companies in Japan and overseas with the aim of growing the Group. To gather information for such projects, we have established five overseas offices in New York, Paris, Brussels, Singapore, and London.

Developing International Railway Projects

As well as supplying rolling stock overseas, we are moving forward with various international railway projects, including projects in the fields of operation and maintenance. In December 2013, in partnership with Marubeni Corporation and Toshiba Corporation, we established an operating company, Japan Transport Technology (Thailand) Co., Ltd. (JTT), tasked with performing comprehensive maintenance for the rolling stock and ground installations of the Purple Line*, a mass rapid transit railway currently under construction in Bangkok, Thailand. We are continuing to move forward with this project, for which the JR East Group's Japan Transport Engineering Company provided 63 railcars, comprising 21 sets of three-car stainless steel trains.

This project will mark the first use of Japanese-made rolling stock on the rapid transit rail network in Bangkok. Furthermore, it will be the first participation in an overseas railway maintenance business of an alliance of companies that includes a Japanese railway operator. Operations are scheduled to begin in August 2016.

* The Purple Line is a railway line in Thailand's capital, Bangkok, which will link the Bang Sue district, in the northern part of the city, to the Bang Yai district in the northwestern suburbs. A Thai railway operator, Bangkok Expressway and Metro Public Company Limited, will manage the railway line, which will have 16 stations and a length of approximately 23 km. (as of June 2016)

Supporting Overseas Railway Operators

We provide support to overseas railway operators to help them and expand the scope of our business. Between 2013 and 2015, we transferred 476 205-Series, formerly used on the Saikyo Line, Yokohama Line, and other lines, to the PT KAI Commuter Jabodetabek urban rail system in Indonesia*. In addition, we have provided technical support for the maintenance of the transferred rolling stock by dispatching in-house technicians. Further, we provided technical support for the inspection and servicing of rolling stock by train crew members. Also, in 2015 JR East transferred diesel trains to Myanmar. We transferred to Myanmar Railways 19 diesel railcars (Kiha 40 Series, Kiha 48 Series) that were used in the Tohoku and Niigata regions and dispatched employees to provide technical support for rolling stock maintenance. We will continue developing such collaborations further by offering more comprehensive technical support.

* PT KAI Commuter Jabodetabek is a railway company that operates commuter railways in the Jakarta metropolitan area of Indonesia.



The delivery of railcars for the Purple Line



Providing technical support in Myanmar

Developing Employees and Creating a Corporate Culture that Maximizes Human Potential

Our Basic Approach to Personnel Development

The capabilities of each employee underpin the JR East Group. Our basic philosophy is to employ personnel based on their personalities and capabilities and foster personnel patiently until they fully realize their potential.

Realizing the Capabilities of Personnel

To ensure safe and reliable railway transportation services and provide services that satisfy customers, creating an environment in which the JR East Group's personnel can fully realize their potential is paramount. It is not an exaggeration to say that our success in fostering personnel who can decide the role they should play and then act accordingly will determine the future of our entire organization.

Given that society and working people's attitudes and environments are changing constantly, the JR East Group must sustain the motivation and ambition of employees as they endeavor to meet their responsibilities. We believe that, ultimately, such efforts will improve safety and increase customer satisfaction.

We aim to provide a workplace environment in which all employees can enjoy their work and set ambitious goals. To this end, we focus on sustaining the motivation and ambition of each employee, ensuring work-life balance, and benefiting from the talents of an even more diverse spectrum of personnel. Bearing these points in mind, we are taking a variety of measures to create a company that develops personnel through work.

"JR East Group Management Vision V—Ever Onward" calls on us to motivate employees by establishing additional open training programs and projects and stepping up personnel exchanges with other companies. Further, the vision emphasizes building a corporate culture that is open to the outside world and fostering broadminded personnel by passing on technical knowledge and skills to the next generation and participating in technological innovation and overseas railway projects.

Promoting Diversity

We believe that employees who find their work worthwhile and satisfying are able to take full advantage of their capabilities and fulfill their roles, thereby enhancing our competitiveness.

To cultivate a corporate culture in which diverse personnel can play important roles, we implement the Work-Life Program and promote diversity and work-life balance. Specifically, we are reforming employees' mindsets and creating a new culture by conducting seminars, operating a diversity-themed intranet site, and taking measures in each organization through the Work-Life Program Network, which underpins the advancement of the Work-Life Program in workplaces. We also encourage awareness of work-life balance among employees by inviting their families to visit workplaces during our Family Day event.



Employees' families visiting a workplace on Family Day

Main Concepts and Pillars of the Work-Life Program

Main concepts



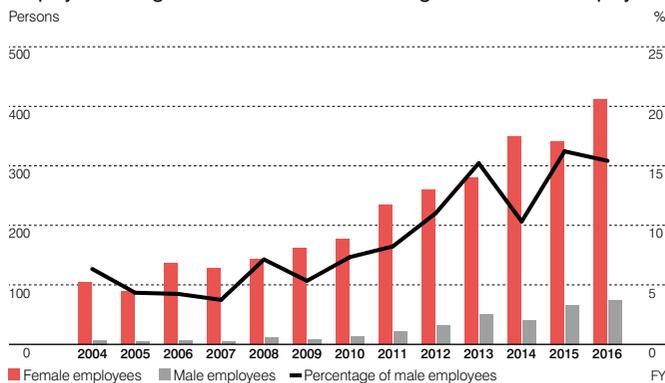
Main pillars



Supporting Balance between Work and Childcare / Nursing Care

- Extended availability of childcare leave by one year, until child reaches three years of age (April 2010)
- Introduced system of reduced daily working hours and increased holiday entitlement (April 2010)
- Established workplace nursery schools (two in Tokyo and one in Sendai) and hospital nursery school (JR Tokyo General Hospital)
- Began conducting seminars to help employees balance work and childcare / nursing care

Employees Taking Childcare Leave and Percentage of whom Male Employees





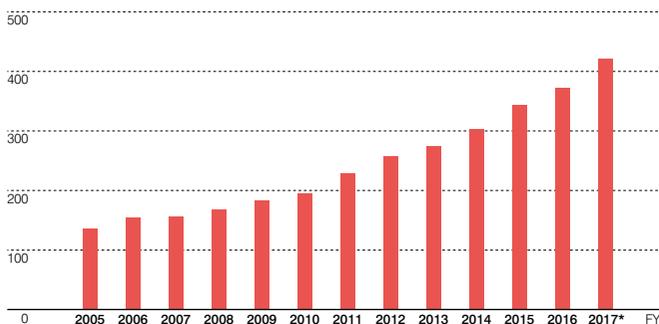
Seminar to help employees balance work and childcare

Increasing Employment Opportunities for Women

To increase women's employment opportunities, we ensure that women account for more than 20% of our new recruits. At the same time, we are making more positions available to women in such areas as frontline operations and planning departments. For example, around 40% of the crews working on the Yamanote Line are female employees. Also, the number of female managers is increasing year by year. More women are working in such important positions as deputy general managers at the head office and branch offices; supervisors of facilities in the field, such as station managers; and executives of Group companies. The promotion of a female employee to the position of corporate officer for the first time testifies to the growing employment opportunities for women. Moreover, by establishing child-rearing support programs and developing our in-house culture, we have increased the retention rate among female employees. Only accounting for 0.8% of employees when the JR East Group was established, female employees account for 11.3% as of April 1, 2016.

Number of Female Managers

Persons



* As of April 1, 2016

Employing People with Disabilities

In the JR East Group, a wide variety of personnel play significant roles irrespective of gender, age, nationality, or whether or not they have disabilities. Employees with disabilities accounted for 2.46% of our workforce as of June 2016. Also, aiming to meet our social responsibility to an

even greater degree by promoting the employment of people with disabilities and establishing working conditions amenable to them, we established JR East Green Partners Co., Ltd., in April 2008. The company acquired certification as a special subsidiary in May 2009.



Planting business of JR East Green Partners

Promoting Skills Development

Developing personnel and ensuring the passing on of technical knowledge and skills are vital to the JR East Group's sustained growth. Committed to developing personnel through work, the JR East Group is enhancing its capabilities as an organization and developing the next generation of personnel.

Developing the Next Generation of Railway Engineers at Skills Training Centers

As part of our efforts to ensure that experienced employees pass on their technical knowledge and skills to the next generation of railway engineers, we have established 104 skills training centers at new and existing training facilities. These centers support the passing on of railway-specific technical knowledge and skills at each workplace by simulating conditions in the field. For example, in our rolling stock maintenance section, the skills training center has railcar mockups that include power collection equipment, door opening-closing devices, and braking equipment. Meanwhile, the facilities maintenance section's skills training center has installed such railway facilities, as tracks, turnouts, platforms, overhead line equipment, and signals.



Training at skills training centers

Board of Directors and Corporate Auditors

As of June 23, 2016



Satoshi Seino

Chairman
Number of Company shares owned: 12,600 shares

Brief Personal Record, Position, and Business in Charge

Apr. 1970 Entered Japanese National Railways
Apr. 1987 Entered the Company
Jun. 1991 General Manager of Administration Department
May 1992 General Manager of Finance Department
Jan. 1994 General Manager of Personnel Department
Jun. 1996 Director and General Manager of Personnel Department and Human Resources Development Department
Jun. 1997 Director and General Manager of Personnel Department
Jun. 2000 Executive Director
Jun. 2002 Executive Vice President and Representative Director and Director General of Corporate Planning Headquarters
Apr. 2006 President and Representative Director
Apr. 2012 Chairman and Director (continuing to the present)



Masaki Ogata

Vice Chairman, Technology and Overseas Related Affairs
Number of Company shares owned: 7,900 shares

Brief Personal Record, Position, and Business in Charge

Apr. 1974 Entered Japanese National Railways
Apr. 1987 Entered the Company
Jun. 1998 General Manager of Transport Safety Department, Railway Operations Headquarters
Jun. 2000 General Manager of Public Relations Department
Jun. 2002 Director and General Manager of Transport & Rolling Stock Department, Railway Operations Headquarters
Jun. 2004 Executive Director and Deputy Director General of Railway Operations Headquarters
Jun. 2006 Executive Director and Director General of IT Business Development Headquarters and Deputy Director General of Railway Operations Headquarters
Jul. 2007 Executive Director and Director General of IT & Suica Business Development Headquarters and Deputy Director General of Railway Operations Headquarters

Jun. 2008 Executive Vice President and Representative Director and Director General of Railway Operations Headquarters; Director General of IT & Suica Business Development Headquarters
Jun. 2009 Executive Vice President and Representative Director and Director General of Railway Operations Headquarters
Jun. 2010 Executive Vice President and Representative Director
Jun. 2011 Vice Chairman and Director
Jun. 2012 Vice Chairman and Director, Technology and Overseas Related Affairs (continuing to the present)



Tetsuro Tomita*¹

President and CEO
Number of Company shares owned: 7,900 shares

Brief Personal Record, Position, and Business in Charge

Apr. 1974 Entered Japanese National Railways
Apr. 1987 Entered the Company
Jun. 1998 General Manager of Life-Style Business Development Headquarters
Jun. 2000 Director and General Manager of Management Administration Department, Corporate Planning Headquarters
Jun. 2003 Executive Director and Deputy Director General of Corporate Planning Headquarters
Jul. 2004 Executive Director and Deputy Director General of Corporate Planning Headquarters and General Manager of IT Business Development Department, Corporate Planning Headquarters
Jun. 2005 Executive Director and Deputy Director General of Corporate Planning Headquarters
Jun. 2008 Executive Vice President and Representative Director and Director General of Life-Style Business Development Headquarters
Jun. 2009 Executive Vice President and Representative Director and Director General of Corporate Planning Headquarters
Apr. 2012 President and Representative Director and Director General of Corporate Planning Headquarters
Jun. 2012 President and Representative Director (continuing to the present)



Yuji Fukasawa*¹

Executive Vice President
Assistant to President; In charge of Indian High-Speed Railway Project
Number of Company shares owned: 4,500 shares

Brief Personal Record, Position, and Business in Charge

Apr. 1978 Entered Japanese National Railways
Apr. 1987 Entered the Company
Jun. 2003 General Manager of Investment Planning Department, Corporate Planning Headquarters
Jun. 2006 Director and General Manager of Personnel Department and Director of JR East General Education Center
Jun. 2008 Executive Director
Jun. 2012 Executive Vice President and Representative Director
Jun. 2016 Executive Vice President and Representative Director Assistant to President; In charge of Indian High-Speed Railway Project (continuing to the present)



Osamu Kawanobe*¹

Executive Vice President
Assistant to President; Director General of Railway Operations Headquarters
Number of Company shares owned: 3,500 shares

Brief Personal Record, Position, and Business in Charge

Apr. 1979 Entered Japanese National Railways
Apr. 1987 Entered the Company
Jul. 2005 General Manager of Public Relations Department
Jun. 2008 Director and General Manager of Transport & Rolling Stock Department, Railway Operations Headquarters
Jun. 2010 Director and General Manager of Administration Department
Jun. 2012 Executive Director and Deputy Director General of Railway Operations Headquarters
Jun. 2014 Executive Director and Director General of Railway Operations Headquarters
Jun. 2016 Executive Vice President and Representative Director Assistant to President; Director General of Railway Operations Headquarters (continuing to the present)

Executive Directors



Yuji Morimoto

Director General of Corporate Planning Headquarters;
In charge of Inquiry & Audit Department;
In charge of Finance Department;
In charge of Tourism Strategy
Number of Company shares owned: 5,500 shares



Toshiro Ichinose

Director General of Life-Style Business
Development Headquarters;
In charge of Customer Service Quality Reformation
Department, Railway Operations Headquarters
Number of Company shares owned: 5,300 shares



Masahiko Nakai

Deputy Director General of Railway Operations
Headquarters;
In charge of Shinanogawa Power Station Improvement
Department, Railway Operations Headquarters;
In charge of Construction Department;
In charge of Indian High-Speed Railway Project
Number of Company shares owned: 3,400 shares



Takao Nishiyama

In charge of Overseas Related Affairs
Number of Company shares owned: 3,400 shares



Masao Hino

Deputy Director General of
Railway Operations Headquarters;
In charge of Marketing Department,
Railway Operations Headquarters;
In charge of Tourism Promotion;
In charge of Olympic and Paralympic Games*
Number of Company shares owned: 800 shares



Tadao Maekawa

General Manager of Tokyo Branch Office
Number of Company shares owned: 4,800 shares



Akihiko Ishikawa

In charge of Public Relations Department;
In charge of Personnel Department;
In charge of Health & Welfare Department;
In charge of Legal Department;
In charge of Administration Department
Number of Company shares owned: 1,000 shares

Directors



Takashi Eto

Stationmaster of Tokyo Station, Tokyo Branch Office
Number of Company shares owned: 1,400 shares



Tomokazu Hamaguchi^{*2}

Number of Company shares owned: 1,100 shares



Motoshige Itoh^{*2}

Number of Company shares owned: 0 shares



Reiko Amano^{*2}

Number of Company shares owned: 0 shares

Full-Time Corporate Auditors

Shigeo Hoshino^{*3}

Hajime Higashikawa^{*3}

Corporate Auditors

Toshiaki Yamaguchi^{*3}

(Certified Public Accountant)

Yoshio Ishida^{*3}

Seishi Kanetsuki^{*3}

^{*1} Representative director

^{*2} Outside corporate director

^{*3} Outside corporate auditor

* East Japan Railway Company is an Official Passenger Rail Transportation Services Partner of the Tokyo 2020 Olympic and Paralympic Games.

Corporate Governance

JR East's Basic Corporate Governance Philosophy

Corporate Governance Guidelines (Article 2)

The Company aims to meet the expectations of its stakeholders, including shareholders, customers, and communities, by making transparent, fair, and prompt decisions in addressing its challenges, such as ensuring safe and reliable transportation services and implementing service quality reforms. JR East thereby works toward its goals of achieving sustainable growth in its business centered on train stations and railway facilities and improvements in corporate value over the medium to long term.

Because of the special characteristics of JR East's mainstay railway transportation operations, the Company emphasizes making management decisions based on a long-term perspective. Accordingly, JR East believes the most appropriate course is to enhance corporate governance based on its current auditor system of governance.

Corporate Governance Guidelines (Established November 25, 2015)
http://www.jreast.co.jp/e/data/pdf/20151125_guidelines.pdf

Current Status of Corporate Governance Systems

Reason for Adopting Current Corporate Governance System

Corporate Governance Guidelines (Article 16)

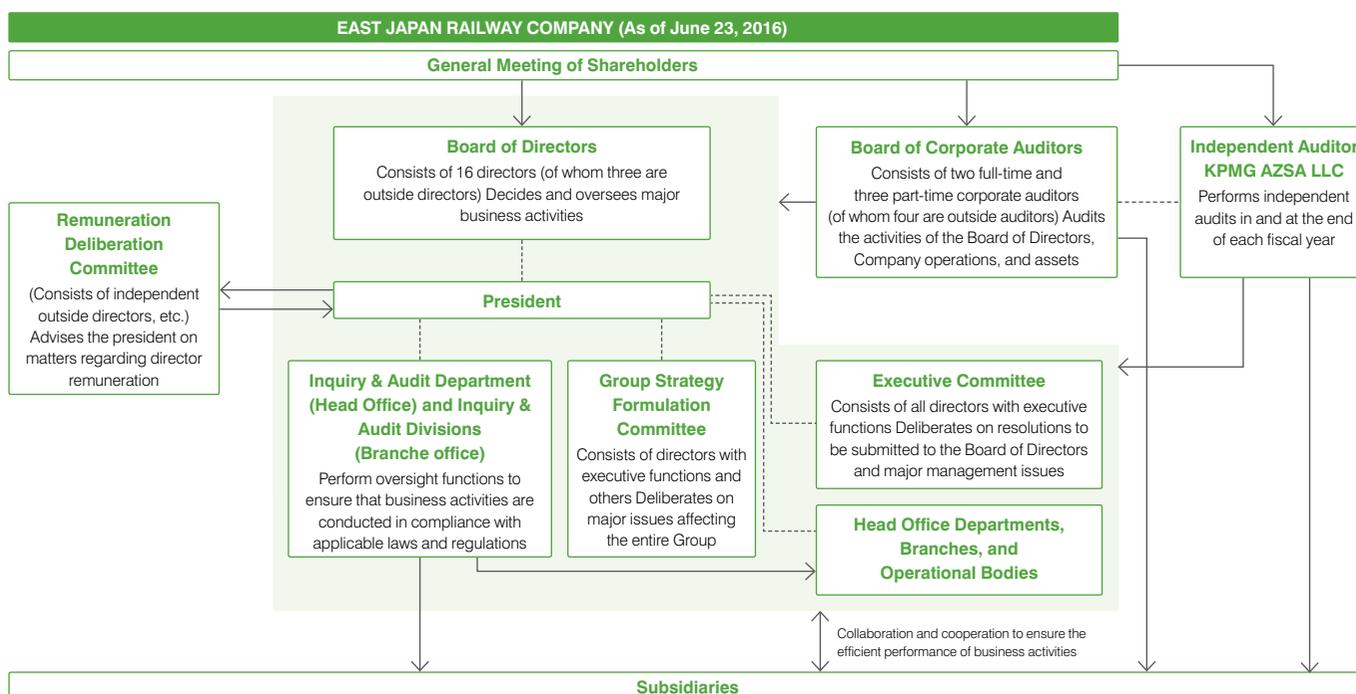
As a range of knowledge and experience on safety maintenance and other matters, combined with decision-making from a medium- to long-term perspective, is necessary for JR East's primary business—railway transportation operations—the Company has established a Board of Directors and also a Board of Corporate Auditors composed of corporate auditors that are independent from the Board of Directors.

Overview of Corporate Governance Units

JR East's Board of Directors comprised 16 directors, including three outside corporate directors as of June 23, 2016. Meeting once a month in principle, the Board of Directors decides on key operational issues relating to statutory requirements and other matters and supervises overall operations. Created by the Board of Directors, the Executive Committee includes all directors with executive functions. Meeting once a week in principle, the Executive Committee deliberates on matters to be decided by the Board of Directors and other important management issues. In addition, the Group Strategy Formulation Committee, which mainly consists of directors with executive functions, convenes as required and considers management strategy for respective operational areas and other significant Group issues with a view to developing the JR East Group as a whole.

Meeting once a month in principle, the Board of Corporate Auditors comprises five corporate auditors, including two full-time and three part-time corporate auditors, of whom four are outside auditors. In accordance with guidelines established by the Board of Corporate Auditors, the corporate auditors supervise the directors' implementation of operations by attending meetings of the Board of Directors, the Executive Committee, and other committees as well as by making inquiries regarding JR East's operations and assets.

Conceptual Diagram of Corporate Governance



Evaluation of the Effectiveness of the Board of Directors

Corporate Governance Guidelines (Article 25)

An analysis and evaluation of the effectiveness of the Board of Directors was conducted at a meeting of the Board of Directors convened on March 15, 2016. The results were as follows.

The Board of Directors is sufficiently fulfilling its role and duties and has been judged to be effective. Specifically, the Board of Directors conducts appropriate discussions regarding agenda items and makes reports sufficient for use in supervising the execution of business duties. In addition, it was confirmed that compliance and other systems had been effectively put in place.

In order to improve effectiveness of the Board of Directors, the standards for submitting matters for discussion by the Board of Directors were partially revised to allow for discussions to be focused more on important matters to facilitate more in-depth examination. Furthermore, based on input from independent outside directors, the Company also decided to begin providing opportunities for discussions to be held with such directors in regard to strategically important tasks for the Company.

Basic Internal Control Policy for Financial Reports

JR East's basic internal control policy for financial reports is as follows:

- 1) JR East will establish and operate systems required to ensure the appropriateness of documents relating to the financial statements and other information.
- 2) Regarding the establishment and operation of the systems indicated in the previous item, JR East will adhere to generally accepted standards for the evaluation of internal controls in relation to financial reports and evaluate internal controls each fiscal year.

Current State of Risk Management Systems

JR East has established the Transportation Operations Center, which operates 24 hours a day and has the task of ensuring rapid and appropriate responses in the event of an accident or disaster affecting railway operations. JR East has also established two specialized internal committees, the Railway Safety Promotion Committee and the Customer Comments Committee. The former stresses the prompt review, effective formulation, and promotion of measures for preventing railway operation accidents and accidents involving injury and death. The latter focuses on the effective formulation and promotion of measures for preventing the malfunction of railway cars, facilities, and equipment, and improving the response to service disruptions once a transportation malfunction occurs, with the aim of enhancing transportation service quality. In addition, the Railway-Related Risk Mitigation Committee was formed to facilitate the pursuit of higher levels of transportation safety and reliability through measures to prevent reoccurrence of transportation-related accidents and disruptions and to avoid such incidents altogether by maintaining an understanding of the risks and vulnerabilities faced by the Company.

With regard to the risk of a significant adverse influence on corporate operations due to such incidents as external offenses or internal misconduct and legal violations by JR East or its subsidiaries, all JR East departments undertake risk management activities. In addition, JR East has established the Crisis Management Headquarters based around

departments responsible for risk management, as well as implemented crisis management-related internal regulations. In the event of a problem, JR East's crisis management system calls for top management to participate in the immediate establishment of a preliminary task force that rapidly undertakes such actions as gathering the relevant information and implementing countermeasures.

Current State of Internal Audits, Corporate Audits, and Accounting Audits (Systems for Internal Audits, Corporate Audits, and Accounting Audits)

Regarding internal audits, JR East has established an internal auditing system involving approximately 100 full-time employees in the Inquiry & Audit Department at the Head Office and Inquiry & Audit divisions at branch offices, and together they work to ensure that corporate operations are executed lawfully and efficiently. Audits of the business execution status of the Head Office, Branch Offices, Operational Body, and other entities are performed according to an audit plan, and requests are made for the submission of progress updates for items requiring improvement. The audit results are reported to representative directors at the end of each accounting period and at other times deemed necessary. In addition, the Inquiry & Audit Department audits subsidiaries.

Regarding corporate audits, corporate auditors exchange information at monthly meetings of the Board of Corporate Auditors, and they also exchange auditing information with corporate auditors of subsidiaries at liaison meetings held at regular intervals. The audits of corporate auditors are supported by approximately 10 specialized staff. The system for the oversight of the implementation of operations by directors, carried out in accordance with the rules established by the Board of Corporate Auditors, centers on full-time corporate auditors who attend meetings of the Board of Directors, the Executive Committee, and other important in-house meetings as well as investigate financial situations and other items. Further, corporate auditor Toshiaki Yamaguchi is a certified public accountant and has extensive expertise with regard to finance and accounting.

Regarding accounting audits, the consolidated accounts of JR East are audited under contract by an independent auditor (accounting auditor), KPMG AZSA LLC, in and at the end of each fiscal year. The following is a breakdown of the certified public accountants who conducted accounting audits in the fiscal year under review as well as their auditing assistants.

- Designated certified public accountants:
Shozo Tokuda, Kazuhiko Azami, and Mamoru Ando
- Breakdown of auditing assistants:
Certified public accountants 17
Other 20

JR East facilitates coordination and information sharing to promote efficient and effective auditing. For example, full-time corporate auditors and the director responsible for internal auditing units hold liaison meetings, and full-time corporate auditors receive regular updates on audit implementation from the accounting auditor five times a year and at any other time deemed necessary.

Outside Directors and Outside Corporate Auditors

Corporate Governance Guidelines (Article 17)

The Company has three outside directors and four outside corporate auditors.

There is no conflict of interest between these outside directors, outside corporate auditors, and JR East with regard to personal relationships, capital relationships, business relationships, or other potentially conflicting interests the Company is obliged to disclose.

In addition to overseeing the business from an independent perspective, outside directors will be appointed with the goal of taking advantage of their significant knowledge and experience in the Company's business. The Company will appoint such directors from a variety of areas in the interest of management diversity.

In order for corporate auditors to audit the execution of duties by directors from a perspective independent from that of the Board of Directors, the Company will nominate corporate auditors that have significant knowledge and experience in a variety of areas, including one or more persons that have expert knowledge in financing and accounting. Of the Company's five corporate auditors, four are outside corporate auditors.

Principal Activities of Outside Directors and Outside Corporate Auditors

Title	Name	Principal activities
Outside Director	Takeshi Sasaki	Attended all 16 meetings of the Board of Directors during this fiscal year (attendance rate 100%) and spoke on the Company's management issues based on his wide experience as an expert.
Outside Director	Tomokazu Hamaguchi	Attended all 16 meetings of the Board of Directors during this fiscal year (attendance rate 100%) and spoke on the Company's management issues based on his wide experience as a top executive.
Outside Director	Motoshige Itoh	Attended all 12 meetings of the Board of Directors held during this fiscal year during his tenure (attendance rate 100%) and spoke on the Company's management issues based on his wide experience as an expert.
Outside Corporate Auditor	Shigeo Hoshino	Attended 15 out of 16 meetings of the Board of Directors held during this fiscal year (attendance rate 94%) and 15 out of 16 meetings of the Board of Corporate Auditors held during this fiscal year (attendance rate 94%) and spoke on the Company's management issues based on his wide experience in government.
Outside Corporate Auditor	Hajime Higashikawa	Attended all 16 meetings of the Board of Directors held during this fiscal year (attendance rate 100%) and all 16 meetings of the Board of Corporate Auditors held during this fiscal year (attendance rate 100%) and spoke on the Company's management issues based on his wide experience in government.
Outside Corporate Auditor	Toshiaki Yamaguchi	Attended all 16 meetings of the Board of Directors during this fiscal year (attendance rate 100%) and all 16 meetings of the Board of Corporate Auditors during this fiscal year (attendance rate 100%) and spoke on the Company's management issues based on his wide experience as a certified public accountant.
Outside Corporate Auditor	Mutsuo Nitta	Attended 8 out of 10 meetings of the Board of Directors held during this fiscal year until retirement due to decease on November 2, 2015 (attendance rate 80%) and 8 meetings out of all 10 meetings of the Board of Corporate Auditors held until retirement during this fiscal year (attendance rate 80%) and spoke on the Company's management issues based on his wide experience as an attorney-at-law.

In order to enable independent outside directors to effectively fulfill their roles, the Company provides the following support:

[Corporate Governance Guidelines \(Article 23\)](#)

- (1) Opportunities for independent outside directors to mutually exchange opinions
- (2) Opportunities for independent outside directors to exchange opinions with the representative director and other individuals
- (3) Opportunities for independent outside directors to exchange opinions with corporate auditors
- (4) Opportunities for independent outside directors to exchange opinions with the independent auditor (accounting auditor)
- (5) Provision of sufficient information to independent outside directors such as by supplying them with explanations of agendas of Board of Directors' meetings in advance

Appointment Status of Outside Directors (As of July 2016)

Name	Positions at other entities	Reasons for election
Tomokazu Hamaguchi	Director of IHI Corporation Director of KURARAY CO., LTD. Director of FPT CORPORATION	Mr. Tomokazu Hamaguchi has experience as President and Representative Director of NTT DATA Corporation among other experiences. He is suitable as an outside director based on his sound judgment and insight necessary for company management and his ability to supervise and advise on the Company's management.
Motoshige Itoh	Professor of Gakushuin University, Faculty of International Social Sciences	Mr. Motoshige Itoh has experience as Dean of the Graduate School of Economics and Faculty of Economics of the University of Tokyo. He is suitable as an outside director based on his sound judgment and insight necessary for company management and his ability to supervise and advise on the Company's management.
Reiko Amano	Executive Director of National Research Institute for Earth Science and Disaster Resilience	Ms. Reiko Amano held important offices at Kajima Corporation and the National Research Institute for Earth Science and Disaster Resilience. She is suitable as an outside director based on her sound judgment and insight necessary for company management and her ability to supervise and advise on the Company's management.

Compensation of Directors and Corporate Auditors

JR East's Total Remuneration of Directors and Corporate Auditors by Classification, Total Remuneration by Type, and Number of Directors and Corporate Auditors Receiving Remuneration

Position	Total Amount of Remuneration (¥ Million)	Total Amount of Remuneration by Type (¥ Million)		Number of Recipients
		Basic Remuneration	Bonuses	
Directors (not including outside directors)	723	558	165	16
Corporate auditors (not including outside corporate auditors)	10	8	2	1
Outside directors and outside corporate auditors	109	87	21	7
Total	843	654	189	24

The amount of remuneration, etc., includes the amount paid to two directors that resigned as of the conclusion of the 28th Ordinary General Meeting of Shareholders held on June 23, 2015, and one outside director that resigned on November 2, 2015.

Total Remuneration of Individual JR East Directors

Not recorded because no individual received total consolidated remuneration of ¥100 million or more.

Policies for Determining Remuneration and Calculation Method for Remuneration of Directors and Corporate Auditors**Corporate Governance Guidelines (Article 18)**

The Company pays directors other than outside directors, as consideration for their daily execution of business, monthly remuneration based on their positions, within the limit on remuneration as determined by resolution of the general meeting of shareholders, and performance-based remuneration, in lieu of bonuses, upon consideration of the operating results, dividends paid to shareholders and their contribution to the results for the applicable term as well as the degree of their contribution toward the achievement of targets established in the medium-term management plan and other factors. The Company pays to outside directors and corporate auditors, as consideration for their execution of business, monthly remuneration within the limit on remuneration as determined by resolution of the general meeting of shareholders, but no performance-based remuneration is in consideration of the nature of their position.

To ensure the transparency and fairness of the decision-making procedures for director remuneration, a remuneration deliberation committee composed of independent outside directors and other directors discuss remuneration levels prior to the finalization of decisions.

Furthermore, as of fiscal 2016, payments of bonuses were discontinued for directors, other than outside directors, in light of the introduction of performance-based remuneration and for outside directors and corporate auditors in consideration of the nature of their position.

Shareholdings in Selected Companies**Corporate Governance Guidelines (Article 5)**

The Company holds shares in selected companies that contributes to its corporate value, in order to maintain and strengthen stable business relationships and close cooperative relationships with such companies over the medium to long term.

The Company examines the medium- to long-term economic rationale and future outlook of major shareholdings on an annual basis at the Board of Directors, and disclose the objectives therefor and other matters in the annual securities report.

The Company evaluated the medium- to long-term economic rationale and future outlook of such holdings at the Board of Directors' meeting held on May 17, 2016. This evaluation deemed these holdings rational.

The Company exercises its rights as a shareholder of a company by examining the details of proposals for each general meeting of shareholders of such company and requesting any explanation therefor, as necessary, in consideration of its objectives and other factors for such shareholdings.

Remuneration for Auditing Services**Remuneration for Independent Auditors**

Classification	(¥ Million)			
	Fiscal 2015		Fiscal 2016	
	Remuneration for Auditing Services	Remuneration for Non-auditing Services	Remuneration for Auditing Services	Remuneration for Non-auditing Services
JR East	245	8	245	2
Consolidated subsidiaries	478	3	466	1
Total	723	11	711	3

The JR East Group's Basic Approach to Compliance

The JR East Group advances compliance-related initiatives and has established the "Policy on Legal and Regulatory Compliance and Corporate Ethics" to provide guidelines on corporate conduct.

Also, the Group has established Compliance Hotlines inside and outside the Group for whistle-blowing.

In addition, the Group cultivates compliance awareness by conducting education for all Group employees annually.

The "Policy on Legal and Regulatory Compliance and Corporate Ethics" and the "Compliance Action Plan"

The "Policy on Legal and Regulatory Compliance and Corporate Ethics" establishes the JR East Group's approach to compliance and corporate ethics based on the Group Philosophy and Basic Principles. To heighten the policy's effectiveness and explain desirable employee conduct, the Group prepared the "Compliance Action Plan" and distributed a hand-book based on it to all Group employees. Further, given its stepped-up overseas business development, the Group prepared and announced the "Basic Policy Aimed at Preventing Bribery in Relation to Non-Japanese Civil Servants" in June 2014.

Education of All Employees

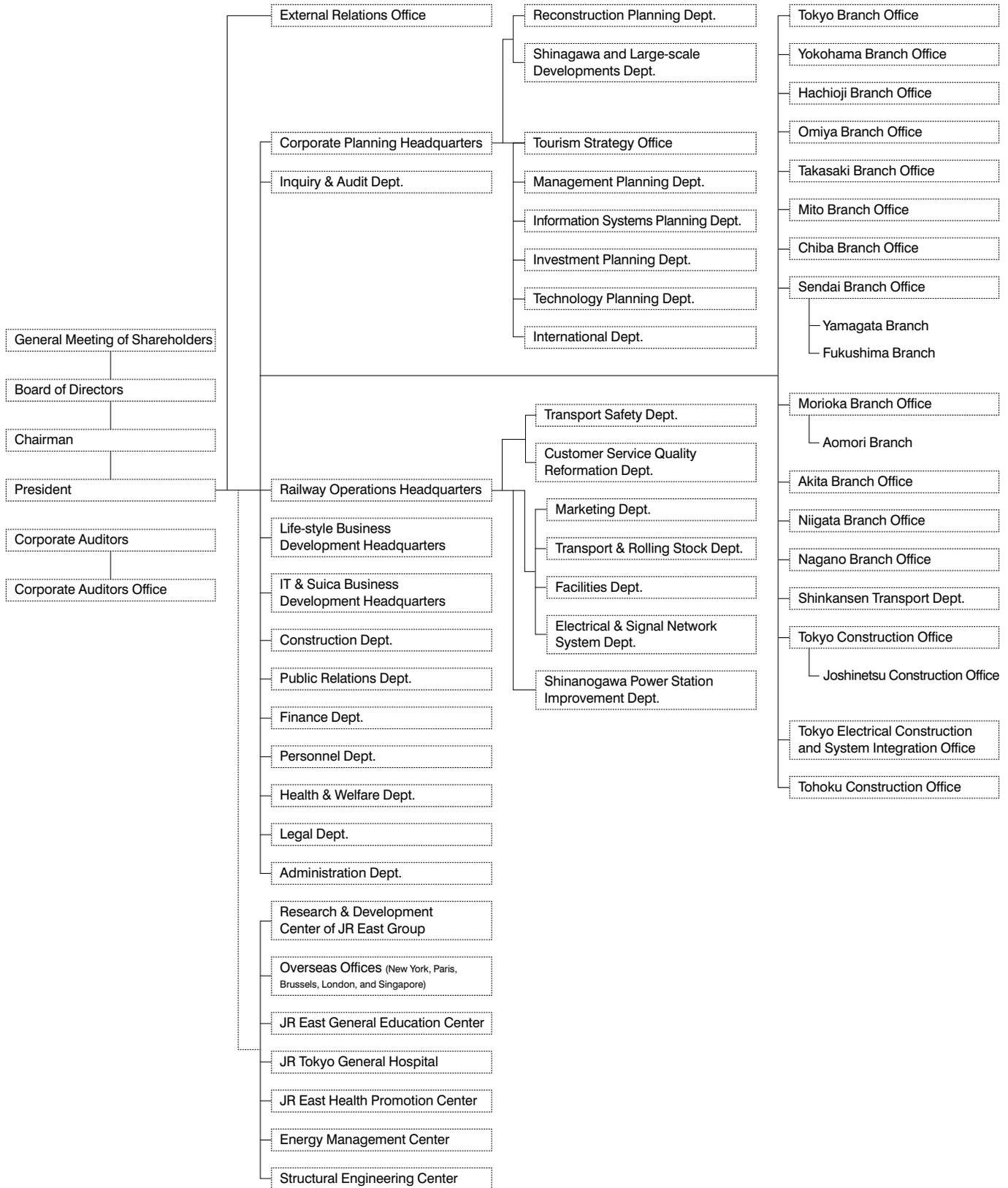
Aiming to further each employee's understanding of compliance's importance, the guidelines, and the action plan, the JR East Group has conducted an annual compliance education program that targets all Group employees since fiscal 2010. Initially, the program mainly involved lectures using DVDs as educational material. In recent years, however, the program educates by encouraging employees to consider and discuss issues. In this format, department leaders conduct study groups for each workplace using materials prepared by the Head Office, and the groups focus on case studies taken from operations that are familiar to each set of employees. The JR East Group will continue inculcating compliance awareness through education that reflects society's expectations regarding corporate social responsibility and changes in the awareness of Group employees.

Main Compliance Seminars in Fiscal 2016

Title	Number of Sessions	Participants	Contents and Objectives	Number of Participants
Compliance Training for All Employees	1	JR East and Group company employees	Rigorous compliance awareness	All employees
New Recruit Training	1	JR East new recruits	Rigorous compliance awareness	All new recruits
Basic Legal Training	1	Group company legal affairs and compliance personnel	Acquisition of basic legal and compliance knowledge	30
Legal Training for Newly Appointed Legal Affairs Personnel	1	Newly appointed legal affairs personnel of Head Office and branch offices	Acquisition of basic legal and compliance knowledge	16
Legal Skills Training	1	Legal affairs personnel of Head Office and branch offices	Acquisition of legal and compliance knowledge related to duties Enhancement of legal reasoning and problem-solving skills, etc.	20
Legal Seminar	3	JR East and Group company executives and employees	Explanation of new and amended laws Advancement of legal compliance awareness	600
Compliance Seminar	2	Head Office executives, general managers, etc.	Rigorous awareness of compliance-based business management	150
Group Company Compliance Seminar	1	Group company executives and employees	Rigorous awareness of compliance-based business management	80

Organization

As of July 2016



FACTS & FIGURES

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JR East: Domestic and International Perspectives

Peer Group Comparisons

In this section, several key performance indicators illustrate how JR East compares with selected well-known companies.

In scale and profitability, JR East is not to be outdone by any of the world's renowned transportation companies. It is a benchmark among public utilities in Japan—including the power and telecommunications companies—of an overwhelming scale and earnings performance above all of the other domestic airline and private railway operators.

INTERNATIONAL

Total Stock Market Value

Millions of U.S. Dollars

Company	Value (Millions of U.S. Dollars)
JR East	33,681
IAG	17,769
Lufthansa	7,659
Union Pacific	66,190
FedEx	48,923
UPS	85,105

Operating Revenues

Millions of U.S. Dollars

Company	Value (Millions of U.S. Dollars)
JR East	25,373
IAG	25,875
Lufthansa	36,287
Union Pacific	21,813
FedEx	47,453
UPS	58,363

Profit attributable to owners of parent

Millions of U.S. Dollars

Company	Value (Millions of U.S. Dollars)
JR East	2,171
IAG	1,692
Lufthansa	1,922
Union Pacific	4,772
FedEx	1,050
UPS	4,844

* Data in these graphs has been computed from each company's share price and shares outstanding at the end of the previous fiscal year.

Cash Flows from Operating Activities

Millions of U.S. Dollars

Company	Value (Millions of U.S. Dollars)
JR East	5,957
IAG	2,228
Lufthansa	3,841
Union Pacific	7,344
FedEx	5,366
UPS	7,430

Return on Average Equity (ROE)

%

Company	Value (%)
JR East	10.4
IAG	34.3
Lufthansa	34.9
Union Pacific	22.8
FedEx	6.9
UPS	210.1

Average equity is the average of equity at the end of the previous and applicable fiscal years.

Ratio of Operating Income to Average Assets (ROA)

%

Company	Value (%)
JR East	6.3
IAG	8.9
Lufthansa	4.9
Union Pacific	15.1
FedEx	5.3
UPS	20.8

Average assets is the average of assets at the end of the previous and applicable fiscal years.

DOMESTIC

Total Stock Market Value

Millions of U.S. Dollars

JR East	33,681
ANA	9,814
Tokyu	10,236
Kansai Electric Power	7,880
NTT	89,930

Operating Revenues

Millions of U.S. Dollars

JR East	25,373
ANA	15,851
Tokyu	9,659
Kansai Electric Power	28,725
NTT	102,133

Profit attributable to owners of parent

Millions of U.S. Dollars

JR East	2,171
ANA	692
Tokyu	489
Kansai Electric Power	1,246
NTT	6,529

* Data in these graphs has been computed from each company's share price and shares outstanding at the end of the previous fiscal year.

Cash Flows from Operating Activities

Millions of U.S. Dollars

JR East	5,957
ANA	2,335
Tokyu	1,147
Kansai Electric Power	5,267
NTT	23,999

Return on Average Equity (ROE)

%

JR East	10.4
ANA	9.8
Tokyu	9.8
Kansai Electric Power	12.7
NTT	8.4

Average equity is the average of equity at the end of the previous and applicable fiscal years.

Ratio of Operating Income to Average Assets (ROA)

%

JR East	6.3
ANA	6.0
Tokyu	3.7
Kansai Electric Power	3.4
NTT	6.5

Average assets is the average of assets at the end of the previous and applicable fiscal years.

- In January 2011, British Airways and IBERIA underwent management integration to become IAG (International Airlines Group).
- Year ended March 31, 2016 (Year ended December 31, 2015, for IAG, Lufthansa, Union Pacific, and UPS and year ended May 31, 2015, for FedEx).
- ANA: ANA HOLDINGS INC.; Tokyu: Tokyu Corporation; NTT: Nippon Telegraph and Telephone Corporation
- Data in this section is based on consolidated figures from each company's annual report or financial press releases.
- The exchange rate used is the rate on March 31, 2016 (U.S.\$1=¥113, £1=\$1.44, €1=\$1.13).
- Share prices at the close of the respective previous fiscal years and computed using the above exchange rates are \$85.96 for JR East, \$8.77 for IAG, \$16.49 for Lufthansa, \$78.20 for Union Pacific, \$173.22 for FedEx, \$96.23 for UPS, \$2.81 for ANA, \$8.35 for Tokyu, \$8.82 for Kansai Electric Power, and \$42.90 for NTT.

International Railway Comparisons

Japan relies on railways for around 30% of its transportation needs, a ratio much higher than in most other countries. This high reliance on railways due to the size of the economy and geographic characteristics affords railway companies an extremely large source of demand, especially in urban areas. In addition to being Japan's top railway company, JR East is one of the largest railway companies in the world.

TRANSPORTATION MARKET

Railway Line Networks

Kilometers

JR East	7,457
U.K.	15,748
Germany	33,449
France	30,013
U.S.	34,082

Revenues from Railway Operations

Millions of U.S. Dollars

JR East	15,973
U.K.	13,233
Germany	23,242
France	18,411
U.S.	2,269

Number of Passengers

Millions

JR East	6,364
U.K.	1,562
Germany	2,008
France	1,126
U.S.	29

Number of Employees

JR East	48,894
U.K.	35,261
Germany	293,765
France	150,070
U.S.	20,047

Passenger Kilometers

Millions

JR East	134,428
U.K.	59,171
Germany	79,906
France	84,785
U.S.	10,331

- Figures are as of March 2016 for JR East, March 2014 for the U.K., December 2013 for France and Germany, and September 2010 for the U.S.

- U.K.: Association of Train Operating Companies (Railway tracks are owned by Network Rail Ltd.); Germany: Deutsche Bahn AG; France: Société Nationale des Chemins de fer Français (SNCF) (Railway tracks are owned by Réseau Ferré de France (RFF)); and U.S.: National Railroad Passenger Corporation (Amtrak).

- Revenues from railway operations do not include freight and other service revenues.

- Figures for JR East do not include Tokyo Monorail.

- The exchange rate used is U.S.\$1=¥113 as of March 2016 for JR East and €1=U.S.\$1.38 as of March 2014 for the others.

Source: International Railway Statistics 2013 and 2012,

Statistics Centre of the International Union of Railway, 2015 and 2014.

FUNDAMENTALS

Gross Domestic Product

Billions of U.S. Dollars

2015	
Japan	4,991
U.K.	2,663
Germany	3,859
France	2,664
U.S.	17,947

Population

Millions

2015	
Japan	127.1
U.K.	64.7
Germany	80.7
France	64.4
U.S.	321.8

Population Density

Per Square Kilometer

2015	
Japan	336
	1,628
U.K.	267
	307
Germany	226
	332
France	117
	169
U.S.	33
	48

- JR East calculated these figures by using the following data and definition of each country's habitable land area.

Population

Japan: Current Population Estimates, Ministry of Internal Affairs and Communications Statistics Bureau

Other countries: United Nations data

Habitable land area

Japan: Land White Paper, Ministry of Land, Infrastructure, Transport and Tourism. Total area minus forests and woodland, barren land, area under inland water bodies, and other

Other countries: Global Forest Resources Assessment 2015, FAO

■ Population per square kilometer of total national land area

■ Population per square kilometer of habitable land area

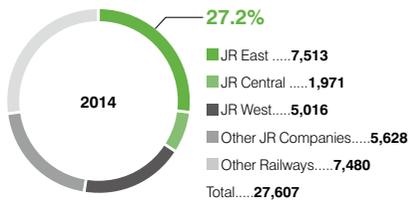
Railway Operations in Japan

Railways play a vital role in Japan, a nation of limited landmass and high population density. Here, railways carry roughly 30% of the passenger volume in all modes of transportation, and JR East accounts for roughly 30% of the passenger volume in railways.

SHARE OF DOMESTIC RAILWAYS

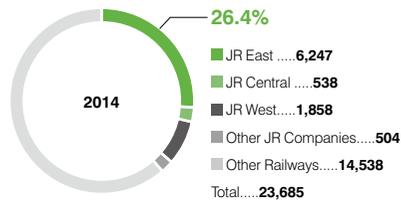
Passenger Line Network

km



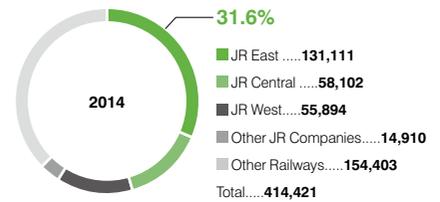
Number of Passengers

Millions



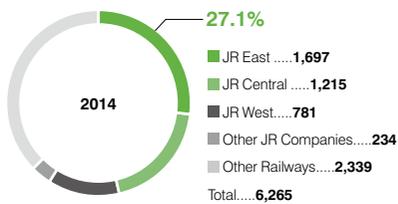
Passenger Kilometers

Millions



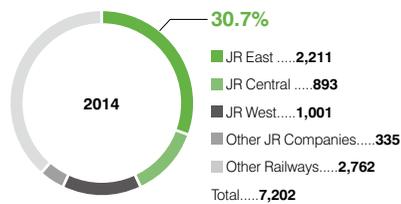
Revenues from Passenger Tickets

Billions of Yen



Rolling Stock Kilometers

Millions



As of March 31, 2014

- Figures for Passenger Line Network do not include freight traffic.
- Figures for Rolling Stock Kilometers do not include locomotives and freight cars.
- Figures for Tokyo Monorail are included in other railways.

Source: Statistics of Railways 2013, Ministry of Land, Infrastructure, Transport and Tourism

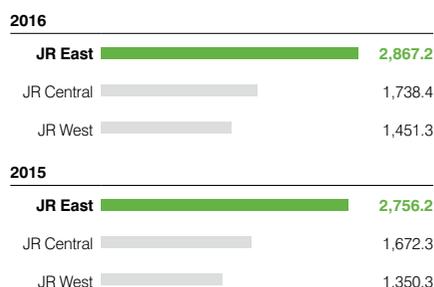


Financial Overview of JR Passenger Railway Companies

JR East accounts for about 50% of the total operating revenues of the three largest JR passenger railway companies. JR East's immense and stable operating base contributes to large and consistent earnings and cash flows.

Operating Revenues

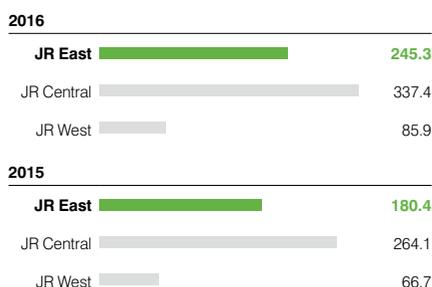
Billions of Yen



Years ended March 31	Millions of Yen	
	2015	2016
JR East	2,756,165	2,867,200
JR Central	1,672,295	1,738,409
JR West	1,350,336	1,451,300

Profit attributable to owners of parent

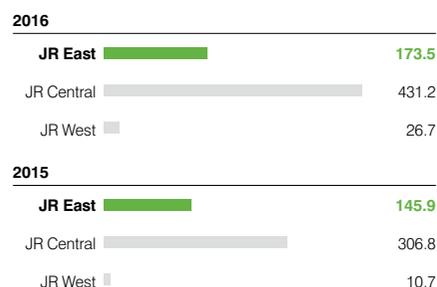
Billions of Yen



Years ended March 31	Millions of Yen	
	2015	2016
JR East	180,398	245,310
JR Central	264,134	337,440
JR West	66,712	85,868

Free Cash Flows

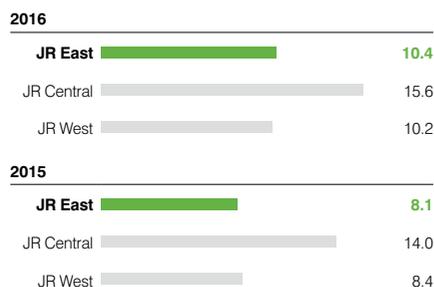
Billions of Yen



Years ended March 31	Millions of Yen	
	2015	2016
JR East	145,918	173,534
JR Central	306,836	431,190
JR West	10,701	26,661

Return on Average Equity (ROE)

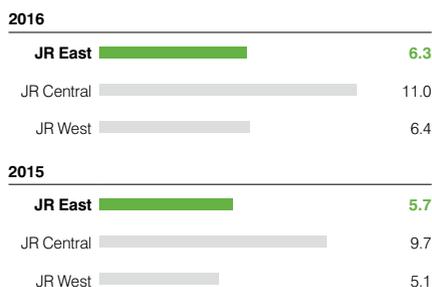
%



Years ended March 31	%	
	2015	2016
JR East	8.1	10.4
JR Central	14.0	15.6
JR West	8.4	10.2

Ratio of Operating Income to Average Assets (ROA)

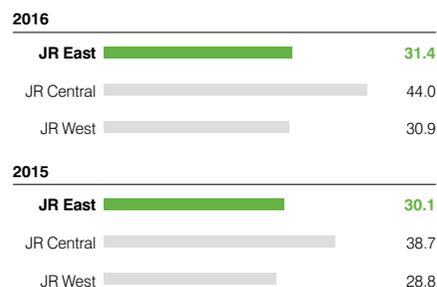
%



Years ended March 31	%	
	2015	2016
JR East	5.7	6.3
JR Central	9.7	11.0
JR West	5.1	6.4

Equity Ratio

%



Years ended March 31	%	
	2015	2016
JR East	30.1	31.4
JR Central	38.7	44.0
JR West	28.8	30.9

- Data in this section has been calculated by JR East based on figures in JR Central's and JR West's financial press releases.

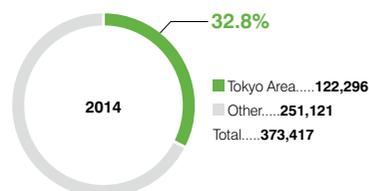
Railway Operations in Tokyo

The Tokyo metropolitan area accounts for roughly 30% of the population and economic base in Japan and has a population density far higher than any other region in the country. JR East alone provides nearly half of the huge volume of railway transportation in the Tokyo metropolitan area, where railways account for roughly 50% of all transportation.

FUNDAMENTALS

Net Domestic Product

Billions of Yen

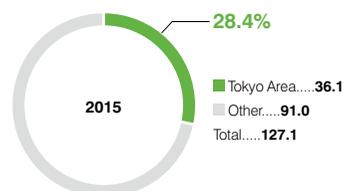


Year ended March 31, 2014

Source: Annual Report on Prefectural Economies, Cabinet Office

Population

Millions



As of October 1, 2015

Source: Current Population Estimates and Census, Ministry of Internal Affairs and Communications

Population Density

Per Square Kilometer

2015



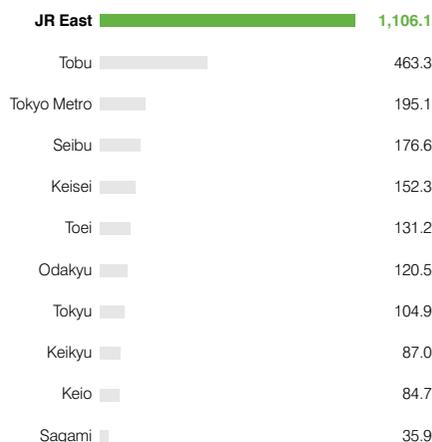
As of October 1, 2015

- JR East calculated these figures by using data from the following sources: Current Population Estimates and Census, Ministry of Internal Affairs and Communications, and statistics from the Geographical Survey Institute.

- The statistics on this page are based on governmental boundaries and do not strictly correspond with JR East's operating area segments.

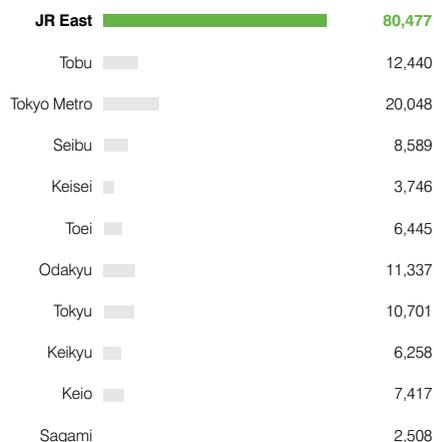
Passenger Line Networks

Kilometers



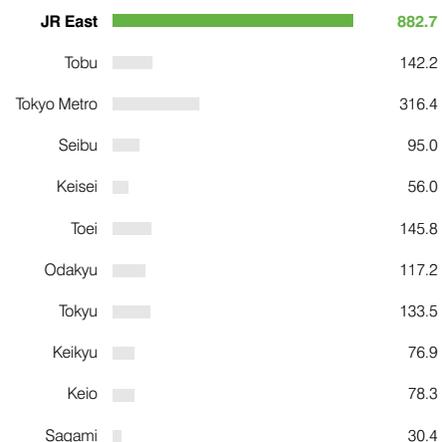
Passenger Kilometers

Millions



Revenues from Passenger Tickets

Billions of Yen



	Passenger Line Networks*1		Passenger Kilometers*2		Revenues from Passenger Tickets*2	
	km	%	Millions	%	Billions of Yen	%
JR East	1,106.1	41.6	80,477	47.3	882.7	42.5
Tobu Railway	463.3	17.4	12,440	7.3	142.2	6.9
Tokyo Metro	195.1	7.3	20,048	11.8	316.4	15.2
Seibu Railway	176.6	6.7	8,589	5.1	95.0	4.6
Keisei Electric Railway	152.3	5.7	3,746	2.2	56.0	2.7
Toei (Tokyo Metropolitan Government)	131.2	4.9	6,445	3.8	145.8	7.0
Odakyu Electric Railway	120.5	4.5	11,337	6.7	117.2	5.7
Tokyu Corporation	104.9	4.0	10,701	6.3	133.5	6.4
Keikyuu Corporation	87.0	3.3	6,258	3.7	76.9	3.7
Keio Electric Railway	84.7	3.2	7,417	4.3	78.3	3.8
Sagami Railway	35.9	1.4	2,508	1.5	30.4	1.5
Total	2,657.6	100.0	169,966	100.0	2,074.5	100.0

*1 As of March 31, 2015.

*2 For the year ended March 31, 2015.

- Figures do not include freight lines.

- Data used for JR East is that of the Tokyo Metropolitan Area Network and does not include Tokyo Monorail.

Sources:

- Toei (Tokyo Metropolitan Government): Figures are from the website of the Transportation Bureau of the Tokyo Metropolitan Government. Passenger kilometers are from Statistics of Railways 2015, Ministry of Land, Infrastructure, Transport and Tourism.

- Other: Website of the Association of Japanese Private Railways. Revenues from passenger tickets are based on figures from the financial press releases of each company.

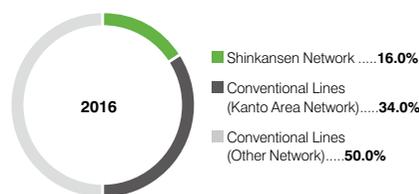
Analysis of JR East's Railway Operations

The fact that two-thirds of its transportation revenues come from Tokyo and the Kanto region, where most of the population and economic base in Japan resides, shows the solidness of JR East's management platform.

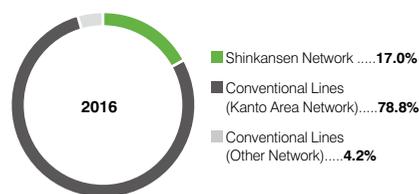
As another strength, the Company is largely immune to economic fluctuations, as commuter passes account for over a fourth of transportation revenues overall, and 40% of those revenues are from the Kanto region.

COMPOSITION BY OPERATING AREA

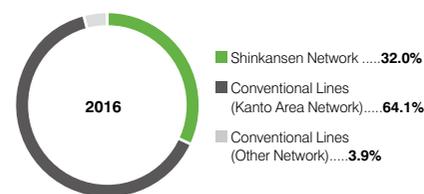
Passenger Line Network



Passenger Kilometers



Revenues from Passenger Tickets



	Passenger Line Network*1		Passenger Kilometers**		Revenues from Passenger Tickets**	
	km	%	Millions	%	Millions of Yen	%
Shinkansen Network	1,194.2	16.0	22,848	17.0	578,213	32.0
Conventional Lines (Kanto Area Network)	2,535.9	34.0	105,875	78.8	1,156,186	64.1
Conventional Lines (Other Network)	3,727.2	50.0	5,704	4.2	70,533	3.9
Total	7,457.3	100.0	134,428	100.0	1,804,932	100.0

*1 As of March 31, 2016

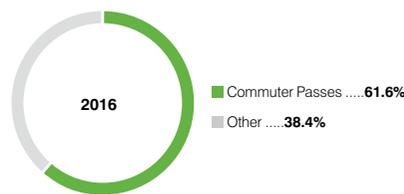
*2 Year ended March 31, 2016

- Revenues from the conventional line segments of hybrid Shinkansen services are included in Conventional Lines (Other Network).

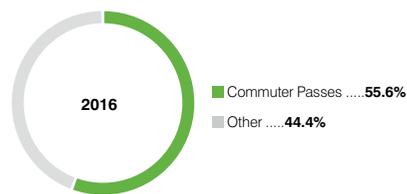
- Figures do not include Tokyo Monorail.

COMPOSITION OF COMMUTER PASSES

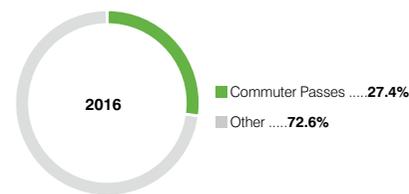
Number of Passengers



Passenger Kilometers



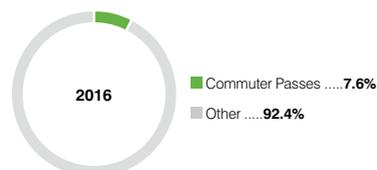
Revenues from Passenger Tickets



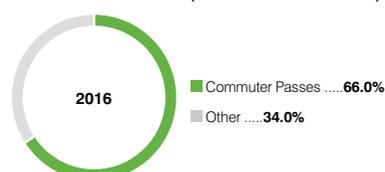
	Number of Passengers		Passenger Kilometers**		Revenues from Passenger Tickets**	
	Millions	%	Millions	%	Millions of Yen	%
Commuter Passes	3,918	61.6	74,732	55.6	494,439	27.4
Other	2,447	38.4	59,695	44.4	1,310,493	72.6
Total	6,365	100.0	134,428	100.0	1,804,932	100.0

PASSENGER KILOMETERS

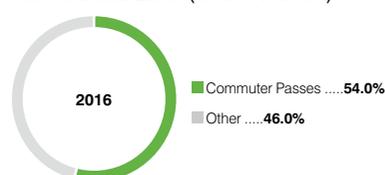
Shinkansen Network



Conventional Lines (Kanto Area Network)

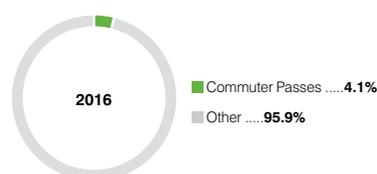


Conventional Lines (Other Network)

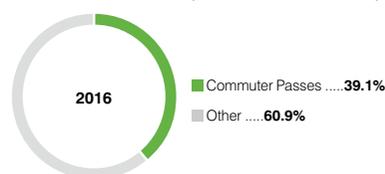


REVENUES FROM PASSENGER TICKETS

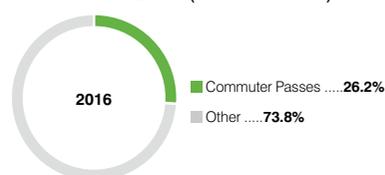
Shinkansen Network



Conventional Lines (Kanto Area Network)



Conventional Lines (Other Network)



		Millions		%
		2015	2016	2016 / 2015
Shinkansen Network	Commuter Passes	1,675	1,740	103.9
	Other	19,238	21,108	109.7
	Total	20,914	22,848	109.2
Conventional Lines Total	Commuter Passes	71,444	72,992	102.2
	Other	37,710	38,587	102.3
	Total	109,154	111,579	102.2
Kanto Area Network	Commuter Passes	68,375	69,908	102.2
	Other	34,935	35,966	103.0
	Total	103,310	105,875	102.5
Other Network	Commuter Passes	3,068	3,083	100.5
	Other	2,775	2,621	94.4
	Total	5,844	5,704	97.6
Total	Commuter Passes	73,119	74,732	102.2
	Other	56,949	59,695	104.8
	Total	130,068	134,428	103.4

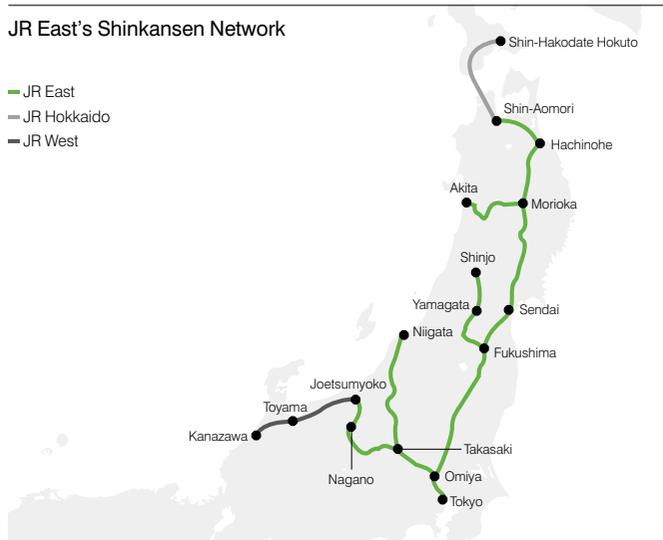
		Millions of Yen		%
		2015	2016	2016 / 2015
Shinkansen Network	Commuter Passes	23,232	23,616	101.7
	Other	497,997	554,596	111.4
	Total	521,229	578,213	110.9
Conventional Lines Total	Commuter Passes	466,985	470,822	100.8
	Other	737,687	755,896	102.5
	Total	1,204,672	1,226,719	101.8
Kanto Area Network	Commuter Passes	448,259	452,336	100.9
	Other	683,445	703,850	103.0
	Total	1,131,705	1,156,186	102.2
Other Network	Commuter Passes	18,725	18,486	98.7
	Other	54,241	52,046	96.0
	Total	72,967	70,533	96.7
Total	Commuter Passes	490,217	494,439	100.9
	Other	1,235,685	1,310,493	106.1
	Total	1,725,902	1,804,932	104.6

- Percentages represent revenues from passenger tickets attributable to commuter passes for each segment.
- Revenues from the conventional line segments of hybrid Shinkansen services are credited to Conventional Lines (Other Network).
- Passenger kilometers and revenues from the conventional line segments of hybrid Shinkansen services are credited to Conventional Lines (Other Network).
- Figures do not include Tokyo Monorail.
- The Kanto Area Network encompasses the area encompassed under the previous classification of the Tokyo Metropolitan Area Network (Tokyo Branch Office, Yokohama Branch Office, Hachioji Branch Office, and Omiya Branch Office) and the areas covered by Takasaki Branch Office, Mito Branch Office, and Chiba Branch Office.

Other Data

JR East owns many stations with high potential that are used by numerous customers. JR East is carrying out its life-style service business utilizing these stations to enhance customer convenience and comfort and to raise profitability.

JR East's Shinkansen Network



Competition with Airlines

	Distance from Tokyo km	Time Required	JR Share %
Aomori	713.7	2:59	78
Akita	662.6	3:37	60
Morioka	535.3	2:10	100
Sendai	351.8	1:30	100
Yamagata	359.9	2:26	97
Niigata	333.9	1:37	100
Kanazawa	450.5	2:28	76

Note: Data shown here is as of March 31, 2016. Information concerning required time is according to the JR Time Table, June 2016 issue. Market shares of trains and flights are calculated based on the number of flight departures and arrivals at Haneda Airport. Approximate time required for trains is indicated using the maximum speed of a regularly-operated train from Tokyo.

Number of Busy Stations

Stations

2016



■ More than 200,000 passengers per day
■ More than 100,000 passengers per day

	More than 200,000 passengers per day	More than 100,000 passengers per day
JR East	39	94
JR Central	1	5
JR West	5	13
Tokyu	5	19

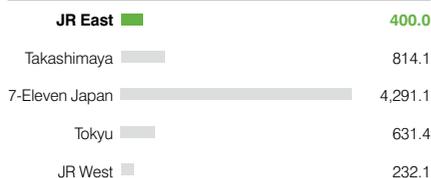
Notes:

- Tokyu = Tokyu Corporation
- Year ended March 31, 2015, for JR Central and JR West, year ended March 31, 2016, for JR East and Tokyu.
- Data is based on figures from JR Central, JR West, and Tokyu.
- The number of station users at stations of JR East, JR Central, and JR West represents twice the number of passengers embarking.

Comparison of Major Department Stores, Retail Sales, and Convenience Stores

Billions of Yen

Operating Revenues



	Millions of Yen
JR East	399,960
Takashimaya	814,095
7-Eleven Japan	4,291,067
Tokyu	631,429
JR West	232,071

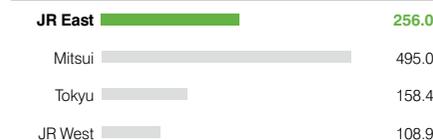
Notes:

- Takashimaya = Takashimaya Company, Limited;
- 7-Eleven Japan = Seven-Eleven Japan Co., Ltd.;
- Tokyu = Tokyu Corporation
- Year ended March 31, 2016 (year ended February 28, 2016, for Takashimaya and 7-Eleven Japan)
- Data is based on figures from the financial press releases of each company.
- The following figures are used as operating revenues:
JR East: Station space utilization, segment revenues from outside customers; Takashimaya: Department store business, segment revenues from outside customers; 7-Eleven Japan: Total store sales (nonconsolidated); Tokyu: Retail operating revenues; and JR West: Sales of goods and food services business, segment revenues from third parties.

Comparison of Real Estate Leasing to Retailers and Other Tenants

Billions of Yen

Operating Revenues



	Millions of Yen
JR East	255,978
Mitsui	495,034
Tokyu	158,441
JR West	108,897

Notes:

- Mitsui = Mitsui Fudosan Co., Ltd.
- Tokyu = Tokyu Corporation
- Year ended March 31, 2016
- Data is based on figures from the financial press releases of each company.
- The following figures are used as operating revenues:
JR East: Shopping centers & office buildings, segment revenues from outside customers
Mitsui: Office buildings and commercial facilities revenues in leasing segment, outside customers
Tokyu: Real estate business, segment revenues from outside customers
JR West: Real estate business, segment revenues from third parties

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

Forward-looking statements in the following discussion and analysis are judgments of the JR East Group as of March 31, 2016.

Key Accounting Policies and Estimates

JR East prepares consolidated financial statements in accordance with accounting principles generally accepted in Japan. Forward-looking estimates included in those financial statements are based on a variety of factors that, in light of JR East's past performance and current circumstances, can be reasonably assumed to have affected results for assets and liabilities on the consolidated settlement date and consolidated revenues and expenses in fiscal 2016, ended March 31, 2016. JR East continuously assesses those factors. Actual results may differ materially from those estimates, given the uncertainty of forward-looking statements.

Performance Analysis

Overview

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

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

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

As part of strategies aimed at capturing demand from non-Japanese tourists visiting Japan, which has continued to increase in recent years, the Group as a whole took measures to increase and improve product lineups and develop

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

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

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

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

Business results by business segment were as follows.

Segment Information

TRANSPORTATION

In the Transportation segment, with railway operations as its core operations, the Company promoted the use of its railway networks to secure revenues while

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

ensuring safe and reliable transportation and enhancing customer satisfaction.

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

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

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

With respect to marketing and sales activities, we conducted such campaigns as the *Fukushima Destination Campaign* and the *Ikuze, Tohoku*. Campaign to increase passenger traffic. Further, we proceeded with preparations for the *Aomori Prefecture and Hakodate Destination Campaign*, which we plan to hold starting in July 2016. In connection with the opening of the Hokuriku Shinkansen Line to Kanazawa, we promoted usage of Shinkansen services such as *Kagayaki*, the fastest service, and *Hakutaka*, a service that stops at most stations between Tokyo and Kanazawa, and took measures to use the expanded railway network

to grow inter-regional railway travel. In addition, we used the *Hokuriku Destination Campaign* as an opportunity to increase wide-ranging inter-regional sightseeing that encompasses Hokuriku and Shinshu, for example through the promotion of products that take advantage of the *Tenku no Hida Kairo View Bus* (Hida Mountains Excursion Bus). In November 2015, we commenced sale of the *JR East Dynamic Rail Pack*, a variable-price travel product that allows customers to freely select their choice of train services and lodging accommodations. In January 2016, we enabled the purchase of these travel product via smartphones.

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

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

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

To advance reconstruction along line segments on the Pacific coast, where severe damage was suffered due to the March 2011 Great East Japan Earthquake, the Company is working in close collaboration with the national government and relevant local authorities to formulate and advance plans for developing towns and rebuilding the area as a whole. We resumed operations on all segments of the Senseki Line and began operations of the Senseki-Tohoku Line, a direct service connecting to the Tohoku Line in May 2015. Further, we began restoration work on the line segment between Miyako and Kamaishi on the Yamada Line to integrate operation of the line segment with that of the North and South Rias Lines by Sanriku Railway Company. With respect to the provisional Bus Rapid Transit ("BRT") systems on the Kesennuma Line and the Ofunato Line, an agreement was reached with the heads of all municipal authorities of the line-side areas to undertake full-scale restoration through the use of BRT systems. In addition, we conducted restoration work with a view to resuming operations between Soma and Hamayoshida on the Joban Line by the end of December 2016. The Company's policy for areas within a 20-kilometer radius of the Fukushima Daiichi Nuclear Power Station is to prepare to resume operations in the areas designated as "areas to which evacuation orders are ready to be lifted" through the cooperation of the national government and local authorities, which are working to decontaminate line-side areas and return residents to their homes. Based on this policy, we conducted restoration work and took other measures with a view to resuming operations between Odaka and Haranomachi on the Joban Line by July 2016, between Namie and Odaka by

spring 2017, and between Tatsuta and Tomioka by the end of 2017. Further, in the areas designated as “areas where it is expected that the residents will have difficulties in returning for a long time,” in conjunction with the restoration of damaged facilities, we aim to open lines after the completion of decontamination work required for opening lines and the implementation of measures to ensure the safety of users in emergencies with the support and cooperation of the national government and local authorities. To this end, we began implementing trial decontamination work between Yonomori and Futaba on the Joban Line in August 2015. In addition, with respect to the disposal of and other measures relating to waste material and soil arising from decontamination and restoration work, in light of developments, including the fact that a more definite outlook for the resolution of such issues has been established, in March 2016 we began restoration work with a view to resuming operations between Tomioka and Namie on the Joban Line by March 31, 2020.

SHINKANSEN NETWORK

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

CONVENTIONAL LINES (KANTO AREA NETWORK)

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

CONVENTIONAL LINES (OTHER NETWORK)

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

STATION SPACE UTILIZATION

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

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

SHOPPING CENTERS & OFFICE BUILDINGS

In the Shopping Centers & Office Buildings segment, in April 2015 we placed

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

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

OTHERS

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

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

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

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

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

Operating Income

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

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

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

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

Income before Income Taxes

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

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

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

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

Profit Attributable to Owners of Parent

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

Liquidity and Capital Resources

Cash Flows

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

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

Capital expenditures were as follows.

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

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

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

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

Financial Policy

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

Long-term liabilities incurred for purchase of railway facilities associated with JR East's assumption of Shinkansen railway facilities are paid in equal semi-annual installments, consisting of principal and interest payments, and are divided into the following three tranches:

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

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

Since fiscal 1998, JR East has made annual early repayments of long-term liabilities incurred for the purchase of railway facilities associated with JR East's assumption of Shinkansen railway facilities based on an agreement with the Japan Railway Construction, Transport and Technology Agency (JRJT). JR East made early repayments of ¥7.3 billion (\$64 million) in fiscal 2016.

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

In fiscal 2016, JR East issued seven unsecured straight bonds in Japan, with a total nominal amount of ¥100.0 billion (\$885 million) and maturities from 2021 through 2046. Rating and Investment Information, Inc. (R&I), a Japanese rating agency, rated these bonds AA+. Further, JR East received long-term debt ratings from Standard & Poor's Ratings Japan K.K. and Moody's Japan K.K. of AA- and Aa3, respectively.

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

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

Operational and Other Risk Information

The following are issues related to the operational and accounting procedures that may have a significant bearing on the decisions of investors.

Forward-looking statements in the following section are based on the assessments of the JR East Group as of March 31, 2016.

Legal Issues Relating to Operations

As a railway operator, JR East manages its railway operations pursuant to the stipulations of the Railway Business Act. JR East is generally excluded from the provisions of the Act on Passenger Railway Companies and Japan Freight Railway Company (hereinafter the "JR Law"). However, JR East is required to manage its railway operations in accordance with guidelines relating to matters that should be considered for the foreseeable future, which are stipulated in a supplementary provision of a partial amendment of the JR Law (hereinafter the "amended JR Law"). Details of relevant laws are as follows.

Railway Business Act (Act No. 92 of 1986)

Under the Railway Business Act, railway operators are required to obtain the permission of the Minister of Land, Infrastructure, Transport and Tourism (hereinafter the "Minister") for each type of line and railway business operated (Article 3). Operators receive approval from the Minister for the upper limit of passenger fares and Shinkansen limited express surcharges (hereinafter "fares and surcharges"). Subject to prior notification, railway operators can then set or change fares and surcharges within those upper limits (Article 16). Operators are also required to give the Minister advance notice of the elimination or suspension of railway operations. In the case of eliminating operations, the notice must be given at least one year in advance (Article 28, paragraphs 1 and 2).

JR Law (Act No. 88 of 1986)

AIM OF THE ESTABLISHMENT OF THE JR LAW

Prior to its amendment, the JR Law regulated the investments and the establishment of JR East, Hokkaido Railway Company (JR Hokkaido), Central Japan Railway Company (JR Central), West Japan Railway Company (JR West), Shikoku Railway Company (JR Shikoku), Kyushu Railway Company (JR Kyushu), and Japan Freight Railway Company (JR Freight) and included provisions on the operational purposes and scopes of those companies (hereinafter the "JR Companies"). In addition to the provisions of the Railway Business Act, the JR Companies are subject to provisions of the JR Law that require the approval of the Minister with respect to significant management decisions. Also, under the JR Law preferential measures were applied to the JR Companies, such as those entitling holders of the bonds of the JR Companies to preferential rights over the claims of unsecured creditors (general mortgage).

AMENDED JR LAW

- (a) The amended JR Law enacted on December 1, 2001 (Act No. 61 of 2001), excluded JR East, JR Central, and JR West (the three JR passenger railway companies operating on Japan's main island of Honshu, hereinafter the "three JR Honshu Companies") from the provisions of the JR Law that had been applicable to them until then.
- (b) Further, the amended JR Law enables the Minister to issue guidelines relating to matters that should be considered for the foreseeable future

with respect to the management of the railway operations of the new companies, including any additional companies that may become involved in the management of all or a part of those railway operations as a result of assignments, mergers, divisions, or successions as designated by the Minister on or after the date of enactment of the amended JR Law (supplementary provision, Article 2, paragraph 1). Those guidelines were issued on November 7, 2001, and applied on December 1, 2001.

- (c) The guidelines stipulate items relating to the following three areas:
 - Items relating to ensuring alliances and cooperation among companies (among the new companies or among the new companies and JR Companies) with respect to the establishment of appropriate passenger fares and surcharges, the unhindered utilization of railway facilities, and other factors relating to railway operations.
 - Items relating to the appropriate maintenance of railway routes currently in operation reflecting trends in transportation demand and other changes in circumstances following the restructuring of Japanese National Railways (JNR) and items relating to ensuring the convenience of users through the development of stations and other railway facilities.
 - Items stating that the new companies should give consideration to the avoidance of actions that inappropriately obstruct business activities or infringe upon the interests of small and medium-sized companies operating businesses within the operational areas of the new companies that are similar to the businesses of the new companies.
- (d) The Minister may advise and issue instructions to the new companies to secure operations that are in accordance with those guidelines (supplementary provision, Article 3). Moreover, the amended JR Law enables the Minister to issue warnings and directives in the event that operational management runs counter to the guidelines without any justifiable reason (supplementary provision, Article 4).
- (e) With respect to the provisions of those guidelines, JR East has always given, and of course will continue to give, adequate consideration to such items in the management of its railway operations. Therefore, JR East does not anticipate that those provisions will have a significant impact on its management.
- (f) In addition, the amended JR Law includes required transitional measures, such as the stipulation that all bonds issued by the three JR Honshu Companies prior to the amended JR Law's enactment date are and will continue to be general mortgage bonds as determined in Article 4 of the JR Law (supplementary provision, Article 7).

Establishment of and Changes to Fares and Surcharges

The required procedures when JR East sets or changes fares and surcharges for its railway operations are stipulated in the Railway Business Act. Changes to those procedures or the inability to flexibly change fares and surcharges based on those procedures for whatever reason could affect JR East's earnings. Details of those procedures are as follows.

Systems and Procedures for Approval of Fares and Surcharges

The Railway Business Act stipulates that railway operators are required to obtain the approval of the Minister when setting or changing the upper limit for fares and surcharges (Railway Business Act, Article 16, paragraph 1).

Operational and Other Risk Information

Subject to prior notification, railway operators can then set or change fares and surcharges within those upper limits, including limited express surcharges on conventional lines and other charges (Railway Business Act, Article 16, paragraphs 3 and 4).

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

JR East's Stance

- (a) JR East has not raised fares since its establishment in April 1987, other than to reflect the consumption tax introduction (April 1989) and subsequent revisions (April 1997 and April 2014).
- Through efficient business operation realized by securing revenues and reducing expenses, JR East has worked to create a management base that is not dependent on raising fares. However, if JR East was unable to secure appropriate profit levels as a result of such factors as changes in the operating environment, it would view the timely implementation of fare revisions as necessary to secure appropriate profit levels.
- (b) With the efficient management of operations as a precondition, JR East believes securing a profit level that enables capital expenditures for the future and the strengthening of its financial condition—in addition to the distribution of profits to shareholders—to be essential.
- (c) JR East primarily undertakes capital expenditures, which has a significant impact on the capital usage of railway operations, with a view to establishing a robust management base through ensuring safe and reliable transportation, offering high-quality services, and implementing other measures. Further, JR East appreciates the need to proactively conduct capital expenditures while clearly defining the responsibilities of management in business operation.

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

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

- (a) The Minister will approve applications for the revision of the upper limits of fares from railway operators, including from JR East, upon conducting inspections to determine that the fares do not exceed the sum of reasonable costs and profits that can be expected to be incurred through the efficient management of those companies (hereinafter “total cost”) (Railway Business Act, Article 16, paragraph 2).
- In addition, a three-year period is stipulated for the calculation of costs.
- (b) Even if the railway operator has non-railway businesses, the calculation of total cost—which comprises reasonable costs and reasonable profits, including required dividend payments to shareholders—is based only on the operator's railway operations.
- Further, operators are required to submit their capital expenditure plans for increasing transportation services to ease crowding of commuter services and for other improvements in passenger services. The capital

usage necessary for such enhancements is recognized in the calculation of total cost.

- (c) Total cost is calculated using a “rate base method” that estimates the capital cost (interest payments, dividend payments, and other financial costs) arising from the provision of a fair and appropriate return, based on the opportunity cost concept, in relation to the capital invested in the said railway operations. The calculation of total cost is as follows:
- total cost = operating cost*¹ + operational return
 - operational return = assets utilized in railway business operations (rate base) x operational return rate
 - assets utilized in railway business operations = railway business operations fixed assets + construction in progress + deferred assets + working capital*²
 - operational return rate = equity ratio*³ x return rate on equity*⁴ + borrowed capital ratio*³ x return rate on borrowed capital*⁴
- (d) Subject to the prior notification of the Minister, railway operators can set or change fares and surcharges within the upper limits approved along with other charges. However, the Minister can issue directives requiring changes in fares and surcharges by specified terms if the fares and surcharges submitted are deemed to fall within the following categories (Railway Business Act, Article 16, paragraph 5):
- The changes would lead to unjustifiable discrimination in the treatment of certain passengers.
 - There is concern that the changes would give rise to unfair competition with other railway transportation operators.

*1 With respect to comparable costs among railway operators, in order to promote enhanced management efficiency, a “yardstick formula” is used to encourage indirect competition among respective operators. The results of those comparisons are released at the end of every fiscal year and form the basis for the calculation of costs.

*2 Working capital = operating costs and certain inventories

*3 Equity ratio = 30%, Borrowed capital ratio = 70%.

*4 Return rate on equity is based on the average of yields on public and corporate bonds and the overall industrial average return on equity and dividend yield ratio. Return rate on borrowed capital is based on the average actual rate on loans and other liabilities.

Plan for the Development of New Shinkansen Lines
Construction Plans for New Shinkansen Lines

New Shinkansen lines are those lines indicated in the plan for the Shinkansen line network that was decided pursuant to the Nationwide Shinkansen Railway Development Law (Act No. 71 of 1970). Finalized in 1973, that plan called for the development of the Tohoku Shinkansen Line (Morioka–Aomori), the Hokuriku Shinkansen Line (Tokyo–Nagano–Toyama–Osaka), the Kyushu Shinkansen Line (Fukuoka–Kagoshima), and other Shinkansen lines. Following the division and privatization of JNR, JR East was selected as the operator of the Takasaki–Joetsu segment of the Hokuriku Shinkansen Line and the Morioka–Aomori segment of the Tohoku Shinkansen Line. JR East started operation of the Hokuriku Shinkansen Line between Takasaki and Nagano on October 1, 1997; the Tohoku Shinkansen Line between Morioka and Hachinohe on December 1, 2002, and between Hachinohe and Shin-Aomori on December 4, 2010; and then on the Hokuriku Shinkansen Line between Nagano and Joetsumiyoko on March 14, 2015.

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

Cost Burden of the Development of New Shinkansen Lines

- (a) The national government, local governments, and the JR Companies assume the cost of new Shinkansen lines constructed by the Japan Railway Construction, Transportation and Technology Agency (JRTT). Amounts to be funded by the JR Companies are to be paid out of the following:
- 1) Usage fees and other charges paid by the JR Companies as the operator of the line,
 - 2) Funds made available from the JRTT, to which JR East, JR Central, and JR West make payments of amounts due on their Shinkansen purchase liabilities.
- (b) In October 1997, the opening of the Takasaki–Nagano segment of the Hokuriku Shinkansen Line was accompanied by new standards for the amount of usage fees paid by the JR Companies as the operator of the line. Those usage fees are now regulated under the Japan Railway Construction, Transport and Technology Agency Law (enforcement ordinance, Article 6).

That enforcement ordinance stipulates that the JRTT will determine the amount of usage fees based on the benefit received as the operator of the said Shinkansen line after opening and the sum of taxes and maintenance fees paid by the JRTT for railway facilities leased. Of those, the benefits received as the operator are calculated by comparing the estimated revenues and expenses generated by the new segment of the Shinkansen line and related line segments after opening with the revenues and expenses that would likely be generated by parallel conventional lines and related line segments if the new segment of the Shinkansen line was not opened. The expected benefits are the difference between the amount that the operator of the new Shinkansen line should receive as a result of operation and the amount that would be received if the new Shinkansen lines did not commence service. Specifically, the expected benefits are calculated based on expected demand and revenues and expenses over a 30-year period after opening. Further, a part of the usage fees, which are calculated based on the expected benefits, is fixed for the 30-year period after commencing services. In addition, the taxes and maintenance fees are included in calculations of the corresponding benefits as an expense of the operator of the Shinkansen line after opening. Therefore, the burden of the operator is kept within the limits of the corresponding benefits.

With respect to the usage fee amount for the Takasaki–Nagano segment of the Hokuriku Shinkansen Line, which opened in October 1997, JR East decided that the usage fees calculated by the former Japan Railway Construction Public Corporation (JRCC) (currently, the JRTT) were within the limits of the corresponding benefits to result from the opening of that line and concluded an agreement with the JRCC in September 1997. Also, the JRCC received approval for those usage fees from the Minister

of Transport in September 1997. Usage fees for fiscal 2016 totaled ¥20.8 billion (\$184 million), comprising the fixed amount calculated based on the corresponding benefits of ¥17.5 billion (\$155 million) and taxes and maintenance fees of ¥3.3 billion (\$29 million).

In November 2002, JR East also concluded an agreement with the JRCC regarding the usage fee amount for the Morioka–Hachinohe segment of the Tohoku Shinkansen Line, which opened in December 2002. The JRCC received approval for those usage fees from the Minister in November 2002. Usage fees for fiscal 2016 totaled ¥10.3 billion (\$91 million), comprising the fixed amount calculated based on the corresponding benefits of ¥7.9 billion (\$70 million) and taxes and maintenance fees of ¥2.4 billion (\$21 million).

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

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

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

- (c) Compared with periods when there is no construction of new Shinkansen lines, costs related to new Shinkansen lines, such as depreciation of railcars and other costs, can have an impact on JR East's single-year revenues and expenses in the initial period after opening. However, given the nature of usage fees mentioned in (b) above, JR East believes that such factors will not have an impact on revenues and expenses over the 30-year period following the opening.

End of Loan Period

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

Operational and Other Risk Information

■ Safety Measures

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

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

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

■ Information Systems and Protection of Personal Data

The JR East Group currently uses many information systems in its various railway and life-style service businesses, and *Suica* operations. Further, information systems play an important role for travel agencies as well as Railway Information Systems Co., Ltd., and other companies with which the JR East Group has close business relationships. If the functions of those information systems were seriously damaged as a result of natural disasters or human error, this could have an impact on the operations of JR East. Moreover, in the event that personal data stored in those information systems was leaked to unrelated third parties or altered due to information systems becoming infected by viruses or unauthorized manipulation, it could affect JR East's financial condition and business performance.

The JR East Group takes measures to prevent damage and ensure security, such as continuously upgrading the functions of in-house systems and training related personnel. In the unlikely event of a system problem, JR East would minimize the impact by taking measures through an initial action framework that would be promptly set up and coordinated across operational divisions. Further, JR East is doing its utmost to ensure the strict management and protection of personal data through the establishment of in-house regulations that include stipulations for the appropriate treatment of personal data, restricted authorization for access to personal data, control of access authority, and the construction of a system of in-house checks.

■ Development of the Life-Style Service Business

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

In the life-style service business, JR East faces the risk of a downturn in consumption associated with an economic recession or unseasonable weather, which could lead to lower revenues from its shopping centers, office buildings, restaurants, and stores in railway stations, hotels, and other operations. Such eventualities could also adversely affect sales of advertisement services and cause an increase in demands from tenants for rent reductions. Further, a defect in manufactured products or sold products, such as an outbreak of food poisoning or a similar incident, could reduce sales, damage trust in the JR East Group, or result in the bankruptcy of tenants or business partners. The occurrence of any of those contingencies could have an impact on the JR East Group's financial condition and business performance. The JR East Group will fully leverage its railway stations as its largest management resource to develop operations. At the same time, the JR East Group will enhance earnings and secure customer trust by implementing stringent management of hygiene and information on business partners.

■ Competition

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

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

■ Reduction of Total Interest-Bearing Debt

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

JR East will continue to reduce interest-bearing debt and refinance to obtain lower interest rates. However, a reduction in free cash flows due to unforeseen circumstances or a change in borrowing rates due to fluctuation in interest rates could affect JR East's financial condition and business performance.

■ Compliance

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

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

Consolidated Balance Sheets

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

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

See accompanying notes.

Millions of
U.S. Dollars
(Note 2 (1))

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

Consolidated Statements of Income and Comprehensive Income

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

(I) CONSOLIDATED STATEMENTS OF INCOME

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2015	2016	2016
Operating Revenues (Note 23)	¥2,756,165	¥2,867,200	\$25,373
Operating Expenses:			
Transportation, other services and cost of sales	1,806,181	1,841,026	16,292
Selling, general and administrative expenses	522,462	538,353	4,764
	2,328,643	2,379,379	21,056
Operating Income (Note 23)	427,522	487,821	4,317
Other Income (Expenses):			
Interest expense on short-and long-term debt	(45,310)	(45,559)	(403)
Interest expense incurred for purchase of railway facilities	(36,652)	(30,773)	(272)
Loss on sales of fixed assets	(2,088)	(1,102)	(10)
Impairment losses on fixed assets (Notes 2 (16), 12 and 23)	(12,738)	(12,297)	(109)
Interest and dividend income	3,756	3,918	35
Equity in net income (loss) of affiliated companies	3,134	2,566	23
Gain on sales of fixed assets	1,212	839	7
Other, net	(23,535)	(20,552)	(182)
	(112,221)	(102,960)	(911)
Income before Income Taxes	315,301	384,861	3,406
Income Taxes (Notes 2 (13) and 21):			
Current	107,540	128,972	1,141
Deferred	26,203	9,327	83
Profit	181,558	246,562	2,182
Profit Attributable to Non-Controlling Interests	(1,160)	(1,252)	(11)
Profit Attributable to Owners of Parent	¥ 180,398	¥ 245,310	\$ 2,171
		Yen	U.S. Dollars (Note 2 (1))
Earnings per Share (Note 2 (14))	¥ 459	¥ 626	\$ 6
Cash Dividends Applicable to the Year (Note 2 (14))	120	130	1

See accompanying notes.

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

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

See accompanying notes.

Consolidated Statements of Changes in Net Assets

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

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

	Shares					Millions of U.S. Dollars (Note 2 (1))					
	Number of Issued Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Net Unrealized Holding Gains (Losses) on Securities	Net Deferred Gains (Losses) on Derivatives under Hedge Accounting	Revaluation Reserve for Land	Remeasurements of Defined Benefit Plans	Non-Controlling Interests	Total
Balance at March 31, 2015	393,500,000	\$1,770	\$857	\$16,950	\$(39)	\$ 605	\$ 22	\$(4)	\$ 65	\$171	\$20,397
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—
Restated balance	393,500,000	1,770	857	16,950	(39)	605	22	(4)	65	171	20,397
Cash dividends (\$1 per share)	—	—	—	(435)	—	—	—	—	—	—	(435)
Profit attributable to owners of parent	—	—	—	2,171	—	—	—	—	—	—	2,171
Increase due to merger	—	—	—	—	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	(98)	—	—	—	—	—	(98)
Disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—
Retirement of treasury stock	(1,000,000)	—	—	(90)	90	—	—	—	—	—	—
Change in equity in affiliated companies accounted for by equity method-treasury stock	—	—	—	—	—	—	—	—	—	—	—
Change of scope of consolidation	—	—	—	4	—	—	—	—	—	—	4
Capital increase of consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—
Purchase of shares of consolidated subsidiaries	—	—	0	—	—	—	—	—	—	—	0
Increase by corporate division in consolidated subsidiaries	—	—	(0)	0	—	—	—	—	—	—	0
Other	—	—	—	—	—	(218)	(18)	0	(21)	10	(247)
Balance at March 31, 2016	392,500,000	\$1,770	\$857	\$18,600	\$(47)	\$ 387	\$ 4	\$(4)	\$ 44	\$181	\$21,792

See accompanying notes.

Consolidated Statements of Cash Flows

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

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

See accompanying notes.

Notes to Consolidated Financial Statements

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

NOTE 1: INCORPORATION OF EAST JAPAN RAILWAY COMPANY

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

East Japan Railway Company (the Company) is one of the six passenger railway companies and serves eastern Honshu (Japan's main island). The Company operates 69 railway lines, 1,665 railway stations and 7,457.3 operating kilometers as of March 31, 2016.

In the wake of the split-up of JNR, assets owned by and liabilities incurred by JNR were transferred to JR Group companies, the Shinkansen Holding Corporation and JNR Settlement Corporation (JNRSC). Most JNR assets located in eastern Honshu, except for the land and certain railway fixtures used by the Tohoku and Joetsu Shinkansen lines, were transferred to the Company. Current liabilities and employees' severance and retirement benefits, incurred in connection with railway and other operations in the allotted area, and certain long-term debt were assumed by the Company.

The transfer values were determined by the Evaluation Council, a governmental task force, in accordance with the provisions of the Law. In general, railway assets such as railway property and equipment were valued at the net book value of JNR. Nonrailway assets such as investments and other operating property and equipment were valued at prices determined by the Evaluation Council.

The land and railway fixtures of the Tohoku and Joetsu Shinkansen lines were owned by the Shinkansen Holding Corporation until September 30,

1991, and the Company leased such land and railway fixtures at a rent determined by Shinkansen Holding Corporation in accordance with related laws and regulations. On October 1, 1991, the Company purchased such Shinkansen facilities for a total purchase price of ¥3,106,970 million (\$27,495 million) from the Shinkansen Holding Corporation (see Note 14). Subsequent to the purchase, the Shinkansen Holding Corporation was dissolved. The Railway Development Fund succeeded to all rights and obligations of the Shinkansen Holding Corporation. In October 1997, the Railway Development Fund and Maritime Credit Corporation merged to form the Corporation for Advanced Transport & Technology. In October 2003, Japan Railway Construction Public Corporation and the Corporation for Advanced Transport & Technology merged to form the Japan Railway Construction, Transport and Technology Agency.

Prior to December 1, 2001, in accordance with the provisions of the Law for Passenger Railway Companies and Japan Freight Railway Company (JR Law), the Company was required to obtain approval from the Minister of Land, Infrastructure, Transport and Tourism as to significant management decisions, including new issues of stock or bonds, borrowing of long-term loans, election of representative directors and corporate auditors, sale of major properties, amendment of the Articles of Incorporation and distribution of retained earnings.

The amendment to the JR Law took effect on December 1, 2001 (2001 Law No. 61) and the Company is no longer subject generally to the JR Law, as amended (see Note 13).

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

1) Basis of Presentation of Financial Statements

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

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements prepared for Financial Instruments and Exchange Act of Japan purposes. Certain modifications and reclassifications have been made for the convenience of readers outside Japan.

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

The consolidated financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2016, which was ¥113 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2) Consolidation

The consolidated financial statements of the Company include the accounts of all significant subsidiaries (together, the "Companies"). The effective-control standard is applied according to Regulations concerning Terminology, Forms and Method of Presentation of Consolidated Financial Statements in Japan (Regulations for Consolidated Financial Statements). For the year ended March 31, 2016, 67 subsidiaries were consolidated. During the year ended March 31, 2016, one company was newly consolidated, and six companies were excluded from consolidation.

All significant intercompany transactions and accounts have been eliminated. Differences between the acquisition costs and the underlying net equities of investments in consolidated subsidiaries are recorded as goodwill or negative goodwill.

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

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

3) Equity Method

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

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

4) Allowance for Doubtful Accounts

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

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

5) Inventories

Inventories are stated at cost as follows:

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

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

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

6) Real Estate for Sale

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

7) Securities

Securities are classified and stated as follows:

- (1) Trading securities are stated at market value. The Companies had no trading securities through the year ended March 31, 2016.
- (2) Held-to-maturity debt securities are stated at amortized cost.
- (3) Equity securities issued by subsidiaries and affiliated companies that are neither consolidated nor accounted for using the equity method are mainly stated at moving-average cost.
- (4) Available-for-sale securities are stated as follows:
 - (a) Available-for-sale securities with market value
According to the Japanese Accounting Standards for Financial Instruments, available-for-sale securities for which market quotations are available are stated at market value as of the balance sheet date. Net deferred gains or losses on these securities are reported as a separate item in net assets at an amount net of applicable income taxes and non-controlling interests. The cost of sales of such securities is calculated mainly by the moving-average method.
 - (b) Available-for-sale securities without market value
Available-for-sale securities for which market quotations are not available are mainly stated at moving-average cost.

If there are significant declines in the market values of held-to-maturity debt securities, equity securities issued by subsidiaries and affiliated companies that are neither consolidated nor accounted for using the equity method or available-for-sale securities, the securities are stated at market values in the balance sheet, and the difference between the market value and the original book value is recognized as a loss in the period. The Companies' policy for such write-offs stipulates that if the market value as of the year-end has declined by 50% or more of the book value of the said security, it should be stated at the market value. If the market value has declined by 30% or more but less than 50%, the said security should be written off by the amount determined as necessary after taking the possibility of market value recovery into account.

8) Property, Plant and Equipment

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

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

The range of useful lives is mainly as follows:

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

9) Accounting for Employees' Retirement Benefits

Almost all employees of the Companies are generally entitled to receive lump-sum severance and retirement benefits (some subsidiaries have adopted a pension plan of their own in addition to those severance and retirement benefits). Furthermore, some consolidated subsidiaries have established retirement benefit trusts.

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

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

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

10) Allowance for Partial Transfer Costs of Railway Operation

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

11) Accounting for Certain Lease Transactions

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

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

12) Accounting for Research and Development Costs

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

13) Income Taxes

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

14) Per Share Data

(1) Earnings per share

Earnings per share shown in the consolidated statements of income are computed by dividing income available to common shareholders by the weighted average number of common stock outstanding during the year. Diluted earnings per share are not shown, since there are no outstanding securities with dilutive effect on earnings per share such as convertible bonds.

(2) Cash dividends per share

Cash dividends per share comprises interim dividends for the interim period ended September 30 and year-end dividends for the year ended March 31, which were decided at the annual shareholders' meeting in June.

15) Derivative Transactions

Derivative transactions that do not meet requirements for hedge accounting are stated at fair value and the gains or losses resulting from change in the fair value of those transactions are recognized as income or expense in the period.

Derivative transactions that meet requirements for hedge accounting are stated at fair value, and the gains and losses resulting from changes in fair value of those transactions are deferred until the losses and gains of the hedged items are recognized on the consolidated statements of income.

Of those, certain derivative transactions of the Companies that meet certain hedging criteria are accounted in the following manner:

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

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

16) Impairment of Fixed Assets

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

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

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

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

17) Revaluation of Land

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

(1) Revaluation method

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

(2) Revaluation date

March 31, 2002

(3) Difference between book value after revaluation and market value on March 31, 2016

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

18) Changes in Presentation Method

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

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

(Consolidated statements of income)

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

(Consolidated statements of cash flows)

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

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

NOTE 3: EARTHQUAKE DAMAGE

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

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

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

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

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

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

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

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

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

NOTE 5: CASH AND CASH EQUIVALENTS

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

NOTE 6: INVENTORIES

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

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

NOTE 7: REAL ESTATE FOR SALE

Real estate for sale represents the cost of land acquired and related land improvements in connection with residential home site developments in eastern Honshu.

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

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

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

NOTE 9: FINANCIAL INSTRUMENTS

1) Items Relating to the Status of Financial Instruments

a) Policy in relation to financial instruments

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

b) Details of financial instruments and related risk

Trade receivables are exposed to credit risk in relation to customers, transportation operators with connecting railway services, and other parties. Further, short-term loans receivable, which principally comprise loans receivable as a result of credit card cashing services, are exposed to credit risk in relation to customers. Regarding the said risk, pursuant to the internal regulations of the Companies, due dates and balances are managed appropriately for each counterparty. Securities are exposed to market price fluctuation risk. Substantially all of trade payables—payables, accrued consumption taxes and accrued income taxes—have payment due dates within one year. Bonds and loans are exposed to risk associated with inability to make payments on due dates because of unforeseen decreases in free cash flow. Further, certain bonds and loans are exposed to market price fluctuation risk (foreign exchange / interest rates). Long-term liabilities incurred for purchase of railway facilities are liabilities with regard to the Japan Railway Construction, Transport and Technology Agency and, pursuant to the Law Related to the Transference of Shinkansen Railway Facilities, comprise principally interest-bearing debt related to the Company's purchase of Shinkansen railway facilities for a total purchase price of ¥3,106,970 million (\$27,495 million) from the Shinkansen Holding Corporation on October 1, 1991. The Company pays such purchase price, based on regulations pursuant to the Law Related to the Transference of Shinkansen Railway Facilities, enacted in 1991, and other laws, in semiannual installments calculated using the equal payment method, whereby

interest and principal are paid in equal amounts semiannually, based on interest rates approved by the Minister of Land, Infrastructure, Transport and Tourism (at the time of enactment). Long-term liabilities incurred for purchase of railway facilities are exposed to risk associated with inability to make payments on due dates because of a decrease in free cash flow for unforeseen reasons. Further, certain long-term liabilities incurred for purchase of railway facilities are exposed to market price fluctuation risk (interest rates).

c) Risk management system for financial instruments

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

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

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

2) Items Relating to the Fair Values of Financial Instruments

Amounts recognized for selective items in the consolidated balance sheets as of March 31, 2015 and 2016, fair values of such items, and the differences between such amounts and values are shown below. Further, items for which fair values were extremely difficult to establish were not included in the following table.

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

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

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

Assets

- a. Cash and cash equivalents
b. Receivables

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

- c. Securities

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

Liabilities

- a. Payables
b. Accrued consumption taxes
c. Accrued income taxes

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

- d. Long-term debt

Bonds

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

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

Long-term loans

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

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

Because these liabilities are special monetary liabilities that are subject to constraints pursuant to laws and statutory regulations and not based exclusively on free

agreement between contracting parties in accordance with market principles, and because repeating fund-raising using similar methods would be difficult, as stated in "1) Items relating to the status of financial instruments, b. Details of financial instruments and related risk," the fair values of long-term liabilities incurred for purchase of railway facilities are estimated by assuming that future cash flows were raised through bonds, the Company's basic method of fund-raising, and discounting them based on estimated interest rates if similar domestic bonds were newly issued. Further, certain long-term liabilities incurred for purchase of railway facilities with variable interest rates are estimated based on the most recent interest rates, notification of which is provided by the Japan Railway Construction, Transport and Technology Agency.

Derivative Transactions (See Note 19)

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

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

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

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

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

4. The annual maturities of financial assets and securities with maturities at March 31, 2015 and 2016 were as follows:

	Millions of Yen								Millions of U.S. Dollars			
	2015				2016				2016			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and cash equivalents	¥245,171	¥ —	¥ —	¥ —	¥307,809	¥ —	¥ —	¥ —	\$2,724	\$ —	\$ —	\$ —
Receivables	462,476	6,472	15	—	477,542	6,407	322	90	4,226	56	3	1
Securities:												
Held-to-maturity debt securities (Government bonds)	—	10	140	10	—	10	150	—	—	0	1	—
Available-for-sale securities which have maturity (Government bonds)	6	—	—	—	—	—	6	—	—	—	0	—
Total	¥707,653	¥6,482	¥155	¥10	¥785,351	¥6,417	¥478	¥90	\$6,950	\$56	\$4	\$1

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

NOTE 10: SECURITIES

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

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

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

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

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

The Companies' policy for such write-offs stipulates that if the market value as of the year-end has declined by 50% or more of the book value of the said security, it should be stated at the market value. If the market value has declined by 30% or more but less than 50%, the said security should be written off by the amount determined as necessary after taking the possibility of market value recovery into account.

NOTE 11: PLEDGED ASSETS

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

Pledged assets as a collateral

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

Counterpart long-term debt and other liabilities

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

Pledged assets as a mortgage for long-term liabilities

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

Counterpart long-term liabilities

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

NOTE 12: IMPAIRMENT LOSSES ON FIXED ASSETS

In adherence with management accounting classifications, the Companies generally categorize assets according to operations or properties. For railway business assets, the Companies treat railway lines as a single asset group because the railway network generates cash flow as a whole. Also, the Companies separately categorize assets that are slated to be disposed of or idle. The Companies determine recoverable amounts for the above asset groups by measuring the net selling prices or values in use. In case the Companies determine recoverable amounts for the above asset groups by measuring the net selling prices, the prices and other amounts are

adjusted rationally applying the tax-appraised value of fixed assets. Values in use for the measurement of recoverable amounts are based on the present values of expected cash flows with the discount rate of 5.0%.

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

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

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

NOTE 13: LONG-TERM DEBT

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

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

Issue and maturity years above are expressed in calendar years (ending December 31 in the same year).

Although the Company is no longer subject generally to the JR Law, as amended, all bonds issued by the Company prior to December 1, 2001, the effective date of the amendment to the JR Law, are and will continue to be general mortgage bonds as required under the JR Law, which are entitled to a statutory preferential right over the claims of unsecured creditors of the Company. Any bonds issued on or after December 1, 2001 are unsecured bonds without general mortgage preferential rights.

The annual maturities of bonds at March 31, 2016 were as follows:

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

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

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

NOTE 14: LONG-TERM LIABILITIES INCURRED FOR PURCHASE OF RAILWAY FACILITIES

In October 1991, the Company purchased the Tohoku and Joetsu Shinkansen facilities from the Shinkansen Holding Corporation for a total purchase price of ¥3,106,970 million (\$27,495 million) payable in equal semiannual installments consisting of principal and interest payments in three tranches: ¥2,101,898 million (\$18,601 million) and ¥638,506 million (\$5,650 million) in principal amounts payable through March 2017; and ¥366,566 million (\$3,244 million) payable through September 2051. In March 1997, the liability of ¥27,946 million (\$247 million) payable in equal

semiannual installments through March 2022 to Japan Railway Construction Public Corporation was incurred with respect to the acquisition of the Akita hybrid Shinkansen facilities. In February 2002, the Company acquired a majority interest in Tokyo Monorail Co., Ltd. As a result, the consolidated balance sheets as of March 31, 2002 included liabilities of Tokyo Monorail Co., Ltd. amounting to ¥36,726 million (\$325 million) payable to Japan Railway Construction Public Corporation.

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

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

Maturity years above are expressed in calendar years (ending December 31 in the same year).

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

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

NOTE 15: CONSUMPTION TAXES

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

NOTE 16: CONTINGENT LIABILITIES

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

NOTE 17: NET ASSETS

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Corporate Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

In addition, under the Corporate Law, by a resolution of the general meeting of shareholders, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and other retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

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

NOTE 18: INFORMATION REGARDING CERTAIN LEASES

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

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

NOTE 19: INFORMATION FOR DERIVATIVE TRANSACTIONS

1) Items Regarding Trading Circumstances (See Note 9)

2) Derivative Transactions Applied to Hedge Accounting

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

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

Notes: 1. Derivative transactions that meet certain hedging criteria, regarding foreign currency swaps, or interest rate swaps, are treated in combination with bonds or long-term loans, the fair values of these derivatives are included in the fair values of these bonds or long-term loans (See Note 9).

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

NOTE 20: NET DEFINED BENEFIT LIABILITY

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

1) Movement in Retirement Benefit Obligations

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

2) Movements in Plan Assets

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

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

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

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

4) Retirement Benefit Costs

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

5) Adjustments for Retirement Benefit Costs

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

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

6) Accumulated Adjustments for Retirement Benefit

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

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

NOTE 21: INCOME TAXES

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

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

7) Plan Assets

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

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

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

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

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

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

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

tax rate utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized on or after April 1, 2018, has changed to 30.5%, mainly.

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

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

NOTE 22: INVESTMENT AND RENTAL PROPERTY

The Companies own rental office buildings and rental commercial facilities (hereafter "investment and rental property") principally within the Company's service area. In the years ended March 31, 2015 and March 31, 2016, the amounts of net income related to rental property were ¥71,866 million and

¥70,239 million (\$622 million) (rental income is recognized in operating revenues and rental expense is principally charged to operating expenses), respectively. The amounts recognized in the consolidated balance sheets and fair values related to investment and rental property were as follows.

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

Notes: 1. The consolidated balance sheet amount is the amount equal to acquisition cost, less accumulated depreciation.

- Regarding difference in above the table, the increases in the years ended March 31, 2016, were principally attributable to acquisition of real estate and renewal (¥73,760 million/\$653 million), and the decreases were mainly attributable to depreciation expenses (¥21,362 million/\$189 million).
- Regarding fair values at the end of fiscal year, the amount for significant properties is based on real-estate appraisals prepared by external real-estate appraisers, and the amount for other properties is estimated by the Company based on certain appraisal values or indicators that reflect appropriate market prices. If after obtaining a property from a third party or since the most recent appraisal there has been no material change in the relevant appraisal values or indicators that reflect the appropriate market prices, the amount is based on such appraisal values or indicators.
- Because fair values are extremely difficult to establish, this table does not include property that is being constructed or developed for future use as investment property.

NOTE 23: SEGMENT INFORMATION

1) General Information about Reportable Segments

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

The Transportation segment is primarily engaged in passenger transportation services centered on railway operations, and railcar manufacturing operations. The Station Space Utilization segment creates commercial spaces in railway stations and develops various types of businesses,

including retail sales and restaurant operations. The Shopping Centers & Office Buildings segment develops railway stations and land near railway stations, operates shopping centers, and leases office buildings, etc.

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

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

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

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

Notes: 1. "Others" represents categories of business that are not included in reportable segments and include hotel operations, and advertising and publicity services.

2. The ¥(1,438) million downward adjustment to segment income included a ¥(1,798) million elimination of unrealized holding gains (losses) on fixed assets and inventory assets and a ¥317 million elimination for intersegment transactions. Moreover, the ¥(734,874) million downward adjustment to segment assets included a ¥(1,133,269) million elimination of intersegment claims and obligations, offset by ¥398,395 million in corporate assets not allocated to each reportable segment.

3. Segment income was adjusted to ensure consistency with the operating income set forth in the consolidated statements of income.

4. Segment information on liabilities was omitted from record, as it is not a metric used in deciding the allocation of management resources or evaluating earnings performance.

5. Increase in fixed assets included a portion contributed mainly by national and local governments.

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

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

Notes to Consolidated Financial Statements

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

Notes: 1. "Others" represent categories of business that are not included in reportable segments and include hotel operations, and advertising and publicity services.

2. The ¥(2,491) million (\$23 million) downward adjustment to segment income included a ¥(2,681) million (\$24 million) elimination of unrealized holding gains (losses) on fixed assets and inventory assets and a ¥196 million (\$2 million) elimination for intersegment transactions. Moreover, the ¥(929,732) million (\$8,228 million) downward adjustment to segment assets included a ¥(1,190,930) million (\$10,539 million) elimination of intersegment claims and obligations, offset by ¥261,198 million (\$2,311 million) in corporate assets not allocated to each reportable segment.

3. Segment income was adjusted to ensure consistency with the operating income set forth in the consolidated statements of income.

4. Segment information on liabilities was omitted from record, as it is not a metric used in deciding the allocation of management resources or evaluating earnings performance.

5. Increase in fixed assets included a portion contributed mainly by national and local governments.

3) Relevant Information

i. Information about products and services

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

ii. Information about geographic areas

a. Operating revenues

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

b. Property, plant and equipment

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

iii. Information about major customers

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

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

Fiscal 2015 (Year ended March 31, 2015)

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

Fiscal 2016 (Year ended March 31, 2016)

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

	Millions of U.S. Dollars				
	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note)	Total
Impairment losses on fixed assets	\$27	\$15	\$52	\$15	\$109

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

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

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

6) Information about Gain on Negative Goodwill by Reportable Segments

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

NOTE 24: CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended March 31, 2015 and 2016

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

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

NOTE 25: SUBSEQUENT EVENT

Share Repurchase

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

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

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

Independent Auditor's Report



Independent Auditor's Report

To the Board of Directors of East Japan Railway Company:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2(1) to the consolidated financial statements.

KPMG AZSA LLC

June 23, 2016
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

C

Commuter Pass refers to a credit card-sized pass that is either magnetically encoded or contains an integrated circuit (IC) chip to allow travel between two stations during a period of one, three, or six months. *Mobile Suica*, a service based on cell phones embedded with such IC chips, was introduced in January 2006.

H

Hybrid Shinkansen refers to intercity railway systems that provide direct services to certain destinations that are not part of a regular Shinkansen network, using specially designed trains capable of running on both Shinkansen lines and conventional lines that have been widened to a standard gauge. Hybrid Shinkansen lines are not covered by the Nationwide Shinkansen Railway Development Law.

J

JNR stands for Japanese National Railways, the government-owned public entity that was restructured into JNRSC (as defined below) on April 1, 1987. The railway operations and certain related businesses of JNR, along with certain necessary assets and associated liabilities, were succeeded to by the JR Companies (as defined below), the Shinkansen Holding Corporation (currently, JRJT (as defined below)), Railway Telecommunication Co., Ltd. (a predecessor of SOFTBANK TELECOM Corp.), Railway Information Systems Co., Ltd., and the Railway Technical Research Institute, and all of its other assets and liabilities became assets and liabilities of JNRSC.

JNRSC stands for JNR Settlement Corporation. JNRSC was dissolved on October 22, 1998, and all of its assets (including the 1,500,000 shares of JR East's common stock it beneficially owned at the time of such transfer) and a portion of its liabilities were transferred to JRCC.

JR Companies refers to, collectively, JR East, Hokkaido Railway Company (JR Hokkaido), Central Japan Railway Company (JR Central), West Japan Railway Company (JR West), Shikoku Railway Company (JR Shikoku), Kyushu Railway Company (JR Kyushu), and Japan Freight Railway Company (JR Freight).

JR East refers to East Japan Railway Company on a consolidated basis or, if the context so requires, on a nonconsolidated basis.

JR Law means the Law for Passenger Railway Companies and Japan Freight Railway Company of 1986, as amended, which created the framework for the establishment of the JR Companies.

JRTT stands for the Japan Railway Construction, Transport and Technology Agency, an incorporated administrative agency established in October 2003 upon the merger of the Japan Railway Construction Public Corporation (JRCC) and the Corporation for Advanced Transport & Technology. Its primary activities include the construction of Shinkansen lines under the Nationwide Shinkansen Railway Development Law (see "Shinkansen") and other national projects. JR East rents the Takasaki-Joetsumyoko segment of the Hokuriku Shinkansen Line and the Morioka-Shin-Aomori segment of the Tohoku Shinkansen Line from JRTT. JR East also rents some conventional lines from JRTT.

N

Number of Passengers comprises both passengers who begin their journey at a JR East station and passengers who transfer to JR East from other railway companies' lines at the station.

O

Operating Kilometers means the actual length of a railway line between two stations, regardless of the number of tracks along the line. Fare and charge calculations are based on this figure.

P

PASMO refers to IC cards with transportation ticket functions, sold by Tokyo-area private railways, subways, and bus companies. Ever since their launch on March 18, 2007, PASMO cards have been interchangeable with *Suica*. Besides Tokyo-area private railways, subways, and bus companies, the PASMO card system has spread to cover some transportation companies in Shizuoka and Yamanashi prefectures. The PASMO name is a registered trademark of Pasmok K.K.

Passenger Kilometers means the number of passengers moving from one station to another multiplied by the distance (in operating kilometers) between such stations.

R

Rolling Stock Kilometers means the number of train kilometers (as defined below) multiplied by the number of railcars comprising the train.

S

Shinkansen refers to Japan's high-speed intercity rail systems operated by JR East, JR Central, JR West, and JR Kyushu. Several new Shinkansen lines are now under construction or in advanced planning stages under the Nationwide Shinkansen Railway Development Law.

Station Renaissance refers to a program aimed at proactively developing the potential of JR East stations, which are used by about 17 million people daily and are considered to be the JR East Group's largest management asset. Based on thorough consideration of customers' perspectives and the goal of increasing Group value in line with the increased emphasis now being placed on Group management, JR East is fundamentally reevaluating station layouts and comprehensively leveraging the Group's diverse capabilities to undertake zero-base redevelopment projects that optimize the facilities at each station. In these ways, JR East is working to create new 21st century station environments that offer increased appeal to customers as well as greater profitability.

Suica refers to a prepaid IC card that can be used at nearly all of JR East's stations in the Tokyo metropolitan area, the Sendai area, and the Niigata area, permitting smooth, contactless passage through ticket gates. There are two types of cards: a high-tech commuter pass (*Suica Commuter Pass*) and a stored-fare railway ticket (*Suica* card). Also, an electronic money function makes it possible to use them to purchase goods at stores in train station concourses and in downtown stores.

T

Train Kilometers means the number of kilometers traveled by a train on operational routes, excluding movement within stations and rail yards.

Consolidated Subsidiaries and Equity-Method Affiliated Companies

As of March 31, 2016

Consolidated Subsidiaries

Company Name	Capitalization (Millions of Yen)	Voting Right Percentage (Note 1)	Main Business Activities
1 Tokyo Monorail Co., Ltd.	¥3,000	79.0	Railway passenger transport services
2 JR Bus Kanto Co., Ltd.	4,000	100.0	Bus services
3 JR Bus Tohoku Co., Ltd.	2,350	100.0	Bus services
4 Japan Transport Engineering Company	3,100	100.0	Railcar manufacturing operations
5 JR East Retail Net Co., Ltd.	3,855	100.0	Retail sales
6 JR East Water Business Co., Ltd.	490	100.0	Retail sales
7 JR East Tohoku Sogo Service Co., Ltd. (Note 2)	490	100.0	Retail sales
8 JR East Station Retailing Co., Ltd.	480	100.0	Retail sales
9 Tokky Co., Ltd.	400	100.0	Retail sales, hotel operations, and shopping center operations
10 Kinokuniya Co., Ltd.	310	100.0	Retail sales
11 Nippon Restaurant Enterprise Co., Ltd.	730	100.0	Restaurant business, retail sales, and hotel operations
12 JR East Food Business Co., Ltd.	721	100.0	Restaurant business
13 LUMINE Co., Ltd.	2,375	95.1	Shopping center operations
14 atre Co., Ltd. (Note 3)	1,630	92.1	Shopping center operations
15 JR East Urban Development Corporation	1,450	100.0	Shopping center operations and retail sales
16 JR East Department Store Co., Ltd.	1,140	84.6	Shopping center operations
17 JR Tokyo West Development Co., Ltd.	1,000	93.3	Shopping center operations
18 Station Building MIDORI Co., Ltd.	450	100.0	Shopping center operations
19 Tetsudo Kaikan Co., Ltd.	340	100.0	Shopping center operations
20 Chiba Station Building Co., Ltd.	200	100.0	Shopping center operations
21 Shonan Station Building Co., Ltd.	200	90.7	Shopping center operations
22 Yokohama Station Building Co., Ltd.	200	90.3	Shopping center operations
23 Kinshicho Station Building Co., Ltd.	160	71.3	Shopping center operations
24 JR Chuo Line Mall Co., Ltd.	1,230	100.0	Shopping center operations
25 JR East Aomori Business-development Company Co., Ltd.	280	100.0	Shopping center operations
26 JR East Building Co., Ltd.	480	100.0	Leasing of office buildings
27 Viewcard Co., Ltd.	5,000	100.0	Credit card business
28 Nippon Hotel Co., Ltd.	4,000	100.0	Hotel operations
29 Sendai Terminal Building Co., Ltd.	1,800	99.5	Hotel operations and shopping center operations
30 Morioka Terminal Building Co., Ltd.	900	100.0	Hotel operations and shopping center operations
31 Akita Station Building Co., Ltd.	450	98.2	Hotel operations and shopping center operations
32 East Japan Marketing & Communications, Inc.	250	100.0	Advertising and publicity
33 Tokyo Media Service Co., Ltd.	104	100.0	Advertising and publicity
34 Shinjuku South Energy Service Co., Ltd.	750	57.6	Supplying thermal energy
35 JR-EAST Energy Development Co., Ltd. (Note 4)	150	80.0	Supplying wind energy
36 The Orangepage, Inc.	500	100.0	Publishing
37 JR East View Travel Service Co., Ltd.	550	73.8	Travel agency services
38 East Japan Railway Trading Co., Ltd.	560	100.0	Wholesale
39 JR East Logistics Co., Ltd.	100	100.0	Truck delivery services
40 JR East Information Systems Company (Note 5)	500	100.0	Information processing
41 JR East Net Station Co., Ltd.	460	100.0	Information processing
42 JR East Management Service Co., Ltd.	80	100.0	Information services
43 JR East Green Partners Co., Ltd.	100	100.0	Inventory control, issuance, and collection operation for uniforms of JR East employees
44 JR East Personnel Service Co., Ltd.	100	100.0	Seminar and staff sending business
45 JR East Station Service Co., Ltd.	50	100.0	Station operations

Company Name	Capitalization (Millions of Yen)	Voting Right Percentage (Note 1)	Main Business Activities
46 East Japan Eco Access Co., Ltd.	120	100.0	Cleaning services
47 JR Chiba Railway Services Co., Ltd.	12	100.0	Cleaning services
48 JR Takasaki Railway Services Co., Ltd.	10	100.0	Cleaning services
49 JR Mito Railway Services Co., Ltd.	10	100.0	Cleaning services
50 JR East Transportation Services Co., Ltd.	38	100.0	Cleaning services
51 JR East TESSEI Co., Ltd.	38	100.0	Cleaning services
52 JR Technoservice Sendai Co., Ltd.	25	100.0	Cleaning services
53 JR Niigata Railway Services Co., Ltd.	17	100.0	Cleaning services
54 Morioka Railway Servicing Co., Ltd.	13	100.0	Cleaning services
55 JR Akita Railway Services Co., Ltd.	10	100.0	Cleaning services
56 JR Nagano Railway Services Co., Ltd.	10	100.0	Cleaning services
57 JR East Sports Co., Ltd.	400	100.0	Athletic club operations
58 GALA YUZAWA Co., Ltd.	300	92.7	Ski resort operations
59 JR East Rental & Lease Co., Ltd.	165	89.4	Car leasing
60 Union Construction Co., Ltd.	120	90.0	Construction
61 JR East Mechatronics Co., Ltd.	100	100.0	Maintenance services
62 JR Higashinohon Linen Co., Ltd.	100	100.0	Linen supply
63 JR East Rail Car Technology & Maintenance Co., LTD. (Note 6)	200	100.0	Machinery and rolling stock maintenance
64 Japan International Consultants for Transportation Co., Ltd.	495	52.5	Consulting
65 JR East Consultants Company	50	100.0	Consulting
66 JR East Design Corporation	50	100.0	Consulting
67 JR East Facility Management Co., Ltd.	50	100.0	Building maintenance

Equity-Method Affiliated Companies

Company Name	Capitalization (Millions of Yen)	Voting Right Percentage (Note 1)	Main Business Activities
1 UQ Communications Inc. (Note 7)	¥71,425	17.6	Internet connect service
2 Central Security Patrols Co., Ltd.	2,924	25.4	Security business operations
3 JTB Corp.	2,304	21.9	Travel agency services
4 NIPPON DENSETSU KOGYO CO., LTD. (Note 7)	8,494	19.1	Construction
5 NIPPON RIETEC CO., LTD. (Note 7)	1,430	17.4	Construction

Notes:

- Voting right percentages represent direct voting right percentages.
- On July 1, 2015, JR East Tohoku Sogo Service Co., Ltd., merged with Jaster Co., Ltd., and JR Atlis Co., Ltd. Further, as a result of this merger Jaster Co., Ltd. and JR Atlis Co., Ltd. ceased to exist.
- On April 1, 2015, Utsunomiya Station Development Co., Ltd., Takasaki Terminal Building Co., Ltd., and Mito Station Development Co., Ltd., became subsidiaries of atre Co., Ltd., through a transfer of shares that East Japan Railway Company owned.
- From the fiscal year under review, JR-EAST Energy Development Co., Ltd., was newly included in consolidation.
- On April 1, 2015, JR East Japan Information Systems Company changed its business name to JR East Information Systems Company.
- On April 1, 2015, East Japan Transport Technology Co., Ltd., merged with Tohoku Rolling Stock Machinery Co., Ltd., and changed its business name to JR East Rail Car Technology & Maintenance Co., LTD. Further, as a result of this merger Tohoku Rolling Stock Machinery Co., Ltd., ceased to exist.
- Although East Japan Railway Company owns less than 20% of the voting rights of UQ Communications Inc., NIPPON DENSETSU KOGYO CO., LTD., and NIPPON RIETEC CO., LTD., they were made affiliated companies because East Japan Railway Company effectively controls them.

Corporate Data

As of March 31, 2016

Basic Information

Number of Employees

73,053* (48,894 at parent company)

* Excluding employees assigned to other companies and employees on temporary leave

Number of Stations

1,665

Number of Rolling Stocks

12,960

Passenger Line Network

7,457.3 kilometers

Number of Passengers Served Daily

About 17 million (average for the year ended March 31, 2016)

Total Number of Shares Issued

392,500,000

Total Number of Shares Outstanding

391,844,097

Paid-in Capital

¥200,000 million

Number of Shareholders

216,307

Stock Exchange Listing

Tokyo

Transfer Agent

Mitsubishi UFJ Trust and Banking Corporation

4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

Rating Information

AA+ (Rating and Investment Information, Inc.)

AA- (Standard & Poor's Ratings Services)

Aa3 (Moody's Investors Service)

For Inquiries

Head Office

2-2, Yoyogi 2-chome, Shibuya-ku,

Tokyo 151-8578, Japan

Phone: +81 (3) 5334-1310

Facsimile: +81 (3) 5334-1320

E-mail: ir@jreast.co.jpbond@jreast.co.jp

New York Office

Empire State Building,

Suite 4220, 350 Fifth Avenue,

New York, NY 10118, U.S.A.

Phone, Facsimile:

+1 (212) 332-8686

Paris Office

3, rue de Faubourg St. Honoré,

75008 Paris, France

Phone: +33 (1) 45-22-60-48

Facsimile: +33 (1) 43-87-82-87

Brussels Branch

Square de Meeûs 23, 1000 Brussels, Belgium

Phone: +32 (0) 2 808-36-43

Facsimile: +32 (0) 2 808-36-49

Singapore Branch

4 Shenton Way, #18-04 SGX Centre, Singapore 068807

Phone: +65-6536-1357

Facsimile: +65-6536-1297

London Office

1st Floor, Boston House, 63-64 New Broad Street,

London EC2M 1JJ, U.K.

Phone: +44 (0) 20-7786-9900

Facsimile: +44 (0) 20-7374-2210

Internet Addresses

JR East: <http://www.jreast.co.jp/e/>Environment: <http://www.jreast.co.jp/e/environment/>
(CSR Report)

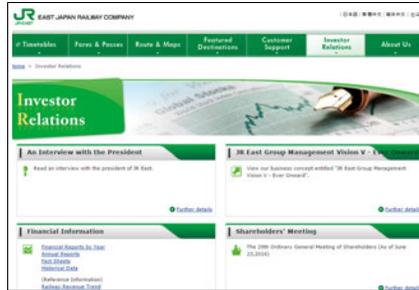
Further Information about JR East

Websites



Home Page

<http://www.jreast.co.jp/e/index.html>



Investor Relations

<http://www.jreast.co.jp/e/investor/index.html>

Publications



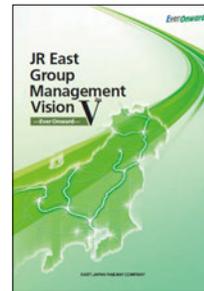
Fact Sheets

<http://www.jreast.co.jp/e/investor/factsheet/index.html>



CSR Report

<http://www.jreast.co.jp/e/environment/index.html>



JR East Group Management Vision V—Ever Onward

<http://www.jreast.co.jp/e/investor/everonward/index.html>

App



JR-EAST Train Info

<http://www.jreast-app.jp/en/>

Facebook



JR East's official Facebook page

<https://ja-jp.facebook.com/jreast.jp>



2-2, Yoyogi 2-chome, Shibuya-ku,
Tokyo 151-8578, Japan
<http://www.jreast.co.jp/e/>

