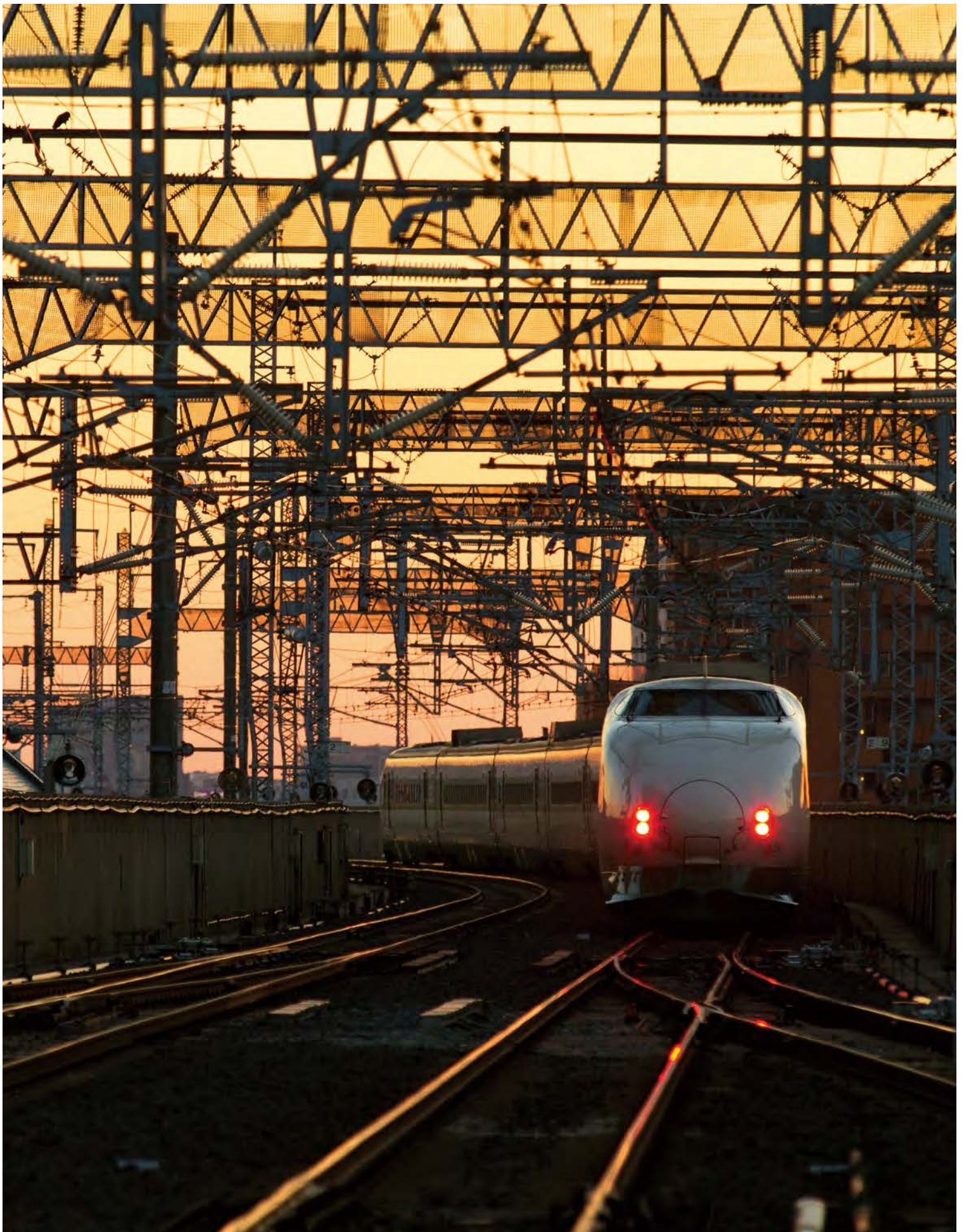


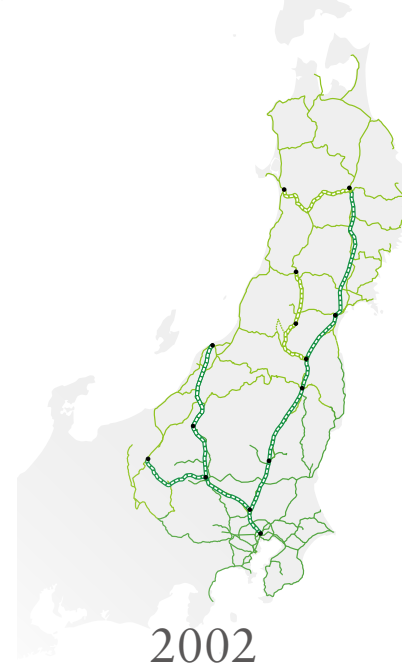
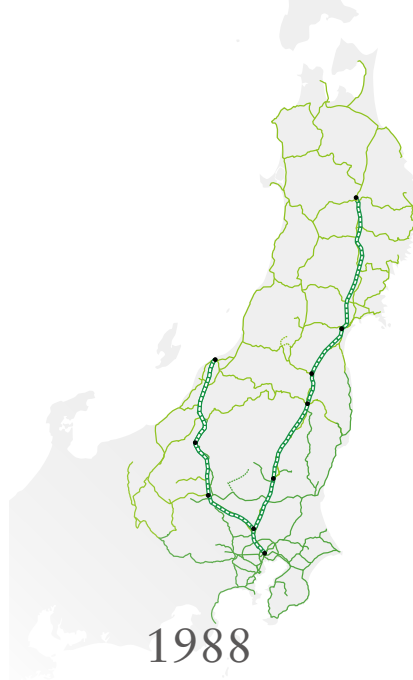


ANNUAL REPORT 2017
For the year ended March 31, 2017

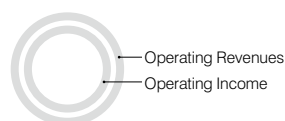
| *Pursuing*

We have been *pursuing* initiatives
in light of the Group Philosophy since 1987.

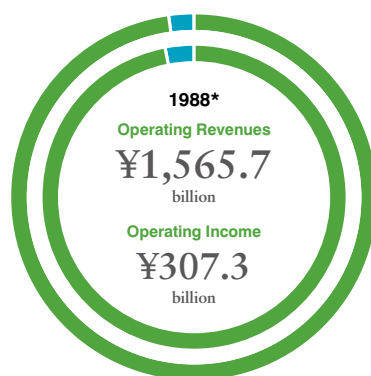




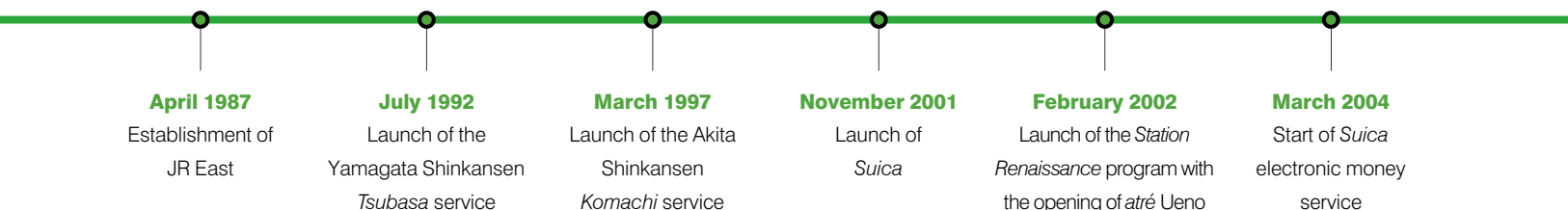
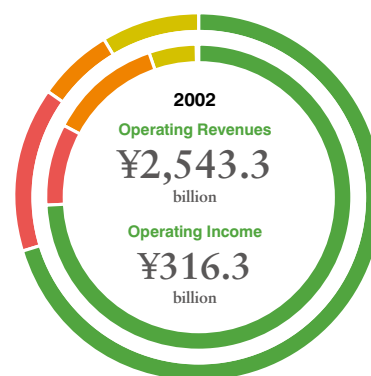
We have been *pursuing* our Eternal Mission
while broadening our Unlimited Potential.

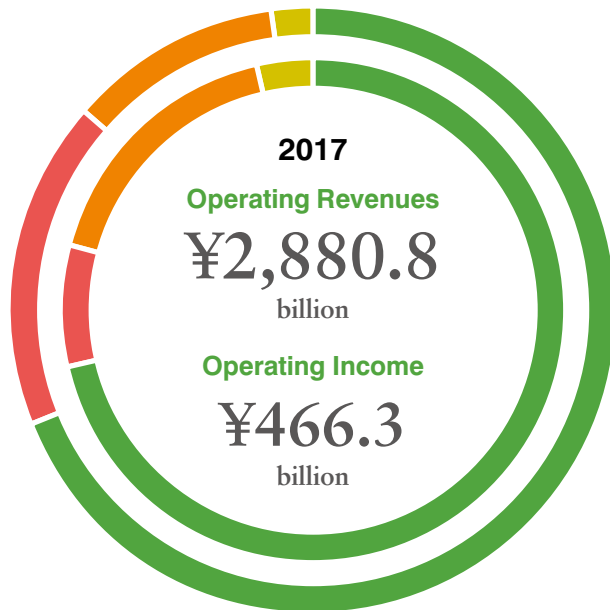


- Transportation ("Railway" in FY1988)
- Other Operations (in FY1988)
- Retail & Services
("Station Space Utilization" in FY2002–2017)
- Real Estate & Hotels
("Shopping Centers & Office Buildings" in FY2002–2017)
- Others (in FY2002–2017)

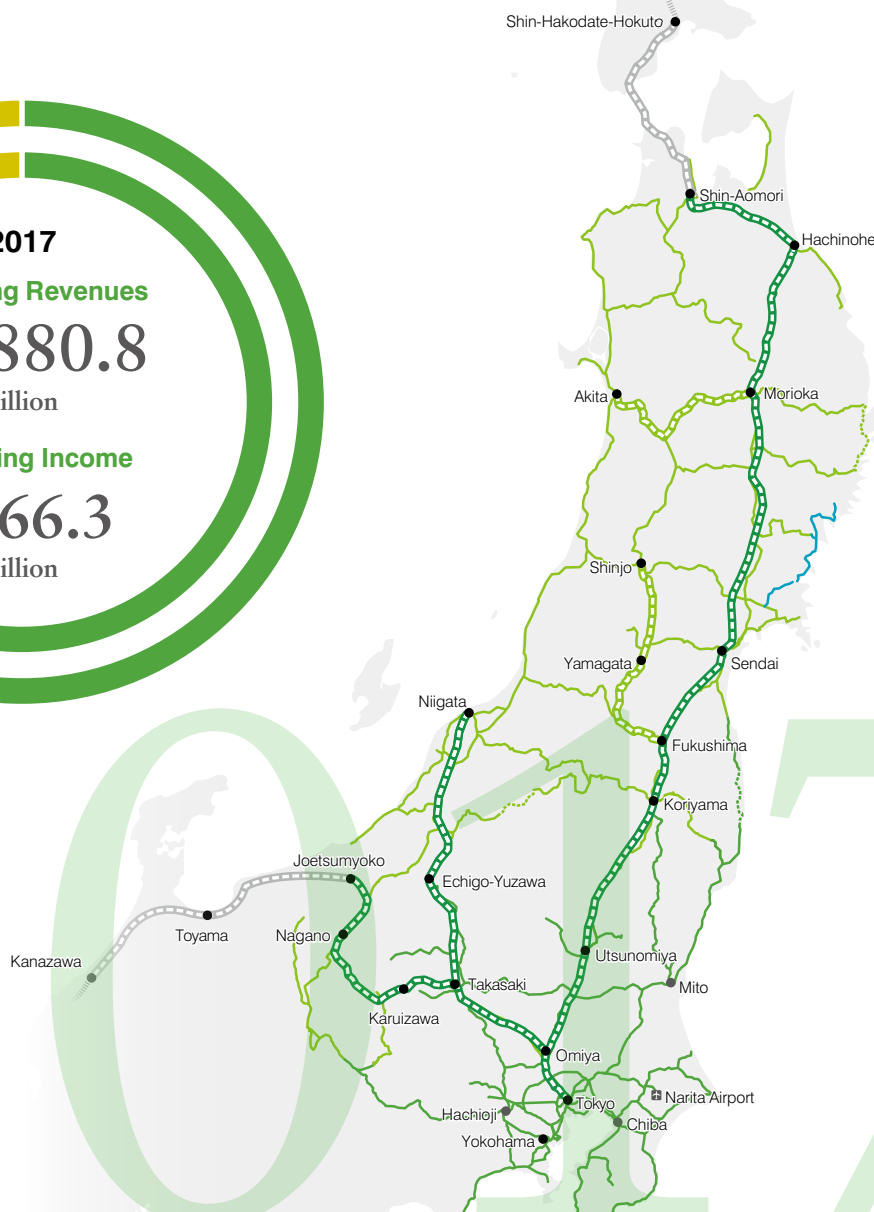


* Fiscal 1988 figures are nonconsolidated.
Further, other operations include bus services.





- Shinkansen (JR East)
 - Conventional Lines (Kanto Area Network)
 - Conventional Lines (Other Network)
 - BRT (Bus Rapid Transit) Lines
 - Shinkansen (Other JR Companies)
 - Shinkansen (Under Construction)
- (As of June 2017)



Transportation

Railway Business, Bus Services, Cleaning Services, Railcar Manufacturing Operations, etc.



Retail & Services

Retail Sales, Restaurant Operations, Advertising & Publicity, etc.



Real Estate & Hotels

Shopping Center Operations, Leasing of Office Buildings, Hotel Operations, etc.



Others

IT & Suica business such as the Credit Card Business, Information Processing Business, etc.

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





We will continue *pursuing* our Eternal Mission
and Unlimited Potential.





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.

Contents

6	Financial Highlights
8	Selected Financial Data
11	Stock Information
12	A Message from the Management
14	Interview with the President

22 JR East Group Management Vision V— Ever Onward

22	Business Conditions
24	Our Calling
26	Numerical Targets
28	Priority Initiatives Going Forward
30	Special Feature: Enhancing Profitability through Tourism Initiatives
34	Pursuing "Extreme Safety Levels"
37	Service Quality Reforms
38	Strengthening Collaboration with Local Communities
40	Technological Innovation // Environment
42	Technological Innovation // Medium-to-Long-Term Vision
43	Tackling New Business Areas
44	Developing Employees and Creating a Corporate Culture that Maximizes Human Potential

46 Review of Operations

46	Transportation // Tokyo Metropolitan Area Network, Intercity Network, and Shinkansen
48	Transportation // Initiatives for Visitors to Japan and Railcar Manufacturing Operations
50	Retail & Services
52	Real Estate & Hotels
54	Others

56 Corporate Governance

56	Board of Directors and Corporate Auditors
58	Corporate Governance
63	Compliance
64	Organization

65 Facts & Figures

66	JR East: Domestic and International Perspectives
73	Management's Discussion and Analysis of Financial Condition and Results of Operations
78	Operational and Other Risk Information
82	Consolidated Financial Statements
87	Notes to Consolidated Financial Statements
106	Independent Auditor's Report
107	Glossary
108	Consolidated Subsidiaries and Equity-Method Affiliated Companies
110	Corporate Data
111	Further Information about JR East

Financial Highlights

East Japan Railway Company and Subsidiaries
Years ended March 31

	2007	2008	2009	2010	2011
Operating results					
Operating revenues	¥2,657,346	¥2,703,564	¥2,697,000	¥2,573,724	¥2,537,353
Operating expenses	2,229,248	2,258,404	2,264,445	2,228,875	2,192,266
Operating income	428,098	445,160	432,555	344,849	345,087
Profit attributable to owners of parent	175,871	189,673	187,291	120,214	76,224
Comprehensive income* ¹	N/A	N/A	N/A	N/A	73,644
Segment information					
Operating revenues from outside customers:					
Transportation	1,825,387	1,857,756	1,831,933	1,757,994	1,721,922
Station Space Utilization	399,998	404,006	415,020	387,104	385,891
Shopping Centers & Office Buildings	197,140	205,347	222,628	226,932	223,293
Others	234,821	236,455	227,419	201,694	206,247
Total	2,657,346	2,703,564	2,697,000	2,573,724	2,537,353
Financial position					
Total assets	6,968,032	6,942,003	6,965,793	6,995,494	7,042,900
Interest-bearing debt	3,574,822	3,535,343	3,429,871	3,394,970	3,433,010
Shareholders' equity* ²	1,488,554	1,596,398	1,718,587	1,780,584	1,809,355
Cash flows					
Cash flows from operating activities	541,850	475,601	584,360	479,180	508,846
Cash flows from investing activities	(348,800)	(400,789)	(396,796)	(391,682)	(433,179)
Cash flows from financing activities	(172,027)	(80,407)	(159,238)	(115,327)	(27,512)
Per share data * ³					
Earnings	44,008	47,464	469	303	193
Shareholders' equity* ²	372,493	399,483	4,301	4,501	4,574
Cash dividends* ⁴	9,000	10,000	110	110	110
Ratios					
Profit attributable to owners of parent as a percentage of revenues	6.6	7.0	6.9	4.7	3.0
Return on average equity (ROE)	12.4	12.3	11.3	6.9	4.2
Ratio of operating income to average assets (ROA)	6.2	6.4	6.2	4.9	4.9
Equity ratio	21.4	23.0	24.7	25.5	25.7
Interest-bearing debt to shareholders' equity	2.4	2.2	2.0	1.9	1.9
Interest coverage ratio	4.2	3.8	4.8	4.2	4.8
Interest-bearing debt / Net cash provided by operating activities	6.6	7.4	5.9	7.1	6.7
Dividend payout ratio	20.5	21.1	23.5	36.3	57.1
Other data					
Depreciation	318,526	335,587	343,101	356,365	366,415
Capital expenditures* ⁵	413,310	417,144	402,582	434,754	425,835
Interest expense	131,376	126,047	120,395	112,596	105,918
Number of consolidated subsidiaries (As of March 31)	85	82	82	73	75
Number of employees	71,316	72,214	72,550	71,854	71,749
Electric power: Independent (Billions of kWh)	3.4	3.5	3.5	3.4	3.5
Electric power: Purchased (Billions of kWh)	2.7	2.7	2.7	2.7	2.6

*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 ¥112 to U.S.\$1, the prevailing exchange rate at March 31, 2017.

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)
2012	2013	2014	2015	2016	2017	2017 / 2016	2017
¥2,532,174	¥2,671,823	¥2,702,917	¥2,756,165	¥2,867,200	¥2,880,802	0.5%	\$25,721
2,172,149	2,274,260	2,296,123	2,328,643	2,379,379	2,414,492	1.5%	21,558
360,025	397,563	406,794	427,522	487,821	466,310	-4.4%	4,163
108,738	175,385	199,940	180,398	245,310	277,925	13.3%	2,481
109,304	197,740	214,632	229,293	217,419	293,471	35.0%	2,620
1,705,794	1,809,554	1,827,467	1,852,040	1,954,588	1,959,805	0.3%	17,498
396,168	404,207	400,948	396,368	399,960	399,679	-0.1%	3,568
229,637	238,945	251,070	254,997	255,979	267,638	4.6%	2,390
200,575	219,117	223,432	252,760	256,673	253,680	-1.2%	2,265
2,532,174	2,671,823	2,702,917	2,756,165	2,867,200	2,880,802	0.5%	25,721
7,060,409	7,223,205	7,428,304	7,605,690	7,789,762	7,911,115	1.6%	70,635
3,340,233	3,307,483	3,288,401	3,275,523	3,241,979	3,211,074	-1.0%	28,670
1,874,404	2,030,666	2,180,633	2,285,658	2,442,129	2,653,419	8.7%	23,691
558,650	588,529	562,764	622,762	673,110	652,907	-3.0%	5,830
(370,685)	(465,952)	(474,698)	(476,844)	(499,575)	(557,539)	11.6%	(4,978)
(152,428)	(101,151)	(91,367)	(86,636)	(110,266)	(116,280)	5.5%	(1,038)
275	444	507	459	626	714	14.1%	6
4,739	5,136	5,529	5,818	6,232	6,826	9.5%	61
110	120	120	120	130	130	0.0%	1
4.3	6.6	7.4	6.5	8.6	9.6		
5.9	9.0	9.5	8.1	10.4	10.9		
5.1	5.6	5.6	5.7	6.3	5.9		
26.5	28.1	29.4	30.1	31.4	33.5		
1.8	1.6	1.5	1.4	1.3	1.2		
5.5	6.2	6.3	7.6	8.8	9.2		
6.0	5.6	5.8	5.3	4.8	4.9		
40.0	27.0	23.7	26.1	20.8	18.2		
358,704	346,808	348,042	353,251	359,515	364,129	1.3%	3,251
370,199	480,717	525,708	522,127	541,949	506,727	-6.5%	4,524
101,073	95,312	88,279	81,962	76,332	70,258	-8.0%	627
72	72	73	72	67	67		
71,729	73,017	73,551	73,329	73,053	73,063		
3.4	3.3	3.3	3.3	3.3	3.3		
2.4	2.6	2.6	2.6	2.5	2.6		

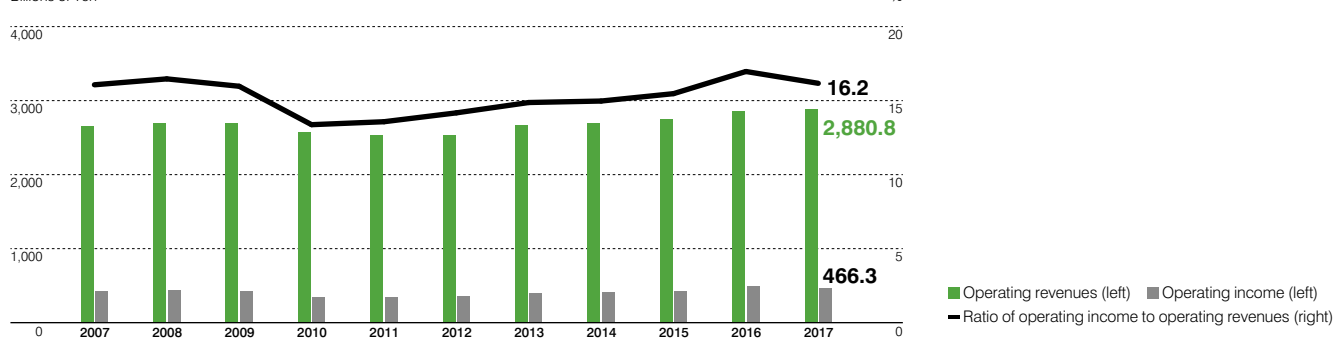
Note: Pursuant to an amendment of the Japanese Tax Law, from the year ended March 31, 2008, a depreciation method based on the amended Japanese Tax Law has been used for property, plant and equipment acquired on or after April 1, 2007. Further, for property, plant and equipment acquired on or before 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

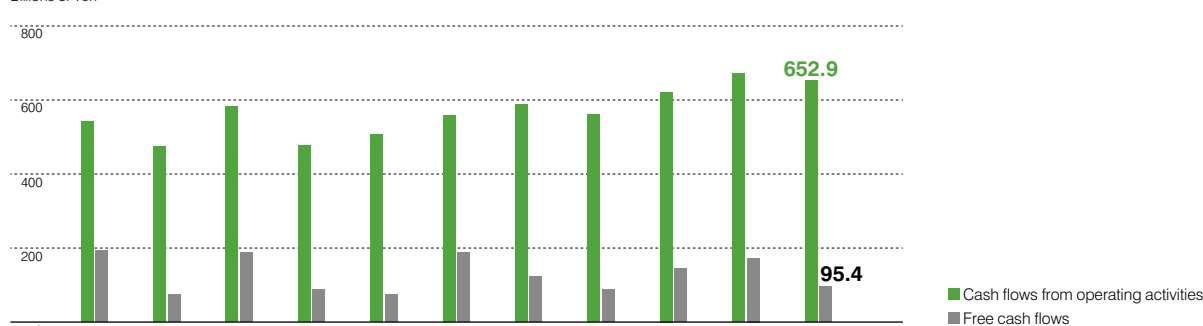
Operating Revenues, Operating Income, and Ratio of Operating Income to Operating Revenues

Billions of Yen

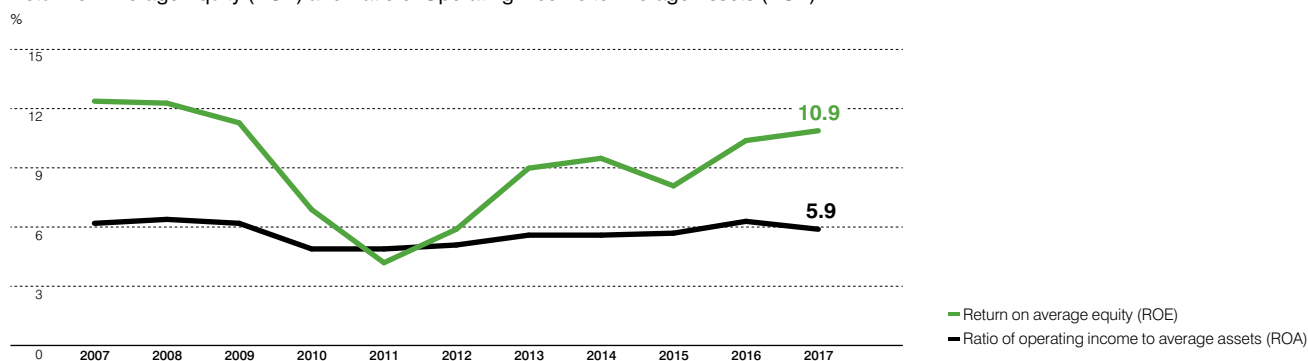


Cash Flows from Operating Activities and Free Cash Flows

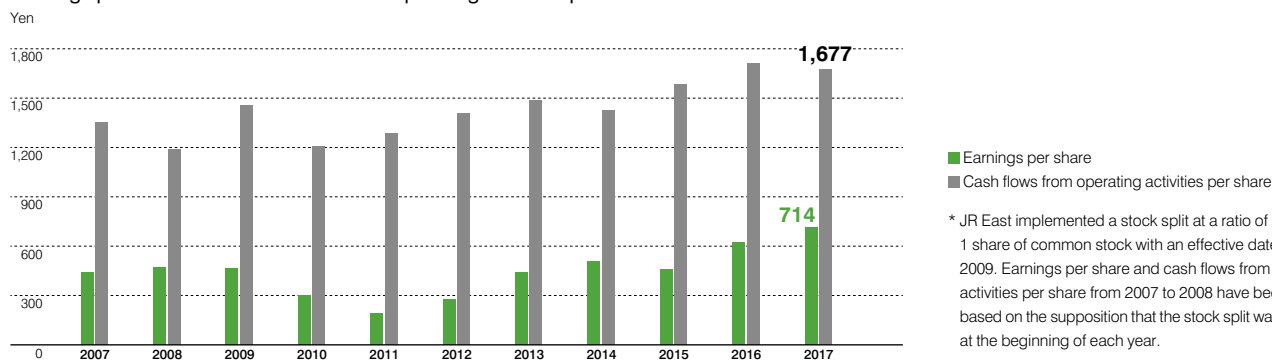
Billions of Yen



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



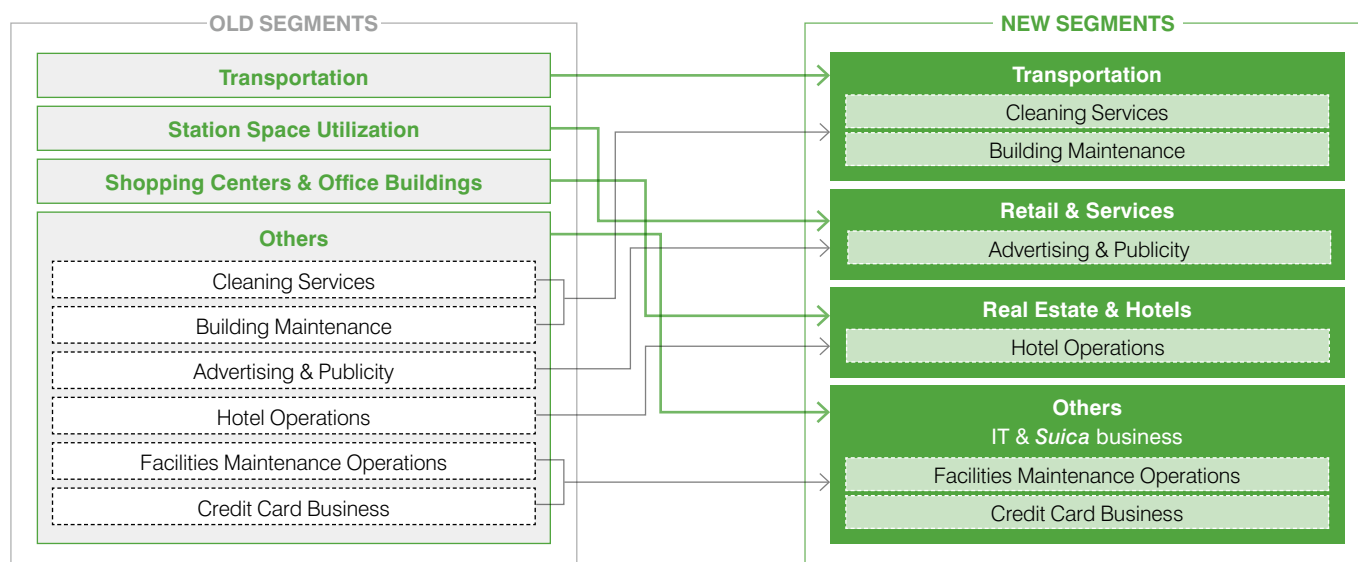
Earnings per Share and Cash Flows from Operating Activities per Share*



* 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 2007 to 2008 have been calculated based on the supposition that the stock split was implemented at the beginning of each year.

Comparisons of New and Old Segments

From the fiscal year ending March 31, 2018, JR East has revised its reportable segment classifications to focus on operational headquarters in order to better enforce its management approach based on segments that carry out managerial decision-making. For summaries of each segment, please see page 3.

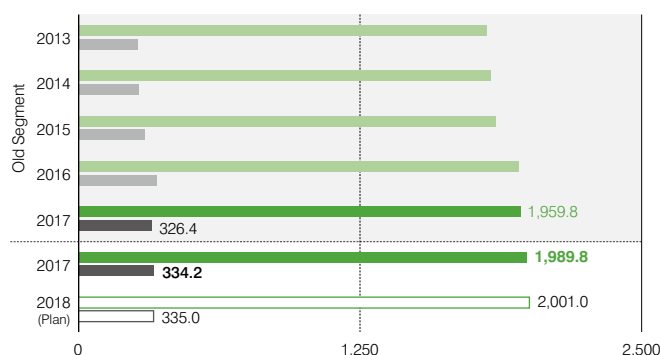


Operating Revenues and Operating Income by Segment

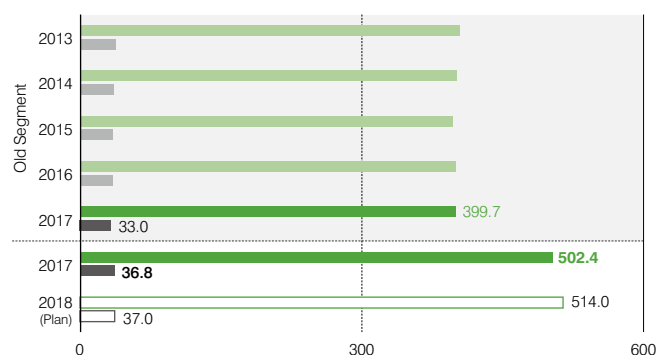
Billions of Yen

■ Operating revenues ■ Operating income

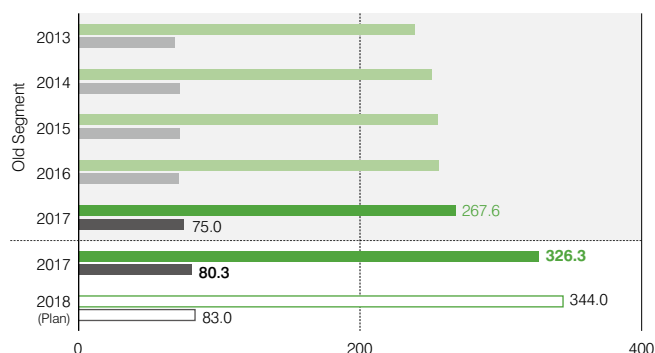
TRANSPORTATION



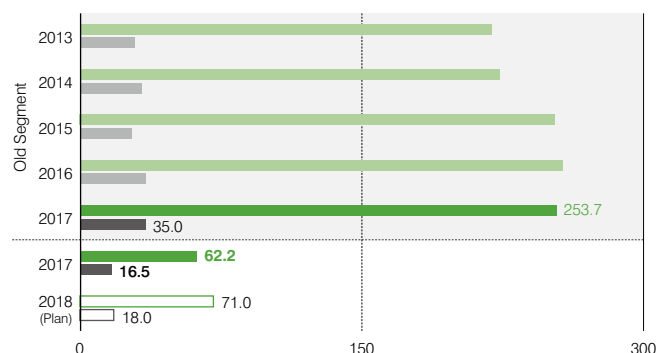
RETAIL & SERVICES



REAL ESTATE & HOTELS



OTHERS

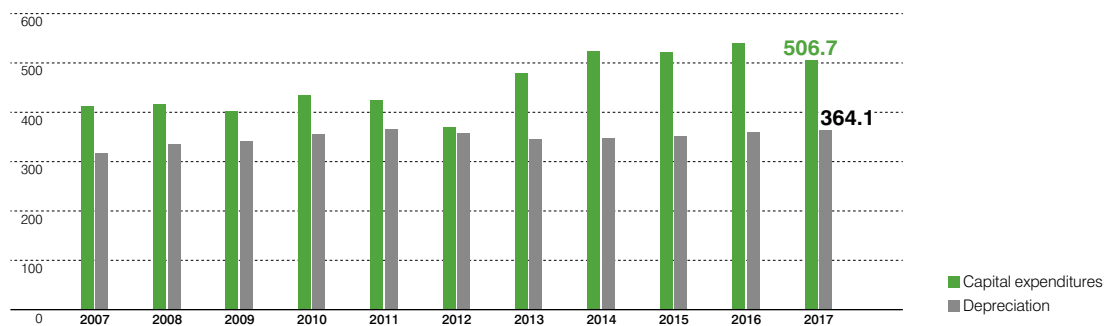


Selected Financial Data

East Japan Railway Company and Subsidiaries
Years ended March 31

Capital Expenditures and Depreciation

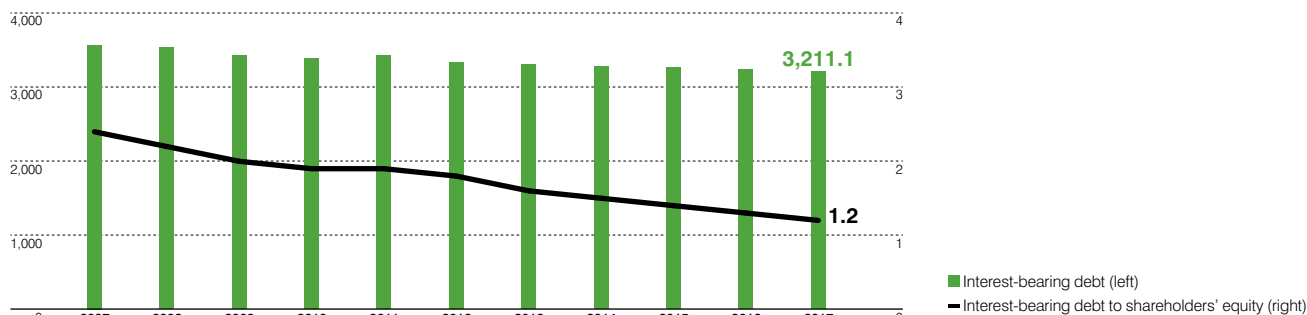
Billions of Yen



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

Billions of Yen

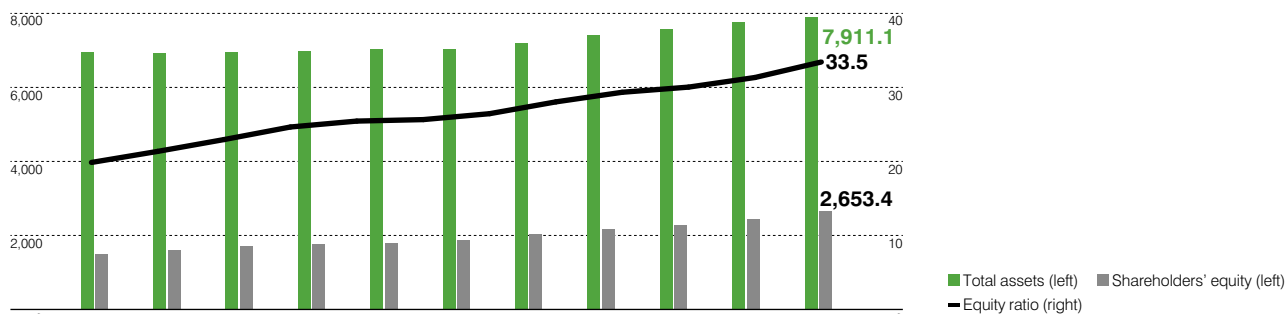
Times



Total Assets, Shareholders' Equity, and Equity Ratio

Billions of Yen

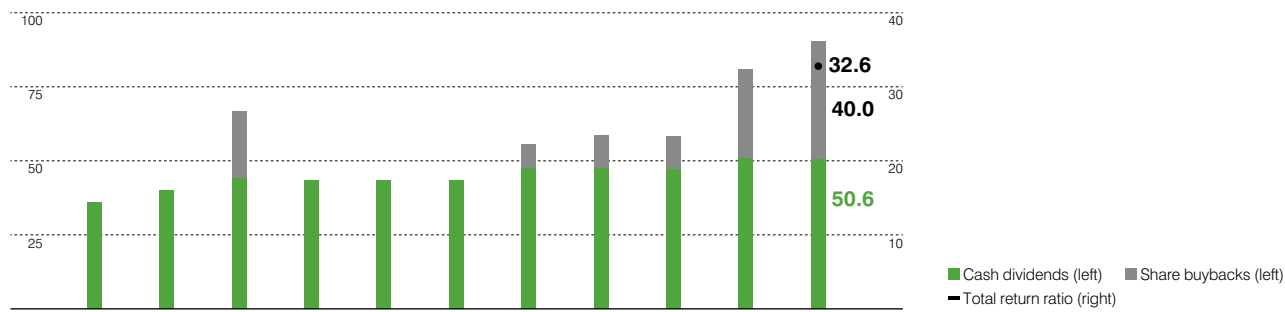
%



Cash Dividends, Share Buybacks, and Total Return Ratio

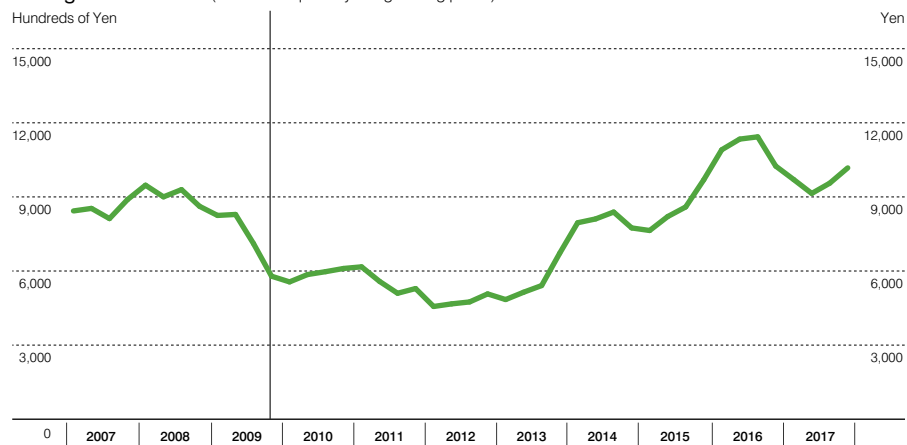
Billions of Yen

%



Stock Information

Average Stock Price* (Calculated quarterly using closing prices)



Major Shareholders

As of March 31, 2017	Number of Shares Held (Shares)	Shareholding Percentage (%)
Mizuho Bank, Ltd.	18,040,000	4.64
The Master Trust Bank of Japan, Ltd. (as Trustee)	14,673,781	3.77
Japan Trustee Services Bank, Ltd. (as Trustee)	12,353,100	3.17
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	11,286,000	2.90
The JR East Employees Shareholding Association	10,222,678	2.63
Sumitomo Mitsui Banking Corporation	9,493,000	2.44
Nippon Life Insurance Company	8,015,560	2.06
The Dai-ichi Life Insurance Company, Limited	8,000,000	2.06
Japan Trustee Services Bank, Ltd. (as Trustee 5)	7,107,700	1.83
STATE STREET BANK WEST CLIENT – TREATY 505234	5,377,465	1.38

The shareholding percentage is calculated based on the total number of issued shares excluding 324,751 shares of treasury stock.

* 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.

A Message from the Management



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 support.

In the year ended March 31, 2017, the Japanese economy improved in such areas as employment and income conditions and continued to recover gradually. Under these conditions, and guided by “JR East Group Management Vision V—Ever Onward,” the East Japan Railway Company and its consolidated subsidiaries and equity method affiliated companies (JR East) steadily executed various initiatives centered on the railway, life-style service, and IT & *Suica* businesses.

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

Being autonomous, putting the customer first, and being regionally rooted have been fundamental to the business management of JR East since its establishment. In the fiscal year under review, the Company’s 30th anniversary, JR East continued taking measures steadily in the railway, life-style service, and IT & *Suica* businesses based on “JR East Group Management Vision V—Ever Onward.”

In the year ending March 31, 2018, JR East will work unstintingly to advance business management. Priority tasks will be to improve the safety and reliability of transportation, take on the challenge of enhancing profitability, and advance “TICKET TO TOMORROW” initiatives in the run-up to the Tokyo 2020 Olympic and Paralympic Games.

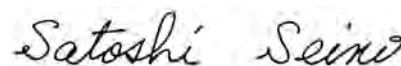
Specifically, based on “JR East Group Safety Plan 2018,” JR East will enhance facilities to address weaknesses. Also, the Company will improve skills and technology-related capabilities in the Group as a whole by revising safety education and training to make it more practical. Further, JR East will improve transportation quality through efforts to provide reliable transportation services and strengthen its ability to respond to emergencies, in accordance with the “Medium-term Vision

for Service Quality Reforms 2017.” In addition, JR East aims to leverage fully an expanded railway network and such new services as the *TRAIN SUITE SHIKI-SHIMA* cruise train to increase the inter-regional railway travel of Japanese customers and visitors to Japan. Other initiatives will include steadily developing large-scale terminal stations—including Chiba, Sendai, Shibuya, and Yokohama stations—and *developing a town* that will establish Shinagawa as Japan’s new gateway. At the same time, JR East will revitalize regions through *sextic industrialization*.

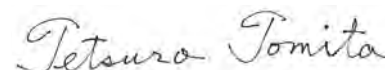
As well as the abovementioned initiatives, JR East will set its sights on the future and pursue technological innovation in a wide range of railway fields and develop businesses in India and other countries worldwide. In conjunction with these efforts, JR East will focus on creating more opportunities that resonate with employee ambitions and passing on the skills and technology-related capabilities of veteran employees. By providing high-quality services in all business fields, the JR East Group intends to exceed the expectations of shareholders and other investors.

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

August 2017



Chairman



President and CEO

Interview with the President



TETSURO TOMITA
President and CEO

We will achieve tangible results by continuing concerted efforts focused on two important management 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.”

Question 1

Looking back to the restructuring of Japanese National Railways (JNR) that led to the establishment of JR East, what have the Company's achievements been in the 30 years since then, and what are the tasks going forward?

- > JR East has rehabilitated and revitalized railways based on a commitment to being autonomous, customer focused, and regionally rooted, which were the starting points of the Company's establishment.
- > To continue responding appropriately to changes in business conditions, we will advance concrete measures based on the priority Groupwide tasks of improving the safety and reliability of transportation, taking on the challenge of enhancing profitability, and advancing "TICKET TO TOMORROW" initiatives.

It feels as if 30 years have passed in an instant. I worked at JNR at the time, so I remember it well. In the period just before it was restructured, repeated strikes and fare increases had lowered customers' trust in the company. JNR was recording huge losses year after year. Financially, there seemed to be absolutely no prospect of moving out of indebtedness. It was especially tough for employees because no matter how hard they worked, light never appeared at the end of the tunnel. Without the prospect of improvement, organizations lose vitality. I remember that even though we were frustrated at being unable to exercise our abilities, we felt strongly that we could do better.

I joined JNR in 1974. At the time, Japan's transportation market was undergoing a major period of transition. With advances in motorization and the development of expressways, automobiles, mainly private cars, were claiming an increasingly large share of passenger transportation. Also, progress in developing airports was popularizing air transportation. Unable to adapt sufficiently to these changes in business conditions, JNR slipped into the red in fiscal 1965 and saw its business results and financial position worsen with each passing year thereafter.

JNR was a public corporation that was tasked with running the country's railways—a critical public service—with a private company's efficiency. However, management responsibility was unclear, and the management team lacked autonomy. As a result, the company failed to perform adequately from the

viewpoints of both public service and efficiency. Further, while many employees worked hard to preserve local transportation services, employee morale dwindled amid confrontations between management and labor.

JNR collapsed as a result of being unable to adapt to changes in business conditions. A monolithic nationwide organization, the company and its business management were unable to reflect each region's characteristics. As well, the company was unable to fine-tune services to meet specific customer needs. As a public corporation, the company did not have autonomy over management, on the one hand, or clear management responsibility on the other. Solving these problems and rehabilitating and revitalizing railways called for drastic restructuring that would break completely with the past. This realization led to the division and privatization of JNR. I think restructuring released the pent up energy of employees, which manifested as a sense of mission and a commitment to taking charge of creating their own future.

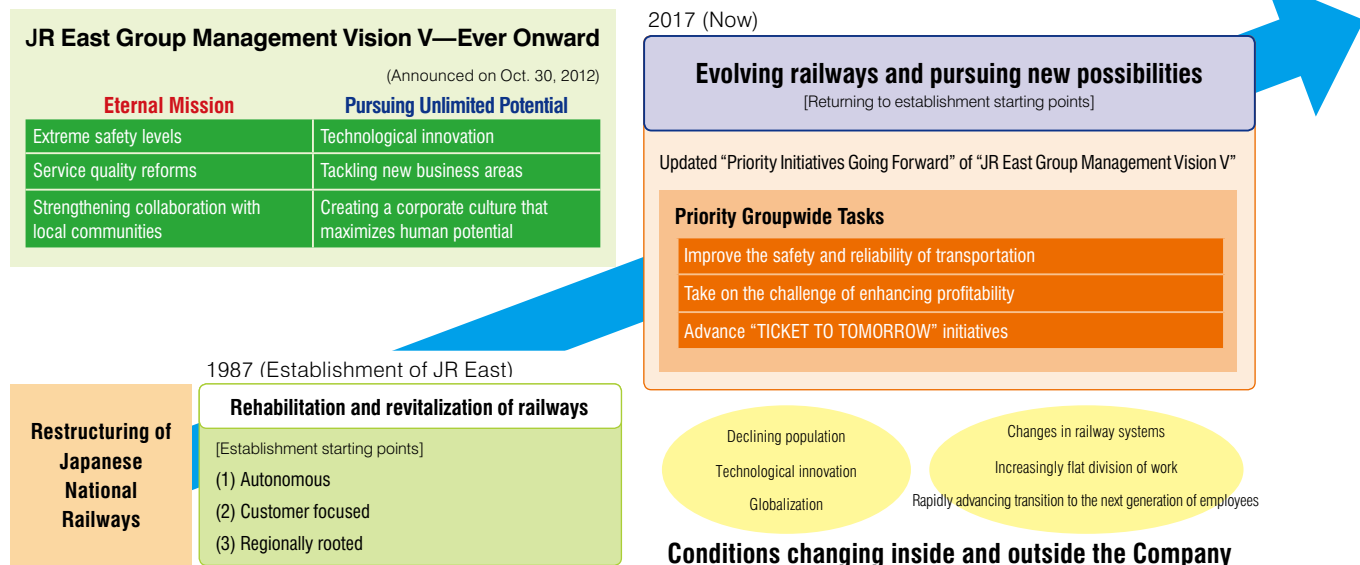
Since the restructuring of JNR, more than anything, the change in employees' attitude has been the biggest factor driving continued and steady growth. The systemic reform resulting from the division and privatization of JNR only produced benefits because employees adopted a new attitude. Reflecting the starting points of JR East's establishment—in other words, a commitment to being autonomous, customer focused, and regionally rooted—each employee moved away from the JNR attitude of "getting people on trains" to one of

focusing on "creating train services for customers." This new attitude motivated us to elevate the quality of transportation services. Moreover, the shift from being a JNR employee to being a private company employee led employees to work with an awareness of their dependence on customers for their wages. In addition, we must not forget that the endorsement and support of customers and local communities allowed JR East employees to advance corporate policies.

In 1987, when JR East was established, the economy was booming, and Japan was brimming with vitality. For the next five years, JR East grew revenues steadily. I think it was very significant that we were able to win customers back in such a short period. Meanwhile, as Japan entered the 1990s its economy flagged and interest rates declined. When it was established, JR East had revenues of roughly ¥1.5 trillion and real debt of more than ¥6 trillion. Consequently, the annual interest burden was fairly hefty, reaching about ¥400 billion. In response, we reduced the interest burden by refinancing to access lower interest rates, and minimizing capital investment. Low interest rates have continued to this day, creating favorable business conditions for JR East.

We have been able to leverage this good fortune thanks not only to the efforts of individual employees but also the support and endorsement of customers and local communities. Neither will we forget the significant help we received from national and regional governments and private companies in

The JR East Group's 30th anniversary



processing JNR's long-term debt and dealing with the issue of personnel reemployment. It would be arrogant for us to think we came this far entirely through our own efforts.

In addition, as JR East's management position has improved, the Company has been able to invest cash flows in enhancing safety



and improving service quality. Specifically, in railway operations we have boosted inter-regional railway travel by expanding and raising the operating speeds in the Shinkansen network. At the same time, the Company has focused efforts on strengthening services through such initiatives as increasing transportation capabilities in the Tokyo metropolitan area to mitigate congestion. As for safety, we have invested more than ¥3 trillion in such

safety measures as seismic reinforcement over the past three decades. From a long-term viewpoint, the number of accidents has decreased, and safety has improved. In recent years, however, there have been major incidents and transportation service disruptions. We need to remain ever vigilant. Also, revenues from non-transportation operations, in such areas as station concourses, shopping centers, and offices, have been growing steadily. The IT & *Suica* business, which we view as our third pillar, has enhanced services and promoted changes in customers' lifestyles. In conjunction with these efforts, we have reduced equipment maintenance costs and realized more-efficient usage of space in railway stations. As Japan's population will decline over the medium-to-long term, we have to create foundations for the steady growth of businesses in fields beyond railways.

At present, the JR East Group is approaching a major period of transition internally and externally. Externally, we are likely to see advances in population decline, the aging of society, population concentration in the Tokyo metropolitan area, technological innovation, and economic globalization. Internally, railway

systems will evolve, and a new generation of employees will take over from the current generation. To respond appropriately to these changes, in October 2016 the JR East Group set out three priority Groupwide tasks: improving the safety and reliability of transportation, taking on the challenge of enhancing profitability, and advancing initiatives for the Tokyo 2020 Olympic and Paralympic Games under the "TICKET TO TOMORROW" slogan.

We will take measures focused on improving the safety and reliability of transportation to entrench the trust that customers and local communities place in the Company. At the same time, we will sustain growth and ensure autonomous business management going forward by taking on the challenge of enhancing profitability and advancing "TICKET TO TOMORROW" initiatives. The aim of setting these three priority Groupwide tasks is to return to our starting points directly after the restructuring of JNR. In terms that reflect society today, the tasks express a commitment to being autonomous, customer focused, and regionally rooted.

Question 2

What measures is JR East taking with respect to its highest priority task of improving the safety and reliability of transportation, and what are the tasks for the future?

- > We will take measures aimed at improving the safety and reliability of transportation, thereby providing customers and local communities with peace of mind based on assured safety.
- > We will steadily upgrade personnel development, management, equipment, and facilities through continuous plan-do-check-act (PDCA) cycles.

The trust of customers and local communities is the bedrock of the JR East Group's business management. To reinforce this trust, we must take measures aimed at improving the safety and reliability of transportation from a customer-focused perspective and thereby provide customers and local communities with peace of mind based on assured safety.

Safety is not a given. Moreover, we cannot achieve safety solely through the application of systems and machines. Each employee's consistent performance of basic actions creates safety. In other words, safety is established through the "multiplication" of each employee's performance of duties. If the contribution of even one person's work is "zero," this could lead to a major accident. Keeping this fact firmly

at the forefront of our minds, we will continue to embrace the challenge of pursuing "extreme safety levels."

In ensuring safety, it is indispensable to increase practicality of education and training so that each employee understands the nature of their job and internalizes basic procedures. However, because safety has improved since JR East's establishment, young employees have little experience of serious accidents. Therefore, we use simulators to mimic the experience of accidents involving train collisions, electrocution, falls, and other events. The aim of this type of training is not simply to ingrain basic procedures but also to give employees a sense of their own role, which will motivate them to consciously take the initiative

in performing duties thoroughly.

Further, the division of responsibilities and roles among JR East, Group companies, and partner companies is becoming increasingly flat. As a result, Group companies and partner companies are responsible for maintenance operations for railcars, railway tracks, and electrical equipment. For this reason, JR East needs to continue personnel exchanges among the Company, Group companies, and partner companies through personnel reassignment. We also need to continue concerted Groupwide efforts focused on identifying risks and vulnerabilities and raising the level of safety and services even further. Nobody is more familiar with the type of underlying risks that exist as well as where they are located than Group

Improve the safety and reliability of transportation

Make safety training more practical



Emphasizing practical experience in training

Enhance technology Groupwide



Exchanging opinions with partner companies

Strengthen physical infrastructure (equipment and railcars)



Implementing seismic reinforcement



Strengthening Shinkansen equipment and railcars



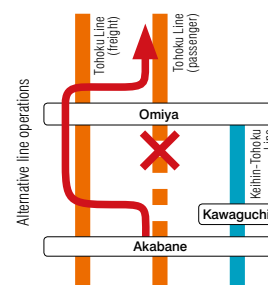
Installing automatic platform gates

Improve transportation quality

Minimizing impact of transportation service disruptions

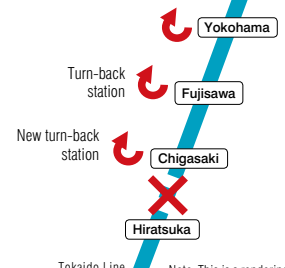
Alternative line operations

Using operational lines to continue operations



Shuttle operations

Using railway stations with turn-back facilities to continue operations on operational segments



Note: This is a rendering.

Improve the Safety and Reliability of Transportation

companies and partner companies. Therefore, to ensure that their opinions are properly heard, I think it is important to establish an open corporate culture in the JR East Group.

Another imperative is to strengthen equipment, facilities, railcars, and other physical infrastructure. To date, JR East has taken many different measures in this regard. It has introduced systems that automatically control train speeds to prevent train collisions and installed automatic platform gates to prevent accidents on station platforms. Recently, the increased operating speeds of Shinkansen has caused new problems, such as overhead wires severing more readily and the window of a Shinkansen being cracked by a component that had been installed under rail tracks but was loosened due to wind pressure from the train. In response, we have reinforced equipment and stepped-up the management of components. In addition, to prevent the incineration of communication cables by malicious third parties,

we have encased them in metal tubing or separately installed dual cables as a redundancy measure. Also, we are developing image detection technology that ensures nobody is accidentally left inside the gates of railway crossings.

Realizing reliable transportation is similar to ensuring safety in that it is fundamentally based on each employee performing their day-to-day duties properly and the provision of railcars and equipment that do not fail. Every aspect of our work, including the work of divisions that do not have direct contact with customers, is connected to providing customers with services. We must never forget that our day-to-day work underpins service quality.

Customers' expectations of services have increased significantly over the past 30 years. Of course, safety is the major premise of services. In addition, however, employees need to take a proactive approach to tackling issues so that we can pursue and realize higher levels of service

quality with respect to the reliability, comfort, speed, and convenience of transportation.

In this way, improving the safety and reliability of transportation calls for addressing issues from the viewpoints of personnel development, management, and equipment and facility improvement. Therefore, we will steadily upgrade these three elements as we proceed through PDCA cycles. There is no finishing line for efforts to improve the safety and reliability of transportation. Without complacency, we have to continue setting ourselves ambitious goals.



Question 3

Given that taking on the challenge of enhancing profitability is a priority Groupwide task, what concrete measures will the JR East Group take in this regard?

- > In railway operations, we will leverage an expanded Shinkansen network to create new passenger flows and take on the challenge of capturing demand from visitors to Japan.
- > In the life-style service business, the JR East Group will focus on town development centered on railway stations. At the same time, the IT & Suica business will take on new businesses that use big data and create synergies among respective businesses.

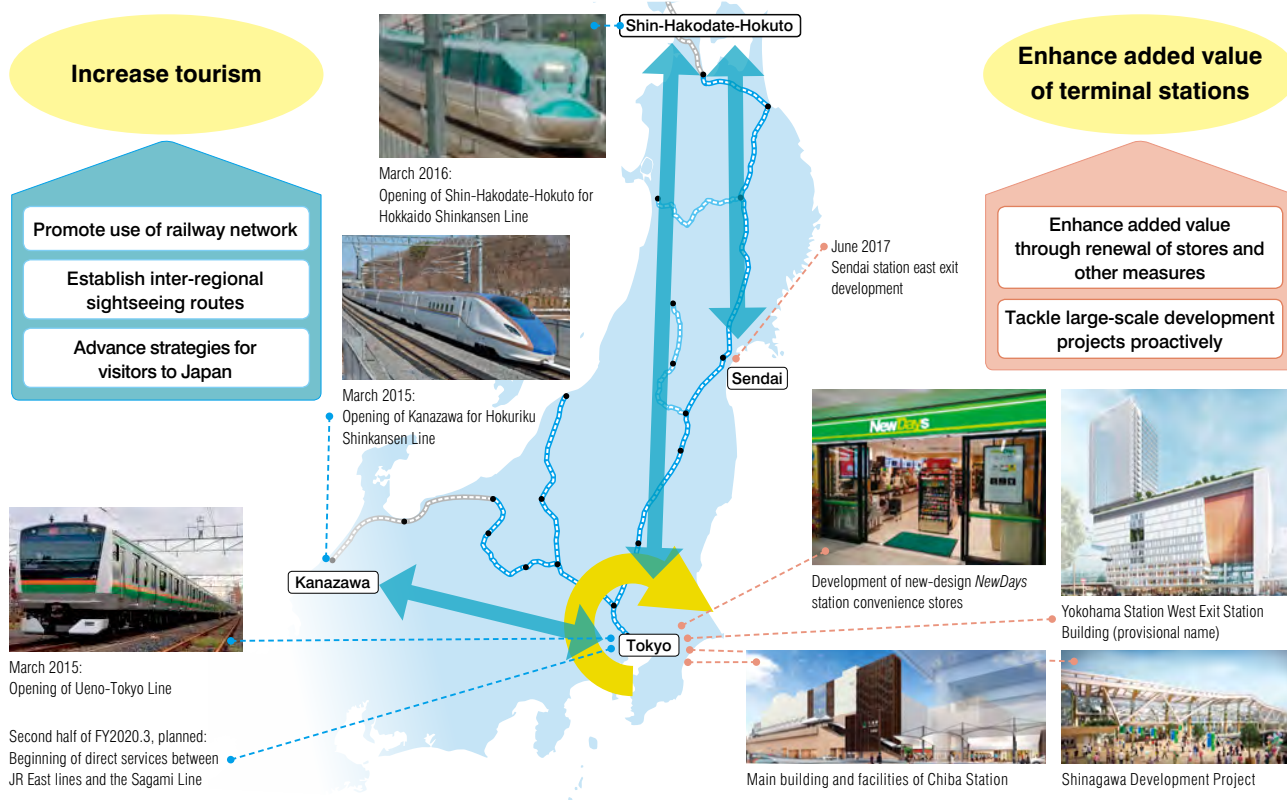
The aim of taking on the challenge of enhancing profitability is to entrench autonomous business management. By unearthing new business opportunities in a variety of fields and maximizing operating revenues, we will sustain growth as a private company. Establishing such foundations will fulfill our corporate social responsibility as a company responsible for railways, which form part of society's infrastructure, and realize our commitment to being regionally rooted.

Currently, JR East's transportation revenues are approximately ¥1,800 billion. Conventional lines in the Kanto area generate roughly two-thirds of this, and Shinkansen lines account for approximately one-third. Bearing this in mind, I repeatedly emphasize to employees that ensuring safe and reliable transportation centered on conventional lines in the Kanto area is the most effective way of increasing revenues. Not only employees who have direct contact with customers, such as those working

at railway stations and travel centers, but employees in all positions, including drivers, conductors, and construction and maintenance personnel, must be strongly focused on improving profitability and take on the challenge of unearthing revenue sources.

In addition, the Shinkansen network presents opportunities for taking on challenges. In light of the openings of the Hokkaido Shinkansen to Shin-Hakodate-Hokuto and the Hokuriku Shinkansen Line to Kanazawa, I want

Take on the challenge of enhancing profitability



to fully leverage this expanded Shinkansen network to create new passenger flows. In comparison with the Tokaido Shinkansen Line, the Tohoku Shinkansen and Hokuriku Shinkansen lines carry fewer business passengers. Therefore, the extent to which we can encourage new tourism is crucial. We have established initiatives targeting active seniors, such as *Otona no Kyujitsu Club*, but I would also like to target young people and encourage them to enjoy railway excursions. Accordingly, for the 2017 summer vacation period we launched *Fretemina* experience-type travel products, which allow customers to experience fishing onboard a fishing boat or farming and to take part in recreational activities in woodlands and rivers or at ranches. I want children to experience new kinds of trips that involve staying in farmers' homes or in fishing villages. Our aim is to broaden demand for railway-based tourism to include younger generations as well as active seniors.

Tourism is very important for the revitalization of regions. Domestic tourists account for roughly 90% of Japan's tourism industry. In the Tohoku region, tourism demand has been low since the Great East Japan Earthquake. Through collaborative efforts with this region, we intend to unearth, enhance, and publicize unique tourism resources. In May 2017, the "cruise train" *TRAIN SUITE SHIKI-SHIMA* began operating. Taking advantage of the tourism resources of eastern Japan's regions, we will invite passengers to enjoy time spent amid out-of-the-ordinary luxury while journeying by railway. I want to use such initiatives as "seeds" that help create new passenger flows.

Recently, tourism has seen "kids week" emerge as an idea. The aim is to stagger part of elementary and junior high school students' summer vacation periods. In Japan's tourism industry, demand is heavily skewed toward the summer vacation period and the Golden Week spring vacation. Inevitably, this bias lowers

productivity. However, staggering summer vacation periods would eliminate congestion for tourists and increase the tourism industry's productivity. If people were able to take advantage of the new flexibility resulting from work-style reform and stagger their vacations effectively, I think it would generate new employment and growth in regions.

Another major task is to capture demand from visitors to Japan. On an upswing, the number of visitors to Japan reached 24 million in 2016. Moreover, the government aims to attract 40 million visitors to Japan by 2020 and 60 million by 2030. Unfortunately, only around 1% of visitors to Japan travel to the Tohoku region. On the other hand, this figure shows how large the potential is. We want to work in partnership with local communities with a view to having even just 5% or 10% of visitors to Japan include the Tohoku region in their itineraries. Through these efforts, in fiscal 2018 we aim to increase revenues from visitors to

Japan (passenger revenues) 20% year on year, to ¥24 billion.

Of course, as well as in railway operations we have to boost the earning power of the life-style service business. Specifically, the development of areas in and around railway stations is an important theme. Until now, the JR East Group has concentrated on developing station concourses. Going forward, however, the Group will focus on town development centered on railway stations. In particular, we will advance town development plans to create a new hub of international exchanges in the area that is around Tamachi and Shinagawa stations and centered on Shinagawa New Station (provisional name), which we aim to provisionally open in spring 2020. By incorporating the very best of Japan's technology and culture into the town, we want to create a new symbol of international towns and of Japan that serves as a gateway to Japan for visitors from overseas as well as a gateway to the world for domestic customers. While advancing this initiative, the Group is also developing towns centered on such terminal stations as Tokyo, Shibuya, Shinjuku, Yokohama, Chiba, and Sendai stations. In the area surrounding Chiba Station, we opened some reconstructed station buildings in spring 2017. Redesigning the

railway station and its surrounding area has markedly changed foot traffic flows in the town.

As well as developing towns in the Tokyo metropolitan area, the Group is developing towns centered on regional core railway stations. With reference to regional municipal authorities' efforts based on the "compact cities" concept, we are creating railway stations that have better coordinated intermodal passenger transportation, serve as exchange hubs for regions, and provide such amenities as childcare, nursing care, medical, health, educational, and cultural services. Through these initiatives, the JR East Group will revitalize regions and increase passenger traffic. We see railway stations not simply as places where people get on and off trains but as important hubs that determine towns' foot traffic flows. I want to continue joining forces with local communities to develop attractive towns centered on railway stations.

In the IT & *Suica* business, which we regard as a third pillar of operations alongside railway operations and the life-style service business, electronic money settlement services are the mainstay of earnings at present. However, I think adding value to *Suica* system usage by extending cloud *Suica* systems into the sphere of public services is possible. In October 2016,

we began offering settlement services compatible with Apple Pay. However, this is only one step. We can introduce *Suica* settlement services into many different situations by integrating them with social networking services (SNS) and a range of other outside information systems. Moreover, we can exploit the big data obtained from *Suica* to create new businesses and heighten the level of services for customers. The JR East Group has information about customers' movements and purchases, including the type of customers that come to railway stations, how customers behave at different times of the day, and the types of places they go to afterwards. We want to make effective use of this information. By unearthing new sources of earnings in the IT & *Suica* business, the Group will generate synergies among businesses, improve railway services, increase passenger flows, and create new services.

Through the initiatives I have mentioned so far, we will further heighten the earning power of each business, thereby enhancing our business results steadily. Three years from now, in fiscal 2020, we aim to reach operating revenues of approximately ¥3 trillion and operating income of roughly ¥500.0 billion.

Question 4

Could you please outline initiatives for raising corporate value over the medium-to-long term?

> Under the "TICKET TO TOMORROW" slogan, we will provide high-quality services in all business fields and create the JR East Group of the next generation by "Pursuing Unlimited Potential." The Group will focus on the advancement of technological innovation, globalization, and the creation of opportunities for employees to play satisfying roles.

The JR East Group has set out promoting initiatives for the Tokyo 2020 Olympic and Paralympic Games under the "TICKET TO TOMORROW" slogan as a priority Groupwide task. Accordingly, we will provide high-quality services in all business fields with a view to meeting customer expectations and to creating

a legacy for society and the JR East Group beyond 2020. As well as a declaration to customers, the "TICKET TO TOMORROW" slogan is a message designed to motivate employees to elevate the level of operations in all areas. To create the JR East Group of the next generation, we will take measures aimed at "Pursuing Unlimited

Potential." Specifically, the Group will focus on the advancement of technological innovation, globalization, and the creation of opportunities for employees to play satisfying roles.

Railway operations are still dependent on manpower in many areas. However, if technological innovation progresses, I think we will be

able to offer services that are truly groundbreaking. For example, automated driving technology for cars has been attracting publicity recently. In fact, railway operations are better suited to automated driving technology because they use dedicated lines. Further, until now we have conducted maintenance by replacing components periodically. However, we plan to introduce technology for condition-based maintenance, which involves checking the condition of components and systems and making replacements as needed. We want to proactively incorporate the benefits of technological innovation, including the Internet of Things (IoT), artificial intelligence (AI), and big data.

Another aspect of the JR East Group's progressiveness is stepped-up globalization. There is a growing number of countries where JR East Group personnel can contribute, such as India, Thailand, and Indonesia. Actually going overseas often brings us face to face with our weaknesses. While Japan is renowned for railway technology, its related products and

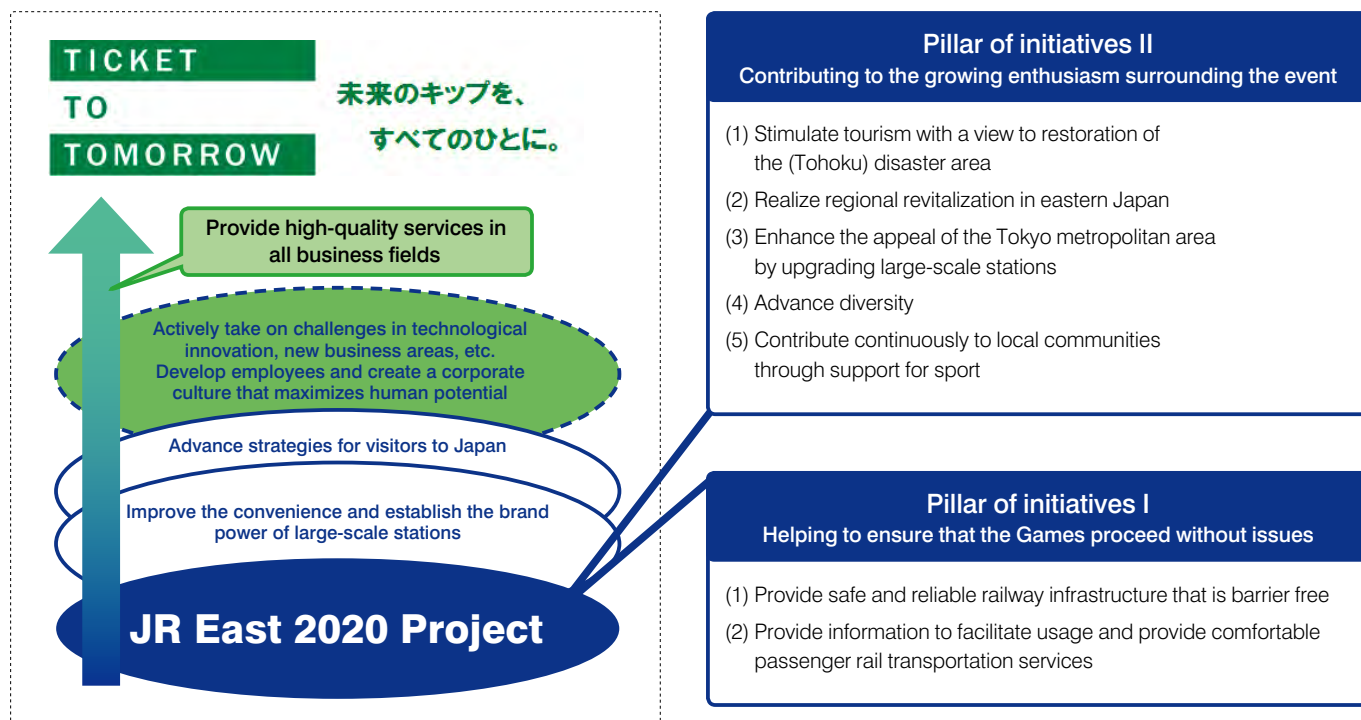


services can have excessive quality and high costs. As a result, we sometimes have to customize railway technology. Also, railway companies have a tendency to become inward looking. However, I believe the time has come for Group employees to look outward.

Lastly, the JR East Group's greatest asset is its employees. Female employees represent a growing percentage of our workforce, and women account for roughly 30% of new hires. As a result, the atmosphere of workplaces has changed greatly, and we have become more attentive to detail in our provision of railway

services. In the life-style service business, female viewpoints determine the Group's choice of stores and product lineups for station concourses and station buildings, which makes them highly appealing, particularly for young customers. I am certain that incorporating this type of sensitivity into town development centered on railway stations can open up an array of new possibilities for the JR East Group. From the perspective of increasing diversity, we need to hire more women and welcome talented non-Japanese personnel into our ranks. I expect to see a big increase in mutual exchanges where non-Japanese people come to Japan to work with us or, conversely, where we venture overseas to introduce Japan's railway technology and pass on experience. With this in mind, throughout the JR East Group, I want to create an environment in which Japanese and non-Japanese personnel can easily work together.

Advance "TICKET TO TOMORROW" initiatives



Business Conditions

Changes in Business Conditions

Expected changes in business conditions include further decrease in and aging of the population over the medium-to-long term, concentration of the population in cities, technological innovation, and expansion of the overseas railway market.

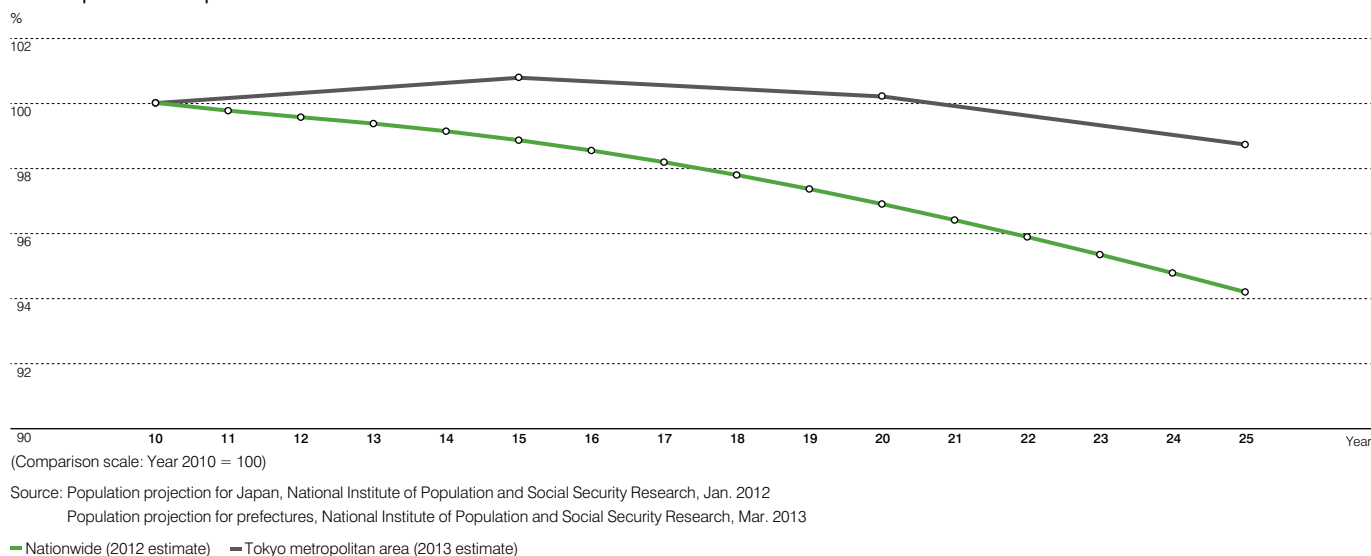
Risk

Decrease in and Aging of Japan's Population as Birth Rates Decline

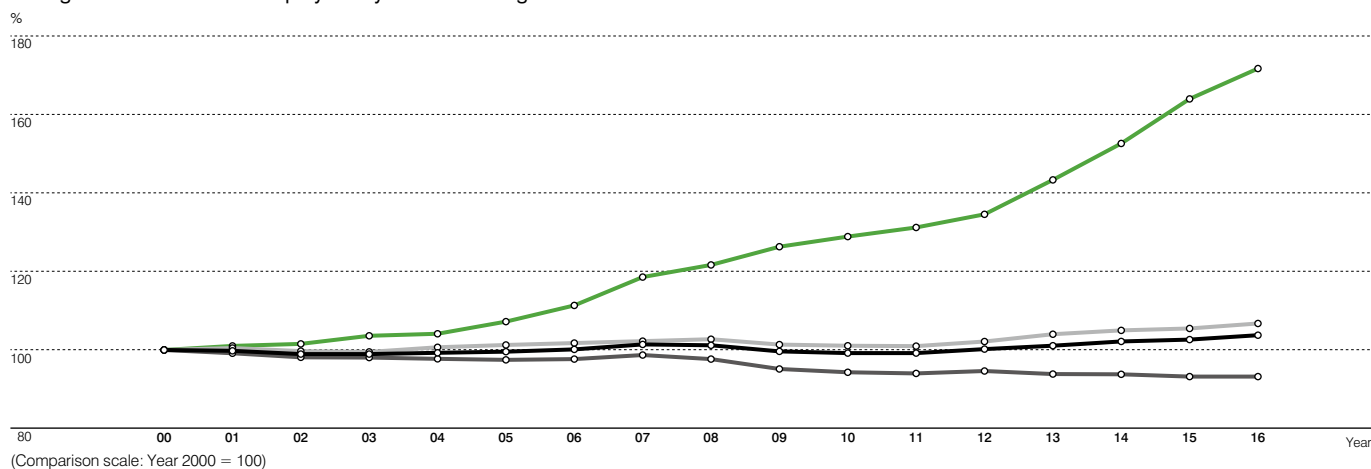
Japan's population is likely to decrease further and become more concentrated in cities. Also, eastern Japan's productive population has begun trending downward. By 2020, the elderly are projected to account for 30% of the region's population. These trends will significantly affect the JR East Group's business management.

Although population decline is unavoidable, JR East aims to heighten the convenience of railways, which will grow passenger traffic by increasing the number of trips per person and by encouraging the selection of railways over other modes of transportation. Moreover, heightening the convenience of railways will enhance the value of and maintain population levels in JR East's line-side areas. (Related information ► Page 46, Transportation)

Total Population of Japan



Changes in the Number of Employees by Gender and Age



Opportunities

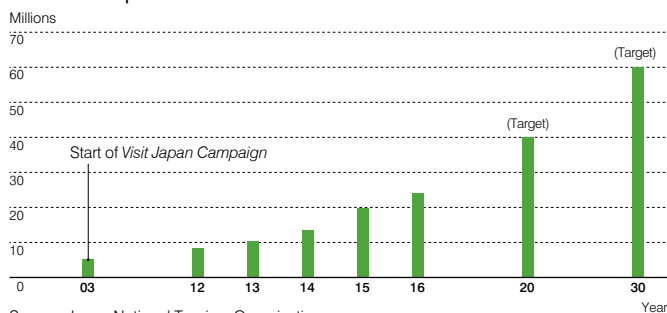
Increase in Tourists Visiting Japan

While Japan's population is decreasing, the number of visitors to Japan is trending upward. In fiscal 2017, visitors to Japan increased 16% year on year, to 24.8 million, according to the Japan National Tourism Organization. Also, targets for visitors to Japan of 40 million in 2020 and 60 million in 2030 have been set by the Council for Development of a Tourism Vision to Support the Future of Japan.

JR East is stepping up efforts to cater to visitors to Japan so that they can use the railway network with confidence and in comfort.

(Related information ►► Page 30, Special Feature; ►► Page 37, Service Quality Reforms; ►► Page 48, Transportation)

Visitors to Japan

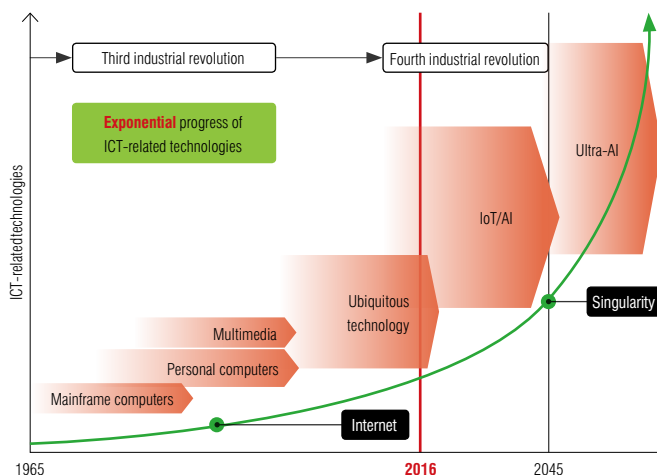


Technological Innovation

As we enter an era of full-fledged population decline, society is on the brink of a “fourth industrial revolution” as a result of conspicuous advances in such fields as the Internet of Things (IoT), big data, and artificial intelligence (AI) in a wide array of industries, including service industries and manufacturing.

(Related information ►► Page 42, Technological Innovation)

Advances in IoT and AI



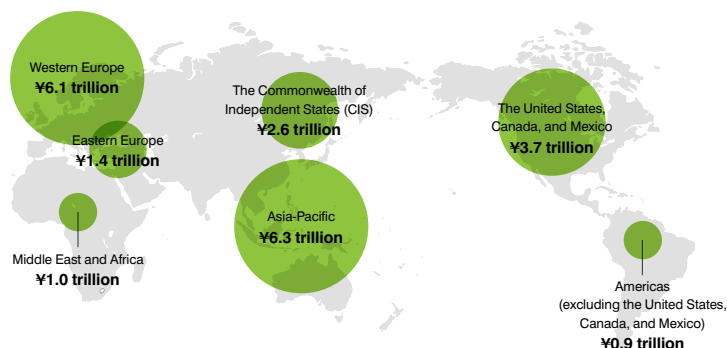
Coming of the Fourth Industrial Revolution



Expansion of the Overseas Railway Market

The overseas railway market is expected to see average annual growth of 2.5% and account for revenues of ¥22 trillion by 2020. Breaking down projected revenues, high-speed railways are expected to account for ¥1.6 trillion and urban railways and other railways for ¥20.4 trillion.

(Related information ►► Page 43, Tackling New Businesses Areas; ►► Page 48, Transportation)



Source: UNIFE Worldwide Rail Market Study

Our Calling

Thriving with Communities, Growing Globally

Eternal Mission

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

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

The JR East Group

CUSTOMERS

LOCAL
COMMUNITIES
AND
SOCIETY

**Sustained
Growth**

SHAREHOLDERS
AND
INVESTORS

EMPLOYEES

Pursuing Unlimited Potential

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

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

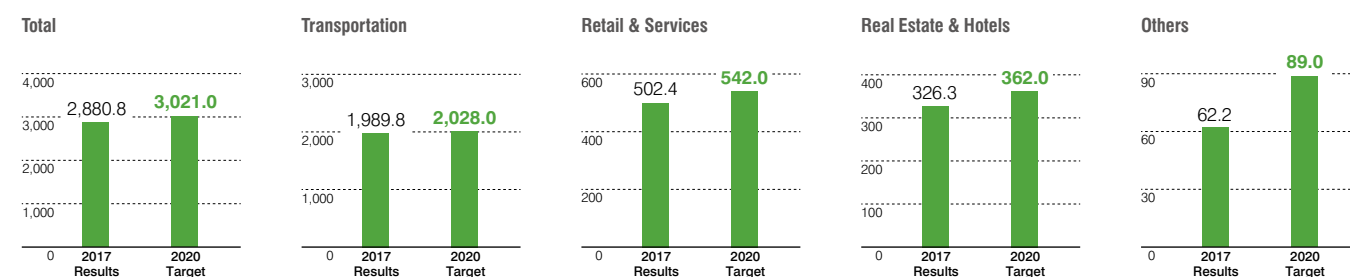
Numerical Targets

JR East has set numerical targets for the next three years based on “JR East Group Management Vision V—Ever Onward,” which was announced in October 2012. Moreover, the Company revises these targets annually to reflect changes in business conditions.

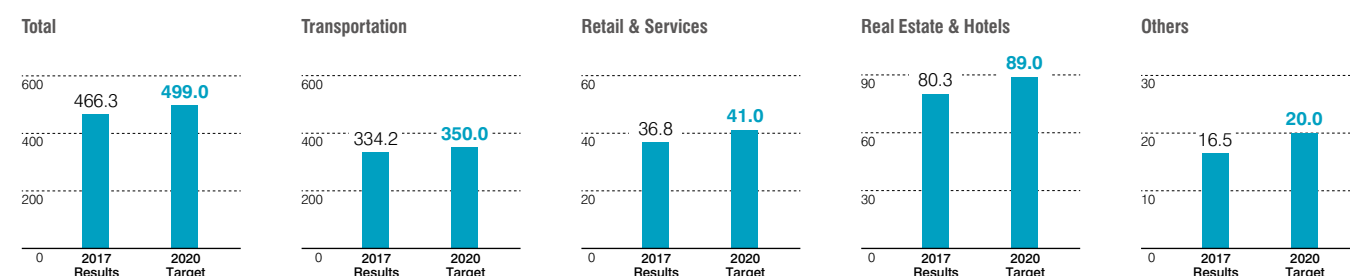
Based on this policy, JR East has set the following numerical targets for fiscal 2020.

Numerical Targets

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 2017 Results

5.9%

At the end of fiscal 2020

Around 6%

Consolidated ROE (Return on average equity)

Fiscal 2017 Results

10.9%

At the end of fiscal 2020

Around 10%

Note: From the fiscal year ending March 31, 2018, JR East has revised its reportable segment classifications to focus on operational headquarters in order to better enforce its management approach based on segments that carry out managerial decision-making. For summaries of each segment, please see page 3.

Uses of Consolidated Cash Flows

	Targets	Fiscal 2018
Consolidated cash flows from operating activities	Approx. ¥2.1 trillion (Three-year total to fiscal 2020)	
Capital expenditures	Approx. ¥1.7 trillion (Three-year total to fiscal 2020)	¥530.0 billion*1
Investment needed for the continuous operation of business (Safety practice and transportation stability)	Approx. ¥1,000.0 billion (Approx. ¥600.0 billion)	¥319.0 billion
Growth investment	Approx. ¥700.0 billion	¥211.0 billion
Shareholder returns	(Medium- to long-term target) 33% total return ratio (to profit attributable to owners of parent)	¥140/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

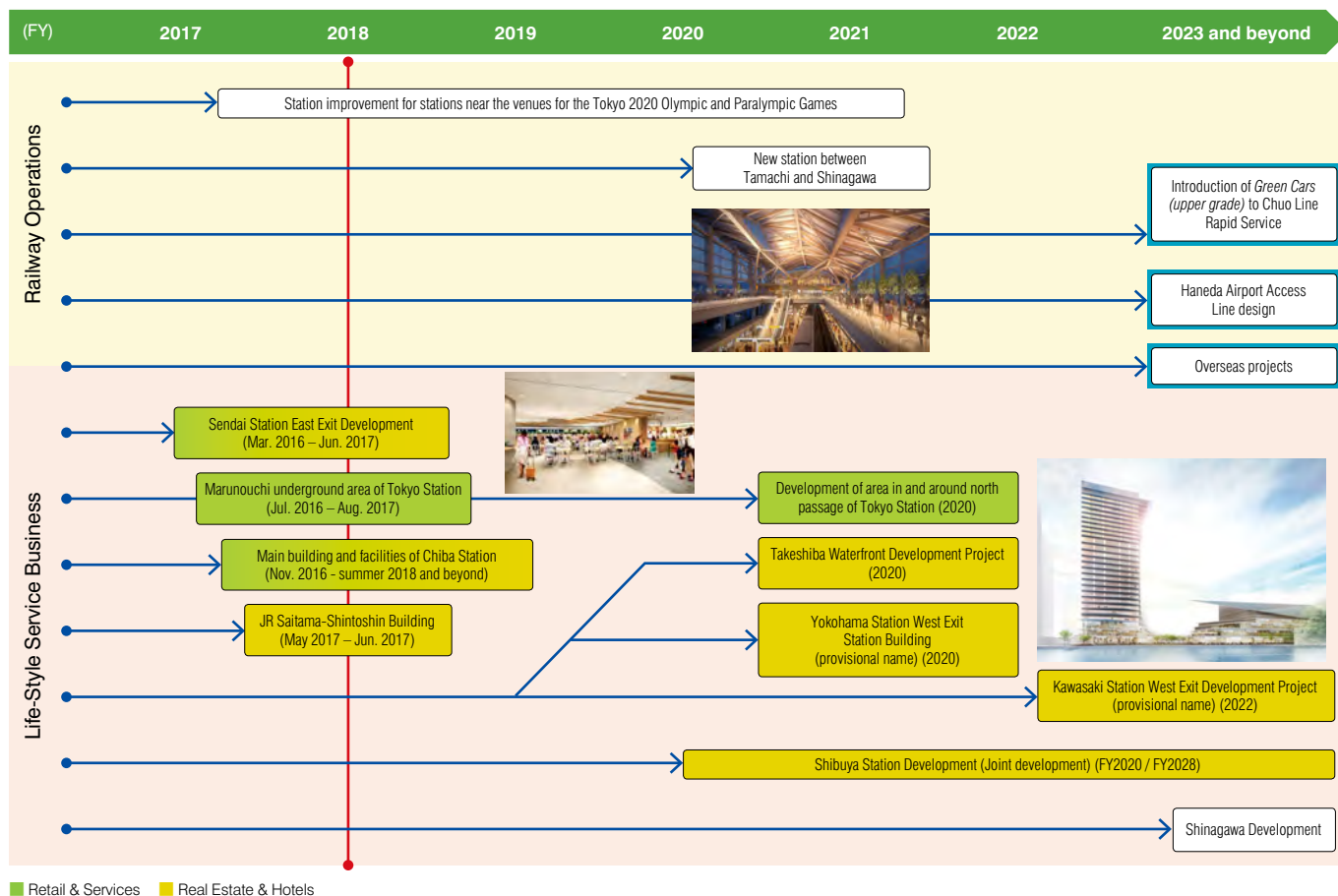
*1 In addition, priority budget allocation maximum of ¥30.0 billion from the deposit balance on March 31, 2017 (capital expenditures of approximately ¥560.0 billion in total)

*2 Share buybacks of maximum 4.5 million shares or ¥40.0 billion (May 1 to July 28, 2017)

Capital Expenditures in Fiscal 2018 – 2020



Major Projects Going Forward



Priority Initiatives Going Forward

The JR East Group has positioned continued fulfillment of its “Eternal Mission” and sustaining growth by “Pursuing Unlimited Potential” as two important management pillars. In addition to the priority Groupwide tasks established last year, the Group will focus on the initiatives below.

Priority Groupwide Tasks

Improve the safety and reliability of transportation

In light of the time of change that it faces, with change in its railway systems, its increasingly flat division of work, and the rapid transition to the next generation of employees, JR East will proactively solve issues by strengthening related equipment and facilities and revising safety education and training.

Take on the challenge of enhancing profitability

Given the realization of such projects as the opening of the Hokkaido Shinkansen Line to expand the railway network as well as the completion of *JR SHINJUKU MIRAINA TOWER*, the JR East Group will heighten the added value that it provides customers to take on the challenge of maximizing operating revenues.

Eternal Mission

KIWAMERU (Excel):

Pursuing “extreme safety levels”

Advance “Group Safety Plan 2018”

- Advance prevention by implementing rigorous measures for the prevention of reoccurrence and identifying weaknesses
- Revise safety education and training to be more practical
- Improve technical capabilities as a Group in collaboration with partner companies
- Strengthen Shinkansen facilities and railcars and electrical equipment in the Tokyo metropolitan area
- Advance safety measures related to platforms through the proactive installation of automatic platform gates and other measures

Build a resilient railway

- Steadily advance seismic reinforcement measures
- Properly renew aging facilities, including large-scale renovation of Shinkansen infrastructure and rail replacement on the Tohoku Shinkansen Line

MIGAKU (Improve):

Service quality reforms

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

- Prevent transportation service disruptions including through the advancement of countermeasures for natural disasters and the prevention of equipment failure
- 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 through such measures as conducting an assistance campaign in which personnel ask nearby customers whether they require assistance
- Advance the “JR East 2020 Project” by upgrading railway stations through such measures as developing barrier-free environments

Promote usage of railway networks (create tourism demand by conducting campaigns and other measures)

TOMO NI IKIRU (Together):

Strengthening collaboration with local communities

Steadily promote the three approaches to town development

- Improve the convenience and establish the brand power of large-scale stations through such measures as the establishment of Shinagawa New Station (provisional name) and the advancement of town development centered on Shinagawa Station
- Increase added value through such measures as the renewal of existing stores
- Promote the line-side brand appeal of railway lines including through promotion of the *HAPPY CHILD PROJECT*
- Develop towns around Akita and other core railway stations in regional areas in collaboration with local municipal authorities and other bodies

Revitalize local industries (advance sextic industrialization and other measures)

Initiatives to promote Japan as a tourism-oriented nation (capture demand from visitors to Japan and other measures)

Advance “TICKET TO TOMORROW” initiatives

JR East will steadily advance the “JR East 2020 Project” with a view to the Tokyo 2020 Olympic and Paralympic Games. Based on the “TICKET TO TOMORROW” slogan, the JR East Group will advance concerted initiatives aimed at providing high-quality services to meet customers’ expectations and creating a legacy for society beyond 2020. Not only in passenger rail transportation services but in a variety of business fields, individual employees will view changes as opportunities and continue taking the initiative to implement reform and taking on challenges.

Pursuing Unlimited Potential

HIRAKU (Pioneer):

Technological innovation

Promote technological innovation

- Minimize risk in the safety and reliability field by conducting trials of a maintenance vehicle location system and developing a local gust detection system
- Provide innovative services in the services and marketing field by realizing practical usage of communication signage and conducting research and development for next-generation Shinkansen
- Reform cost structures in the operations and maintenance field by advancing smart maintenance for railcars, railway tracks, and electrical equipment and developing automated driving technology and assistive technology for train crew members
- Aim to establish railway energy management by developing power-saving operational styles with a view to automatic power-saving train control in the energy and the environment field
- Build a cloud system platform to advance technological innovation in the four fields mentioned above

**Promote environmental strategies
(initiatives aimed at reaching fiscal 2031
environmental targets and other measures)**

NOBIRU (Grow):

Tackling new business areas

Take on the challenge of overseas projects

- Make progress in projects for high-speed railways in India
- Step up efforts aimed at participation in franchises in the U.K.
- Provide high-quality maintenance services for the *Purple Line* (Bangkok, Thailand)
- Increase level of technological support provided to and other measures for railway operators in Indonesia

**Develop life-style services business
overseas (open JAPAN RAIL CAFE
(Singapore) and other measures)**

HABATAKU (Empower):

Developing employees and creating a corporate culture that maximizes human potential

Provide further growth opportunities to motivate employees

- Enhance open-application programs for personnel transfer and training
- Globalize corporate culture through the continued development of a diverse overseas assignment program
- Promote diversity

Promote cohesive Group management

- Entrench “Group Stretch Targets”
- Develop employee-friendly environments with a focus on Group companies

**Strengthen business management
capabilities (pursue a compact and
more highly efficient business execution
framework and other measures)**

Special Feature

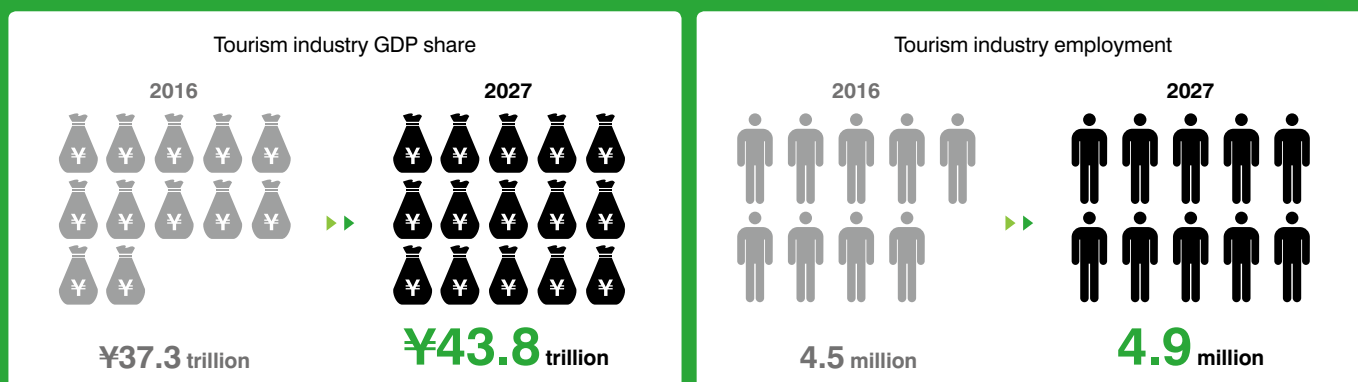
Enhancing Profitability through Tourism Initiatives

Anticipating Growth in Japan's Tourism Industry

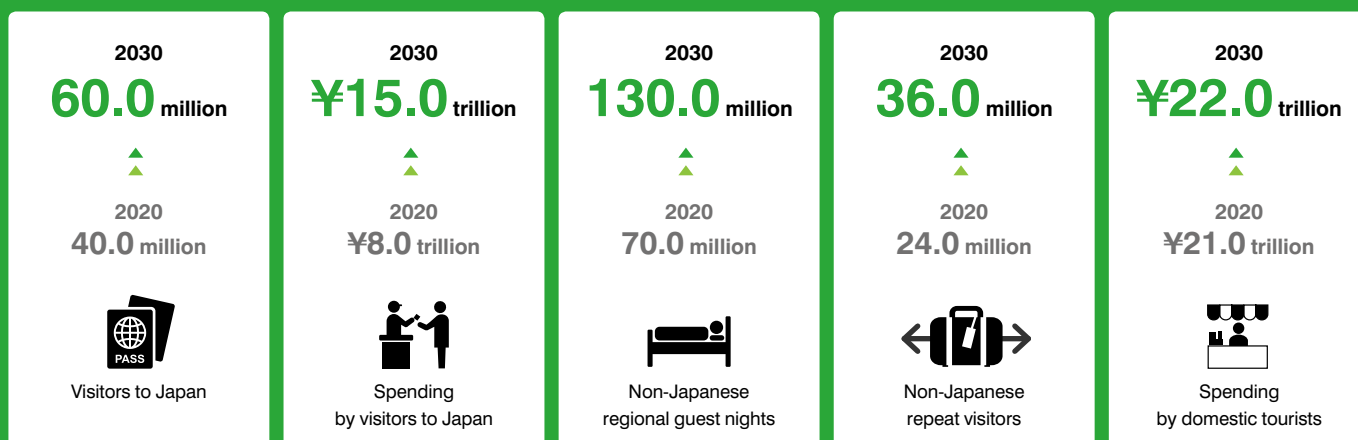
Japan's tourism industry promises to grow over the medium-to-long term. In 2016, it accounted for approximately ¥37.3 trillion of Japan's GDP and 4.5 million jobs. By 2027, this is projected to rise to ¥43.8 trillion and 4.9 million*, respectively.

This expected expansion is attributable to the Japanese government's goal of making Japan a tourism-oriented nation and growing tourism into a key industry. The government has established a "Tourism Vision to Support the Future of Japan," which sets numerical targets for attracting visitors to Japan from overseas as well as for stimulating domestic travel demand.

* Source: World Travel & Tourism Council, *TRAVEL & TOURISM ECONOMIC IMPACT 2017 JAPAN*



(Tourism Vision to Support the Future of Japan: Numerical Targets)



Enhancing Profitability: Creating Cruise and Joyful Trains

In response to the projected medium-to-long-term growth of Japan's tourism industry, JR East is taking on the challenge of enhancing profitability by creating new-concept "cruise" and joyful trains. Through this initiative, the Company will open up a new future for railways. Cruise and joyful trains are specifically designed for tourism and operate on existing railway lines. Passengers board these trains for the "ride" itself, rather than using them as a mode of transportation. By operating these new trains, JR East will increase inter-regional railway travel and enhance profitability.

To heighten the appeal of cruise and joyful trains, the Company will work in partnership with municipal authorities to unearth and develop tourism resources in areas on cruise and joyful train routes. Further, JR East will contribute to regional economies and stimulate continuous demand through proactive information distribution.

Operating Cruise and Joyful Trains throughout JR East's Service Area

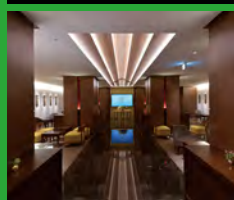
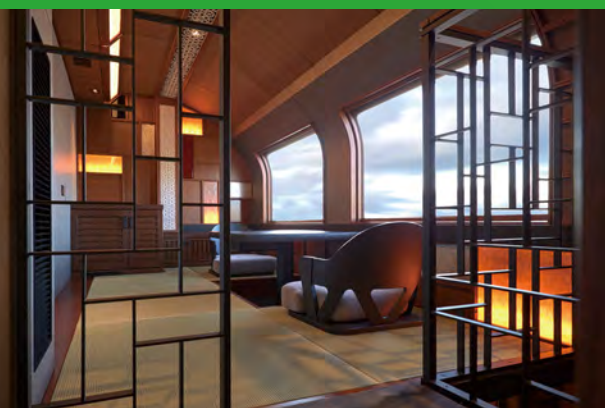
- 1940 *D51 498*
- 1949 *C61 20*
- 1999 *SL Banetsu Monogatari*
- 2001 *Kirakira Uetsu*
- 2006 *Resort Shirakami*
- 2008 *Resort Minori*
- 2010 *Resort View Furusato*
- 2010 *Resort Asunaro*
- 2011 *Resort Umineko*
- 2011 *Resort Yamadori*
- 2012 *Zipangu*
- 2013 *TOHOKU EMOTION*
- 2014 *Toreiyu Tsubasa*
- 2014 *Koshino Shu*Kura*
- 2014 *SL Ginga*
- 2015 *oykot*
- 2015 *FruiT^{ea} Fukushima*
- 2016 *GENBI SHINKANSEN*
- 2016 *IZU CRAILE*
- 2017 *TRAIN SUITE SHIKI-SHIMA**
- 2017 *POKÉMON with YOU Train*
- 2017 *HIGH RAIL 1375*

* One of this cruise train's several routes has been included.

▶ The next two pages showcase some of JR East's cruise and joyful train excursions.

Enhancing Profitability through Tourism Initiatives

Increasing the Value of Railway Excursions



TRAIN SUITE SHIKI-SHIMA

In May 2017, *TRAIN SUITE SHIKI-SHIMA* began operations. “*Shiki-shima*” is an old name for Japan, with “*shiki*” meaning “four seasons” and “*shima*” island. The name “*Shiki-shima*” encapsulates the tradition and seasonal beauty that passengers encounter as they relax and enjoy the passage of time and the changing scenery during their trips.

JR East offers a four-day, three-night *TRAIN SUITE SHIKI-SHIMA* package that shows passengers beautiful seasonal scenery and brings them into contact with lifestyles and cultures that exist harmoniously with nature. Also, the Company has a two-day, one-night package that features restful rural landscapes of woodlands, hills, terraced paddies, and vineyards that leaves passengers with a sense of the bond between each region and its traditional craft products.

TRAIN SUITE SHIKI-SHIMA carries passengers through a rich series of experiences and locales in a manner unique to train travel. Moreover, the design of this “cruise train” presents the train as a stage that unveils inspiring vistas of Japan’s abundant, beautiful countryside and provides insights into industries rooted in local communities and regional cultures that are still part of day-to-day life.

Onboard cuisine features lovingly prepared dishes that incorporate seasonal ingredients sourced from various regions of eastern Japan. The pleasant sound of the train on the tracks and the scenery passing by outside the window combine to make for a particularly elegant dining experience.



IZU CRAILE

IZU CRAILE is a resort train that takes passengers through scenery rich in natural beauty as they enjoy a chat while savoring original dishes and drinks that feature ingredients from Izu. The resort train's design gives a softer, feminine feel to the powerful look of the Series 651 limited express railcars. Golden pink lines depict cherry blossom trees, sea wind, and rippling waves that are emblematic of Izu—evoking the atmosphere of a stylish resort for adults.



GENBI SHINKANSEN

The *GENBI SHINKANSEN* is a unique train that enables passengers to appreciate works of modern art while traveling by Shinkansen. In each railcar, modern art created by prominent artists specially for the *GENBI SHINKANSEN* is on exhibit. Additionally, the train features a café that serves coffee made according to a local recipe and desserts made from carefully selected local ingredients. Other attractive features include an onboard playroom where children can interact with modern art first-hand and beautiful panoramas along the route.



FruiT_{ea} Fukushima

Japan's orchard kingdom, Fukushima Prefecture, produces all sorts of fruit, including apples, Asian pears, peaches, and grapes. *FruiT_{ea} Fukushima* is a "traveling café," created around the concept of an elegant space for enjoying uniquely crafted desserts and beverages made from local Fukushima fruit while gazing out the train windows or having a leisurely conversation.



Toreiyu Tsubasa

The name "Toreiyu" is a blend of the Japanese pronunciations of the English word "train" (*torein*) and the French word "*soleil*" (*soreiyu*), meaning sun. The railcar interior is equipped with reserved tatami mat seating; a bar counter stocked with locally brewed Yamagata sake, wine, and juice; and footbaths for relaxing while enjoying the scenery outside the window. While onboard, passengers can take a stroll as though in a hot spring town and enjoy this new mode of Shinkansen travel.



Pursuing “Extreme Safety Levels”

Basic Approach to Safety

Safety has been the JR East Group’s top management priority since its establishment, and the Group has worked constantly to heighten safety levels. Learning from unfortunate accidents in the past, the JR East Group is continuing to lower risk through accident prevention efforts, which focus on steadily establishing personnel initiatives as well as physical infrastructure countermeasures and systems.

Safety measures are never-ending. Accordingly, the JR East Group will continue its tireless, concerted efforts 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.

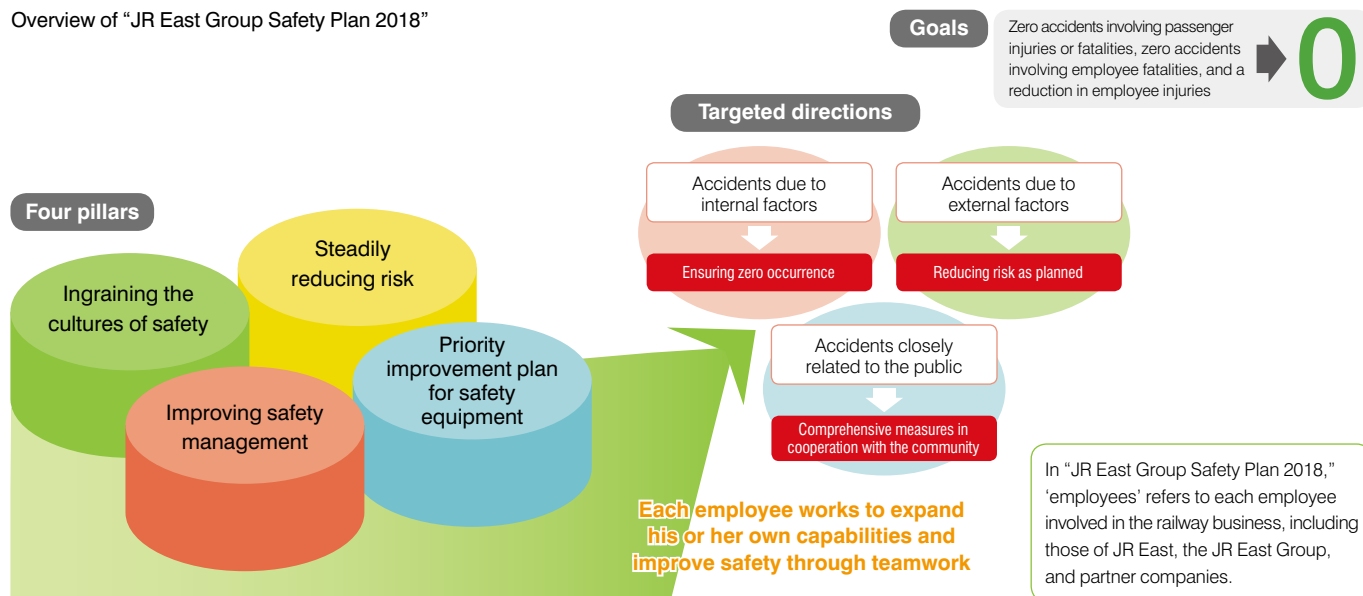
“JR East Group Safety Plan 2018”

Reflecting the fact that safety is our highest priority, the JR East Group has implemented safety plans every five years since its establishment.

Under the current “JR East Group Safety Plan 2018,” the whole JR East Group is taking on the challenge of realizing “extreme safety levels” through the safety improvement efforts of each employee in the Group’s businesses.

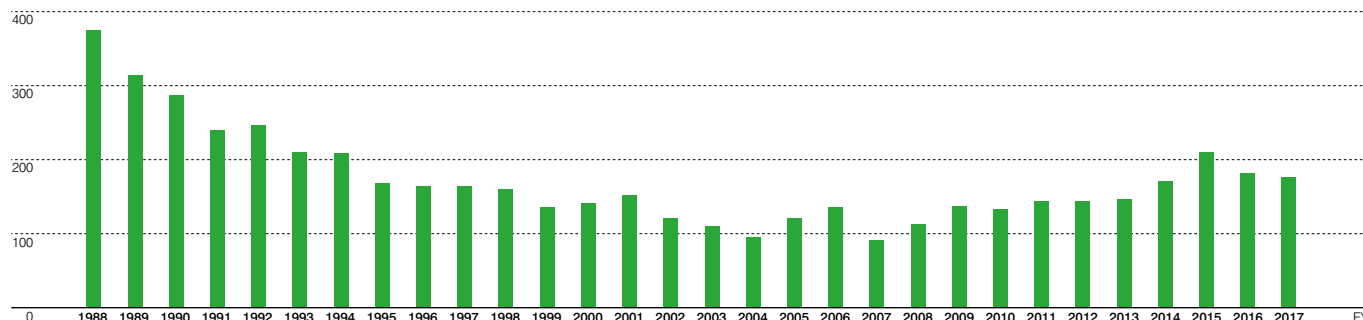
“JR East Group Safety Plan 2018” clarifies policies in relation to preventing accidents, such as accidents due to internal factors, and sets out specific measures. Under the plan, the JR East Group will improve safety management capabilities by ensuring skills and expertise are passed on and by promoting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

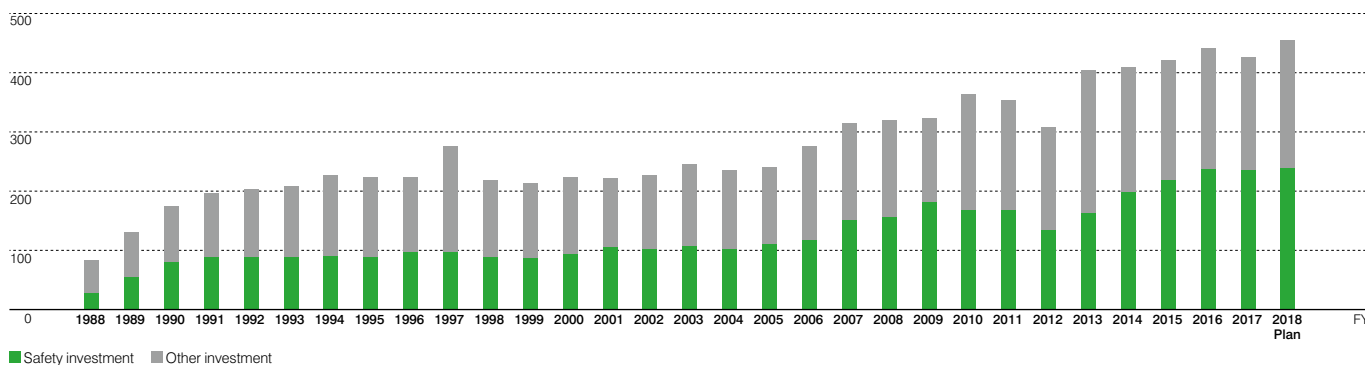


Safety Facilities Investment

JR East has invested more than ¥3 trillion in safety measures since its establishment in 1987. “JR East Group Safety Plan 2018” calls for investment in safety of approximately ¥1 trillion during the five years from fiscal 2015. Accordingly, JR East will continue establishing safety facilities.

Trends in Safety Investment and Other Investment

Billions of Yen



Preparations for Natural Disasters

Seismic Reinforcement Measures

In response to the 1995 Great Hanshin-Awaji Earthquake, JR East began steadily taking seismic reinforcement measures and completed all reinforcement of Shinkansen lines. JR East has also completed seismic reinforcement of conventional lines, excluding parts of the southern Kanto and Sendai areas due to other construction work.

Additionally, to further improve safety in the event of an earthquake, JR East is reinforcing railway viaduct columns susceptible to failure due to bending caused by strong earthquake motion. Furthermore, since fiscal 2013, in preparation for a possible earthquake directly beneath the Tokyo metropolitan area, JR East has been undertaking seismic reinforcement of embankments, cuttings, bricked arch railway viaducts, and electric poles. JR East has also begun taking measures to prevent collapse of the ceilings and walls of railway stations and platforms. In conjunction with these efforts, JR East is undertaking seismic reinforcement of railway viaduct columns and bridge columns ahead of schedule.

Moreover, in light of the Great East Japan Earthquake, JR East has begun seismic reinforcement of station buildings used by more than 3,000 passengers per day and seismic reinforcement of electric poles for Shinkansen lines.



Seismic reinforcement measures (use of steel plate wrapping to reinforce Shinkansen railway viaduct columns)

Tsunami Countermeasures

Before the Great East Japan Earthquake occurred, JR East had been establishing operational restriction methods and tsunami danger zones for each location, preparing manuals, and holding study sessions and drills on instructing and assisting passengers to alight from trains during evacuations. JR East believes that these efforts enabled prompt evacuation of passengers from tsunami danger zones at the time of the earthquake.

Based on lessons learned from the tsunami at the time of the Great East Japan Earthquake, in January 2012 JR East undertook a Companywide revision of rules, manuals, and drills and established employee action guidelines for evacuation when there is danger of a tsunami.



Drill on instructing and assisting passengers to alight from trains during evacuations

Rainfall Countermeasures

To protect railway tracks from landslides due to rainfall, JR East takes disaster prevention measures for trackside embankments in all line segments in a planned manner. Concentrating on the Tokyo metropolitan area and Shinkansen routes, JR East will take countermeasures to ensure safe and reliable transportation.



Embankment slope protection (spray-frame work)

Pursuing “Extreme Safety Levels”

Platform Safety Measures

To ensure the safety of customers on platforms, JR East is installing emergency train stop warning systems. Moreover, JR East is proceeding with the introduction of automatic platform gates on the Yamanote Line. By the end of August 2016, JR East had begun using automatic platform gates at 24 railway stations, excluding five railway stations at which JR East plans to implement large-scale improvements: Hamamatsucho, Tokyo, Shimbashi, Shinjuku, and Shibuya stations. Further, JR East is considering the introduction of automatic platform gates at Akabane, Ueno, Oimachi, Tsurumi, Urawa, Saitama-Shintoshin, and Yurakucho stations on the

Keihin-Tohoku Line; Shin-Koiwa Station on the Sobu Rapid Line; and Shinanomachi and Sendagaya stations on the Sobu Local Line.

Other initiatives include increased installation of Braille blocks that indicate which direction is away from the edge of the platform. For railway stations where the daily number of passengers exceeds 100,000, JR East has completed installation of these blocks. For railway stations where the daily number of passengers is less than 100,000, JR East is also proceeding with the installation of these blocks, mainly at the stations used frequently by visually challenged customers.

Platform Safety Measures

CP lines

Painting the ends of platforms red or orange to create CP (color psychology) lines encourages caution among railway passengers and improves visibility for station personnel and conductors. JR East is currently introducing CP lines to test their effectiveness.

Braille blocks that indicate which direction is away from the edge of the platform

The inner line of the blocks is trimmed with lined bumps so that visually challenged customers can tell which side is away from the edge of the platform.

Automatic platform gates

To improve visibility, JR East is installing automatic platform gates with glass doors.

Trial introduction of new-type automatic platform gates

On a trial basis, in fiscal 2017 JR East introduced new-type “smart” automatic platform gates—which have wider openings, are low cost, and enable shorter construction periods—at Machida Station on the Yokohama Line.



“Smart” automatic platform gates at Machida Station



Fall detection mat

If someone falls off a platform, mats placed under platforms, parallel to railway tracks, detect their presence and direct incoming trains to stop.

Emergency train stop warning systems

By pushing an emergency stop button installed on platform pillars, people on platforms can notify drivers, conductors, and station personnel of danger.



Station platform safety campaigns

JR East uses posters in railway stations and the Train Channel to conduct platform safety campaigns that seek the cooperation of customers. The Train Channel is an onboard information display installed in railcars operating on such lines as the Yamanote and Chuo Rapid lines. In fiscal 2017, JR East conducted a station platform safety campaign with 24 other railway operators.

Industrial television for platforms and station concourses

By installing monitoring cameras on platforms and in station concourses, JR East is improving safety on platforms and strengthening security in station concourses.



Service Quality Reforms

Basic Approach to Service Quality

The “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, the JR East Group will reform service quality through cross-divisional and cross-sectional teamwork with the aim of becoming No. 1 for customer satisfaction in the Japanese railway industry. To this end, the JR East Group will improve transportation service quality by heightening reliability and comfort, creating railway services customers can use confidently, and pursuing customer-friendly railway services rigorously.

The JR East Group 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.

Initiatives for Visitors to Japan

To benefit from the recent surge in demand from visitors to Japan, JR East is taking active measures, such as offering appealing products and conducting promotions through close collaboration with destination regions. Further, in preparation for the Tokyo 2020 Olympic and Paralympic Games, JR East is stepping up efforts to cater to visitors to Japan so that they can use the railway network with confidence and in comfort.

Initiative Example (1)

Free Public Wireless LAN Service for Visitors to Japan

As of March 31, 2017, JR East provides free public wireless LAN services at locations and on train services that visitors to Japan use frequently, including 89 railway stations, mainly on the Yamanote Line; JR EAST Travel Service Center sites; and all *Narita Express* services. Moreover, JR East provides this service in English, Chinese, Korean, and Japanese.



JR-EAST FREE Wi-Fi

Initiative Example (2)

Station Numbering System

To make railway services more readily understandable so that not only visitors to Japan but all customers can use them with confidence, JR East is steadily introducing a station numbering system to the Tokyo metropolitan area. JR East began this initiative at Meguro Station in August 2016. JR East is also introducing signs showing railway station names in Japanese, English, Chinese, and Korean.

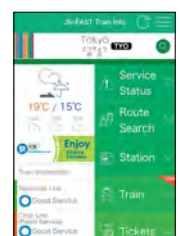


Station numbering system

Provision of More Information When Transportation Service Disruptions Occur

On March 10, 2014, JR East released the *JR-EAST Train Info* app for smart-phones to provide timely information reflecting the needs of each customer. Through the app, JR East gives access to train operation information, which includes the information of 15 private railways. The app also provides real-time train position information for 21 lines in the Tokyo metropolitan area—including the Yamanote, Keihin-Tohoku, and Ueno-Tokyo lines—as well as for limited express services and Shinkansen lines. Moreover, thanks to JR East’s coordination with the Tokyu Line App and the Tokyo Metro App since October 7, 2016, passengers have been able to check train positions for the lines of the three companies seamlessly. Further, on March 31, 2017, JR East introduced a transfer guide to the *JR-EAST Train Info* app. This new feature gives exit information based on the route a customer is taking as well as easy access to station concourse maps and other useful information. Also, passengers can now use the app to search for bypass routes when transportation service disruptions occur. Other innovative features allow customers using the Yamanote Line to view the position and number of the railcar in which they are riding; information about stops in their line segment, such as transfer routes, platform maps, and station concourse maps; and the level of crowding and temperature in each railcar of the train they are on as well as in each railcar that is operating on the Yamanote Line.

In addition, JR East has been providing an English version of the *JR-EAST Train Info* app since March 20, 2015. Based on the Japanese app, this app offers train operation information, station concourse maps of major railway stations, and other information in English. JR East’s other initiatives include the *JR East Train Operation Information Push Notification* service for smartphones, which began providing timely information on train services in JR East’s service area on June 17, 2013. For 48 lines beyond the coverage of the *JR-EAST Train Info* app, JR East has been offering the *Doko-Train* service since March 22, 2014. This service allows customers to view train operation and position information.



JR-EAST Train Info app

Strengthening Collaboration with Local Communities

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, the Group will work with each community to establish and move toward its target profile. Specifically, the JR East Group will energize the local communities to which it belongs through a three-pronged approach to town development focused on “the development of large-scale terminal stations,” “the creation of desirable line-side area brands,” and “the revitalization of core regional cities.”

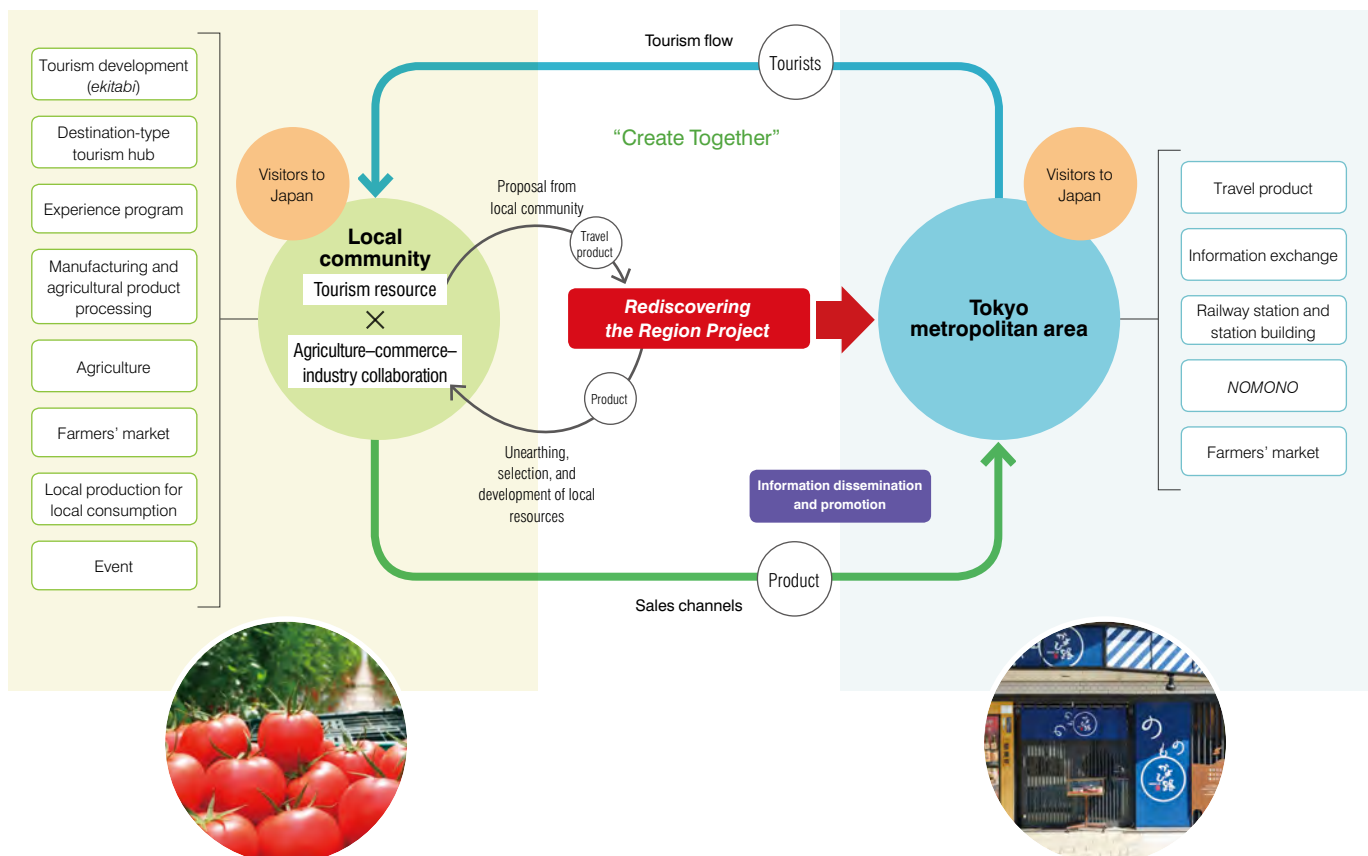
Development of the Rediscovering the Region Project

Based on a “Create Together” strategy of enhancing cooperation with local communities, JR East is advancing the *Rediscovering the Region Project*. The aim of the project is to create potential markets that bring increased circulation of people and goods between the Tokyo metropolitan area and other regions and to attract overseas visitors to Japan. The JR East Group has railway networks, railway stations that serve as centers of local communities, extensive business know-how, and sales channels and advertising media centered on the Tokyo metropolitan area. The strategy utilizes the Group's unique abilities to discover traditional cultures, local

products, and other tangible and intangible tourist resources as well as to promote the exchange of information and to expand sales channels between the Tokyo metropolitan area and local communities.

To develop the *Rediscovering the Region Project*, the JR East Group intends to promote the distribution of regional local products in the Tokyo metropolitan area by utilizing existing infrastructure, such as its Tokyo metropolitan area logistics bases and the trunks of highway buses. Aiming to advance these efforts, the JR East Group established Regional Revitalization Logistics Limited Liability Partnership (LLP) in April 2016.

Rediscovering the Region Project Conceptual Diagram



NOMONO 1-2-3 Project

The *NOMONO 1-2-3 Project* is a manufacturing project that supports eastern Japan through product development and sales in collaboration with regional farming, forestry, and fishing industries. The project's goals are to strengthen collaboration with local communities and to advance manufacturing in regions based on a *sextic industrialization** model linking primary, secondary, and tertiary industries. To these ends, the JR East Group will initiate manufacturing that uses high-quality ingredients, such as local produce, and superior processing techniques.

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



Shinshu Jibie Venison Burger, which uses venison from Shinshu

Childcare Support Services HAPPY CHILD PROJECT

The JR East Group is promoting the *HAPPY CHILD PROJECT* to create communities that give peace of mind to parents raising children. The Group offers a wide range of support to parents raising families, including the hosting of events in which parents and children can participate and the opening of nursery schools in line-side areas and other child-rearing support facilities mainly in the Tokyo metropolitan area.

Initiative Example (1)

Child-Rearing Support Facilities— Help for Working Parents

To support parents who are working and raising children, the JR East Group is opening child-rearing support facilities, such as nursery schools near stations, which are usually within a five-minute walk of railway stations. The Group began opening child-rearing support facilities in 1996. As of May 2017, the Group had 102 such facilities, and it plans to have 130 facilities by April 2020. In addition to allowing parents to drop off and pick up their children on the way to and from work, nursery schools in line-side areas enable fathers to take their children to nurseries and thereby participate more in child rearing.



Nursery school near a railway station, Toda Ekimae Sakuraso Nursery School

Initiative Example (2)

Development of COTONIOR Complexes

The JR East Group is opening multipurpose child-rearing support and senior citizen-care facilities themed on interaction among generations. The Group coined the name *COTONIOR* by combining the words “*codomo*,” which is Japanese for “child”; “*to*,” which is “and” in Japanese; and “*senior*.” Currently, the Group operates three *COTONIOR* complexes in Kichijoji, Akabane, and Nishi-Funabashi. Thanks to

innovative layouts, seasonal events, and other features, *COTONIOR* complexes have become heartwarming places where children and seniors interact and different generations meet.



COTONIOR Kichijoji

JR Niigata Farm Co., Ltd.

In accordance with the “Thriving with Communities” component of the management policy set out in “JR East Group Management Vision V—Ever Onward,” the JR East Group is conducting manufacturing with a view to introducing *sextic industrialization* to regions and expanding sales channels for the local products of regions.

Established by taking advantage of the regulatory easing that Niigata enjoys as a National Strategic Special Zone, JR Niigata Farm Co., Ltd., cultivates rice suitable for use as a basic ingredient of sake and sells a locally brewed sake, *Niigata Shupoppo*, at stores in railway stations.

The JR East Group will continue helping to revitalize local economies and grow inter-regional railway travel by deepening collaboration with local communities, cultivating agricultural produce, advancing *sextic industrialization*, and disseminating information on food culture to enhance regions' appeal.



Oyatsu TIMES

Oyatsu TIMES is a series of snacks that the JR East Group developed in collaboration with local producers encountered through the operations of *NOMONO* local product stores, which sell tasty products from all over eastern Japan. The aim of this initiative is to revitalize regions by expanding the market for local products.

Launched in March 2016, the snacks have seen sales grow steadily, with their sales area expanding from the Tokyo metropolitan area to encompass the whole of eastern Japan in May 2016. Further, the snacks are garnering the

endorsement of a new group of local product fans. The snacks' main purchasers are women in their 20s to 40s, most of whom were previously unfamiliar with regions' local products.



Oyatsu TIMES snack series

Technological Innovation // Environment

Basic Approach to the Environment

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

Basic philosophy

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

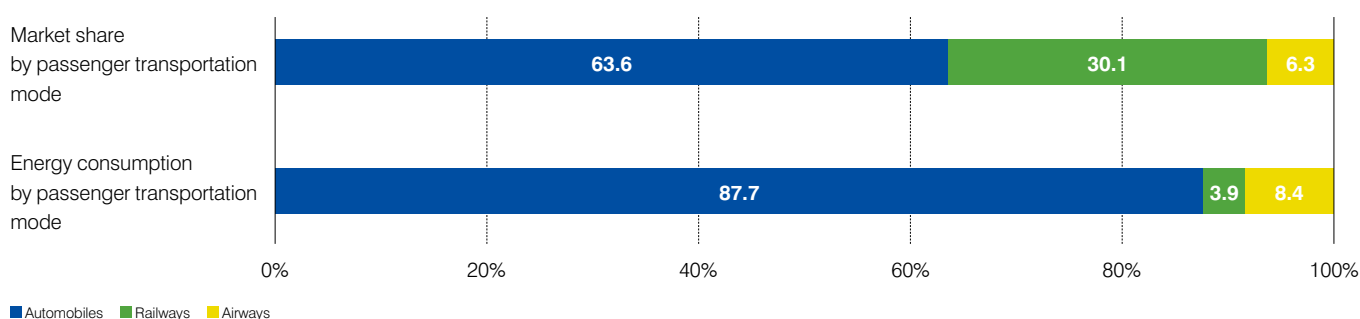
Basic policies

- 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 30% 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 2015 Results)



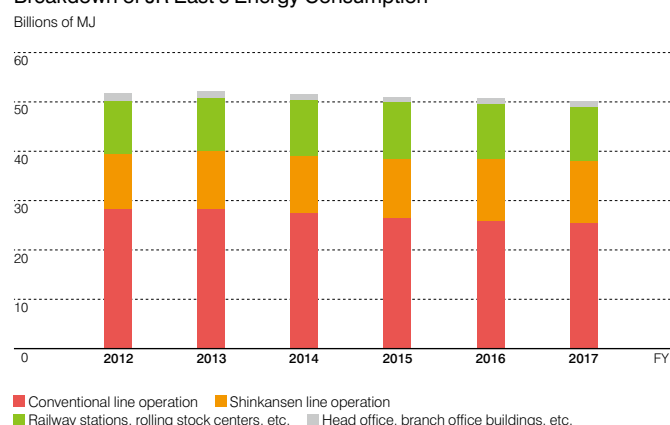
Source: Compiled based on data from the Energy Conservation Center, Japan (ECCJ)'s Handbook of Energy & Economic Statistics in Japan 2017

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, JR East uses diesel fuel and kerosene for diesel train operations and for air-conditioning at stations and in offices. JR East 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.

Fiscal 2031 Goals

Since 1996, JR East has been conducting environmental conservation activities with a focus on specific goals. Given that the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) adopted the Paris Agreement, which will become a new international framework for climate change countermeasures after 2020, JR East has set environmental goals to be achieved by fiscal 2031.

Category of environmental conservation activities	Performance indicators	Targets to be met by FY2031
Measures to prevent global warming	Energy consumption from railway business activities	▶ 25% reduction (compared to FY2014)
	CO ₂ emission volume from railway operations	▶ 40% reduction (compared to FY2014)

Initiative Example (1)

Development of Model Eco Stations

JR East has developed model *eco stations*, which incorporate energy-saving technologies, renewable energy technologies, as well as an array of other environment-friendly technologies. In March 2012, Yotsuya Station began full-scale operations as the inaugural model *eco station*, with Hiraizumi Station becoming the second model *eco station* in June 2012.

In March 2017, Urawa Station on the Tohoku Main Line became the first railway station to introduce an energy management system that automatically and optimally controls station power usage to match station business hours, timetables, and the weather. Further, the railway station has introduced platform benches with a new design that incorporates reused turf from local soccer fields. At Niitsu Station on the Shinetsu Main Line, in April 2017 JR East introduced a station building auxiliary power unit that supplies power to certain station facilities from batteries that store regenerative power produced when trains brake, and in the remodeling of waiting rooms JR East incorporated natural materials, such as timber from railway forest thinning and charcoal. Also, JR East's eighth model *eco station*, Musashi-Mizonokuchi Station on the Nambu Line, is using CO₂-free hydrogen energy based on a comprehensive collaboration agreement concluded with the city of Kawasaki. In this initiative, JR East has introduced an autonomous hydrogen energy supply system that only requires water and sunlight to function. Fuel cells use the stored hydrogen to generate power, which is then supplied to certain station buildings.



Urawa Station, a model *eco station*



Autonomous hydrogen energy supply system at Musashi-Mizonokuchi Station, a model *eco station*

Initiative Example (2)

Diesel Hybrid Railcars and Accumulator Railcars

The Kiha E200 Series railcars, which entered service on the Koumi Line in July 2007, are the world's first diesel-powered, electric motor-driven hybrid railcars. Compared with previous railcars, fuel consumption has been reduced by about 10%, and the noise of trains idling at railway stations and accelerating on departure has been lowered by 20–30 dB. Also, from October to December 2010 JR East began operating Series HB-E300 railcars, a new type of resort train equipped with a hybrid system similar to the Kiha E200 Series railcars, in the Nagano, Aomori, and Akita areas. Further, Series HB-E210 railcars began operating on the Senseki-Tohoku Line in May 2015. Additionally, as a new measure to reduce environmental burden in non-electrified line segments, JR East is developing an energy-accumulating railcar system, or accumulator system, which debuted in March 2014 with the Series EV-E301 railcar, also known as the ACCUM railcar, on the Karasuyama Line. The introduction of the Series EV-E301 railcar has eliminated the exhaust gas and reduced the CO₂ emissions and noise associated with diesel railcar engines. Most recently, in March 2017 JR East introduced catenary and battery-powered hybrid accumulator railcars, Series EV-E801 railcars, to the alternating current (AC) line segment between Akita and Oga stations.



Series EV-E801 railcar



Series EV-E801 railcar's energy flow monitor

Technological Innovation // Medium-to-Long-Term Vision

Basic Approach to Technological Innovation

JR East has drafted a “Medium-to-Long-Term Vision for Technological Innovation” in preparation for advances in the Internet of Things (IoT), big data, and artificial intelligence (AI), and with a view toward realizing technological innovation that is one step ahead of the times.

- JR East will leverage IoT, big data, and AI to rigorously reform its services so that they cater to the actual needs of customers. Our aim is to realize a revolution in mobility*¹ that overturns conventional ideas.
- JR East will use AI to create new value from data that it gathers through various business activities in the fields of safety and security, service and marketing, operation and maintenance, and energy and environment.
- To that end, JR East will promote further open innovation to incorporate the newest technologies from around the world and build an “Innovation Ecosystem”*² that can constantly produce innovative services in mobility.

*1 The movement of customers from points of departure to destinations

*2 Industrial collaboration among companies and other bodies to advance technological innovation

Overview of “Medium-to-Long-Term Vision for Technological Innovation”

(1) Safety and Security

“Anticipate and Minimize Risk”

To keep a pace with the levels of safety that society will expect in the future, it is important to utilize IoT, big data, and AI for the identification of accident precursors, the unearthing of risks that are difficult to find based on existing knowledge and experience, and the advancement of preventive measures. With this in mind, JR East will pursue ultimate safety levels by advancing R&D, combining technologies in the fields of intelligent transport systems and robotics while taking into account human factors.

(2) Service and Marketing

“Providing Customers with Service Now, Service Here, Service for Me (Now-Here-Me)”

JR East will advance efforts to provide each customer with real-time, easy-to-follow information not only about our transportation services but also about other transportation services. In the future, through flexible train operations and advanced collaboration with other transportation providers, JR East will provide mobility services that enable seamless “door-to-door” mobility. In addition, JR East will concentrate more personnel on the provision of high-quality services that only humans can offer with the aim of lifting its hospitality to the next level.

(3) Operation and Maintenance

“Devising Work Styles for a Smaller Productive Population”

More efficient and effective maintenance has become possible through frequent collection and analysis of data from rolling stock and infrastructure, which enables optimally timed maintenance and the monitoring of safety. Aiming to realize practical application of this type of maintenance, JR East is steadily advancing measures through new Series E235 railcars that operate on the Yamanote Line. JR East will also advance such innovations as autonomous driving technology, robotization, and AI-supported operations.



“Door-to-door” mobility and “Now-Here-Me” service

(4) Energy and Environment

“Establishing a Railway Smart Grid”

JR East is not merely an end user but also maintains a comprehensive energy network that encompasses capabilities from generation through to transmission and distribution. By incorporating such new technologies as renewable energy, energy saving, and energy storage into this network, JR East aims to establish a railway smart grid that reduces railways' energy consumption 25% and CO₂ emissions 40% versus fiscal 2014 levels by fiscal 2031.



Next-generation energy network

Tackling New Business Areas

Basic Approach to Tackling New Business Areas

“JR East Group Management Vision V—Ever Onward” sets out “Tackling new business areas—Globalization” as an important task. Accordingly, JR East is drawing on its experience and expertise to develop new business areas and realize growth. Railway projects are in the pipeline worldwide. The overseas railway market is expected to grow an average of 2.6% per year and expand to roughly ¥22 trillion in 2020. Given this trend, JR East is developing businesses globally by collaborating with companies at home and abroad while leveraging its expertise in the operations and maintenance field. This field encompasses train operation planning, management, support, and implementation as well as the maintenance of facilities and equipment. While giving priority to Asia due to its dramatic growth, JR East will participate in railway projects in countries worldwide.

Participation in Indian High-Speed Railway Project

Of the seven high-speed railway lines that India's government has announced plans to develop, it has decided to adopt Japan's Shinkansen technology for the high-speed railway project between Mumbai and Ahmedabad. This decision was based on a memorandum of understanding concluded between the governments of Japan and India for cooperation relating to the development of a high-speed railway system. The governments concluded this memorandum based on a summit meeting between prime ministers Abe and Modi, held on December 12, 2015, and a joint declaration issued on the same day.

Currently, the governments of Japan and India are holding talks about specific business schemes for the high-speed railway. Following talks on November 11, 2016, the governments announced a progress report on the high-speed railway plan and scheduled work to begin in 2018 and the high-speed railway line to open in 2023. As public and private entities work together in these discussions, JR East is providing technical support based on its extensive experience as a Shinkansen operator.

In addition, in March 2016 the Japan International Cooperation Agency (JICA) commissioned a Group company, Japan International Consultants for Transportation Co., Ltd. (JIC), to provide consulting services relating to a project for the formulation of high-speed railway technical standards. Known as the Indian High-Speed Railway-Related System Development Support Project, this project is currently under way. Moreover, JR East has enhanced its internal organization by appointing executives with responsibility for the Indian high-speed railway project.

Participation in Thailand's Purple Line Project

JR East is partnering with Marubeni Corporation and Toshiba Corporation in a project to provide comprehensive maintenance for the railcars and ground installations of the *Purple Line*, a mass rapid transit railway in Bangkok, Thailand. Beginning operations on August 6, 2016, the *Purple Line* is a railway line in Thailand's capital, Bangkok, which links the Bang Sue district, in the northern part of the city, to the Bang Yai district in the northwestern suburbs. In December 2013, through a joint investment with Marubeni and Toshiba, JR East established a maintenance company, Japan Transportation Technology (Thailand) Co., Ltd., in Bangkok.

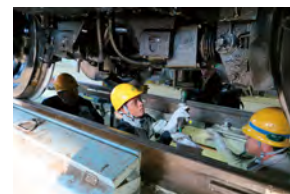
For a 10-year period, this company provides maintenance services for railcars, signals, railway tracks, power systems, automatic platform gates, the automated fare collection system, and rail yard facilities. In addition, Japan Transport Engineering Company (J-TREC) manufactured and provided 63 railcars, comprising 21 sets of three-car stainless-steel trains for use on the *Purple Line*.



Opening of the Purple Line

Providing Technical Support to Overseas Railway Operators

Jakarta, Indonesia's capital, is developing public transportation infrastructure to relieve chronic traffic congestion. As part of these efforts, the city is tackling the need to rapidly increase existing railways' transportation capacity. In response, JR East transferred 476 Series 205 railcars, previously used on the Saikyo Line and other lines, to the PT KAI Commuter Jabodetabek urban rail system for three years. At the same time, JR East has provided technical support for the maintenance of the transferred railcars to ensure they operated reliably since 2013. Also, since 2016 we have been providing additional technical support to improve train services.



Providing technical support

Opening of JAPAN RAIL CAFE in Singapore

In December 2016, JR East opened *JAPAN RAIL CAFE* in Singapore. As well as providing information about travel to Japan, the center is a place where locals with a passion for Japan can meet. Also, JR East showcases the appeal of railway travel at travel expositions and other overseas events.



JAPAN RAIL CAFE

Developing Employees and Creating a Corporate Culture that Maximizes Human Potential

Basic Approach to Personnel Development

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

Promotion of Diversity Management

JR East Group employees have diverse viewpoints and values, reflecting gender and other attributes, experience, and skills. The JR East Group views this diversity as a strength.

Accordingly, the JR East Group is advancing diversity management with the aim of being a corporate group in which all employees can realize their capabilities to the fullest. At the same time, the Group is emphasizing collaboration among all generations from young employees through to older, highly experienced employees.

Initiative Example (1)

Promoting Involvement of Female Employees

As the systems under which its employees work are varied, JR East views the involvement of female employees as a litmus test of diversity. Since its establishment, JR East has primarily increased gender equality by making such positions as train crew member available to women. As a result, female employees now work in all areas of our operations. Given that female employees' careers are lengthening, JR East will rapidly foster female employees as prospective managers. Specifically, JR East has set targets for hiring, development, and promotion, which are stated below.

Pursuing Targets for the Empowerment of Female Employees

- Ensure that by the end of fiscal 2019 women account for at least 30% of new graduate hires and 40% of new graduate hires who want to be train crew members
- Develop workplaces where different work styles are possible and all employees remain motivated
- Ensure that by the end of fiscal 2019 women account for 5% of managerial positions

As of April 1, 2017, women accounted for 12.2% of employees, or 6,912 employees, and 4.1% of managers, or 166 managers. There are an increasing number of women in important positions, such as head office and branch office general managers, station masters and other supervisors of facilities in the field, and Group company directors. As of June 23, 2017, JR East has appointed one female outside director and two executive officers.



Seminar to help employees balance work and childcare

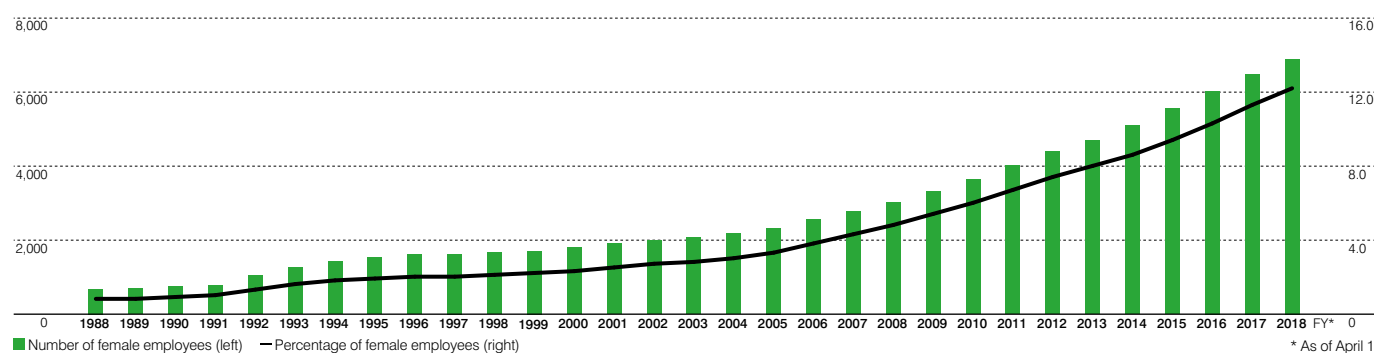
Initiative Example (2)

Employing People with Disabilities

As of June 2017, 2.45% of our workforce consisted of employees with disabilities. These employees work alongside other employees in a broad range of positions. 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, JR East established JR East Green Partners Co., Ltd., in April 2008. The company acquired certification as a special subsidiary in May 2009.

Number and Percentage of Female Employees

Persons / %



Initiative Example (3)

Benefiting from the Elder Employee System

In fiscal 2009, JR East introduced the Elder Employee System. Under this system, approximately 80% of employees who reach retirement age continue working for Group companies, which benefit from these employees' capabilities and skills. The system helps retired employees to further stabilize their finances until they reach a fully pensionable age and enables Groupwide know-how accumulation.

Heightening the Capabilities of Personnel

The JR East Group intends to enhance the capabilities of personnel throughout the Group. In light of employees' aspirations, the Group will strengthen the management capabilities of managers, pass on skills, and conduct employee development programs that include Group companies.

	Target	Priority Initiative
Personnel development	General employees	Measures responsive to employees' aspirations
	Managers	Measures to enhance management capabilities
	Group companies	Enhancement of personnel capabilities throughout the JR East Group
Passing on of skills	Employees of all ages	Effective passing on of technology and skills and education about essence of work



Tunnel inspection training

Globalizing Our Corporate Culture

More than 600 JR East employees, many of whom are from frontline operations, participate enthusiastically in overseas training and study programs every year. For some time, JR East has conducted an overseas study program for employees studying for MBAs. In addition, JR East offers an overseas experience program that gives roughly 100 employees an opportunity to experience other cultures while learning another language. This program sends participants to cities worldwide, including those in non-English speaking countries, for three-month homestays. JR East also conducts an on-the-job training program for overseas railway consulting, in which approximately 30 employees

participate for about three months in overseas railway consulting projects centered on Group company Japan International Consultants for Transportation Co., Ltd. Other programs include overseas training for roughly 500 employees that is focused on Southeast Asia.



On-the-job training program for overseas railway consulting in India

Certified as a Highest-Grade “Eruboshi” Company

JR East has created conditions that enable women to play an active part in its operations. For example, JR East has been hiring more women and expanding and improving systems that help employees balance family and professional commitments. As a result, women do an increasingly wide range of jobs. Currently, 40% of “Eruboshi” logo train conductors working on the Yamanote Line are women. Further, the number of female leaders is rising every year as more women become branch office chiefs, head office and branch office general managers, and supervisors of facilities in the field, such as station managers and assistant managers. In recognition of these advances, the Ministry of Health, Labour and Welfare certified us as a highest-grade, or grade three, “Eruboshi” company based on the Act on Promotion of Women's Participation and Advancement in the Workplace.



“Eruboshi”

There are five assessment criteria. Companies satisfying one or two criteria are classified as grade one, those satisfying three or four are grade two, and those satisfying all are grade three.

Assessment Criteria

- (1) Hiring
- (2) Retention
- (3) Overtime and holiday working
- (4) Management position
- (5) Career diversity

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

Tokyo Metropolitan Area Network, Intercity Network, and Shinkansen

Numbers

Conventional network (Kanto area)
Operating kilometers

2,535.0 kilometers (as of March 31, 2017)

Fiscal 2017 Conventional revenues (Kanto area)
from passenger tickets

¥1,163.0 billion

Conventional network (Outside Kanto area)
Operating kilometers

3,728.1 kilometers (as of March 31, 2017)

Fiscal 2017 Conventional revenues
(Outside Kanto area) from passenger tickets

¥68.7 billion

Shinkansen network operating kilometers

1,194.2 kilometers (as of March 31, 2017)

Fiscal 2017 Shinkansen revenues from
passenger tickets

¥584.3 billion



Fiscal 2017 Summary, Part 1

In the Transportation segment, JR East revised timetables in March 2017 to increase the frequency of *Hayabusa* services between Tokyo and Sendai on the Tohoku Shinkansen Line as well as to increase the frequency of and add railcars to *Narita Express* services, which many visitors to Japan use. Further, given the expansion of the direct service network, JR East took measures to improve the quality of transportation by expanding contingency shuttle operations when transportation services are disrupted.

With respect to marketing and sales activities, JR East conducted such campaigns as the *Ikuze, Tohoku. SPECIAL Fuyu no Gohobi* Campaign and the *Japanese Beauty Hokuriku* Campaign to increase inter-regional railway travel.

In relation to the *JR East Dynamic Rail Pack*, a travel product that allows a customer to purchase a combined train-accommodation product based on his or her choice, in November 2016, JR East launched the new *Dynamic TYO* brand with the aim of increasing the flow of tourists to the Tokyo metropolitan area from the Tohoku and Shinetsu regions.

Fiscal 2018 Topics

- *Hokkaido Shinkansen Line Opening 1st Anniversary Campaign* (February–September 2017)
- *Ikuze, Tohoku. Campaign* (April 2017–March 2018)
- *Seasonal Beauty Itsutsuboshi. Hokuriku Shinkansen Campaign* (April 2017–March 2018)
- Beginning of *TRAIN SUITE SHIKI-SHIMA* operations (May 1, 2017)
- *Shinshu Destination Campaign* (July–September 2017)

Plan

Billions of Yen	Fiscal 2017 Results	Fiscal 2018 Plan	Fiscal 2017 / Fiscal 2018
Operating revenues	1,989.8	2,001.0	+11.1 (100.6%)
Operating income	334.2	335.0	+0.7 (100.2%)

Promotion of Shinkansen Usage

JR East is entrenching usage of the Hokkaido Shinkansen Line by conducting the *Hokkaido Shinkansen Line Opening 1st Anniversary Campaign* and marketing travel products, travel products only available through the Internet, and other products. Meanwhile, throughout the year JR East is encouraging passengers to use the Hokuriku Shinkansen Line by launching travel products and implementing year-round advertising that highlights the Hokuriku area's attractions in each season—scenery, inspiring experiences, fall colors, and cuisine—through the *Seasonal Beauty Itsutsuboshi. Hokuriku Shinkansen Campaign*.

This year is an anniversary for all of JR East's Shinkansen lines. For example, March 22, 2017, was the 20th anniversary of the Akita Shinkansen Line's opening. To express its gratitude to customers and those residing in line-side areas and to motivate customers to continue using Shinkansen services in large numbers, JR East is conducting the *SHINKANSEN YEAR 2017* Campaign, rolling out discount commemorative products only available online, establishing trains exclusively for groups on respective Shinkansen lines, and launching commemorative travel products.



SHINKANSEN YEAR 2017 Campaign poster

Revitalization of Communities and Stimulation of Tourism

Since the Great East Japan Earthquake, one of JR East's goals has been to use the power of tourism to support the restoration of the Tohoku region. To this end, JR East has conducted *Destination Campaigns* for the region's six prefectures and has been advancing the *Ikuze, Tohoku*. Campaign since November 2011. Stepping up efforts to increase visitors to the Tohoku region, in December 2016 JR East unveiled the *Ikuze, Tohoku. SPECIAL Fuyu no Gohobi* Campaign, which emphasizes the charm of the Tohoku region in winter. JR East advanced this campaign in collaboration with the region's six prefectural governments and other municipal authorities, Tohoku Tourism Promotion Organization, travel agencies, and other parties involved in the tourism industry. This campaign together with the *Spring Akita*, *Summer Aomori Prefecture and Hakodate*, and *Fall Fukushima* comprise a year-round drive to increase visitors in fiscal 2017.

In addition, JR East has launched the *Shinshu Destination Campaign*, covering July through September 2017. With "Welcome to a World-Class Resort. Mountains of Shinshu" as a slogan, JR East is offering a selection of experience-type and stay-type travel products that exploit the attractions of a mountain tableland, including nature, history, culture, cuisine, and health benefits.

JR East will unearth tourism resources and strengthen tourism promotion capabilities while collaborating with local communities to stimulate tourism.



Ikuze, Tohoku. SPECIAL Fuyu no Gohobi 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, JR East aims 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)
 — JR Line (Including freight line) — Rinkai Line
 ■ Establishing line ■ Increasing line

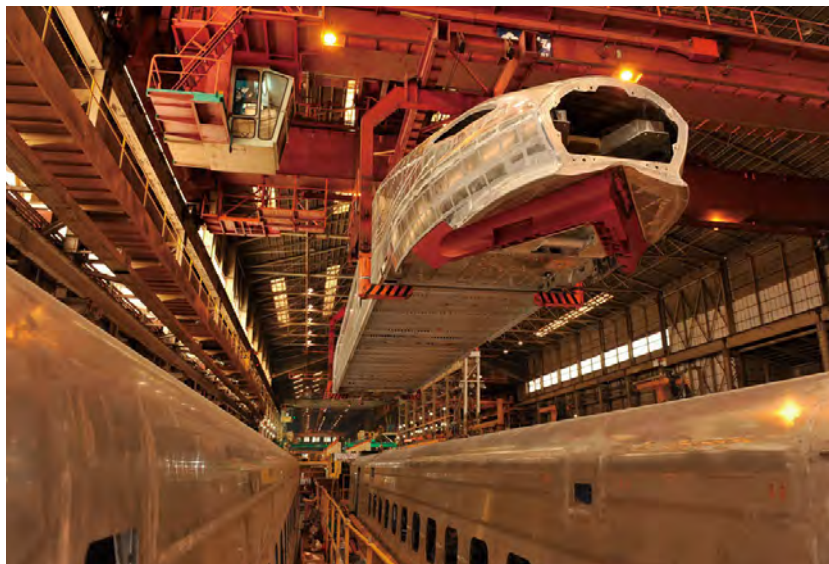
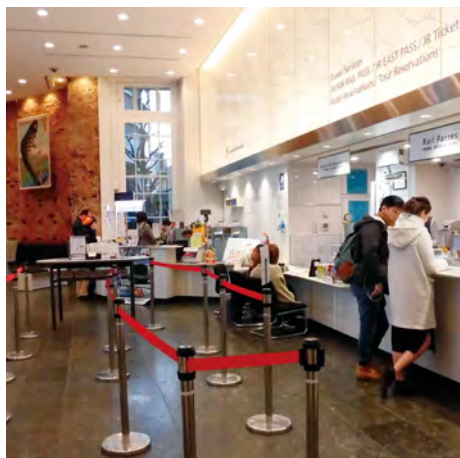
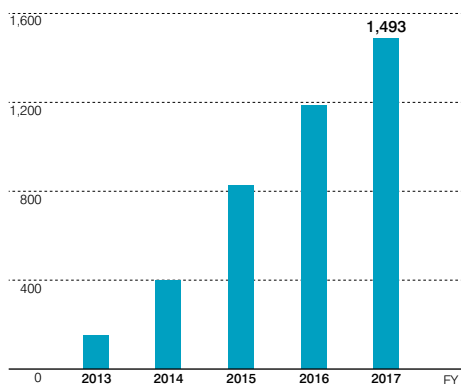
Transportation // Initiatives for Visitors to Japan and Railcar Manufacturing Operations

Initiatives for Visitors to Japan and Railcar Manufacturing Operations

Overview

J-TREC's Recent Railcar Production

Railcars



Fiscal 2017 Summary, Part 2

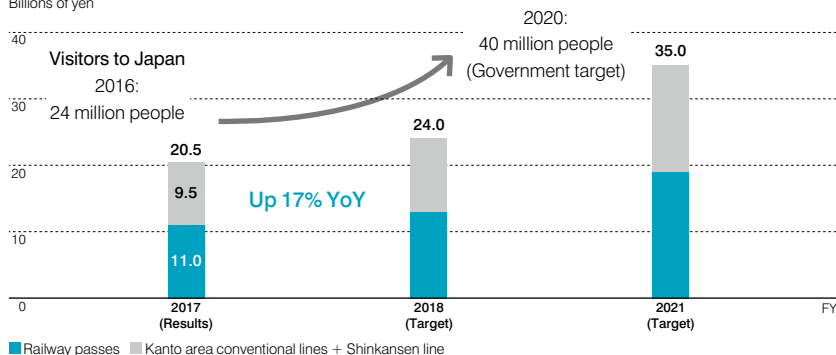
With respect to strategies for visitors to Japan from overseas, the JR East Group as a whole took measures to increase the number of and improve products and develop capabilities to serve such customers. Specifically, in April 2016 JR East launched the *Tokyo–Osaka Hokuriku Arch Pass*, which may be used for the Hokuriku Shinkansen Line, and *JR East–South Hokkaido Rail Pass*, which may be used for the Hokkaido Shinkansen Line. In August 2016, JR East launched a new product for the Tohoku area, *TOHOKU BUFFET*, and expanded and improved the lineup of travel products for visitors to Japan under the *JR East Railway Holiday* brand. In addition, JR East opened a new *JR EAST Travel Service Center* at the east exit of Ikebukuro Station and increased the number of service counters in the centers at Tokyo Station and Narita Airport Terminal 2-3 Station.

With respect to participation in overseas railway projects, in August 2016 the *Purple Line* (Bangkok, Thailand), an urban mass transit system, began operations, and *sustina* stainless-steel railcars manufactured by subsidiary Japan Transport Engineering Company (J-TREC) began operations. Further, a local subsidiary established through a joint investment with other companies began maintenance operations for railway systems.

Target

Revenue from Visitors to Japan in the Railway Business, Results and Targets

Billions of yen



Strategies for Visitors to Japan

JR East will pursue internal and external initiatives to help establish Japan as a tourism-oriented nation. The targets for 2020 are 40 million visitors to Japan and 1.5 million stays by visitors to Japan in the Tohoku region's six prefectures.

The Tohoku Tourism Promotion Organization has received approval from the Minister of Land, Infrastructure, Transport and Tourism for a project tasked with establishing a wide-ranging sightseeing excursion route, called "Exploration to the Deep North of Japan." Coordinating with this project, JR East will increase its ability to cater to visitors to Japan in areas on the route. Specifically, JR East will establish tourist information centers with appearances and facilities that are uniform, provide free public wireless LAN services, and standardize services. JR East already sells railway passes and travel products targeting visitors to Japan traveling in the eastern part of the country. However, since April 2017 JR East has been bringing to market a series of new products, including the *SENDAI AREA PASS*, product tie-ups with international airlines, and tie-up sales of homestay travel products.

To cater to the needs of the growing number of visitors to Japan, the JR East Group will sustain concerted efforts to move forward with strategies for visitors to Japan.



SENDAI AREA PASS

Development of Railcar Manufacturing Operations

- Initiatives to Date

Aiming to acquire railcar manufacturing know-how and enhance its technological capabilities, JR East established the Niitsu Rolling Stock Plant in October 1994. Since then, the plant has mainly manufactured suburban commuter railcars for the Tokyo metropolitan area. In April 2012, Japan Transport Engineering Company (J-TREC, formerly Tokyu Car Corp.), which was the first company in Japan to manufacture stainless-steel railcars, joined the JR East Group. To establish railcar manufacturing operations as the JR East Group's fourth business pillar, J-TREC assumed the operations of the Niitsu Rolling Stock Plant in April 2014.

As a result, in developing its operations the Niitsu Rolling Stock Plant can take advantage not only of know-how acquired as a railcar manufacturer but also the technological capabilities that JR East has honed as a railway operator. Moreover, the plant can now manufacture a broad range of railcars, from suburban commuter railcars through to Shinkansen railcars. This scope enables the plant to pursue economies of scale in addition to other efficiency improvement efforts.

- Concentration on *sustina* Stainless-Steel Railcars

J-TREC manufactures an extensive range of high-quality, high-value-added products. In addition to suburban commuter railcars, the company manufactures Series E353 express railcars, Series EV-E301 accumulator railcars, Series E7 railcars for the Hokuriku Shinkansen Line, *TRAIN SUITE SHIKI-SHIMA* railcars, and railcars for the *Purple Line* (Bangkok, Thailand).

Among these products, JR East is focusing efforts on mainstay *sustina* railcars, which exploit the advantages of stainless-steel railcars. Through *sustina* stainless-steel railcars, JR East aims to reduce life-cycle costs. These efforts entail mass producing a common platform and consolidating and introducing common specifications for railcar structures and equipment systems. In addition, the JR East Group draws on its maintenance know-how to reduce the railcars' maintenance costs.

In fiscal 2018, JR East will continue introducing to the Yamanote Line Series E235 railcars—the *sustina* brand's commuter railcars for large cities. Further, JR East plans to manufacture railcars for other companies and organizations, such as Tokyo Metropolitan Bureau of Transportation, Tokyu Corporation, and Keio Corporation.

The JR East Group will continue leveraging its combined strength to reduce life-cycle costs further while delivering high-quality products. Through these initiatives, JR East aims to add value to the *sustina* brand and encourage widespread usage of *sustina* stainless-steel railcars.



sustina stainless-steel railcar



Series E235 railcars debut on the Yamanote Line

Retail & Services



Fiscal 2018 Topics

- *GranSta Marunouchi, GranSta New Area* (fully open in August 2017)

Plan

Billions of Yen	Fiscal 2017 Results	Fiscal 2018 Plan	Fiscal 2017 / Fiscal 2018
Operating revenues	502.4	514.0	+11.5 (102.3%)
Operating income	36.8	37.0	+0.1 (100.4%)

Overview

Top 20 Stations with Large Daily Passenger Use*



Station	Number of Passengers per Day
1 Shinjuku	1,538,614
2 Ikebukuro	1,119,840
3 Tokyo	879,108
4 Yokohama	829,366
5 Shinagawa	743,574
6 Shibuya	742,672
7 Shimbashi	542,056
8 Omiya	505,538
9 Akihabara	493,246
10 Kita-Senju	428,644
11 Kawasaki	418,960
12 Takadanobaba	413,366
13 Ueno	365,386
14 Yurakucho	339,100
15 Tachikawa	331,290
16 Osaki	321,640
17 Hamamatsucho	310,588
18 Tamachi	305,248
19 Nakano	292,800
20 Kamata	288,144

Retail & Services

Fiscal 2017 Summary

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

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

Numbers

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

97
(as of March 31, 2017)

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

41
(as of March 31, 2017)

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

ecute

As part of its *Station Renaissance* program to create new railway stations for the 21st century, JR East is continuing to roll out innovative business models in station concourses and create distinctive, more-attractive railway stations.

The JR East Group coined the name *ecute* based on the first letters of the words *eki*, which is Japanese for “railway station,” center, universal, together, and enjoy. As this acronym suggests, the Group’s goal is to transform railway stations into comfortable hubs where diverse people gather and have fun. In addition, the Group integrates management of commercial spaces inside railway stations to take maximum advantage of their potential. These efforts include everything from concourse environment planning through to merchandising, business partner selection, sales area management, and sales promotions.



ecute Tokyo

NewDays KIOSK

The JR East Group’s convenience business supports customers in their daily lives by operating approximately 500 *NewDays* station convenience stores and roughly 330 *KIOSK* station kiosks. The Group is renewing store designs, strengthening product lineups, introducing new services, and installing self-checkout machines to establish *NewDays* convenience stores as a station brand differentiated from city convenience stores. *NewDays* convenience stores average 1,500 store visits per day—far higher than the normal level for city convenience stores. Also, in spring 2015 the Group renewed the long familiar *KIOSK* format to introduce *NewDays KIOSK* station kiosks as new-format “micro convenience stores” that make shopping in railway stations even more enjoyable and convenient.



NewDays KIOSK

Advancement of the Rediscovering the Region Project

In the Tokyo metropolitan area, the JR East Group coordinates the *Rediscovering the Region Project* with the sales promotion initiatives of *Destination Campaigns*. As part of the project, the JR East Group holds *Sanchoku-Ichi* (farmers’ markets) at Ueno Station; operates permanent *NOMONO* shops, which enable producers to showcase their products and regions; and conducts the *NOMONO premium* Internet sales. Based on the concept of seasonal goods (*shun no mono*), local goods (*chi no mono*), and traditional goods (*yukari no mono*), the JR East Group opened *NOMONO* shops in Ueno Station in January 2012 and in Akihabara Station in March 2014.

Aiming to expand the *NOMONO* brand, the Group opened *NOMONO Kitchen Ikebukuro Higashiguchi* in November 2015 and the *NOMONO Izakaya Kayojiji Ueno* restaurant in January 2016.



NOMONO Kitchen Ikebukuro Higashiguchi

Development of Advertising and Publicity

The railway stations and railcars that serve approximately 17 million people each day are JR East’s most precious business assets. By utilizing these assets as advertising media, JR East generates sizable revenues.

Each set of Series E235 railcars operating on the Yamanote Line has 288 digital signage advertisements inside, up from the 88 of its predecessor. Moreover, above its windows the railcar has three linked digital signage advertisements, which replace paper advertisement posters. These innovations allow dissemination of higher-value-added information to customers. The Group sells advertising on a monthly, positional basis through *AD Train*, which offers clients exclusive use of the advertisement poster space inside all railcars of one train. By using more digital signage advertisements together with traditional hanging advertisement posters, the Group will pursue new value in advertising inside railcars.



Digital signage advertisements above the windows of a Series E235 railcar

Real Estate & Hotels



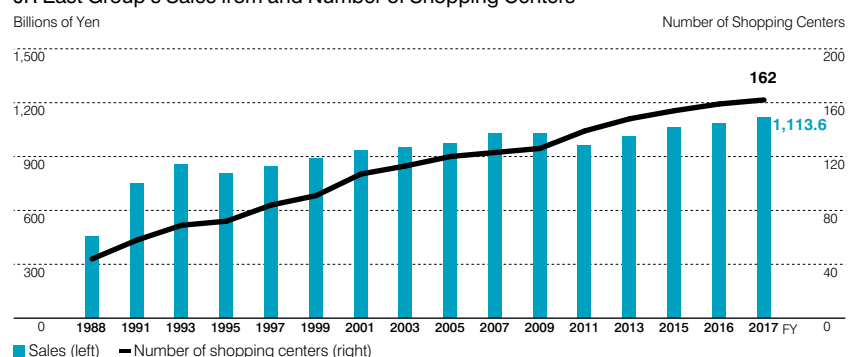
Fiscal 2017 Summary

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

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

Overview

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



Real Estate & Hotels

Numbers

JR East's shopping centers

162 (as of March 31, 2017)

Shopping centers—Total floor space

2,287,000 m² (as of March 31, 2017)

Office buildings—Leased floor space

358,000 m² (as of March 31, 2017)

Hotels Guest rooms

44 6,533 (as of March 31, 2017)

Metropolitan Hotels occupancy

82.0% (as of March 31, 2017)

HOTEL METS occupancy

85.8% (as of March 31, 2017)

Fiscal 2018 Topics

- *JR Saitama-Shintoshin Building* (opened May–June 2017)
- *Hotel Metropolitan Sendai East* (opened June 2017)
- *Perie Chiba Ekinaka* (opened April and June 2017)
- *Perie Chiba* (shopping center) (Fall 2017, begin operation in advance)

Plan

Billions of Yen	Fiscal 2017 Results	Fiscal 2018 Plan	Fiscal 2017 / Fiscal 2018
Operating revenues	326.3	344.0	+17.6 (105.4%)
Operating income	80.3	83.0	+2.6 (103.3%)

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 spring 2020, as well as the unveiling of a new town and the full opening of the new railway station around 2024. 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. The investment will total approximately ¥500.0 billion, and while the development will include hotels, commercial facilities, and cultural facilities, it will mainly comprise offices and condominiums.

In April 2016, the project received approval as a zone plan of a National Strategic Special Zone. In light of this approval, JR East is implementing plans for urban development in cooperation with the Government of Japan, Tokyo Metropolitan Government, relevant wards, and other stakeholders. In March 2017, the "Guideline for Community Development of the Northern Peripheral Area of Shinagawa Station" was established. Further, under this project, based on the Global Gateway Shinagawa concept, JR East aims to develop a town that welcomes the world and which enables innovative, internationally appealing companies and personnel to gather and create new businesses and cultures through diverse exchanges.



Rendering of the outside of the completed Shinagawa New Station (provisional name) viewed from the new town side

Construction of HOTEL METS Akihabara (Provisional Name)

Akihabara Station is a stop on three JR East lines, a Tokyo Metro line, and the Tsukuba Express Line and is linked to Iwamotocho Station, a stop on a Toei Subway line. Consequently, the area around the railway station is an ideally situated hub for tourism and business. To create an appealing, vibrant space befitting Akihabara Station's gateway, the JR East Group has begun construction of *HOTEL METS Akihabara* (provisional name), scheduled for completion in fall 2019.

The Group intends to actively develop its hotel network in and beyond its service area. The Group's target is to expand from the current network of 44 hotels and 6,533 guest rooms to approximately 60 hotels and 10,000 guest rooms by around 2020.



Rendering of HOTEL METS Akihabara (provisional name)

Major Projects of the Life-Style Business Going Forward

	Opening	Total Floor Space (m ²)			
			Offices (m ²)	Commercial (m ²)	Hotel (Rooms)
JR SHINJUKU MIRAINA TOWER	Mar. & Apr. 2016	Approx. 111,000	Approx. 77,200	Approx. 9,400	—
Sendai Station East Exit Development	Mar. 2016	Approx. 43,000	—	Approx. 41,000	—
	Jun. 2017	Approx. 14,000	—	—	Approx. 280
Marunouchi underground area of Tokyo Station	Jul. 2016 – Aug. 2017	Approx. 19,000	—	Approx. 3,700	—
Main building and facilities of Chiba Station	Nov. 2016 – summer 2018 and beyond (fully open)	Approx. 73,800	—	Approx. 57,400	—
HOTEL METS Akihabara (Provisional Name)	Fall 2019	Approx. 66,000	—	—	Approx. 200
Shibuya Station Development (Joint development)	(East Tower) FY2020 (Central & West Tower) FY2028	Approx. 276,000	(Leased floor) Approx. 73,000	(Store space) Approx. 70,000	—
		(East Tower) 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. 17,600	—	Approx. 6,300	—
Yokohama Station West Exit Station Building (Provisional name)	2020	Approx. 122,000	Approx. 28,000	Approx. 70,000	—
Takeshiba Waterfront Development Project	2020	Approx. 108,500	Approx. 15,000	Approx. 8,000	Approx. 270
Kawasaki Station West Exit Development Project (Provisional name)	2022	Approx. 138,900	(Leased floor) Approx. 65,000	(Store space) Approx. 2,200	Approx. 300
Shinagawa Development Project	2020: Provisional opening of new station Around 2024: Opening of town	Area for development: Approx. 130,000			

Others

Others

Numbers

Suica cards issued

64.0 million (as of March 31, 2017)Public transportation electronic money,
record daily transactions**5.8** million (Highest ever) (as of March 31, 2017)Public transportation electronic money,
compatible stores**388,040** (as of March 31, 2017)

Fiscal 2018 Topic

- Unification of *Suica Point* with *JRE POINT*

Plan

Billions of Yen	Fiscal 2017 Results	Fiscal 2018 Plan	Fiscal 2017 / Fiscal 2018
Operating revenues	62.2	71.0	+8.7 (114.1%)
Operating income	16.5	18.0	+1.4 (108.6%)



Fiscal 2017 Summary

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

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

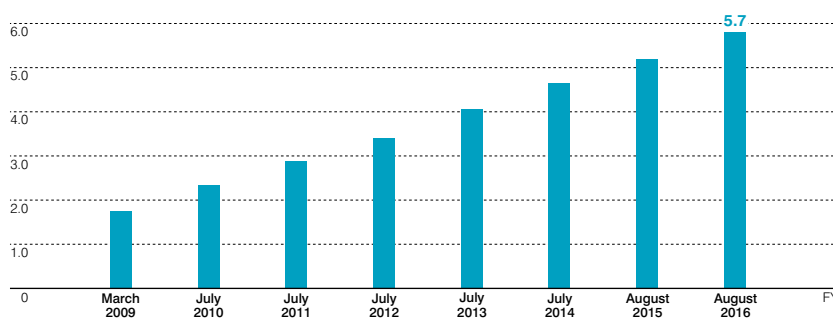
In credit card operations, JR East installed cash dispensers exclusively for credit cards issued overseas at eight railway stations in the Tokyo metropolitan area, including Shinjuku Station and Ueno Station.

* Apple Pay and iPhone are the trademarks of Apple Inc.

Environment

Record Daily Transaction Volume of Public Transportation Electronic Money Cards*

Million Transactions

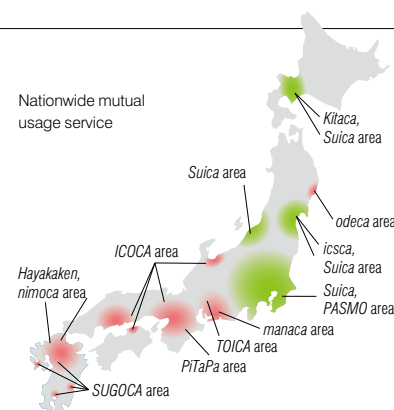


* Comprising *Kitaca*, *PASMO*, *Suica*, *manaca*, *TOICA*, *ICOCA*, *Hayakaken*, *nimoca*, and *SUGOCA*

Suica Usage Area

JR East introduced *Suica* as a prepaid fare collection system based on IC cards in November 2001. Since then, JR East has been enhancing the convenience of *Suica* as an IC railway ticket by increasing the number of railway stations where passengers can use *Suica* cards and introducing services that take advantage of the features of IC cards, such as *Suica* Green tickets and *Mobile Suica* limited express tickets.

Thanks to the launch of a nationwide mutual service network, train and bus services have become easier to use for the elderly as well as visitors to Japan. 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 4,850 railway stations and for approximately 44,440 bus services nationwide as of March 31, 2017.



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. JR East has 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, 2017, *Suica* was usable at approximately 388,040 stores, and the record for daily transactions for public transportation electronic money reached approximately 5.7 million. The target peak level for daily transactions for public transportation electronic money is eight million by fiscal 2021.



Using *Suica* electronic money at a vending machine

Launch of *Suica* Services for Apple Pay

Suica on iPhone 7 and Apple Watch Series 2 was designed not only to be convenient and easy in Apple Pay, but to offer an intuitive and natural experience so that Apple customers and those who currently use physical *Suica* cards can seamlessly start to use this service.

* Apple Pay, iPhone, and Apple Watch are the trademarks of Apple Inc.

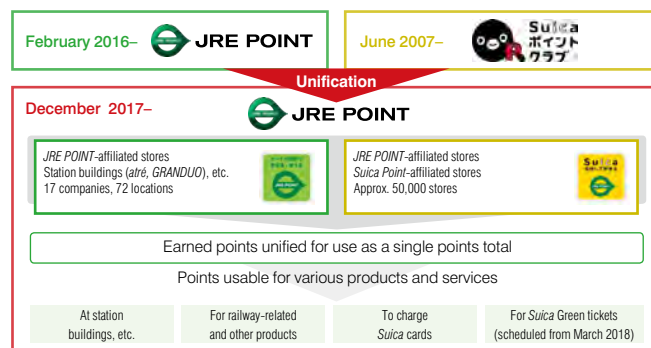


Advertisement of *Suica* Services for Apple Pay

Unification of *Suica* Point with *JRE POINT*

JR East will unify *Suica* Point with *JRE POINT* in December 2017. As a result, customers will be able to use a single points total comprising *JRE POINT* credit earned through the use of station buildings and *JRE POINT* credit earned through the use of a registered *Suica* card. Also, customers will be able to use *JRE POINT* credit to purchase *Suica* Green tickets from March 2018. In addition, JR East will unify *View Thanks Point* credit accumulated through the use of *View Card* with *JRE POINT* credit during fiscal 2019. Through these efforts, JR East aims to make it easier for customers to use and save points through JR East's customer-reward point system.

Unification of *Suica* Point with *JRE POINT*



Board of Directors and Corporate Auditors

As of June 23, 2017



Satoshi Seino

Chairman
Number of Company shares owned: 13,100 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: 8,400 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: 8,300 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 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)

Executive Directors



Takao Nishiyama

Deputy Director General of International Affairs Headquarters
Number of Company shares owned: 3,800 shares



Masao Hino

Deputy Director General of Railway Operations Headquarters; In charge of Marketing Department, Railway Operations Headquarters; In charge of Tourism; In charge of Olympics and Paralympics
Number of Company shares owned: 2,200 shares



Tadao Maekawa

General Manager of Tokyo Branch Office
Number of Company shares owned: 5,100 shares



Akihiko Ishikawa

Director General of Corporate Planning Headquarters; In charge of Personnel Department; In charge of Health & Welfare Department
Number of Company shares owned: 1,400 shares

Directors



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



Yuji Fukasawa*¹

Executive Vice President
Assistant to President; In charge of Indian High-Speed Railway
Number of Company shares owned: 5,000 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
(continuing to the present)



Osamu Kawanobe*¹

Executive Vice President
Assistant to President; Director General of Railway Operations Headquarters
Number of Company shares owned: 3,900 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)



Masahiko Nakai*¹

Executive Vice President
Assistant to President; Director General of International Affairs Headquarters
Number of Company shares owned: 3,600 shares

Brief Personal Record, Position, and Business in Charge

Apr. 1979 Entered Japanese National Railways
Apr. 1987 Entered the Company
Jun. 2006 General Manager of Tokyo Construction Office
Jun. 2008 Executive Officer and General Manager of Morioka Branch Office
Apr. 2009 Executive Officer and General Manager of Shinanogawa Power
Station Improvement Department, Railway Operations
Headquarters
Apr. 2012 Executive Officer and General Manager of Shinanogawa Power
Station Improvement Department and General Manager of
Construction Department, Railway Operations Headquarters
Jun. 2013 Executive Director and Deputy Director General of Railway
Operations Headquarters
Jun. 2017 Executive Vice President and Representative Director Assistant
to President; Director General of International Affairs
Headquarters (continuing to the present)



Tomomichi Ota

Deputy Director General of Railway Operations
Headquarters; In charge of Transport Safety
Department, Railway Operations Headquarters;
In charge of Transport & Rolling Stock Department,
Railway Operations Headquarters
Number of Company shares owned: 1,300 shares



Kenichiro Arai

Director General of Life-style Business Development
Headquarters; In charge of Customer Service
Quality Reformation Department,
Railway Operations Headquarters
Number of Company shares owned: 2,500 shares



Shigeru Matsuki

In charge of Inquiry & Audit Department; In charge of
Public Relations Department; In charge of Finance
Department; In charge of Legal Department; In charge
of Administration Department
Number of Company shares owned: 1,200 shares

Full-Time Corporate Auditors

Shigeo Hoshino*³

Hajime Higashikawa*³

Auditors

Yoshio Ishida

Seishi Kanetsuki*³

Kimitaka Mori*³

(Certified Public Accountant)

*1 Representative director

*2 Outside director

*3 Outside corporate auditor

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)

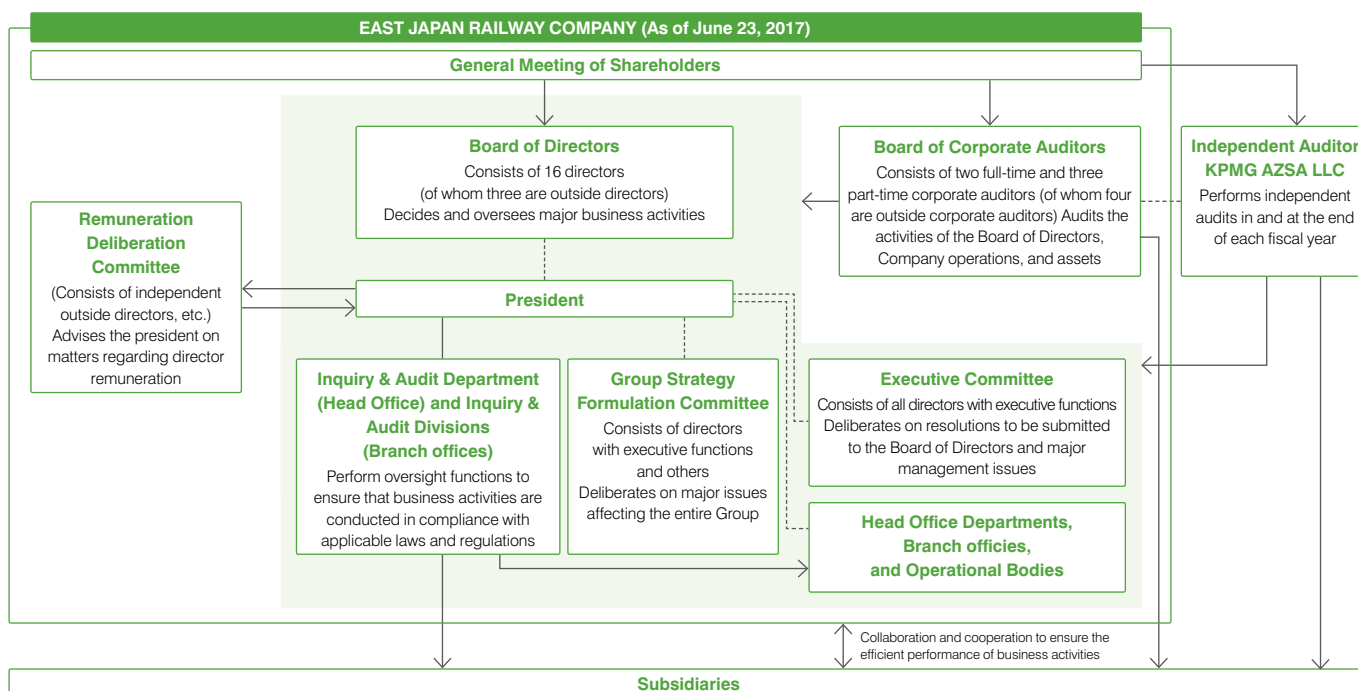
As a range of knowledge and experience on safety maintenance and other matters, combined with decision-making from a medium- to long-term perspective, is necessary for JR East's primary business—railway transportation operations—the Company has established a Board of Directors and also a Board of Corporate Auditors composed of 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 directors, as of June 23, 2017. 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 corporate 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 April 19, 2017. 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.

With a view to further enhancing the effectiveness of the Board of Directors, JR East will concentrate efforts on having more-lively discussions in relation to medium-to-long-term strategy and enhancing the training for directors through such measures as providing outside directors with opportunities for on-site visits.

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, JR East pursues 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 bodies, 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 Kimitaka Mori 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

Corporate Governance

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 18
Other 19

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 corporate full-time 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	Tomokazu Hamaguchi	Attended 15 meetings out of all 16 meetings of the Board of Directors held during this fiscal year (attendance rate 94%) and spoke on the Company's management issues based on his broad experience as a top executive.
Outside Director	Motoshige Itoh	Attended 15 meetings out of all 16 meetings of the Board of Directors held during this fiscal year (attendance rate 94%) and spoke on the Company's management issues based on his broad experience as an academic expert.
Outside Director	Reiko Amano	Attended all 12 meetings of the Board of Directors held while in office during this fiscal year (attendance rate 100%) and spoke on the Company's management issues based on her broad experience in the private sector and other organizations.
Outside Corporate Auditor	Shigeo Hoshino	Attended 12 meetings out of all 16 meetings of the Board of Directors held during this fiscal year (attendance rate 75%) and 11 meetings out of all 14 meetings of the Board of Corporate Auditors held during this fiscal year (attendance rate 79%) and spoke on the Company's management issues based on his broad experience in the government.
Outside Corporate Auditor	Hajime Higashikawa	Attended 15 meetings out of all 16 meetings of the Board of Directors held during this fiscal year (attendance rate 94%) and all 14 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 broad experience in the government.
Outside Corporate Auditor	Toshiaki Yamaguchi	Attended all 16 meetings of the Board of Directors held during this fiscal year (attendance rate 100%) and all 14 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 broad experience as a certified public accountant.
Outside Corporate Auditor	Seishi Kanetsuki	Attended all 12 meetings of the Board of Directors held while in office during this fiscal year (attendance rate 100%) and all 9 meetings of the Board of Corporate Auditors held while in office during this fiscal year (attendance rate 100%) and spoke on the Company's management issues based on his broad experience as a judge.

In order to enable 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 2017)

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. After transferring to The Gakushuin School Corporation (Gakushuin University), he continued to serve as a member of government councils. 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 (Millions of Yen)	Total Amount of Remuneration by Type (Millions of Yen)		Number of Recipients
		Basic Remuneration	Bonuses	
Directors (not including outside directors)	688	524	163	17
Corporate auditors (not including outside corporate auditors)	11	11	—	1
Outside directors and outside corporate auditors	114	114	—	8
Total	813	649	163	26

The amount of remuneration, etc., includes the amount paid to five directors (including one outside director) that resigned as of the conclusion of the 29th Ordinary General Meeting of Shareholders held on June 23, 2016.

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. In addition, the Company pays such directors performance-based remuneration, upon consideration of the operating results, dividends paid to shareholders and directors' contribution to the results for the applicable term as well as the degree of directors' contribution toward the achievement of targets established in the medium-term management plan and other factors. The Company pays 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 due to 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 outside directors and other directors discusses remuneration levels prior to the finalization of decisions.

Remuneration for Auditing Services

Remuneration for Independent Auditors

Classification	(Millions of Yen)			
	Fiscal 2016		Fiscal 2017	
	Remuneration for Auditing Services	Remuneration for Non-Auditing Services	Remuneration for Auditing Services	Remuneration for Non-Auditing Services
JR East	245	2	245	6
Consolidated subsidiaries	466	1	467	7
Total	711	3	712	13

Message from an Outside Director



Tomokazu Hamaguchi

As well as being the JR East Group's core business, railways are an integral part of day-to-day life and indispensable for local communities and society. Given the resulting obligation to serve the public interest, the JR East Group must give priority to ensuring the safety of railways and providing customers with reliable transportation services. Other priorities include easing congestion during commuting hours and enhancing services for customers.

On the other hand, as a listed company the JR East Group is expected to increase corporate value and grow. Japan is entering an era of declining population, and the number of railway passengers is unlikely to rise over the long term. Therefore, while maintaining railways as its core business, the Group needs to expand non-transportation businesses, such as the life-style service business, and develop businesses globally.

At meetings of the Board of Directors, I have stated opinions as an outside director when participating in discussions concerning the Group's basic strategies, safety measures, and service-improvement measures as well as the technological development and personnel development required to underpin these strategies and measures. Going forward, the Group needs to sustain efforts to have livelier discussions about its future direction. As an outside director, I would like to fulfill my role by continuing to offer advice from an external perspective.

Compliance

The JR East Group's Basic Approach to Compliance

The JR East Group has established the “Policy on Legal and Regulatory Compliance and Corporate Ethics” to provide guidelines on corporate conduct. Accordingly, in compliance with the Railway Business Act and other relevant laws and regulations and based on sound corporate ethics, the Group conducts a wide variety of businesses, including railway operations, the life-style service business, and Suica operations. In addition, the Group advances compliance initiatives. As well as educating its employees, the Group has established Compliance Hotlines internally and externally.

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 handbook 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.”

Advancement of Compliance

To further each employee's understanding of the importance of compliance and the meaning of the “Policy on Legal and Regulatory Compliance and Corporate Ethics,” the JR East Group conducts an

annual compliance education program that targets all Group employees. 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.

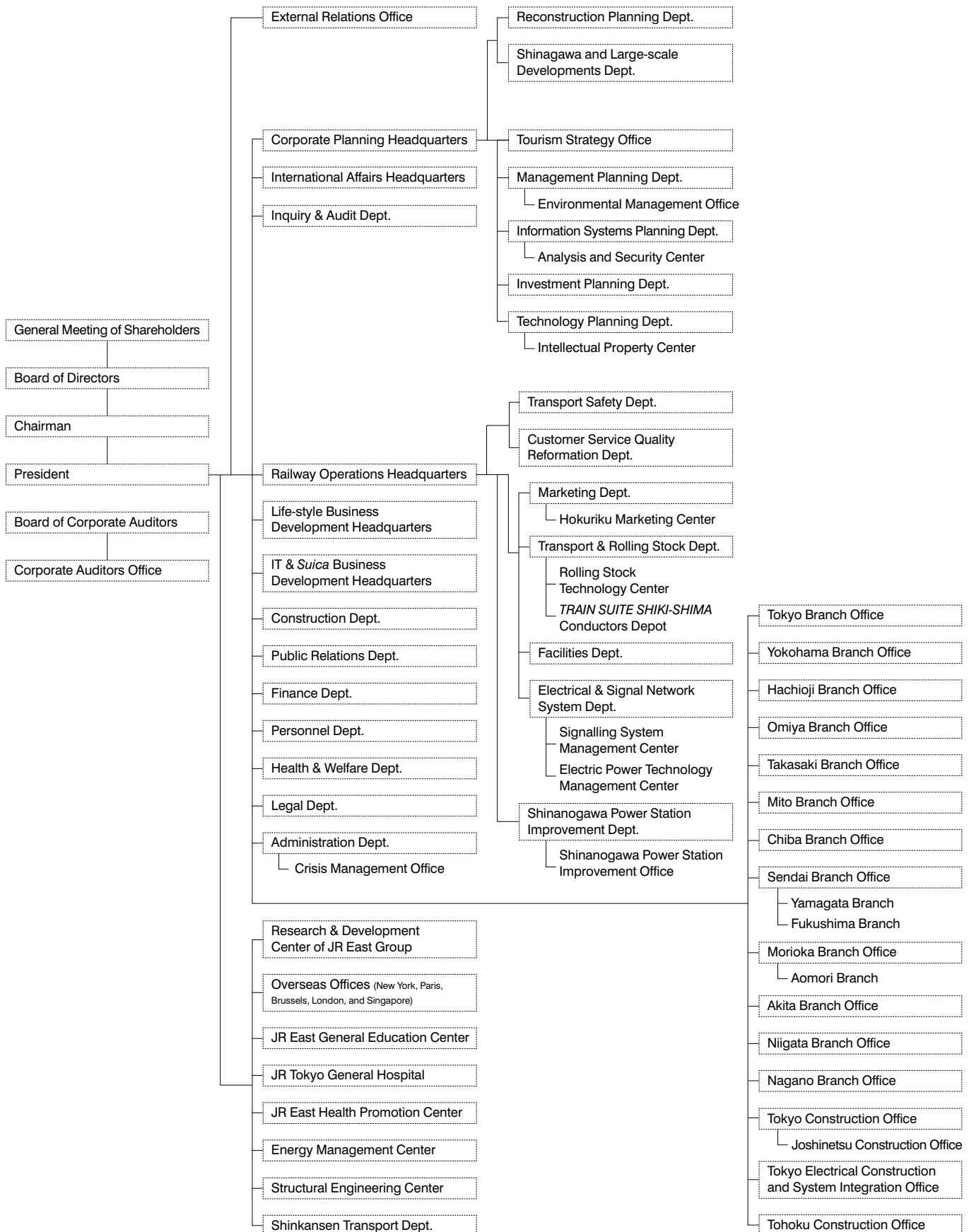
Further, for operational management the Group has prepared the “Basic Matter Confirmation Support Sheet,” which lists important basic matters that leaders of each operational department should check regularly. The Group continuously conducts inspections and checks based on these sheets and ensures that its operations are in rigorous compliance with laws and regulations. As part of these efforts, in fiscal 2017 the Group revised the sheets' questions, and will be checking the effect of this revision during fiscal 2018.

Main Compliance Seminars in Fiscal 2017

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 Expert Training	1	Legal affairs group leaders, etc., of Head Office and branch offices	Acquisition of advanced legal expertise	20
Legal Skills Training	1	Legal affairs personnel of Head Office and branch offices	Acquisition of legal and compliance knowledge related to duties	20
Legal Seminar	2	JR East and Group company executives and employees	Explanation of new and amended laws Compliance awareness training	500
Compliance Seminar	2	Head Office executives, general managers, etc.	Rigorous awareness of compliance-based business management	180
Group Company Compliance Seminar	1	Group company executives and employees	Rigorous awareness of compliance-based business management	70

Organization

As of June 23, 2017



FACTS & FIGURES

66	JR East: Domestic and International Perspectives
73	Management's Discussion and Analysis of Financial Condition and Results of Operations
78	Operational and Other Risk Information
82	Consolidated Financial Statements
87	Notes to Consolidated Financial Statements
106	Independent Auditor's Report
107	Glossary
108	Consolidated Subsidiaries and Equity-Method Affiliated Companies
110	Corporate Data
111	Further Information about JR East

JR East: International and Domestic Perspectives

Peer Group Comparisons

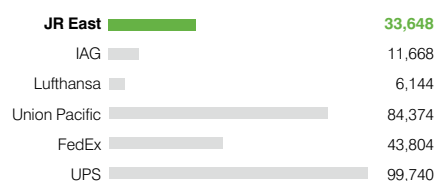
In this section, several key performance indicators illustrate how JR East compares with selected well-known companies.

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

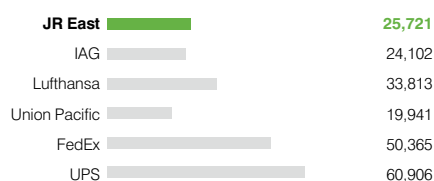
Total Stock Market Value*¹

Millions of U.S. Dollars



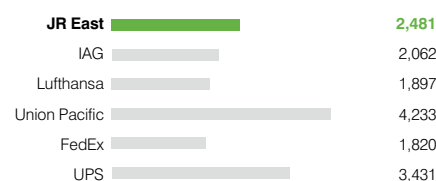
Operating Revenues

Millions of U.S. Dollars



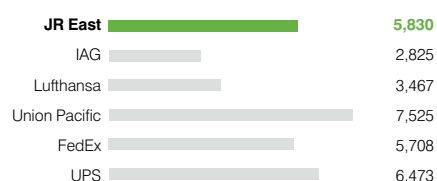
Profit Attributable to Owners of Parent

Millions of U.S. Dollars



Cash Flows from Operating Activities

Millions of U.S. Dollars



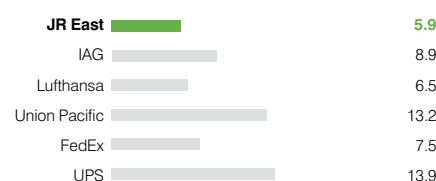
Return on Average Equity (ROE)*²

%



Ratio of Operating Income to Average Assets (ROA)*³

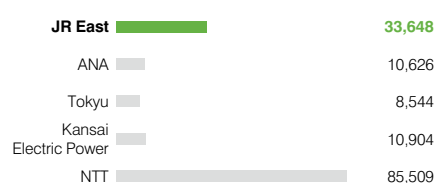
%



DOMESTIC

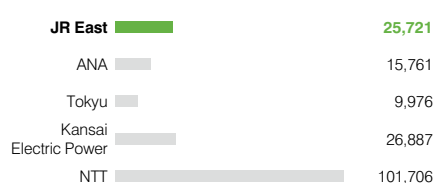
Total Stock Market Value*¹

Millions of U.S. Dollars



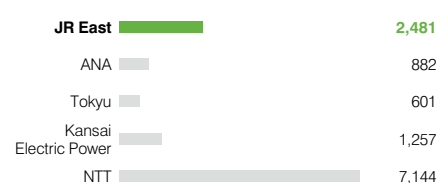
Operating Revenues

Millions of U.S. Dollars



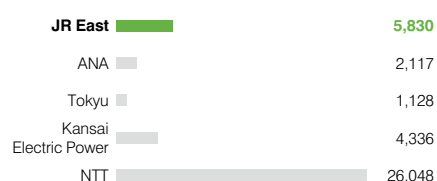
Profit Attributable to Owners of Parent

Millions of U.S. Dollars



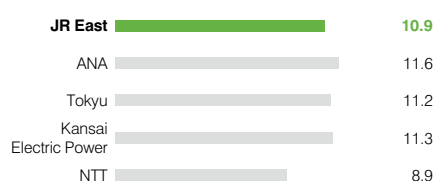
Cash Flows from Operating Activities

Millions of U.S. Dollars



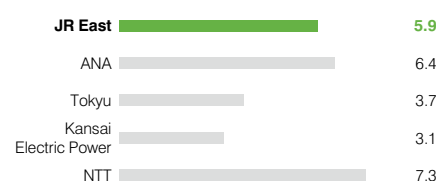
Return on Average Equity (ROE)*²

%



Ratio of Operating Income to Average Assets (ROA)*³

%



*¹ Data in these graphs has been computed from each company's share price and shares outstanding at the end of the previous fiscal year.

*² Average equity is the average of equity at the end of the previous and applicable fiscal years.

*³ 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, 2017 (Year ended December 31, 2016, for IAG, Lufthansa, Union Pacific, and UPS and year ended May 31, 2016, 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, 2017 (U.S.\$1=¥112, £1=\$1.25, and €1=\$1.07).

- Share prices at the close of the respective previous fiscal years and computed using the above exchange rates are \$86.55 for JR East, \$5.50 for IAG, \$13.10 for Lufthansa, \$103.68 for Union Pacific, \$164.97 for FedEx, \$114.64 for UPS, \$3.03 for ANA, \$7.04 for Tokyu, \$12.21 for Kansai Electric Power, and \$42.43 for NTT.

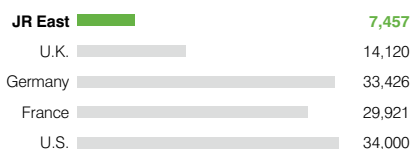
International Railway Comparisons

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

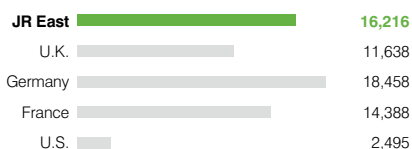
Railway Line Networks

Kilometers



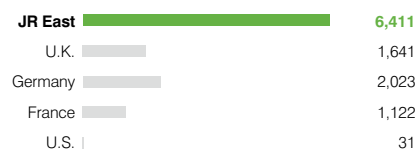
Revenues from Railway Operations

Millions of U.S. Dollars

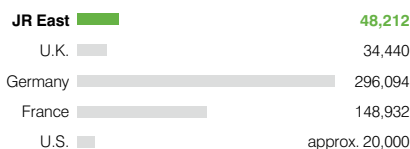


Number of Passengers

Millions

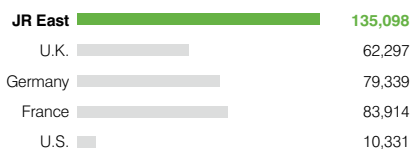


Number of Employees



Passenger Kilometers

Millions



- Figures are as of March 2017 for JR East, March 2015 for the U.K., December 2014 for France and Germany, and September 2016 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 = ¥112 as of March 2017 for JR East and €1 = U.S.\$1.08 as of March 2015 for the others.

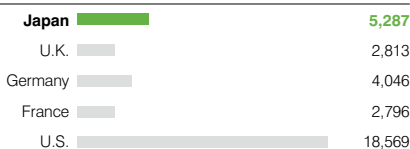
Source: International Railway Statistics 2015 and Amtrak National Facts.

FUNDAMENTALS

Gross Domestic Product

Billions of U.S. Dollars

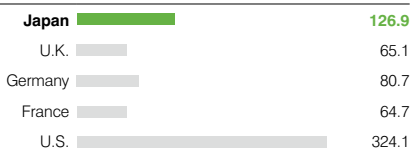
2016



Population

Millions

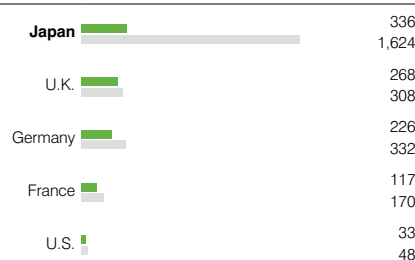
2016



Population Density

Per Square Kilometer

2016



- 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 2016, FAO

■ Population per square kilometer of total national land area
■ Population per square kilometer of habitable land area

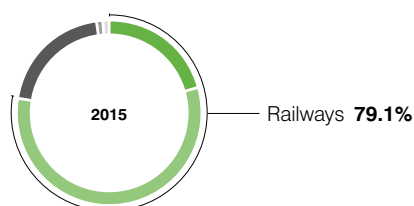
JR East: International and Domestic Perspectives

Railway Operations in Japan

In Japan, demand for railway transportation is significant due to geographical characteristics and the scale of railway networks. Reliance on railways is particularly high in cities.

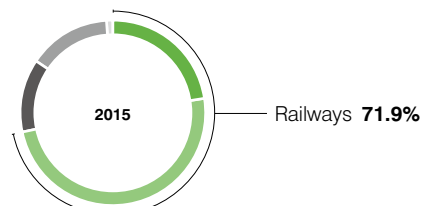
SHARE OF DOMESTIC TRANSPORTATION

Number of Passengers



Years ended March 31		2015	
		Millions	%
Railways	■ JR East	6,219	20.8
	■ Other railways	17,381	58.3
	■ Motor vehicles*	6,057	20.3
	■ Airlines	95	0.3
	■ Ships	86	0.3
	Total	29,838	100.0

Passenger Kilometers



Years ended March 31		2015	
		Millions	%
Railways	■ JR East	130,069	22.6
	■ Other railways	283,901	49.3
	■ Motor vehicles*	72,579	12.6
	■ Airlines	86,763	15.0
	■ Ships	2,923	0.5
	Total	576,235	100.0

As of March 31, 2015

* "Motor vehicles" only includes commercial vehicles. It does not include private passenger cars and light cars.

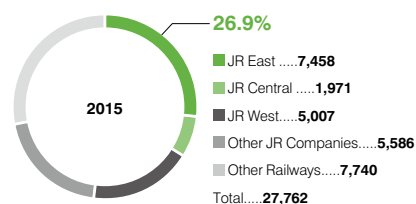
- Figures for Tokyo Monorail are not included in JR East.

Source: Summary of Transport Statistics, Ministry of Land, Infrastructure, Transport and Tourism

SHARE OF DOMESTIC RAILWAYS

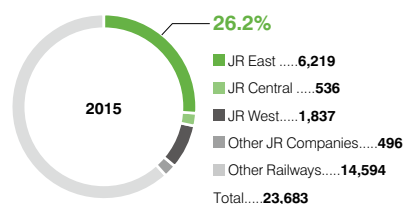
Passenger Line Network

Kilometers



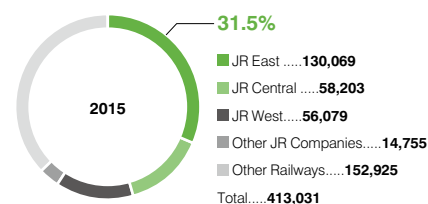
Number of Passengers

Millions



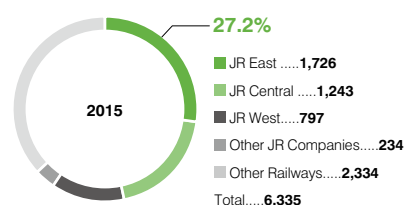
Passenger Kilometers

Millions



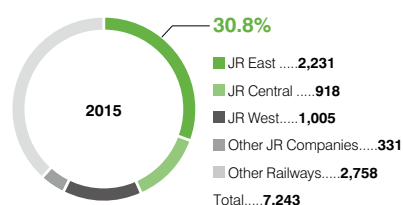
Revenues from Passenger Tickets

Billions of Yen



Rolling Stock Kilometers

Millions



As of March 31, 2015

- 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 2014, Ministry of Land, Infrastructure, Transport and Tourism

Financial Overview of JR Passenger Railway Companies

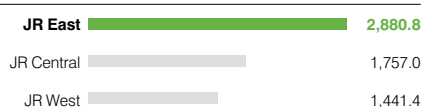
JR East accounts for about 50% of the total operating revenues of the three largest JR passenger railway companies. JR East's immense and stable operating base contributes to large and consistent earnings and cash flows.



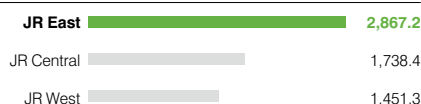
Operating Revenues

Billions of Yen

2017



2016

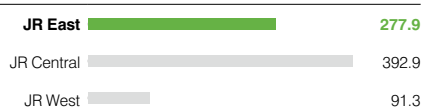


Years ended March 31	Millions of Yen	
	2016	2017
JR East	2,867,200	2,880,802
JR Central	1,738,409	1,756,980
JR West	1,451,300	1,441,411

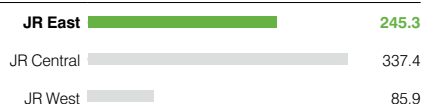
Profit Attributable to Owners of Parent

Billions of Yen

2017



2016

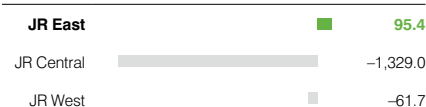


Years ended March 31	Millions of Yen	
	2016	2017
JR East	245,310	277,925
JR Central	337,440	392,913
JR West	85,868	91,288

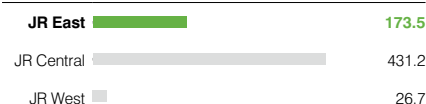
Free Cash Flows

Billions of Yen

2017



2016

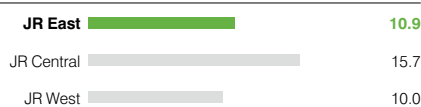


Years ended March 31	Millions of Yen	
	2016	2017
JR East	173,534	95,368
JR Central	431,190	(1,328,982)
JR West	26,661	(61,664)

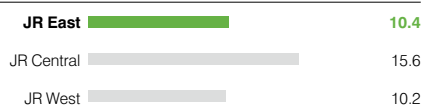
Return on Average Equity (ROE)

%

2017



2016

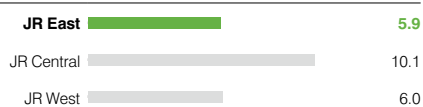


Years ended March 31	%	
	2016	2017
JR East	10.4	10.9
JR Central	15.6	15.7
JR West	10.2	10.0

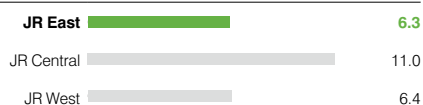
Ratio of Operating Income to Average Assets (ROA)

%

2017



2016

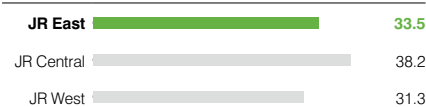


Years ended March 31	%	
	2016	2017
JR East	6.3	5.9
JR Central	11.0	10.1
JR West	6.4	6.0

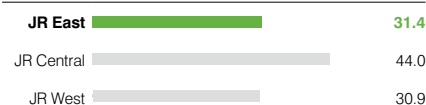
Equity Ratio

%

2017



2016



Years ended March 31	%	
	2016	2017
JR East	31.4	33.5
JR Central	44.0	38.2
JR West	30.9	31.3

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

JR East: International and Domestic Perspectives

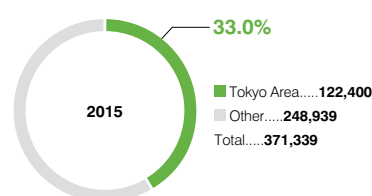
Railway Operations in Tokyo

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

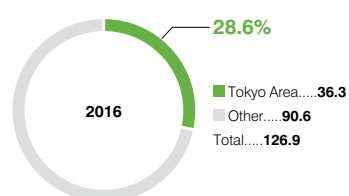


Year ended March 31, 2015

Source: Annual Report on Prefectural Economies, Cabinet Office

Population

Millions



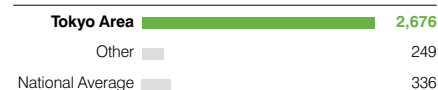
As of October 1, 2016

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

Population Density

Per Square Kilometer

2016



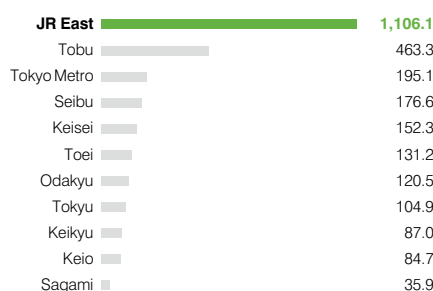
As of October 1, 2016

- 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.

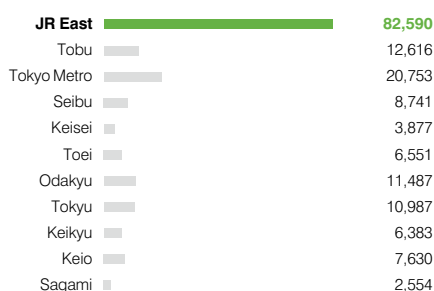
Passenger Line Networks

Kilometers



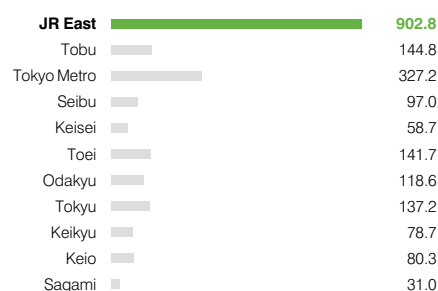
Passenger Kilometers

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	82,590	47.4	902.8	42.6
Tobu Railway	463.3	17.4	12,616	7.2	144.8	6.8
Tokyo Metro	195.1	7.3	20,753	11.9	327.2	15.4
Seibu Railway	176.6	6.7	8,741	5.0	97.0	4.6
Keisei Electric Railway	152.3	5.7	3,877	2.2	58.7	2.8
Toei (Tokyo Metropolitan Government)	131.2	4.9	6,551	3.8	141.7	6.7
Odakyu Electric Railway	120.5	4.5	11,487	6.6	118.6	5.6
Tokyu Corporation	104.9	4.0	10,987	6.3	137.2	6.5
Keikyu Corporation	87.0	3.3	6,383	3.7	78.7	3.7
Keio Electric Railway	84.7	3.2	7,630	4.4	80.3	3.8
Sagami Railway	35.9	1.4	2,554	1.5	31.0	1.5
Total	2,657.6	100.0	174,169	100.0	2,117.9	100.0

*1 As of March 31, 2016.

*2 For the year ended March 31, 2016.

- 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 2016, 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.

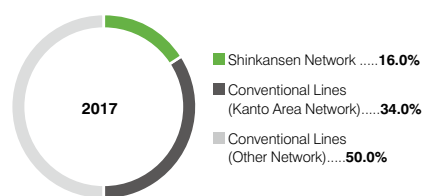
Analysis of JR East's Railway Operations

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 Line Network*	
	km	%
Shinkansen Network	1,194.2	16.0
Conventional Lines (Kanto Area Network)	2,535.9	34.0
Conventional Lines (Other Network)	3,727.2	50.0
Total	7,457.3	100.0

Passenger Kilometers*

			Millions		%
			2016	2017	2017 / 2016
Shinkansen Network		Commuter Passes	1,740	1,754	100.8
		Other	21,108	21,422	101.5
		Total	22,848	23,176	101.4
Conventional Lines	Total	Commuter Passes	72,992	73,276	100.4
		Other	38,587	38,644	100.1
		Total	111,579	111,921	100.3
	Kanto Area Network	Commuter Passes	69,908	70,202	100.4
		Other	35,966	36,113	100.4
		Total	105,875	106,315	100.4
	Other Network	Commuter Passes	3,083	3,074	99.7
		Other	2,621	2,530	96.5
		Total	5,704	5,605	98.3
Total	Commuter Passes	74,732	75,031	100.4	
	Other	59,695	60,066	100.6	
	Total	134,428	135,098	100.5	

Revenues from Passenger Tickets*

			Millions of Yen		%
			2016	2017	2017 / 2016
Shinkansen Network		Commuter Passes	23,616	23,878	101.1
		Other	554,596	560,507	101.1
		Total	578,213	584,385	101.1
Conventional Lines	Total	Commuter Passes	470,822	474,529	100.8
		Other	755,896	757,293	100.2
		Total	1,226,719	1,231,823	100.4
	Kanto Area Network	Commuter Passes	452,336	456,052	100.8
		Other	703,850	707,001	100.4
		Total	1,156,186	1,163,053	100.6
	Other Network	Commuter Passes	18,486	18,477	100.0
		Other	52,046	50,292	96.6
		Total	70,533	68,769	97.5
Total	Commuter Passes	494,439	498,408	100.8	
	Other	1,310,493	1,317,800	100.6	
	Total	1,804,932	1,816,209	100.6	

* Year ended March 31, 2017

- 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.

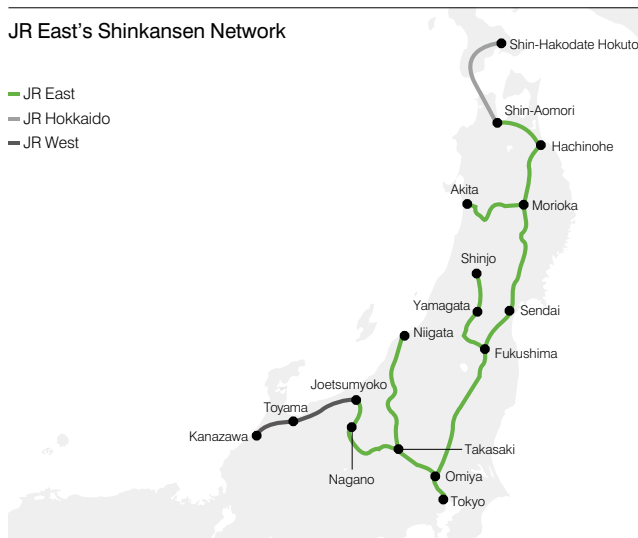
JR East: International and Domestic Perspectives

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

— JR East
— JR Hokkaido
— JR West



Competition with Airlines

	Distance from Tokyo km	Time Required	JR Share %
Aomori	713.7	2:59	79
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	75

Note: Data shown here is as of March 31, 2017 (except JR share on Tokyo–Hakodate Line as of March 31, 2016). Information concerning required time is according to the JR Time Table, June 2017 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

2017	Stations
JR East	97
JR Central	5
JR West	14
Tokyu	19

■ 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	41	97
JR Central	1	5
JR West	5	14
Tokyu	5	19

Notes:

- Tokyu = Tokyu Corporation
- Year ended March 31, 2016, for JR Central and JR West, year ended March 31, 2017, 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	Billions of Yen
JR East	400.0
Takashimaya	797.3
7-Eleven Japan	4,515.6
Tokyu	675.2
JR West	233.9

	Millions of Yen
JR East	399,678
Takashimaya	797,253
7-Eleven Japan	4,515,605
Tokyu	675,180
JR West	233,908

Notes:

- Takashimaya = Takashimaya Company, Limited;
- 7-Eleven Japan = Seven-Eleven Japan Co., Ltd.;
- Tokyu = Tokyu Corporation
- Year ended March 31, 2017 (year ended February 28, 2017, 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

Operating Revenues	Billions of Yen
JR East	267.6
Mitsui	519.9
Tokyu	131.9
JR West	109.6

	Millions of Yen
JR East	267,638
Mitsui	519,938
Tokyu	131,949
JR West	109,590

Notes:

- Mitsui = Mitsui Fudosan Co., Ltd.
- Tokyu = Tokyu Corporation
- Year ended March 31, 2017
- 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, 2017.

Key Accounting Policies and Estimates

JR East prepares consolidated financial statements in accordance with accounting principles generally accepted in Japan. Forward-looking estimates included in those financial statements are based on a variety of factors that, in light of JR East's past performance and current circumstances, can be reasonably assumed to have affected results for assets and liabilities on the consolidated settlement date and consolidated revenues and expenses in fiscal 2017, ended March 31, 2017. JR East continuously assesses those factors. However, actual results may differ materially from those estimates, given the uncertainty of forward-looking statements.

Performance Analysis

Overview

In fiscal 2017, the Japanese economy improved in such areas as employment and income conditions and continued to recover gradually. Under these conditions, and guided by "JR East Group Management Vision V—Ever Onward," the Group (consisting of the Company, its consolidated subsidiaries, and affiliated companies that were accounted for by the equity method) steadily executed various initiatives centered on the railway, life-style service, and IT & *Suica* businesses.

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

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

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

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

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

With respect to regional revitalization, JR East made progress in such initiatives as promotion of tourism, revitalization of local industries, and town development centered on regional core railway stations. Specifically, the Company publicly announced the service schedule and route of the *TRAIN SUITE SHIKI-SHIMA* cruise train, which will begin operations in May 2017, and accepted orders for travel products. At Ueno Station, JR East proceeded with development of *New Departure Platform 13.5* and the *PROLOGUE SHIKI-SHIMA* lounge. As initiatives for the *sextic industrialization* of agriculture,

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

fishing, and forestry, JR East's in-station stores and other stores began sales of various products that used tomatoes harvested by JR Tomato Land Iwaki Farm Co., Ltd., as well as *Niigata Shupoppo*, a sake that uses brewer's rice from JR Niigata Farm Co., Ltd. At the same time, the Company jointly established JR Agri Sendai Co., Ltd., with local farmers. Further, based on the "Partnership Agreement in Relation to the Development of Compact Cities for Regional Revitalization" concluded with Akita Prefecture and Akita City, JR East established a tourist center in Akita Station. At the same time, the Company proceeded with preparations for the station's west exit parking garage building, which opened in April 2017; a sports medicine clinic, which is scheduled for completion in spring 2018; and *JR Akita Gate Arena* (provisional name), which is scheduled for completion in winter 2019.

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

Results by business segment were as follows.

Segment Information

TRANSPORTATION

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

With respect to safety, JR East steadily implemented measures based on its sixth five-year safety plan, "Group Safety Plan 2018." The Company steadily implemented measures in preparation for a major earthquake, such as a possible earthquake directly beneath the Tokyo metropolitan area. JR East earmarked a total of ¥300.0 billion for investment in such measures for a five-year intensive implementation period ended March 31, 2017. In accordance with plans, approximately 80% of the work that is currently planned was completed by the end of the fiscal year under review. Further, JR East proceeded with the installation of automatic platform gates based on a policy of introducing them to all railway stations on the Yamanote Line and to all railway stations on the line segment between Omiya Station and Sakuragicho Station on the Keihin-Tohoku and Negishi Lines. The use of automatic platform gates began at Shinagawa Station on the Yamanote Line and at Akabane Station on the Keihin-Tohoku Line. Also, the Company announced that it would proceed with installation ahead of schedule in light of an accident involving a fatality in Warabi Station's platform in January 2017. In addition, to shorten construction periods and reduce costs, JR East commenced the trial introduction of a new

type of automatic platform gate at Machida Station on the Yokohama Line in December 2016. As for other initiatives, the Company kicked off the Station Platform Safety Campaign together with other railway operators to promote safe usage of station platforms. Further, as measures for preventing railway crossing accidents, JR East continued eliminating and consolidating railway crossings, installing crossing gates, and installing more obstruction warning devices and obstacle detection devices for railway crossings. The Company also introduced a train approach alarm system that utilizes GPS to more line segments in order to improve the safety of personnel who perform maintenance work.

With respect to service quality, the Group promoted measures aimed at becoming "No. 1 for customer satisfaction in the Japanese railway industry" based on the "Medium-term Vision for Service Quality Reforms 2017." For the expansion of the direct service network, JR East took measures to improve the quality of transportation by expanding contingency shuttle operations when transportation services are disrupted. In addition, the Company increased the line segments for which the *JR EAST APP* provides train position information, and the number of app downloads reached approximately 2.46 million on a cumulative basis as of March 31, 2017. JR East made efforts jointly with other companies to eliminate areas in tunnels where mobile phone connection is poor and established environments that enable usage between Takasaki and Annakaharuna on the Hokuriku Shinkansen Line, between Iwate-Numakunai and (before) Ninohe on the Tohoku Shinkansen Line, between Takasaki and (before) Jomo-Kogen Station on the Joetsu Shinkansen Line, between Tokyo and Shinagawa on the Yokosuka Line, and between Tokyo and Shiomi on the Keiyo Line. Further, the Company implemented a *Let's Stop Viewing Smartphones while Walking* campaign together with other railway operators and other organizations from across Japan for the first time. In regard to the *assistance* campaign in which personnel ask nearby customers whether they require assistance, the Company commenced new collaborative initiatives with other railway operators in the Tokyo metropolitan area.

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

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

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

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

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

JR East's policy for areas within a 20-kilometer radius of the Fukushima Daiichi Nuclear Power Station is to prepare to resume operations in the areas designated as "areas to which evacuation orders are ready to be lifted," through the cooperation of the national government and local authorities that are working to decontaminate line-side areas and return residents to their homes. Based on this policy, JR East resumed operations between Odaka and Haranomachi on the Joban Line in July 2016 and conducted restoration work and took other measures with a view to resuming operations between Namie and Odaka by April 2017 and between Tatsuta and Tomioka by approximately October 2017. In the areas designated as "areas where it is expected that the residents will have difficulties in returning for a long time," the Company aims to open lines after the restoration of damaged facilities, the completion of decontamination work required for opening lines, and the implementation of measures to ensure the safety of users in emergencies, with the support and cooperation of the national government and local authorities. JR East proceeded with restoration work with a view to resuming operations between Tomioka and Namie on the Joban Line by March 31, 2020.

SHINKANSEN NETWORK

In the Shinkansen network, passenger kilometers increased 1.4% year on year, to 23.2 billion, mainly due to the opening of the Hokkaido Shinkansen Line and an increase in visitors to Japan among passengers. Revenues from passenger tickets increased 1.1% year on year, to ¥584.4 billion (\$5,218 million). Included in this figure, Shinkansen commuter pass revenues increased 1.1% year on year, to ¥23.9 billion (\$213 million), and non-commuter pass revenues rose 1.1%, to ¥560.5 billion (\$5,004 million).

CONVENTIONAL LINES (KANTO AREA NETWORK)

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

CONVENTIONAL LINES (OTHER NETWORK)

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

STATION SPACE UTILIZATION

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

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

SHOPPING CENTERS & OFFICE BUILDINGS

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

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

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

OTHERS

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

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

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

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

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

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

Notes: 1. The Group applies the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (Accounting Standards Board of Japan (ASBJ) Statement No. 17, June 30, 2010) and the Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Guidance No. 20, March 21, 2008). The operating income of each segment of the Group corresponds to the segment income under the above Accounting Standard and Guidance.

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

Operating Income

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

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

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

Operating income declined 4.4%, to ¥466.3 billion (\$4,163 million).

Operating income as a percentage of operating revenues was 16.2%, compared with 17.0% in the previous fiscal year.

Income before Income Taxes

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

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

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

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

Profit Attributable to Owners of Parent

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

Liquidity and Capital Resources

Cash Flows

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

Net cash used in investing activities amounted to ¥557.5 billion (\$4,978 million), ¥58.0 billion more than in the previous fiscal year. This result was mainly due to higher payments for purchases of fixed assets.

Capital expenditures were as follows.

In transportation operations, JR East implemented capital expenditures to further measures for ensuring transportation safety and reliability, institute countermeasures for large-scale earthquakes, install automatic platform gates, and produce new trains. In station space utilization operations, JR East opened new stores and conducted renovation work at existing stores. These efforts included *GranSta Marunouchi* (Tokyo) and a new area of *GranSta CHIBA EKINAKA (IN-STATION)* (3rd floor) (Chiba). In shopping centers and

office buildings operations, capital expenditures included those for *LUSCA Atami* (Shizuoka), *nonowa Kunitachi WEST* (Tokyo), and *JEBL Akihabara Square* (Tokyo). In the Others segment, capital expenditures included those for the new construction of a wind-power generation facility as well as the renovation of existing hotels.

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

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

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

Financial Policy

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

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

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

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

In fiscal 2017, JR East issued eight unsecured straight bonds in Japan, with a total nominal amount of ¥110.0 billion (\$982 million) and maturities from 2026 through 2057. Rating and Investment Information, Inc. (R&I), a Japanese rating agency, rated these bonds AA+. Further, JR East received long-term debt ratings from S&P Global Ratings Japan Inc. and Moody's Japan K.K. of AA- and Aa3, respectively.

In order to respond to short-term financing requirements, JR East has bank overdraft facilities with its principal banks totaling ¥330.0 billion (\$2,946 million). R&I and Moody's rated JR East's commercial paper a-1+ and P-1, respectively, as of the end of fiscal 2017. As of March 31, 2017, the Company did not have any outstanding balance of commercial paper issued by JR East and did not have any bank overdrafts.

In April 2015, JR East established a committed bank credit line (a financing framework that permits unrestricted borrowing within contract limits based on certain conditions) with an amount of ¥60.0 billion (\$536 million).

Operational and Other Risk Information

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

Forward-looking statements in the following section are based on the assessments of the JR East Group as of March 31, 2017.

Legal Issues Relating to Operations

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

Railway Business Act (Act No. 92 of 1986)

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

JR Law (Act No. 88 of 1986)

AIM OF THE ESTABLISHMENT OF THE JR LAW

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

AMENDED JR LAW

- (a) The amended JR Law enacted on December 1, 2001 (Act No. 61 of 2001), excluded JR East, JR Central, and JR West (the three JR passenger railway companies operating on Japan's main island of Honshu, hereinafter the "three JR Honshu Companies") from the provisions of the JR Law that had been applicable to them until then.
- (b) Further, the amended JR Law enables the Minister to issue guidelines relating to matters that should be considered for the foreseeable future with respect to the management of the railway operations of the new companies, including any additional companies that may become involved in the management of all or a part of those railway operations as a result of 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.

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

JR East's Stance

(a) JR East has not raised fares since its establishment in April 1987, other than to reflect the consumption tax introduction (April 1989) and subsequent revisions (April 1997 and April 2014).

Through efficient business operation realized by securing revenues and reducing expenses, JR East has worked to create a management base that is not dependent on raising fares. However, if JR East was unable to secure appropriate profit levels as a result of such factors as changes in the operating environment, it would view the timely implementation of fare revisions as necessary to secure appropriate profit levels.

(b) With the efficient management of operations as a precondition, JR East believes securing a profit level that enables capital expenditures for the future and the strengthening of its financial condition—in addition to the distribution of profits to shareholders—to be essential.

(c) JR East primarily undertakes capital expenditures, which has a significant impact on the capital usage of railway operations, with a view to establishing a robust management base through ensuring safe and reliable transportation, offering high-quality services, and implementing other measures. Further, JR East appreciates the need to proactively conduct capital expenditures while clearly defining the responsibilities of management in business operation.

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

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

(a) The Minister will approve applications for the revision of the upper limits of fares from railway operators, including from JR East, upon conducting inspections to determine that the fares do not exceed the sum of reasonable costs and reasonable profits that can be expected to be incurred through the efficient management of those companies (hereinafter "total cost") (Railway Business Act, Article 16, paragraph 2).

In addition, a three-year period is stipulated for the calculation of costs.

(b) Even if the railway operator has non-railway businesses, the calculation of total cost—which comprises reasonable costs and reasonable profits, including required dividend payments to shareholders—is based only on the operator's railway operations.

Further, operators are required to submit their capital expenditure plans for increasing transportation services to ease crowding of commuter services and for other improvements in passenger services. The capital usage necessary for such enhancements is recognized in the calculation of total cost.

(c) Total cost is calculated using a "rate base method" that estimates the capital cost (interest payments, dividend payments, and other financial costs) arising from the provision of a fair and appropriate return, based on the opportunity cost concept, in relation to the capital invested in the said railway operations. The calculation of total cost is as follows:

- Total cost = operating cost^{*1} + operational return
- Operational return = assets utilized in railway business operations (rate base) × operational return rate
- Assets utilized in railway business operations = railway business operations fixed assets + construction in progress + deferred assets + working capital^{*2}
- Operational return rate = equity ratio^{*3} × return rate on equity^{*4} + borrowed capital ratio^{*3} × return rate on borrowed capital^{*4}

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

^{*2} Working capital = operating costs and certain inventories

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

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

(d) Subject to the prior notification of the Minister, railway operators can set or change fares and surcharges within the upper limits approved along with other charges. However, the Minister can issue directives requiring changes in fares and surcharges by specified terms if the fares and surcharges submitted are deemed to fall within the following categories (Railway Business Act, Article 16, paragraph 5):

- The changes would lead to unjustifiable discrimination in the treatment of certain passengers.
- There is concern that the changes would give rise to unfair competition with other railway transportation operators.

Operational and Other Risk Information

Plan for the Development of New Shinkansen Lines

New Shinkansen Line Segment Openings

Following the division and privatization of JNR, JR East was selected as the operator of the Takasaki–Joetsu segment of the Hokuriku Shinkansen Line and the Morioka–Aomori segment of the Tohoku Shinkansen Line. JR East started operation of the Hokuriku Shinkansen Line between Takasaki and Nagano on October 1, 1997; the Tohoku Shinkansen Line between Morioka and Hachinohe on December 1, 2002, and between Hachinohe and Shin-Aomori on December 4, 2010; and then on the Hokuriku Shinkansen Line between Nagano and Joetsumyoko on March 14, 2015.

Usage Fees for New Shinkansen Lines

- (a) In October 1997, the opening of the Takasaki–Nagano segment of the Hokuriku Shinkansen Line was accompanied by new standards for the amount of usage fees paid by the JR Companies as the operator of the line. Those usage fees are now regulated under the Japan Railway Construction, Transport and Technology Agency Law (enforcement ordinance, Article 6).
- (b) That enforcement ordinance stipulates that the Japan Railway Construction, Transport and Technology Agency (hereinafter the “JRJT”) 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 JRJT for railway facilities leased. Of those, the expected benefits are calculated based on expected demand and revenues and expenses over a 30-year period after opening. Further, a part of the usage fees, which are calculated based on the expected benefits, is fixed for the 30-year period after commencing services.

Note:

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

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

End of Loan Period

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

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

Safety Measures

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

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

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

Information Systems and Protection of Personal Data

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

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

Development of the Life-Style Service Business

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

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

Competition

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

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

Reduction of Total Interest-Bearing Debt

On March 31, 2017, total interest-bearing debt stood at ¥3,211.0 billion (\$28,670 million). In addition, interest expense in fiscal 2017 amounted to ¥70.2 billion (\$627 million), which was equivalent to 15.1% of operating income.

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

Compliance

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

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

Consolidated Balance Sheets

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

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

See accompanying notes.

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

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

Consolidated Statements of Income and Comprehensive Income

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

(I) CONSOLIDATED STATEMENTS OF INCOME

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2016	2017	2017
Operating Revenues (Note 23)	¥2,867,200	¥2,880,802	\$25,721
Operating Expenses:			
Transportation, other services and cost of sales	1,841,026	1,852,221	16,538
Selling, general and administrative expenses	538,353	562,271	5,020
	2,379,379	2,414,492	21,558
Operating Income (Note 23)	487,821	466,310	4,163
Other Income (Expenses):			
Interest expense on short- and long-term debt	(45,559)	(44,957)	(401)
Interest expense incurred for purchase of railway facilities	(30,773)	(25,301)	(226)
Loss on sales of fixed assets	(1,102)	(723)	(6)
Impairment losses on fixed assets (Notes 2 (17), 12 and 23)	(12,297)	(6,605)	(59)
Interest and dividend income	3,918	3,943	35
Equity in net income (loss) of affiliated companies	2,566	2,057	18
Gain on sales of fixed assets	839	11,834	106
Other, net	(20,552)	(2,292)	(20)
	(102,960)	(62,044)	(553)
Income before Income Taxes	384,861	404,266	3,610
Income Taxes (Notes 2 (14) and 21):			
Current	128,972	111,481	996
Deferred	9,327	13,350	119
Profit	246,562	279,435	2,495
Profit Attributable to Non-Controlling Interests	(1,252)	(1,510)	(14)
Profit Attributable to Owners of Parent	¥ 245,310	¥ 277,925	\$ 2,481
	Yen		U.S. Dollars (Note 2 (1))
Earnings per Share (Note 2 (15))	¥ 626	¥ 714	\$ 6
Cash Dividends Applicable to the Year (Note 2 (15))	130	130	1

See accompanying notes.

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

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

See accompanying notes.

Consolidated Statements of Changes in Net Assets

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

	Shares					Millions of Yen					
	Number of Issued Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Net Unrealized Holding Gains (Losses) on Securities	Net Deferred Gains (Losses) on Derivatives under Hedge Accounting	Revaluation Reserve for Land	Remeasurements of Defined Benefit Plans	Non-Controlling Interests	Total
Balance at March 31, 2015	393,500,000	¥200,000	¥96,833	¥1,915,383	¥ (4,421)	¥ 68,415	¥ 2,533	¥(484)	¥ 7,399	¥19,318	¥2,304,976
Cash dividends (¥130 per share)	—	—	—	(49,083)	—	—	—	—	—	—	(49,083)
Profit attributable to owners of parent	—	—	—	245,310	—	—	—	—	—	—	245,310
Increase due to merger	—	—	—	—	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	(11,085)	—	—	—	—	—	(11,085)
Disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—
Retirement of treasury stock	(1,000,000)	—	—	(10,211)	10,211	—	—	—	—	—	—
Change of scope of consolidation	—	—	—	424	—	—	—	—	—	—	424
Purchase of shares of consolidated subsidiaries	—	—	0	—	—	—	—	—	—	—	0
Increase by corporate division in consolidated subsidiaries	—	—	(21)	22	—	—	—	—	—	—	1
Reversal of revaluation reserve for land	—	—	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	(24,644)	(2,060)	11	(2,403)	1,090	(28,006)
Balance at March 31, 2016	392,500,000	¥200,000	¥96,812	¥2,101,845	¥ (5,295)	¥ 43,771	¥ 473	¥(473)	¥ 4,996	¥20,408	¥2,462,537
Cash dividends (¥130 per share)	—	—	—	(50,782)	—	—	—	—	—	—	(50,782)
Profit attributable to owners of parent	—	—	—	277,925	—	—	—	—	—	—	277,925
Increase due to merger	—	—	—	86	—	—	—	—	—	—	86
Purchase of treasury stock	—	—	—	—	(30,018)	—	—	—	—	—	(30,018)
Disposal of treasury stock	—	—	—	(0)	1	—	—	—	—	—	1
Retirement of treasury stock	(3,092,100)	—	—	(30,150)	30,150	—	—	—	—	—	—
Change of scope of consolidation	—	—	—	—	—	—	—	—	—	—	—
Purchase of shares of consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—
Increase by corporate division in consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—
Reversal of revaluation reserve for land	—	—	—	1	—	—	—	—	—	—	1
Other	—	—	—	—	—	9,169	1,374	(1)	3,535	1,526	15,603
Balance at March 31, 2017	389,407,900	¥200,000	¥96,812	¥2,298,925	¥ (5,162)	¥ 52,940	¥ 1,847	¥(474)	¥ 8,531	¥21,934	¥2,675,353

	Shares					Millions of U.S. Dollars (Note 2 (1))					
	Number of Issued Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Net Unrealized Holding Gains (Losses) on Securities	Net Deferred Gains (Losses) on Derivatives under Hedge Accounting	Revaluation Reserve for Land	Remeasurements of Defined Benefit Plans	Non-Controlling Interests	Total
Balance at March 31, 2016	392,500,000	\$1,786	\$864	\$18,766	\$ (47)	\$391	\$ 4	\$(4)	\$45	\$182	\$21,987
Cash dividends (\$1 per share)	—	—	—	(453)	—	—	—	—	—	—	(453)
Profit attributable to owners of parent	—	—	—	2,481	—	—	—	—	—	—	2,481
Increase due to merger	—	—	—	1	—	—	—	—	—	—	1
Purchase of treasury stock	—	—	—	—	(268)	—	—	—	—	—	(268)
Disposal of treasury stock	—	—	—	(0)	0	—	—	—	—	—	—
Retirement of treasury stock	(3,092,100)	—	—	(269)	269	—	—	—	—	—	—
Change of scope of consolidation	—	—	—	—	—	—	—	—	—	—	—
Purchase of shares of consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—
Increase by corporate division in consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—
Reversal of revaluation reserve for land	—	—	—	0	—	—	—	—	—	—	0
Other	—	—	—	—	—	82	12	0	31	14	139
Balance at March 31, 2017	389,407,900	\$1,786	\$864	\$20,526	\$ (46)	\$473	\$16	\$(4)	\$76	\$196	\$23,887

See accompanying notes.

Consolidated Statements of Cash Flows

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

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

See accompanying notes.

Notes to Consolidated Financial Statements

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

NOTE 1: INCORPORATION OF EAST JAPAN RAILWAY COMPANY

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

East Japan Railway Company (the Company) is one of the six passenger railway companies and serves eastern Honshu (Japan's main island). The Company operates 69 railway lines, 1,665 railway stations and 7,457.3 operating kilometers as of March 31, 2017.

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

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

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

1991, and the Company leased such land and railway fixtures at a rent determined by Shinkansen Holding Corporation in accordance with related laws and regulations. On October 1, 1991, the Company purchased such Shinkansen facilities for a total purchase price of ¥3,106,970 million (\$27,741 million) from the Shinkansen Holding Corporation (see Note 14). Subsequent to the purchase, the Shinkansen Holding Corporation was dissolved. The Railway Development Fund succeeded to all rights and obligations of the Shinkansen Holding Corporation. In October 1997, the Railway Development Fund and Maritime Credit Corporation merged to form the Corporation for Advanced Transport & Technology. In October 2003, Japan Railway Construction Public Corporation and the Corporation for Advanced Transport & Technology merged to form the Japan Railway Construction, Transport and Technology Agency.

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

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

1) Basis of Presentation of Financial Statements

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

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

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

The consolidated financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2017, which was ¥112 to U.S.\$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2) Consolidation

The consolidated financial statements of the Company include the accounts of all significant subsidiaries (together, the "Companies"). The effective-control standard is applied according to Regulations concerning Terminology, Forms and Method of Presentation of Consolidated Financial Statements in Japan (Regulations for Consolidated Financial Statements). For the year ended March 31, 2017, 67 subsidiaries were consolidated.

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

Goodwill is amortized using the straight-line method over five years. Negative goodwill is recognized as a profit at the time of occurrence. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

Notes to Consolidated Financial Statements

3) Equity Method

The effective-influence standard is applied according to Regulations for Consolidated Financial Statements. For the year ended March 31, 2017, five affiliated companies were accounted for by the equity method, and there was no change in those companies during the year.

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

4) Allowance for Doubtful Accounts

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

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

5) Inventories

Inventories are stated at cost as follows:

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

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

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

6) Real Estate for Sale

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

7) Securities

Securities are classified and stated as follows:

- (1) Trading securities are stated at market value. The Companies had no trading securities through the year ended March 31, 2017.
- (2) Held-to-maturity debt securities are stated at amortized cost.
- (3) Equity securities issued by subsidiaries and affiliated companies that are neither consolidated nor accounted for using the equity method are mainly stated at moving-average cost.

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

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

According to the Japanese Accounting Standards for Financial Instruments, available-for-sale securities for which market quotations are available are stated at market value as of the balance sheet date. Net deferred gains or losses on these securities are reported as a separate item in net assets at an amount net of applicable income taxes and non-controlling interests. The cost of sales of such securities is calculated mainly by the moving-average method.

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

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

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

8) Property, Plant and Equipment

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

Depreciation is calculated primarily by the declining balance method based on the estimated useful lives of the assets as prescribed by the Japanese Tax Law. Buildings (excluding related fixtures) acquired from April 1, 1998 onward, facilities attached to buildings and structures acquired on or after April 1, 2016 and some of the property, plant and equipment of consolidated subsidiaries are depreciated using the straight-line method according to the Japanese Tax Law. Replacement assets included in structures of railway fixed assets are depreciated using the replacement method. Regarding the replacement method for certain fixtures, the initial acquisition costs are depreciated to 50% of the costs under the condition that subsequent replacement costs are charged to income.

The range of useful lives is mainly as follows:

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

9) Accounting for Employees' Retirement Benefits

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

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

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

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

10) Allowance for Partial Transfer Costs of Railway Operation

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

11) Provision for Large-Scale Renovation of Shinkansen Infrastructure

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

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

12) Accounting for Certain Lease Transactions

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

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

13) Accounting for Research and Development Costs

According to the Accounting Standards for Research and Development Costs, etc., in Japan, research and development costs are recognized as they are incurred. Research and development costs included in operating expenses for the years ended March 31, 2016 and 2017 were ¥16,886 million and ¥17,914 million (\$160 million), respectively.

14) Income Taxes

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

15) Per Share Data

(1) Earnings per share

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

(2) Cash dividends per share

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

16) Derivative Transactions

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

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

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

- (1) Regarding forward exchange contracts and foreign currency swap contracts, the hedged foreign currency receivable and payable are recorded using the Japanese yen amount of the contracted forward rate or swap rate, and no gains or losses on the forward exchange contracts or foreign currency swap contracts are recorded.
- (2) Regarding interest rate swap contracts, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Notes to Consolidated Financial Statements

17) Impairment of Fixed Assets

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

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

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

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

18) Revaluation of Land

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

(1) Revaluation method

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

(2) Revaluation date

March 31, 2002

(3) Difference between book value after revaluation and market value on March 31, 2017

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

19) Changes in Accounting Policies

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

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

20) Changes in Presentation Method**(Consolidated statements of cash flows)**

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

NOTE 3: EARTHQUAKE DAMAGE

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

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

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

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

Further, the Company's railway line facilities, railway stop facilities (excluding station buildings), electric cable facilities and other fixtures, which were owned by or leased by the Company, were insured against earthquakes for up to ¥71,000 million (\$634 million) (¥10,000 million deductible) as of March 11, 2011.

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

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

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

NOTE 5: CASH AND CASH EQUIVALENTS

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

NOTE 6: INVENTORIES

Inventories at March 31, 2016 and 2017 consisted of the following:

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

NOTE 7: REAL ESTATE FOR SALE

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

Notes to Consolidated Financial Statements

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

Investments in and advances to unconsolidated subsidiaries and affiliated companies at March 31, 2016 and 2017 consisted of the following:

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

NOTE 9: FINANCIAL INSTRUMENTS**1) Items Relating to the Status of Financial Instruments****a) Policy in relation to financial instruments**

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

b) Details of financial instruments and related risk

Trade receivables are exposed to credit risk in relation to customers, transportation operators with connecting railway services, and other parties. Further, short-term loans receivable, which principally comprise loans receivable as a result of credit card cashing services, are exposed to credit risk in relation to customers. Regarding the said risk, pursuant to the internal regulations of the Companies, due dates and balances are managed appropriately for each counterparty. Securities are exposed to market price fluctuation risk. Substantially all of trade payables—payables, accrued consumption taxes and accrued income taxes—have payment due dates within one year. Bonds and loans are exposed to risk associated with inability to make payments on due dates because of unforeseen decreases in free cash flows. Further, certain bonds and loans are exposed to market price fluctuation risk (foreign exchange / interest rates). Long-term liabilities incurred for purchase of railway facilities are liabilities with regard to the Japan Railway Construction, Transport and Technology Agency and, pursuant to the Law Related to the Transference of Shinkansen Railway Facilities, comprise principally interest-bearing debt related to the Company's purchase of Shinkansen railway facilities for a total purchase price of ¥3,106,970 million (\$27,741 million) from the Shinkansen Holding Corporation on October 1, 1991. The Company pays such purchase price, based on regulations pursuant to the Law Related to the Transference of Shinkansen Railway Facilities, enacted in 1991, and other laws, in semi-annual installments calculated using the equal payment method, whereby

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

c) Risk management system for financial instruments

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

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

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

2) Items Relating to the Fair Values of Financial Instruments

Amounts recognized for selective items in the consolidated balance sheets as of March 31, 2016 and 2017, fair values of such items, and the differences between such amounts and values are shown below. Further, items for which fair values were extremely difficult to establish were not included in the following table.

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

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

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

Assets

a. Cash and cash equivalents

b. Receivables

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

c. Securities

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

Liabilities

a. Payables

b. Accrued consumption taxes

c. Accrued income taxes

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

d. Long-term debt

Bonds

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

Long-term loans

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

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

Because these liabilities are special monetary liabilities that are subject to constraints pursuant to laws and statutory regulations and not based exclusively on free agreement between contracting parties in accordance with market principles, and

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

Derivative transactions (See Note 19)

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

Classification	Consolidated balance sheet amount	
	Millions of Yen	Millions of U.S. Dollars
	2016	2017
Unlisted equity securities	¥6,653	¥6,826
Unlisted corporate bonds	360	360
Investment in anonymous associations (<i>tokumei kumiai</i>)	—	3,629
Preferred equity securities	1,000	1,000
Natural disaster derivative transactions	1,131	1,153

*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.

Notes to Consolidated Financial Statements

4. The annual maturities of financial assets and securities with maturities at March 31, 2016 and 2017 were as follows:

	Millions of Yen								Millions of U.S. Dollars			
	2016				2017				2017			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and cash equivalents	¥307,809	¥ —	¥ —	¥ —	¥287,126	¥ —	¥ —	¥ —	\$2,564	\$ —	\$ —	\$ —
Receivables	477,542	6,407	322	90	488,040	6,554	396	47	4,358	58	4	0
Securities:												
Held-to-maturity debt securities (Government bonds)	—	10	150	—	—	150	10	—	—	1	0	—
Available-for-sale securities which have maturity (Government bonds)	—	—	6	—	—	—	6	—	—	—	0	—
Total	¥785,351	¥6,417	¥478	¥90	¥775,166	¥6,704	¥412	¥47	\$6,922	\$59	\$ 4	\$ 0

5. The annual maturities of bonds, long-term loans and long-term liabilities incurred for purchase of railway facilities at March 31, 2017 (See Notes 13 and 14)

NOTE 10: SECURITIES

For held-to-maturity debt securities, the amount on balance sheets and market value at March 31, 2016 and 2017 were as follows:

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

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

	Millions of Yen						Millions of U.S. Dollars		
	2016			2017			2017		
	Acquisition cost	Amount on balance sheet	Difference	Acquisition cost	Amount on balance sheet	Difference	Acquisition cost	Amount on balance sheet	Difference
Of which amount on balance sheet exceeds the acquisition cost:									
Equity shares	¥62,951	¥126,580	¥63,629	¥ 92,713	¥166,259	¥73,546	\$ 828	\$1,484	\$656
Debt securities	6	6	0	6	6	0	0	0	0
Of which amount on balance sheet does not exceed the acquisition cost:									
Equity shares	29,544	23,189	(6,355)	30,973	28,072	(2,901)	277	251	(26)
Debt securities	—	—	—	—	—	—	—	—	—
Total	¥92,501	¥149,775	¥57,274	¥123,692	¥194,337	¥70,645	\$1,105	\$1,735	\$630

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

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

NOTE 11: PLEDGED ASSETS

Pledged assets at March 31, 2016 and 2017 were summarized as follows:

Pledged assets as a collateral

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

Counterpart long-term debt and other liabilities

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

Pledged assets as a mortgage for long-term liabilities

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

Counterpart long-term liabilities

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

NOTE 12: IMPAIRMENT LOSSES ON FIXED ASSETS

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

in use for the measurement of recoverable amounts are based on the present values of expected cash flows with the discount rate of 4.0% in the fiscal year.

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

Impairment losses on fixed assets were ¥12,297 million and ¥6,605 million (\$59 million) in the years ended March 31, 2016 and 2017, respectively.

Notes to Consolidated Financial Statements

NOTE 13: LONG-TERM DEBT

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

	Millions of Yen		Millions of U.S. Dollars
	2016	2017	2017
General mortgage bonds issued in 1997 to 2001 with interest rates ranging from 2.30% to 3.30% due in 2017 to 2021	¥ 179,900	¥ 139,900	\$ 1,249
Unsecured bonds issued in 2002 to 2017 with interest rates ranging from 0.06% to 2.55% due in 2017 to 2057	1,390,932	1,460,943	13,044
Secured loans due in 2017 to 2018 from banks with interest rates 1.95%	233	29	0
Unsecured loans due in 2017 to 2045 principally from banks and insurance companies with interest rates mainly ranging from 0.10% to 2.80%	1,015,297	1,046,343	9,343
Euro-pound bonds issued in 2006 to 2007 with interest rates ranging from 4.50% to 5.25% due in 2031 to 2036	239,082	239,132	2,135
	2,825,444	2,886,347	25,771
Less current portion	187,107	276,731	2,471
	¥2,638,337	¥2,609,616	\$23,300

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

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

The annual maturities of bonds at March 31, 2017 were as follows:

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

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

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

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

In October 1991, the Company purchased the Tohoku and Joetsu Shinkansen facilities from the Shinkansen Holding Corporation for a total purchase price of ¥3,106,970 million (\$27,741 million) payable in equal semiannual installments consisting of principal and interest payments in three tranches: ¥2,101,898 million (\$18,767 million) and ¥638,506 million (\$5,701 million) in principal amounts payable through March 2017; and ¥366,566 million (\$3,273 million) payable through September 2051. In March 1997, the liability of ¥27,946 million (\$250 million) payable in equal

semiannual installments through March 2022 to Japan Railway Construction Public Corporation was incurred with respect to the acquisition of the Akita hybrid Shinkansen facilities. In February 2002, the Company acquired a majority interest in Tokyo Monorail Co., Ltd. As a result, the consolidated balance sheets as of March 31, 2002 included liabilities of Tokyo Monorail Co., Ltd. amounting to ¥36,726 million (\$328 million) payable to Japan Railway Construction Public Corporation.

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

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

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

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

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

NOTE 15: CONSUMPTION TAXES

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

NOTE 16: CONTINGENT LIABILITIES

The Company has extended contingent liabilities of ¥11,249 million (\$100 million) for orders received by Japan Transportation Technology (Thailand) Co., Ltd.

Notes to Consolidated Financial Statements

NOTE 17: NET ASSETS

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

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

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

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

At the general meeting of shareholders held in June 2017, the shareholders approved cash dividends amounting to ¥25,290 million (\$226 million). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2017. Such appropriations are recognized in the period in which they are approved by the shareholders.

NOTE 18: INFORMATION REGARDING CERTAIN LEASES

Future lease payments for non-cancellable operating leases, including those due within one year, at March 31, 2016 and 2017 were as follows:

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

NOTE 19: INFORMATION FOR DERIVATIVE TRANSACTIONS**1) Items Regarding Trading Circumstances** (See Note 9)**2) Derivative Transactions Applied to Hedge Accounting**

		Millions of Yen					
		2016			2017		
Type	Hedged item	Contract amount, etc.	Of which more-than-one-year contract amount, etc.	Fair value*2	Contract amount, etc.	Of which more-than-one-year contract amount, etc.	Fair value*2
Currency swap	Long-term loans	¥ 20,000	¥ 20,000	¥2,699	¥ 20,000	¥ 20,000	¥2,235
Forward exchange	Accounts payable-trade	56	—	(0)	16	—	(0)
Commodity swap	Fuel purchasing	2,190	1,402	(961)	1,402	776	(468)
Currency swap	Foreign currency-denominated bonds	239,959	239,959	*1	239,959	239,959	*1
Interest swap	Long-term loans	65,400	65,400	*1	65,400	65,400	*1
Total		¥327,605	¥326,761	¥1,738	¥326,777	¥326,135	¥1,767

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

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

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

NOTE 20: NET DEFINED BENEFIT LIABILITY

Net defined benefit liability included in the liability section of the consolidated balance sheets as of March 31, 2016 and 2017 consisted of the following:

1) Movement in Retirement Benefit Obligations

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

2) Movements in Plan Assets

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

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

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

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

4) Retirement Benefit Costs

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

Notes to Consolidated Financial Statements

5) Adjustments for Retirement Benefit Costs

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

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

6) Accumulated Adjustments for Retirement Benefit

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

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

7) Plan Assets

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

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

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

NOTE 21: INCOME TAXES

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

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

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

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

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

NOTE 22: INVESTMENT AND RENTAL PROPERTY

The Companies own rental office buildings and rental commercial facilities (hereafter "investment and rental property") principally within the Company's service area. In the years ended March 31, 2016 and 2017, the amounts of net income related to rental property were ¥70,239 million and ¥73,829

million (\$659 million) (rental income is recognized in operating revenues and rental expense is principally charged to operating expenses), respectively. The amounts recognized in the consolidated balance sheets and fair values related to investment and rental property were as follows.

Millions of Yen				Millions of U.S. Dollars	
				Consolidated balance sheet amount	Fair value
	2016	Difference	2017	2017	2017
	¥592,106	¥30,298	¥622,404	\$5,557	\$17,191

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

2. Regarding difference in the above table, the increases in the year ended March 31, 2017 were principally attributable to acquisition of real estate and renewal (¥47,324 million (\$423 million)), and the decreases were mainly attributable to depreciation expenses (¥23,663 million (\$211million)).

3. Regarding fair values at the end of fiscal year, the amount for significant properties is based on real-estate appraisals prepared by external real-estate appraisers, and the amount for other properties is estimated by the Company based on certain appraisal values or indicators that reflect appropriate market prices. If after obtaining a property from a third party or since the most recent appraisal there has been no material change in the relevant appraisal values or indicators that reflect the appropriate market prices, the amount is based on such appraisal values or indicators.

4. Because fair values are extremely difficult to establish, this table does not include property that is being constructed or developed for future use as investment property.

Notes to Consolidated Financial Statements

NOTE 23: SEGMENT INFORMATION

1) General Information about Reportable Segments

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

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

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

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

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

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

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

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

2. The ¥(2,491) million (\$22 million) downward adjustment to segment income included a ¥(2,681) million (\$24 million) elimination of unrealized holding gains (losses) on fixed assets and inventory assets and a ¥196 million (\$2 million) elimination for intersegment transactions. Moreover, the ¥(929,732) million (\$8,301 million) downward adjustment to segment assets included a ¥(1,190,930) million (\$10,633 million) elimination of intersegment claims and obligations, offset by ¥261,198 million (\$2,332million) in corporate assets not allocated to each reportable segment.

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

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

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

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

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

Millions of U.S. Dollars

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
Operating revenues:							
Outside customers	\$17,498	\$3,568	\$2,390	\$ 2,265	\$25,721	\$ —	\$25,721
Inside group	475	156	115	3,420	4,166	(4,166)	—
Total	17,973	3,724	2,505	5,685	29,887	(4,166)	25,721
Segment income	\$ 2,914	\$ 294	\$ 670	\$ 312	\$ 4,190	\$ (27)	\$ 4,163
Segment assets	\$56,318	\$2,007	\$9,831	\$10,882	\$79,038	\$(8,403)	\$70,635
Depreciation	2,457	109	311	374	3,251	—	3,251
Increase in fixed assets (Note 5)	3,702	204	644	256	4,806	—	4,806

Notes: 1. "Others" represents categories of business that are not included in reportable segments and include hotel operations, and advertising and publicity services.
2. The ¥(3,110) million (\$ (27) million) downward adjustment to segment income included a ¥(2,811) million (\$ (25) million) elimination of unrealized holding gains (losses) on fixed assets and inventory assets and a ¥(299) million (\$ (3) million) elimination for intersegment transactions. Moreover, the ¥(940,994) million (\$ (8,403) million) downward adjustment to segment assets included a ¥(1,262,512) million (\$ (11,273) million) elimination of intersegment claims and obligations, offset by ¥321,518 million (\$2,870 million) in corporate assets not allocated to each reportable segment.
3. Segment income was adjusted to ensure consistency with the operating income set forth in the consolidated statements of income.
4. Segment information on liabilities was omitted from record, as it is not a metric used in deciding the allocation of management resources or evaluating earnings performance.
5. Increase in fixed assets included a portion contributed mainly by national and local governments.

3) Relevant Information

i. Information about products and services

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

ii. Information about geographic areas

a. Operating revenues

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

b. Property, plant and equipment

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

iii. Information about major customers

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

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

Fiscal 2016 (Year ended March 31, 2016)

Millions of Yen

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

Fiscal 2017 (Year ended March 31, 2017)

Millions of Yen

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

Millions of U.S. Dollars

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note)	Total
Impairment losses on fixed assets	\$3	\$8	\$41	\$7	\$59

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

Notes to Consolidated Financial Statements

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

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

6) Information about Gain on Negative Goodwill by Reportable Segments

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

NOTE 24: CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**For the Years Ended March 31, 2016 and 2017**

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

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

NOTE 25: SUBSEQUENT EVENTS**Change in Segment Classification**

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

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

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

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

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

Notes: 1. The ¥(1,687) million downward adjustment to segment income includes a ¥(1,300) million elimination of unrealized holding gains (losses) on fixed assets and inventory assets and a ¥(387) million elimination for intersegment transactions.

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

The summary of each reportable segment is as follows.

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

Share Repurchase

The Board of Directors of the Company resolved at its meeting held on April 28, 2017 matters concerning the Company's repurchase of its common stock pursuant to Article 156 of the Business Corporation Law as applied pursuant to Article 165, Paragraph 3 thereof, as detailed below.

- (1) Reason for share repurchase: To enhance returns to shareholders
- (2) Class of shares to be repurchased: Common stock
- (3) Total number of shares that may be repurchased:
4,500,000 shares (maximum) (1.16% of issued shares (excluding treasury stock))
- (4) Aggregate repurchase price: ¥40,000 million (maximum)
- (5) Period of repurchase: From May 1, 2017 to July 28, 2017

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

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

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

Independent Auditor's Report



Independent Auditor's Report

To the Board of Directors of East Japan Railway Company:

We have audited the accompanying consolidated financial statements of East Japan Railway Company and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statement of income, statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of East Japan Railway Company and its consolidated subsidiaries as at March 31, 2017, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2(1) to the consolidated financial statements.

KPMG AZSA LLC

June 23, 2017
Tokyo, Japan

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.

Glossary

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-Joetsumiyoko 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.

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, 2017

Consolidated Subsidiaries

Company Name	Capitalization (Millions of Yen)	Voting Right Percentage (Note 1)	Main Business Activities
1 JR Bus Kanto Co., Ltd.	¥4,000	100.0	Bus services
2 Japan Transport Engineering Company	3,100	100.0	Railcar manufacturing operations
3 Tokyo Monorail Co., Ltd.	3,000	79.0	Railway passenger transport services
4 JR Bus Tohoku Co., Ltd.	2,350	100.0	Bus services
5 JR East View Travel Service Co., Ltd.	550	73.8	Travel agency services
6 JR East Net Station Co., Ltd.	460	100.0	Information processing
7 JR East Rail Car Technology & Maintenance Co., Ltd.	200	100.0	Machinery and rolling stock maintenance
8 JR East Rental & Lease Co., Ltd.	165	89.4	Car leasing
9 JR East Environment Access Co. Ltd.	120	100.0	Cleaning services
10 Union Construction Co., Ltd.	120	90.0	Construction
11 JR Higashinihon Linen Co., Ltd.	100	100.0	Linen supply
12 JR East Design Corporation	50	100.0	Consulting
13 JR East Station Service Co., Ltd.	50	100.0	Station operations
14 JR East Facility Management Co., Ltd.	50	100.0	Building maintenance
15 JR East Transportation Services Co., Ltd.	38	100.0	Cleaning services
16 JR East TESSEI Co., Ltd.	38	100.0	Cleaning services
17 JR Technoservice Sendai Co., Ltd.	25	100.0	Cleaning services
18 JR Niigata Railway Services Co., Ltd.	17	100.0	Cleaning services
19 Morioka Railway Servicing Co., Ltd.	13	100.0	Cleaning services
20 JR Chiba Railway Services Co., Ltd.	12	100.0	Cleaning services
21 JR Akita Railway Services Co., Ltd.	10	100.0	Cleaning services
22 JR Takasaki Railway Services Co., Ltd.	10	100.0	Cleaning services
23 JR Mito Railway Services Co., Ltd.	10	100.0	Cleaning services
24 JR Nagano Railway Services Co., Ltd.	10	100.0	Cleaning services
25 JR East Retail Net Co., Ltd.	3,855	100.0	Retail sales
26 Kinokuniya Co., Ltd.	1,460	100.0	Retail sales
27 Nippon Restaurant Enterprise Co., Ltd.	730	100.0	Restaurant business, retail sales, and hotel operations
28 JR East Food Business Co., Ltd.	721	100.0	Restaurant business
29 East Japan Railway Trading Co., Ltd.	560	100.0	Wholesale
30 The Orange page, Inc.	500	100.0	Publishing
31 JR East Water Business Co., Ltd.	490	100.0	Retail sales
32 JR East Tohoku Sogo Services Co., Ltd.	490	100.0	Retail sales
33 JR East Station Retailing Co., Ltd.	480	100.0	Retail sales
34 JR East Sports Co., Ltd.	400	100.0	Athletic club operations
35 Tetsudo Kaikan Co., Ltd.	340	100.0	Retail sales, and shopping center operations
36 GALA YUZAWA Co., Ltd.	300	92.7	Ski resort operations
37 East Japan Marketing & Communications, Inc. (JR Higashi Nihon Kikaku)	250	100.0	Advertising and publicity
38 Tokyo Media Service Co., Ltd.	104	100.0	Advertising and publicity
39 JR East Logistics Co., Ltd.	100	100.0	Truck delivery services
40 Nippon Hotel Co., Ltd.	4,000	100.0	Hotel operations
41 LUMINE Co., Ltd.	2,375	95.1	Shopping center operations
42 Sendai Terminal Building Co., Ltd.	1,800	99.5	Hotel operations and shopping center operations
43 atre Co., Ltd.	1,630	92.1	Shopping center operations
44 JR East Urban Development Corporation	1,450	100.0	Shopping center operations and retail sales
45 JR Chuo Line Mall Co., Ltd.	1,230	100.0	Shopping center operations

Company Name	Capitalization (Millions of Yen)	Voting Right Percentage (Note 1)	Main Business Activities
46 JR East Department Store Co., Ltd.	1,140	84.6	Shopping center operations
47 JR Tokyo West Development Co., Ltd.	1,000	93.3	Shopping center operations
48 Morioka Terminal Building Co., Ltd.	900	100.0	Hotel operations and shopping center operations
49 JR East Building Co., Ltd.	480	100.0	Leasing of office buildings
50 Akita Station Building Co., Ltd.	450	98.2	Hotel operations and shopping center operations
51 Station Building MIDORI Co., Ltd.	450	100.0	Shopping center operations
52 Tokky Co., Ltd.	400	100.0	Shopping center operations, hotel operations, and retail sales
53 JR East Aomori Business-development Company Co., Ltd.	280	100.0	Shopping center operations
54 Chiba Station Building Co., Ltd.	200	100.0	Shopping center operations
55 Shonan Station Building Co., Ltd.	200	90.7	Shopping center operations
56 Yokohama Station Building Co., Ltd.	200	90.3	Shopping center operations
57 Kinshicho Station Building Co., Ltd.	160	71.3	Shopping center operations
58 Viewcard Co., Ltd.	5,000	100.0	Credit card business
59 Shinjuku South Energy Service Co., Ltd.	750	57.6	Supplying thermal energy
60 JR East Information Systems Company	500	100.0	Information processing
61 Japan International Consultants for Transportation Co., Ltd.	495	52.5	Consulting
62 JR-EAST Energy Development Co., Ltd.	150	80.0	Supplying renewable energy
63 JR East Green Partners Co., Ltd.	100	100.0	Inventory control, issuance, and collection operation for uniforms of JR EAST employees
64 JR East Personnel Service Co., Ltd.	100	100.0	Seminar and staff sending business
65 JR East Mechatronics Co., Ltd.	100	100.0	Maintenance services
66 JR East Management Service Co., Ltd.	80	100.0	Accounting services
67 JR East Consultants Company	50	100.0	Consulting

Equity-Method Affiliated Companies

Company Name	Capitalization (Millions of Yen)	Voting Right Percentage (Note 1)	Main Business Activities
1 UQ Communications Inc. (Note 2)	¥71,425	17.6	Internet connect service
2 Nippon Densetsu Kogyo Co., Ltd. (Note 2)	8,494	19.1	Construction
3 Central Security Patrols Co., Ltd.	2,924	25.4	Security business operations
4 JTB Corp.	2,304	21.9	Travel agency services
5 Nippon Rietec Co., Ltd. (Note 2)	1,430	17.3	Construction

Notes:

1. Voting right percentages represent direct voting right percentages.

2. 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, 2017

Basic Information

Number of Employees

73,063* (48,212 at parent company)

* Excluding employees assigned to other companies and employees on temporary leave

Number of Stations

1,665

Number of Rolling Stock

12,876

Passenger Line Network

7,457.3 kilometers

Number of Passengers Served Daily

About 17 million (average for the year ended March 31, 2017)

Total Number of Shares Issued

389,407,900

Total Number of Shares Outstanding

388,750,243

Paid-in Capital

¥200,000 million

Number of Shareholders

215,544

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- (S&P Global Ratings Japan Inc.)

Aa3 (Moody's Japan K.K.)

For Inquiries

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+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

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Phone: +32 (0) 2 808-36-43

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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)

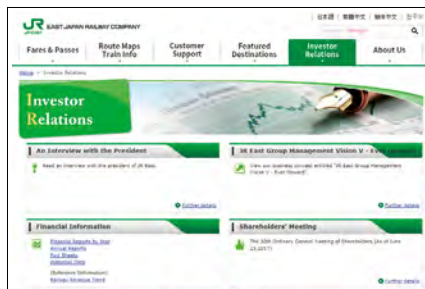
Further Information about JR East

Websites



Home Page

<http://www.jreast.co.jp/e/>



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>

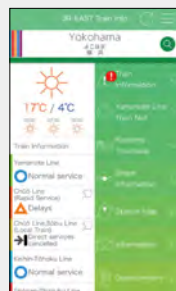


JR East Group

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>



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