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, 2013.

› 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 2013, ended March 31, 2013. JR East continuously assesses those factors. Actual results may differ materially from those estimates, given the uncertainty of forward-looking statements.

› PERFORMANCE ANALYSIS

OVERVIEW

In the year ended March 31, 2013, the Japanese economy returned to a gradual recovery track, supported by renewed expectations of the positive impact of the government's economic and monetary policies, which helped raise stock prices and improve consumer sentiment. This recovery, however, came against a number of persistently challenging conditions that included a slowdown in the global economy. In this environment, East Japan Railway Company and its consolidated subsidiaries and equity-method affiliates (JR East) made efforts to continue generating revenues and improving services through active implementation of various initiatives centered on the railway, life-style service business and *Suica* operations.

As a result, during the consolidated fiscal year under review, operating revenues increased 5.5% year-on-year to ¥2,671.8 billion ($28,424 million) due to an increase in transportation revenues at JR East that was attributable mainly to a recovery from the effects of the Great East Japan Earthquake experienced in the year ended March 31, 2012. Operating income increased 10.4% to ¥397.6 billion ($4,229 million). Because of an increase in insurance proceeds related to earthquake and other factors, net income increased 61.3% year on year to ¥175.4 billion ($1,866 million).

The Company was established as a result of the reform and privatization of Japanese National Railways (JNR) 25 years ago, and the Group is now moving on to the next quarter century. Building on this momentum and in light of the major changes that have taken place in its environment, particularly in the aftermath of the Great East Japan Earthquake, the Group in October 2012 formulated a new management vision entitled "*JR East Group Management Vision V—Ever Onward*." This vision, which is the fifth vision since the Company was established, positions Japan's recovery from the Great East Japan Earthquake as the Group's second start following the privatization of JNR, and aims to once again review its role in society and what it should seek to achieve. The Group's continued fulfillment of its "Eternal Mission" and growth by "Pursuing Unlimited Potential" were established as the two important pillars of this vision. Guided by the key concept of "Thriving with Communities, Growing Globally" that underpins this vision, the Company will leverage the collective efforts of all of its employees to move "Ever Onward" in pursuing a brighter future for its railway services, Group companies and employees.

In addition, the Group celebrated the restoration of Tokyo Station *Marunouchi Building* with a grand opening in October 2012. The splendor of the building from the time it was built in the early Taisho era (1912–1926) has been restored, after five years of painstaking preservation and restoration work that began in May 2007.

The completed restoration marks the beginning of a new century for Tokyo Station as a railway terminal displaying an attractive combination of history and modernity.

Business results by business segment were as follows.

SEGMENT INFORMATION

Transportation

In the Transportation segment, JR East sought to maintain revenues by introducing measures to encourage the use of its Shinkansen network and Tokyo metropolitan area network. These efforts were mainly directed at the railway operations, with the basic objective of further improving safety and customer satisfaction.

Specifically, JR East applied the lessons it learned from the Great East Japan Earthquake to the building of a railway capable of withstanding natural disasters. To this end, JR East implemented seismic reinforcement measures in preparation for a possible earthquake directly beneath the Tokyo metropolitan area, among other possible major earthquake scenarios. In addition, JR East revised and formulated the Disaster Preparedness Operation Plan and various manuals, and constructed emergency communications equipment, thereby improving its capacity to respond to earthquakes.

Meanwhile, in order to accommodate people unable to return home in the event of a major disruption to public transportation, JR East completed the provision of emergency supplies to 30 major terminal stations, and also began stocking approximately 170 stations within a 30 kilometer radius of downtown Tokyo with such supplies. In addition to these measures, JR East steadily pressed ahead with initiatives based on *2013 Safety Vision*, a five-year safety enhancement plan. Aiming to prevent accidents on railway station platforms, JR East moved forward with the installation of automatic platform gates on the Yamanote Line. JR East also took steady steps to prevent accidents at railway crossings.

Meanwhile, as measures to ensure safe and reliable transportation services, JR East expanded windbreak installation sites along the Keiyo Line. In addition, JR East continued to introduce new railcars to the Takasaki, Utsunomiya and other lines.

In addition, a "Service Quality Improvement Project" was launched for the Musashino Line and Saikyo Line from March 2013. This project aims to strengthen the management of line-side services by increasing interactive communications with customers to identify their untapped needs, which can then be addressed promptly to improve the quality of services and publicize information.

Along with these measures, JR East launched the *Iwate Destination Campaign* and the "*Ikuze, Tohoku.*" *Campaign* to stimulate the flow of tourism traffic throughout Tohoku and contribute to the recovery of the region. These efforts were directed at promoting the attraction of rail travel in the Tohoku region.

JR East also sought to strengthen the brand power and promote the use of our Shinkansen lines by unveiling the *Shinkansen YEAR 2012 Campaign* to publicize the benefits of Shinkansen travel and attractions along the Shinkansen lines.

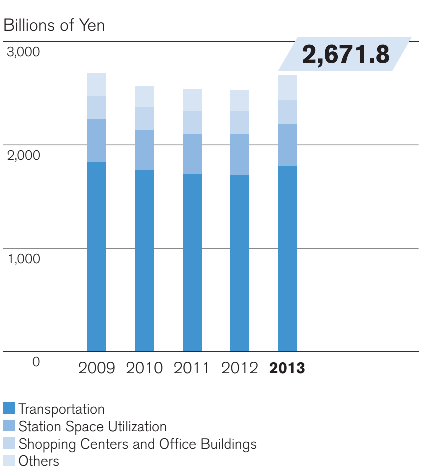
Moreover, we launched the "*JR SKI SKI*" campaign in December 2012, aiming to stimulate young people's interest in snow recreation activities, and cultivate a demand for Taiwanese tourists to visit Japan.

In conjunction with revising train schedules in March 2013, JR East further enhanced the convenience of the "*Tokyo Megaloop*," shortened the travel time on the Chuo Line Rapid Service, and arranged for trains to stop at Urawa Station on the Shonan-Shinjuku Line. In addition, JR East raised the maximum operating speed of the Tohoku Shinkansen Line's *Hayabusa* services to 320 km/h, the fastest in Japan, and started commercial operation of the Akita Shinkansen's *Super Komachi* services.

Furthermore, in March 2013, JR East strove to further enhance customer convenience by launching a nationwide system that enables passengers to use their IC cards on the service networks of any of the 10 major IC card transportation systems in Japan. In other areas, JR East implemented Group-wide energy and environmental strategies, including development of the "*ecoste*" model station featuring various environmental preservation technologies. JR East also conducted research to introduce smart grid technologies to railway electric power systems.

* Unless otherwise stated, all comparisons are between the fiscal year and the previous fiscal year.

OPERATING REVENUES



These and other factors, such as recovery from the effects of the Great East Japan Earthquake, led to a year-on-year increase in the number of passengers for railway operations at JR East.

As a result, the Transportation segment posted operating revenues of ¥1,848.6 billion ($19,666 million), a year-on-year increase of 5.3%. Operating income increased 12.6% year on year to ¥266.4 billion ($2,835 million).

Shinkansen Network

In the Shinkansen network, passenger kilometers increased 9.2% year on year, to 20.1 billion, mainly due to a recovery from the effects of the Great East Japan Earthquake, and post-quake reconstruction demand. Revenues from passenger tickets increased 11.9% year on year to ¥492.0 billion ($5,234 million). Specifically, revenues from commuter passes increased 1.4% year on year to ¥22.7 billion ($242 million) mainly due to a recovery from the effects of the Great East Japan Earthquake. Non-commuter passes revenues rose 12.5% to ¥469.3 billion ($4,993 million), owing to higher revenues from favorable travel and other leisure-related demand, in addition to a recovery from the effects of the Great East Japan Earthquake, and post-quake reconstruction demand.

Conventional Lines (Kanto Area Network)

In the conventional lines in the Kanto area network, passenger kilometers increased 1.4% year on year to 102.4 billion, due to the opening of new facilities such as TOKYO SKYTREE® and the Tokyo Station *Marunouchi Building*, for which preservation and restoration work was completed, and in the absence of the March 2011 earthquake and its impact. Revenues from passenger tickets increased 2.8% to ¥1,117.1 billion ($11,884 million). Specifically, revenues from commuter passes rose 0.9% to ¥445.8 billion ($4,742 million), and non-commuter passes revenues were up 4.0% to ¥671.3 billion ($7,141 million).

Conventional Lines (Other Network)

In the conventional lines other than the Kanto area network, passenger kilometers increased 3.2% year on year to 5.9 billion. This increase mainly reflected a recovery due to the restoration of service on certain lines, although service along other lines remains suspended due to the Great East Japan Earthquake. Revenues from passenger tickets increased 5.4% to ¥72.4 billion ($770 million). Specifically, revenues from commuter passes rose 2.1% to ¥18.8 billion ($200 million), and non-commuter passes revenues were up 6.6% to ¥53.6 billion ($570 million).

Station Space Utilization

In the Station Space Utilization segment, JR East made progress in its *Station Renaissance* program, which seeks to maximize the value of spaces within railway stations. Specifically, JR East opened the *Marunouchizaka Area* of *GranSta* (Tokyo) and *CentralStreet* (Tokyo) within Tokyo Station, along with opening certain stores ahead of schedule at KaihinMakuhari Station. Efforts were also focused on boosting the competitiveness of commercial facilities within stations, including *ecute Shinagawa* (Tokyo). Furthermore as part of the *Rediscovering the Region Projects*, JR East hosted *Sanchoku-Ichi* (farmers' markets) to promote the appeal of various East Japan regions primarily at Ueno, Akihabara and Yokohama stations.

The Station Space Utilization segment posted a 2.1% year on year increase in operating revenues to ¥418.4 billion ($4,451 million), as a result of these initiatives and other additional factors, such as a recovery from the effects of the Great East Japan Earthquake experienced in year ended March 31, 2012, and a boost in revenues from *GranSta* (Tokyo) within Tokyo Station. Operating income increased 10.6% year on year to ¥37.6 billion ($399 million).

Shopping Centers and Office Buildings

In the Shopping Centers and Office Buildings segment, JR East opened facilities such as *atrévie Higashi-Nakano* (Tokyo), *CELEO Hachioji North Wing* (Tokyo), and *CIAL Tsurumi* (Kanagawa). In addition, the segment completed construction of *GranTokyo North Tower Phase II* (Tokyo) in August 2012. In September 2012, the segment opened *nonowa Nishi-Kokubunji* (Tokyo), the first in a series of malls planned along the Chuo Line. The segment also renovated existing facilities, including *S-PAL Fukushima* (Fukushima) and *Shapo Ichikawa* (Chiba), while continuing efforts to revitalize existing stores and draw in tenants that are able to attract customers. Furthermore, the segment opened *JR Minami Shinjuku Building* (Tokyo) and *JR Kanda Manseibashi Building* (Tokyo). The segment also steadily pressed on with construction of *JR Ōtsuka Minamiguchi Building* toward its planned opening in the fall of 2013.

As a result of these initiatives and other additional factors, such as a recovery from the effects of the Great East Japan Earthquake experienced in the fiscal year ended March 31, 2012, and a boost in revenues from the opening of *LUMINE Yurakucho* (Tokyo) in the same fiscal year, the Shopping Centers and Office Buildings segment posted a 4.3% increase year on year in operating revenues to ¥249.2 billion ($2,651 million). Operating income increased 2.5% to ¥68.2 billion ($725 million).

Others

In hotel operations, JR East opened *The Tokyo Station Hotel* (Tokyo) in October 2012. In addition, JR East proceeded with preparations to open *HOTEL METS Niigata* (Niigata) in April 2013. In advertising and publicity services, JR East promoted sales of advertising on *Train Channel*, an advertising medium for showing video commercials in trains, in addition to expanding the installation of *J-AD Vision*, an advertising medium at stations that uses large-size LCD displays, to more stations. In credit card operations, JR East strove to promote further credit card usage by conducting sales promotions such as a campaign commemorating the 20th anniversary of the launch of *View Card*. In addition, the *View Thanks Bonus* program, a new service that allows card members to accumulate points according to their annual credit card usage (certain cards only), was rolled out in April 2012. In *Suica* shopping services (electronic money), JR East worked to actively expand affiliated stores, including through the launch of settlement services at *Ito-Yokado* stores (certain stores in the Tokyo metropolitan area) and the online retailing giant Amazon. As a result, *Suica* electronic money was accepted at approximately 205,910 stores as of March 31, 2013. In railcar manufacturing operations, JR East made Japan Transport Engineering Company (J-TREC) a subsidiary in April 2012. J-TREC's stainless-steel railcars, a key strength of the company, were given the brand name *sustina*, and JR East worked to disseminate information and take other steps to develop the brand going forward. Furthermore, JR East actively pressed ahead with developing an overseas railway consulting business, receiving orders for survey, design and other services related to urban and high-speed railway projects centered on Asia. In the sports business, JR East opened *JeXer FITNESS CLUB & SPA Shinjuku* (Tokyo) and *Fitness Lounge THE JEXER TOKYO* (Tokyo).

As a result of these initiatives and other factors, including increased revenues from advertising and publicity services in step with a recovery from the effects of the Great East Japan Earthquake experienced in the year ended March 31, 2012, the Others segment posted a 12.1% increase year on year in operating revenues to ¥578.6 billion ($6,155 million). Operating income was up 22.2% to ¥26.9 billion ($285 million).

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

OPERATING INCOME

Operating expenses increased 4.7% year on year to ¥2,274.3 billion ($24,195 million). Operating expenses as a percentage of operating revenues were 85.1%, compared with 85.8% in the previous fiscal year.

Transportation, other services and cost of sales increased 4.7%, to ¥1,791.7 billion ($19,061 million), because of an increase in JR East's non-personnel expenses.

Selling, general and administrative expenses were up 4.6%, to ¥482.6 billion ($5,134 million), which was due to an increase in personnel expenses.

Operating income rose 10.4%, to ¥397.6 billion ($4,229 million), for the third consecutive fiscal year. Operating income as a percentage of operating revenues was 14.9%, compared with 14.2% in the previous fiscal year.

INCOME BEFORE INCOME TAXES

Other income decreased 0.6%, to ¥89.6 billion ($953 million), due mainly to a decrease in insurance proceeds.

Other expenses decreased 15.5%, to ¥182.7 billion ($1,945 million), which mainly resulted from a decrease in interest expense.

Interest and dividend income and other financial income, net of interest and dividend expense and other financial expenses, amounted to a ¥92.7 billion ($987 million) expense, an improvement of 5.5%.

Income before income taxes increased 30.1%, to ¥304.4 billion ($3,238 million). Income before income taxes as a percentage of operating revenues was 11.4%, an increase from 9.2% the previous consolidated fiscal year.

NET INCOME

Net income increased 61.3% to ¥175.4 billion ($1,866 million), growing for a second consecutive year, due mainly to an increase in income before income taxes. Earnings per share were ¥444 ($5), up from ¥275 per share. Further, net income as a percentage of operating revenues was 6.6%, compared with 4.3% in the previous fiscal year.

› LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

In the fiscal year ended March 31, 2013, operating activities provided net cash of ¥588.5 billion ($6,261 million), ¥29.9 billion more than in the previous fiscal year. This result was mainly due to an increase in income before income taxes.

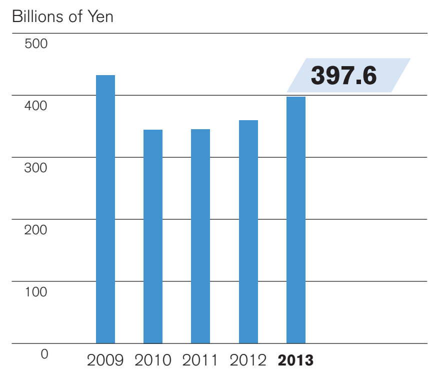
Investing activities used net cash of ¥466.0 billion ($4,957 million), ¥95.3 billion more than in the previous fiscal year. This result was mainly due to an increase in payments for purchases of fixed assets.

Capital expenditures were as follows.

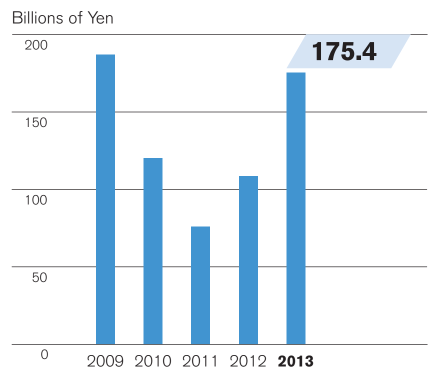
In transportation operations, JR East implemented capital expenditures to further measures for transportation safety and reliability as well as build a highly competitive transportation network, in addition to the reconstruction of facilities damaged in the Great East Japan Earthquake. Based on the *Station Renaissance* program, station space utilization operations developed stores in the *Marunouchizaka Area* of *GranSta* and *CentralStreet* in Tokyo Station, as well as at other stations.

In shopping centers and office buildings operations, JR East undertook capital expenditures for such initiatives as *JR Minami Shinjuku Building* (Tokyo), *GranTokyo North Tower Phase II* (Tokyo), and *CELEO Hachioji North Wing* (Tokyo). At the same time, those operations remodeled *S-PAL Fukushima* and other properties. In other services, capital expenditures initiatives included systems development and functional enhancements.

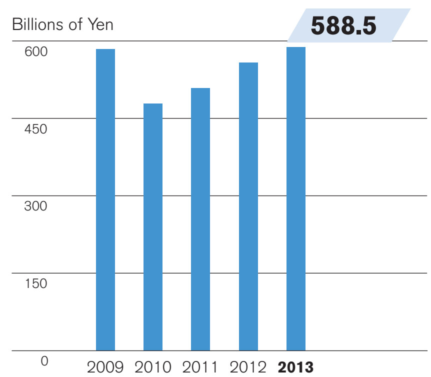
OPERATING INCOME



NET INCOME



CASH FLOWS FROM OPERATING ACTIVITIES



Further, free cash flows decreased ¥65.4 billion, to ¥122.6 billion ($1,304 million).

Financing activities used net cash of ¥101.2 billion ($1,076 million), ¥51.3 billion less than in the previous fiscal year. This result was mainly due to a decrease in the repayment of interest-bearing debt.

Consequently, cash and cash equivalents as of March 31, 2013 were ¥189.3 billion ($2,013 million), an increase of ¥21.7 billion from ¥167.5 billion on March 31, 2012.

FINANCIAL POLICY

Interest-bearing debt at the end of fiscal 2013 stood at ¥3,307.5 billion ($35,186 million).

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

a. ¥258.7 billion ($2,752 million) payable at a variable interest rate (annual interest rate in fiscal 2013: 4.11%) through March 31, 2017

b. ¥177.3 billion ($1,886 million) payable at a fixed annual interest rate of 6.35% through March 31, 2017

c. ¥343.1 billion ($3,650 million) payable at a fixed annual interest rate of 6.55% through September 30, 2051

In addition, at the fiscal year-end, JR East had long-term liabilities incurred for purchase of railway facilities of ¥10.3 billion ($109 million) for the Akita hybrid Shinkansen facilities and ¥3.9 billion ($42 million) for the Tokyo Monorail.

Since fiscal 1998, JR East has made annual early repayments of long-term liabilities incurred for purchase of railway facilities associated with JR East's assumption of Shinkansen railway facilities based on an agreement with the Japan Railway Construction, Transport and Technology Agency (JRTT). JR East made early repayments of ¥24.5 billion ($260 million) in fiscal 2013.

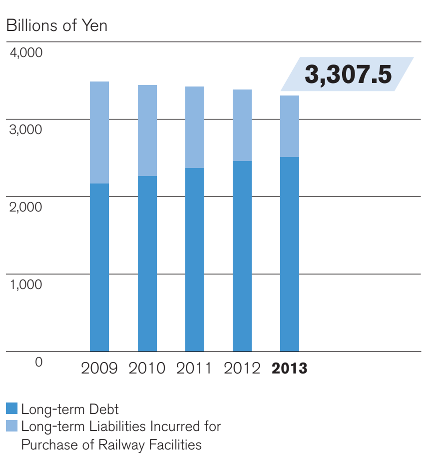
In fiscal 2002, JR East introduced a cash management system that integrated the management of the Group's cash and funding, which previously was carried out separately by subsidiaries, with the aim of reducing JR East's total interest-bearing debt. Also, JR East is enhancing capital management methods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

In the year ended March 31, 2013, JR East issued eight unsecured straight bonds, with a total nominal amount of ¥150.0 billion ($1,596 million) and maturities from 2017 through 2032. Rating and Investment Information, Inc. (R&I), a Japanese rating agency, rated these bonds AA+. Further, JR East received long-term debt ratings from Standard & Poor's and Moody's of AA– and Aa2, respectively.

In order to respond to short-term financing requirements, JR East has bank overdraft facilities with its principal banks totaling ¥330.0 billion ($3,511 million). JR East did not have any bank overdrafts on March 31, 2013. R&I and Moody's rated JR East's commercial paper a-1+ and P-1, respectively, as of the end of fiscal 2013. There is no outstanding balance of commercial paper JR East issued as of March 31, 2013.

JR East does not maintain committed bank credit lines (a financing framework that permits unrestricted borrowing within contract limits based on certain conditions).

INTEREST-BEARING DEBT



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, 2013.

LEGAL ISSUES RELATING TO OPERATIONS

As a railway operator, JR East manages its railway operations pursuant to the stipulations of the Railway Business Law. JR East is generally excluded from the provisions of the Law for 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.

THE RAILWAY BUSINESS LAW (1986, LAW NO. 92)

Under the Railway Business Law, railway operators are required to obtain the permission of the Minister of Land, Infrastructure, Transport and Tourism (hereinafter the "MLIT") for each type of line and railway business operated (article 3). Operators receive approval from the MLIT 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 MLIT 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, items 1 and 2).

THE JR LAW (1986, LAW NO. 88)

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, Central Japan Railway Company (JR Central), West Japan Railway Company (JR West), Shikoku Railway Company, Kyushu Railway Company, 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 Law, the JR Companies are subject to provisions of the JR Law that require the approval of the MLIT 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).

AMENDMENT OF THE JR LAW

(a) The amended JR Law enacted on December 1, 2001 (2001, Law No. 61), excluded JR East, JR Central, and JR West (the three JR passenger railway companies operating on Japan's main island Honshu, hereinafter the "three new companies") from the provisions of the JR Law that had been applicable to them until then.

(b) Further, the amended JR Law enables the MLIT to issue guidelines relating to matters that should be considered for the foreseeable future with respect to the management of the railway operations of the new companies, including any additional companies that may become involved in the management of all or a part of those railway operations as a result of assignations, mergers, divisions, or successions as designated by the MLIT on or after the date of enactment of the amended JR Law (supplementary provision, article 2, item 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 three new companies or among the three 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 the 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 three 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 three new companies

(d) The MLIT 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 MLIT 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 new 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 Law. Changes to those procedures or the inability to flexibly change fares and surcharges based on those procedures for whatever reason could affect JR East's earnings.

Details of those procedures are as follows.

SYSTEM AND PROCEDURES FOR APPROVAL OF FARES AND SURCHARGES

The Railway Business Law stipulates that railway operators are required to obtain the approval of the MLIT when setting or changing the upper limit for fares and surcharges (Railway Business Law, article 16, item 1).

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

The following is a description of the series of procedures ranging from submission of applications by railway operators to approval by the MLIT, based on the examples of major private railway operators in recent years.

Notes:
1. Procedures are based on article 64, item 2 of the Railway Business Law. Furthermore, article 23 of the Act for Establishment of the Ministry of Land, Infrastructure, Transport and Tourism (1999, Law No. 100), stipulates that a public hearing must be held when deemed necessary by the Transport Council in the course of deliberations, or as instructed or otherwise directed by the MLIT.
2. Article 3, item 2 of the Railway Business Law stipulates that 7 days or more of public notice must be given when increasing fares and other transport conditions.

Currently, fares and other charges for passenger 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 revision (April 1997).

Through efficiently 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 expenditure 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 expenditure, 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 stable transportation, offering high-quality services, and implementing other measures. Further, JR East appreciates the need to independently conduct capital expenditure based upon clearly defined management responsibility.

STANCE OF THE MINISTRY OF LAND, INFRASTRUCTURE, TRANSPORT AND TOURISM

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

(a) The MLIT will approve applications for the revision of the upper limits of fares from railway operators, including from JR East, upon conducting inspections to determine that the fares do not exceed the sum of reasonable costs and profits, based on the efficient management of those companies (hereinafter "total cost") (Railway Business Law, article 16, item 2). In addition, a three-year period is stipulated for the calculation of costs.

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

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

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

- total cost = operating cost[1] + operational return
- operational return = assets utilized in railway business operations (rate base) x operational return rate
- assets utilized in railway business operations = railway business operations fixed assets + construction in progress + deferred assets + working capital[2]
- operational return rate = equity ratio[3] x return rate on equity[4] + borrowed capital ratio[3] x return rate on borrowed capital[4]

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 issued at the end of every business 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 MLIT, railway operators can set or change fares and surcharges within the upper limits approved along with other charges. However, the MLIT 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 Law, article 16, item 5):

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

› PLAN FOR THE DEVELOPMENT OF NEW SHINKANSEN LINES

CONSTRUCTION PLANS FOR NEW SHINKANSEN LINES

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

Within JR East's service area, the Nagano–Joetsu Myoko segment of the Hokuriku Shinkansen Line is currently being constructed by the JRTT. Based on a proposal by the three ruling political parties, the national government and ruling parties agreed in December 1996 that the Shinkansen line segment would be standard gauge line. In January 1998, the joint national government and ruling parties' examination committee for the development of new Shinkansen lines decided to begin the construction of those Shinkansen line segments during fiscal 1998, upon the completion of approval procedures. Based on that decision, the former JRCC (currently, the JRTT) began construction in March 1998, after obtaining approval from the Minister of Transport pursuant to article 9 of the Nationwide Shinkansen Railway Development Law.

Further, in December 2004, the national government and ruling parties agreed on the schedule for the completion of new Shinkansen lines. For new Shinkansen lines under the jurisdiction of JR East, it was decided to aim to complete the Nagano–Hakusan general rail yard (provisional name) segment of the Hokuriku Shinkansen Line by the end of fiscal 2015 and to strive for completion as early as possible (JR East has jurisdiction of the Nagano–Joetsu Myoko segment of the Hokuriku Shinkansen Line).

Also, new Shinkansen lines not under the jurisdiction of JR East are being developed on the Shin-Aomori–Sapporo segment of the Hokkaido Shinkansen Line, the Joetsu Myoko–Tsuruga segment of the Hokuriku Shinkansen Line, and the Takeo-Onsen–Nagasaki segment of the Kyushu Shinkansen Line.

COST BURDEN OF THE DEVELOPMENT OF NEW SHINKANSEN LINES

(a) The national government, local governments, and the JR Companies assume the cost of new Shinkansen lines constructed by the JRTT. Amounts to be funded by the JR Companies are to be paid out of the following.

1) Usage fees and other charges paid by the JR Companies as the operator of the line

2) Funds made available from the JRTT, to which JR East, JR Central, and JR West make payments of amounts due on their Shinkansen purchase liabilities

(b) In October 1997, the opening of the Takasaki–Nagano segment of the Hokuriku Shinkansen Line was accompanied by new standards for the amount of usage fees paid by the JR Companies as the operator of the line. Those usage fees are now regulated under the Japan Railway Construction, Transport and Technology Agency Law (enforcement ordinance, article 6).

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

With respect to the usage fee amount for the Takasaki–Nagano segment of the Hokuriku Shinkansen Line, which opened in October 1997, JR East decided that the usage fees calculated by the former JRCC (currently, the JRTT) were within the limits of the corresponding benefits to result from the opening of that line and concluded an agreement with the JRCC in September 1997. Also, the JRCC received approval for those usage fees from the Minister of Transport in September 1997. Usage fees for fiscal 2012 totaled ¥21.2 billion ($225 million), comprising the fixed amount calculated based on the corresponding benefits of ¥17.5 billion ($186 million) and taxes and maintenance fees of ¥3.7 billion ($39 million).

In November 2002, JR East also concluded an agreement with the JRCC regarding the usage fees amount for the Morioka–Hachinohe segment of the Tohoku Shinkansen Line, which opened in December 2002. The JRCC received approval for those usage fees from the MLIT in November 2002. Usage fees for fiscal 2012 totaled ¥9.1 billion ($97 million), comprising the fixed amount calculated based on the corresponding benefits of ¥7.9 billion ($84 million) and taxes and maintenance fees of ¥1.2 billion ($12 million).

In December 2010, JR East also concluded an agreement with the JRTT regarding the usage fees amount for the Hachinohe–Shin-Aomori segment of the Tohoku Shinkansen Line, which opened in December 2010. The JRTT received approval for those usage fees from the MLIT in December 2010. Usage fees for fiscal 2012 totaled ¥8.4 billion ($89 million), comprising the fixed amount calculated based on the corresponding benefits of ¥7.0 billion ($74 million) and taxes and maintenance fees of ¥1.4 billion ($1 million).

(c) As well as being responsible for the construction of new Shinkansen lines, the JRTT procures construction costs and owns the facilities that it has constructed. JR East leases those facilities from the JRTT after completion and pays the usage fees mentioned in (b) above upon the commencement of the service. During the construction period, JR East is not required to directly assume the JRTT's construction costs. 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. The JR Companies are required to assume the costs of “usage fees and other charges” as mentioned in (a) above. “Other charges” refers exclusively to the payment of usage fees directly before the commencement of services. However, such prior payment is required to be based upon agreements concluded following consultations between JR East and the JRTT. Accordingly, it is assumed that JR East’s position will be adequately reflected in such arrangements.

TREATMENT OF CONVENTIONAL LINES RUNNING PARALLEL TO NEW SHINKANSEN LINES

In October 1997, at the time of the opening of the Takasaki–Nagano segment of the Hokuriku Shinkansen Line, the Yokokawa–Karuizawa segment was eliminated and the management of the Karuizawa–Shinonoi segment of the Shinetsu Line was separated from JR East. Further, at the time of the openings of the Morioka–Hachinohe segment in December 2002 and the Hachinohe–Aomori segment in December 2010 of the Tohoku Shinkansen Line, the management of those segments on the Tohoku Line were separated from JR East.

Also, an agreement reached between the national government and ruling parties in December 1996 stipulates that the management of conventional line segments which run parallel to a new Shinkansen line should be separated from the JR Companies when the new Shinkansen line commences operations. Pursuant to that agreement, when construction began on the Nagano–Joetsu Myoko segment of the Hokuriku Shinkansen Line in March 1998, JR East requested and received the agreement of local communities with regard to the separation of the management of the conventional line that runs parallel to the Shinkansen line upon commencement of operation: the Nagano–Naoetsu segment of the Shinetsu Line.

Further, in December 2000, the national government and ruling parties agreed that when JR Freight uses the conventional lines whose management has been separated from the JR Companies, line usage fees will be charged commensurate with the amount of usage. With regard to the resulting loss for JR Freight, it was decided to implement an adjustment by allocating a part of the revenues from usage fees on the parallel Shinkansen line segment to JR Freight as required.

Accordingly, the Nationwide Shinkansen Railway Development Law enforcement ordinance was amended in October 2002. As a result, it became possible to appropriate usage fees paid by the JR Companies for amounts required by the JR Freight adjustment mechanism. Previously, as a general principle, usage fees had only been appropriated to cover the construction cost of Shinkansen lines.

JR EAST’S STANCE ON THE CONSTRUCTION OF NEW SHINKANSEN LINES

JR East’s stance on the construction of new Shinkansen lines is as follows.

(1) As the operator of new Shinkansen lines, JR East will only assume the burden of the aforementioned usage fees and other charges that are within the limit of corresponding benefits as a result of commencing Shinkansen line operations. JR East will not assume any financial burden other than usage fees and other charges.

(2) The confirmation of agreements with local communities is required in regard to the management separation from JR East of conventional lines parallel to new Shinkansen line segments.

Based on strict adherence to the aforementioned conditions, which JR East has always viewed and will continue to view as essential, JR East will continue to fulfill its responsibility as the operator.

Regarding the development of the Nagano–Joetsu Myoko segment of the Hokuriku Shinkansen Line currently underway, upon confirming that the two aforementioned conditions had been met, in January 1998 JR East agreed to construction.

Changes in relation to the two aforementioned conditions for the construction of new Shinkansen lines could affect the JR East Group’s financial condition and business performance.

› SAFETY MEASURES

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

The JR East Group regards ensuring safety as a major issue that fundamentally underpins its operations. Accordingly, JR East is taking measures to build a railway with high safety levels by addressing infrastructural and operational issues.

Specifically, in preparation for an earthquake occurring directly beneath the Tokyo metropolitan area, among other major earthquake scenarios, JR East formulated plans to promote seismic reinforcement and other countermeasures at a total cost of ¥300 billion. Based on these plans, JR East steadily implemented countermeasures such as bringing forward and expanding the scope of seismic reinforcement of viaduct columns, reinforcing embankments and cutouts, seismically reinforcing electrical poles and other equipment, and enhancing the seismic monitoring network by implementing Earthquake Early Warnings (Japan Meteorological Agency) on Shinkansen lines. In addition, JR East strove to upgrade its ability to address earthquakes. Measures included installing emergency communications equipment such as satellite phones and WiMAX devices to prevent the severance of communications links, in addition to revising and developing the Disaster Preparedness Operation Plan and various manuals. Furthermore, JR East worked to provision rescue equipment (crowbars, hydraulic jacks, etc.) and first aid equipment in order to give top priority to rescue and emergency care for customers in the event of an earthquake. JR East also held regular rescue and emergency care drills. Moreover, in order to accommodate people unable to return home in the event of a major disruption to public transportation, JR East completed the provision of emergency supplies at 30 major terminal stations and also began stocking approximately 170 stations within a 30 kilometer radius of downtown Tokyo with the supplies. JR East also continued discussions with the relevant local governments on evacuation guidance methods and other matters in the event of a disaster. JR East also strove to keep customers informed by publishing "Measures by Train Stations to Prepare for Major Earthquakes" (Information on temporary shelters and requests for customers) on its website. In addition to these measures, JR East steadily pressed ahead with initiatives based on *2013 Safety Vision*, a five-year safety enhancement plan. Aiming to prevent accidents on railway station platforms, JR East moved forward with the installation of automatic platform gates on the Yamanote Line, and began using these gates at Osaki Station and Ikebukuro Station. As a measure to prevent train collisions and derailment accidents, JR East continued to introduce ATS-P and ATS-Ps systems to conventional lines. JR East also took steady steps to prevent accidents at railway crossings, including converting type-4 crossings to type-1 and constructing additional equipment to detect faulty railway crossings.

› INFORMATION SYSTEMS AND PROTECTION OF PERSONAL DATA

The JR East Group uses many computer systems in a variety of transportation and non-transportation operations and *Suica* operations. Further, information systems play an important role among travel agencies, 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 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 NON-TRANSPORTATION OPERATIONS

The JR East Group regards non-transportation operations as of equal importance to transportation operations in its management. In non-transportation operations, JR East is developing station space utilization, shopping centers and office buildings, and others (hotel operations, advertising and publicity, and other services).

In non-transportation operations, 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 fault in retail products or manufactured 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 failure of tenants or business partners. The occurrence of any of those contingencies could have an impact on the JR East Group's financial position and business performance. JR East's stations are used by roughly 17 million people every day (average daily number of passengers). The JR East Group will fully leverage those 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 hygiene management and credit controls.

› COMPETITION

The JR East Group's transportation operations compete with the operations of airlines, automobiles, bus transportation, and other railway companies. Furthermore, the JR East Group's non-transportation operations compete with existing and newly established businesses. The competition of the JR East Group's transportation and non-transportation operations with such rival operators could have an impact on the JR East Group's financial condition and business performance.

Competition intensifying in the transportation market could variously affect earnings from JR East's transportation operations. 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 renewal or re-opening of existing commercial premises could variously affect earnings from JR East's non-transportation operations.

› REDUCTION OF TOTAL INTEREST-BEARING DEBT

At the end of fiscal 2013, total interest-bearing debt was ¥3,307.5 billion ($35,186 million). In addition, interest expense amounted to ¥95.3 billion ($1,014 million), which was equivalent to 24.0% of operating income. For reference, the management indicator on debt was switched from long-term debt to interest-bearing debt, starting with the formulation of "*JR East Group Management Vision V—Ever Onward*" in October 2012. Total long-term debt was ¥3,346.6 billion ($35,602 million) as of March 31, 2013.

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 that include railway operations, non-transportation operations and *Suica* operations pursuant to the stipulations of related statutory laws and regulations such as the Railway Business Law and conducts operations 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 strengthening employee education about legal compliance and checking the status of compliance with statutory laws and regulations that relate to the overall operations.

CONSOLIDATED BALANCE SHEETS

East Japan Railway Company and Subsidiaries
March 31, 2012 and 2013

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2012	2013	2013
Assets			
Current Assets:			
Cash and cash equivalents (Notes 4 and 8)	¥ 167,525	¥ 189,262	$ 2,013
Receivables (Note 8) :			
Accounts receivable—trade	344,808	368,147	3,916
Unconsolidated subsidiaries and affiliated companies	8,928	10,863	116
Other	9,280	8,117	87
Allowance for doubtful accounts (Note 2 (4))	(2,335)	(2,327)	(25)
	360,681	384,800	4,094
Inventories (Notes 2 (5) and 5)	51,937	62,933	670
Real estate for sale (Notes 2 (6) and 6)	1,515	1,330	14
Deferred income taxes (Note 20)	43,023	49,928	531
Other current assets	53,300	49,906	531
Total current assets	677,981	738,159	7,853
Investments:			
Unconsolidated subsidiaries and affiliated companies (Notes 2 (2), (3) and 7)	33,081	48,248	513
Other (Notes 2 (7), 8 and 9)	111,679	138,367	1,472
	144,760	186,615	1,985
Property, Plant and Equipment (Notes 2 (8), 10, 11 and 21):			
Buildings	2,214,702	2,325,409	24,738
Fixtures	5,423,325	5,496,806	58,477
Machinery, rolling stock and vehicles	2,517,822	2,611,384	27,781
Land	2,012,107	1,986,873	21,137
Construction in progress	284,741	276,371	2,940
Other	186,407	204,275	2,173
	12,639,104	12,901,118	137,246
Less accumulated depreciation	6,775,034	6,974,896	74,201
Net property, plant and equipment	5,864,070	5,926,222	63,045
Other Assets:			
Long-term deferred income taxes (Note 20)	241,965	231,067	2,458
Other	131,633	141,142	1,502
	373,598	372,209	3,960
	¥ 7,060,409	¥ 7,223,205	$ 76,843

See accompanying notes.

		Millions of Yen	Millions of U.S. Dollars (Note 2 (1))
	2012	2013	2013
Liabilities and Net Assets			
Current Liabilities:			
Current portion of long-term debt (Notes 8, 10 and 12)	¥ 223,846	¥ 222,937	$ 2,372
Current portion of long-term liabilities incurred for purchase of railway facilities (Notes 8, 10 and 13)	129,839	126,119	1,342
Prepaid railway fares received	84,257	88,580	942
Payables (Note 8) :			
Accounts payable—trade	48,911	57,418	611
Unconsolidated subsidiaries and affiliated companies	51,972	90,680	965
Other	467,148	440,966	4,691
	568,031	589,064	6,267
Accrued expenses	101,397	110,569	1,176
Accrued consumption taxes (Notes 8 and 14)	13,554	12,244	130
Accrued income taxes (Notes 2 (12), 8 and 20)	70,571	86,917	925
Other current liabilities	38,745	37,734	401
Total current liabilities	1,230,240	1,274,164	13,555
Long-Term Debt (Notes 8, 10 and 12)	2,237,774	2,330,385	24,791
Long-Term Liabilities Incurred for Purchase of Railway Facilities (Notes 8, 10 and 13)	794,014	667,111	7,097
Employees' Severance and Retirement Benefits (Notes 2 (9) and 19)	643,401	648,381	6,898
Deposits Received for Guarantees	134,231	134,785	1,434
Long-Term Deferred Tax Liabilities (Note 20)	3,219	4,424	47
Other Long-Term Liabilities	126,896	115,762	1,231
Contingent Liabilities (Note 15)			
Net Assets (Note 16):			
Common stock:			
Authorized 1,600,000,000 shares;			
Issued, 2013—396,000,000 shares;			
Outstanding, 2013—395,397,613 shares	200,000	200,000	2,128
Capital surplus	96,732	96,791	1,030
Retained earnings	1,599,683	1,713,026	18,224
Treasury stock, at cost, 602,387 shares in 2013	(25,846)	(3,545)	(38)
Accumulated other comprehensive income:			
Net unrealized holding gains on securities	3,909	22,997	245
Net deferred gains (losses) on derivatives under hedge accounting	(74)	1,901	20
Revaluation reserve for land (Note 2 (16))	—	(504)	(5)
Minority Interests	16,230	17,527	186
Total net assets	1,890,634	2,048,193	21,790
	¥7,060,409	¥7,223,205	$76,843

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

East Japan Railway Company and Subsidiaries
Years ended March 31, 2012 and 2013

(I) CONSOLIDATED STATEMENTS OF INCOME

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2012	2013	2013
Operating Revenues (Note 22)	¥2,532,174	¥2,671,823	$28,424
Operating Expenses:			
Transportation, other services and cost of sales	1,710,615	1,791,691	19,061
Selling, general and administrative expenses	461,534	482,569	5,134
	2,172,149	2,274,260	24,195
Operating Income (Note 22)	360,025	397,563	4,229
Other Income (Expenses):			
Interest expense on short- and long-term debt	(46,208)	(46,163)	(491)
Interest expense incurred for purchase of railway facilities	(54,865)	(49,149)	(523)
Loss on sales of fixed assets	(1,343)	(527)	(6)
Impairment losses on fixed assets (Notes 2 (15), 11 and 22)	(9,160)	(30,029)	(319)
Interest and dividend income	2,948	2,574	27
Equity in net income (loss) of affiliated companies	860	3,768	40
Gain on sales of fixed assets	5,114	3,800	40
Insurance proceeds related to earthquake (Note 3)	–	24,261	258
Other, net	(23,471)	(1,720)	(17)
	(126,125)	(93,185)	(991)
Income before Income Taxes	233,900	304,378	3,238
Income Taxes (Notes 2 (12) and 20):			
Current	98,955	133,178	1,417
Deferred	25,354	(5,462)	(58)
Income before Minority Interests	109,591	176,662	1,879
Minority Interests in Net Income of Consolidated Subsidiaries	(853)	(1,277)	(13)
Net Income	¥ 108,738	¥ 175,385	$ 1,866

	Yen		U.S. Dollars (Note 2 (1))
Earnings per Share (Note 2 (13))	¥ 275	¥ 444	$ 5

See accompanying notes.

(II) CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Note 23)

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2012	2013	2013
Income before Minority Interests	¥109,591	¥176,662	$1,879
Other Comprehensive Income	(287)	21,078	225
Net unrealized holding gains (losses) on securities	(1,192)	17,729	189
Net deferred gains (losses) on derivatives under hedge accounting	598	1,086	12
Share of other comprehensive income of associates accounted for using equity method	307	2,263	24
Comprehensive Income	¥109,304	¥197,740	$2,104
Comprehensive Income attributable to			
Comprehensive income attributable to owners of the parent	¥108,448	¥196,456	$2,090
Comprehensive income attributable to minority interests	856	1,284	14

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

East Japan Railway Company and Subsidiaries
Years ended March 31, 2012 and 2013

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	Minority Interests	Total
Balance at March 31,2011	400,000,000	¥200,000	¥96,733	¥1,534,340	¥(25,841)	¥ 4,904	¥ (780)	–	¥25,200	¥1,834,556
Cash dividends (¥110 per share)	–	–	–	(43,526)	–	–	–	–	–	(43,526)
Net income..................	–	–	–	108,738	–	–	–	–	–	108,738
Increase due to merger.........	–	–	–	131	–	–	–	–	–	131
Purchase of treasury stock......	–	–	–	–	(6)	–	–	–	–	(6)
Disposal of treasury stock.......	–	–	(1)	–	1	–	–	–	–	0
Other........................	–	–	–	–	–	(995)	706	–	(8,970)	(9,259)
Balance at March 31,2012	400,000,000	¥200,000	¥96,732	¥1,599,683	¥(25,846)	¥ 3,909	¥ (74)	–	¥16,230	¥1,890,634
Cash dividends (¥120 per share)	–	–	–	(45,492)	–	–	–	–	–	(45,492)
Net income..................	–	–	–	175,385	–	–	–	–	–	175,385
Increase due to merger.........	–	–	–	434	–	–	–	–	–	434
Purchase of treasury stock......	–	–	–	–	(9)	–	–	–	–	(9)
Disposal of treasury stock.......	–	–	72	–	1,042	–	–	–	–	1,114
Retirement of treasury stock	(4,000,000)	–	(13)	(23,093)	23,106	–	–	–	–	–
Change in equity in consolidated subsidiaries—treasury stock	–	–	–	–	(1,042)	–	–	–	–	(1,042)
Change in equity in affiliates accounted for by equity method—treasury stock........	–	–	–	–	(796)	–	–	–	–	(796)
Change of scope of equity method	–	–	–	6,109	–	–	–	–	–	6,109
Other........................	–	–	–	–	–	19,088	1,975	(504)	1,297	21,856
Balance at March 31,2013	396,000,000	¥200,000	¥96,791	¥1,713,026	¥ (3,545)	¥22,997	¥1,901	¥(504)	¥17,527	¥2,048,193

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	Minority Interests	Total
Balance at March 31,2012	400,000,000	$2,128	$1,029	$17,017	$(275)	$ 42	$ (1)	–	$173	$20,113
Cash dividends ($1.28 per share)	–	–	–	(484)	–	–	–	–	–	(484)
Net income..................	–	–	–	1,866	–	–	–	–	–	1,866
Increase due to merger.........	–	–	–	6	–	–	–	–	–	6
Purchase of treasury stock......	–	–	–	–	(0)	–	–	–	–	(0)
Disposal of treasury stock.......	–	–	1	–	11	–	–	–	–	12
Retirement of treasury stock	(4,000,000)	–	(0)	(246)	246	–	–	–	–	–
Change in equity in consolidated subsidiaries—treasury stock	–	–	–	–	(11)	–	–	–	–	(11)
Change in equity in affiliates accounted for by equity method—treasury stock........	–	–	–	–	(9)	–	–	–	–	(9)
Change of scope of equity method	–	–	–	65	–	–	–	–	–	65
Other........................	–	–	–	–	–	203	21	(5)	13	232
Balance at March 31,2013	396,000,000	$2,128	$1,030	$18,224	$ (38)	$245	$20	$ (5)	$186	$21,790

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

East Japan Railway Company and Subsidiaries
Years ended March 31, 2012 and 2013

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2012	2013	2013
Cash Flows from Operating Activities:			
Income before income taxes	¥233,900	¥304,378	$3,238
Depreciation (Note 22)	358,704	346,808	3,689
Impairment losses on fixed assets	9,160	30,029	319
Amortization of long-term prepaid expense	6,333	6,250	66
Net change in employees' severance and retirement benefits	(14,971)	3,307	35
Interest and dividend income	(2,948)	(2,574)	(27)
Interest expense	101,073	95,312	1,014
Construction grants received	(59,528)	(41,519)	(442)
Insurance proceeds related to earthquake	–	(24,261)	(258)
Loss from disposition and provision for cost reduction of fixed assets	83,226	71,498	761
Net change in major receivables	(54,835)	(17,486)	(186)
Net change in major payables	53,344	17,802	189
Other	24,311	5,469	60
Sub-total	737,769	795,013	8,458
Proceeds from interest and dividends	3,148	2,989	32
Payments of interest	(101,271)	(95,386)	(1,015)
Insurance proceeds related to earthquake	–	24,261	258
Payments of earthquake-damage losses	(38,563)	(21,230)	(226)
Payments of income taxes	(42,433)	(117,118)	(1,246)
Net cash provided by operating activities	558,650	588,529	6,261
Cash Flows from Investing Activities:			
Payments for purchases of fixed assets	(407,622)	(494,567)	(5,261)
Proceeds from sales of fixed assets	8,866	5,390	57
Proceeds from construction grants	50,696	36,283	386
Proceeds from sales of transferable development air rights	–	8,446	90
Payments for purchases of investment in securities	(7,015)	(6,175)	(66)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	–	(2,794)	(30)
Other	(15,610)	(12,535)	(133)
Net cash used in investing activities	(370,685)	(465,952)	(4,957)
Cash Flows from Financing Activities:			
Net change in commercial paper	(61,000)	–	–
Proceeds from long-term loans	174,300	165,500	1,761
Payments of long-term loans	(125,870)	(133,866)	(1,424)
Proceeds from issuance of bonds	150,000	150,000	1,596
Payments for redemption of bonds	(110,430)	(90,000)	(957)
Payments of liabilities incurred for purchase of railway facilities	(124,625)	(130,622)	(1,390)
Cash dividends paid	(43,525)	(45,492)	(484)
Other	(11,278)	(16,671)	(178)
Net cash used in financing activities	(152,428)	(101,151)	(1,076)
Net Change in Cash and Cash Equivalents	35,537	21,426	228
Cash and Cash Equivalents at Beginning of Year	131,929	167,525	1,782
Increase due to Addition of Consolidated Subsidiaries and Other	59	339	3
Decrease in Cash and Cash Equivalents due to Corporate Division	–	(28)	(0)
Cash and Cash Equivalents at End of Year	¥167,525	¥189,262	$2,013

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

East Japan Railway Company and Subsidiaries
Years ended March 31, 2012 and 2013

❯ NOTE 1: INCORPORATION OF EAST JAPAN RAILWAY COMPANY

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

East Japan Railway Company (the Company) is one of the six passenger railway companies and serves eastern Honshu (Japan's main island). The Company operates 70 railway lines, 1,688 railway stations and 7,512.6 operating kilometers as of March 31, 2013.

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 ($33,053 million) from the Shinkansen Holding Corporation (see Note 13). 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 12).

❯ 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.

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, 2013, which was ¥94 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, 2013, 72 subsidiaries were consolidated. During the year ended March 31, 2013 one company was newly consolidated, and one company was excluded from consolidation.

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

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

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

3) Equity Method

The effective-influence standard is applied according to Regulations for Consolidated Financial Statements. For the year ended March 31, 2013, five affiliated companies were accounted for by the equity method. During the year ended March 31, 2013, two companies were newly accounted for by the equity method.

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

4) Allowance for Doubtful Accounts

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

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

5) Inventories

Inventories are stated at cost as follows:

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

Merchandise inventories: mainly the retail cost method or first-in, first-out method (carrying amount in the balance sheet is calculated with consideration of write-downs due to decreased profitability of inventories); and

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

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 years ended March 31, 2012 and 2013.

(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 minority interests. The cost of sales of such securities is calculated mainly by the moving-average method.

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

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

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

8) Property, Plant and Equipment

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

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

The range of useful lives is mainly as follows:

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

(Change in Depreciation Method)

Following the revision of the Corporation Tax Law, from the year ended March 31, 2013, the Companies began applying a depreciation method based on the revised Corporation Tax Law to property, plant and equipment acquired since April 1, 2012. The impact on consolidated statement as a result of this change is minimal.

9) Accounting for Employees' Retirement Benefits

Almost all employees of the Companies are generally entitled to receive lump-sum severance and retirement benefits (some subsidiaries have adopted a pension plan of their own in addition to those severance and retirement benefits). Furthermore, some consolidated subsidiaries have established retirement benefit trusts. The amounts of the employees' severance and retirement benefits are determined by the length of service and basic salary at the time of severance or retirement of the employees.

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

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

10) Accounting for Certain Lease Transactions

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

With regard to finance lease 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.

11) 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, 2012 and 2013 were ¥15,596 million and ¥16,137 million ($172 million), respectively.

12) Income Taxes

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

13) 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.

14) 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 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.

15) 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.

16) Revaluation of Land

JTB Corp., an equity-method affiliate of the Company, absorbed JTB Estate Corp. by merger on April 1, 2012. Prior to this absorption merger, JTB Estate Corp. had been revaluating its land for business use pursuant to the Law on Revaluation of Land (Law No. 34 of 1998) and 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, 2013
Difference was not recorded because the market value of the revaluated land was higher than the book value after revaluation.

› 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 this fiscal year.

The Companies intends to work on the restoration of parts of the lines which run along the Pacific coast and were damaged by the tsunami, as part of the overall restoration and city-rebuilding plans with the local communities. Since it is difficult to reasonably estimate such restoration and other expenses at this time, such expenses are not included in consolidated balance sheets. For reference, the net book value of property, plant and equipment (excluding rolling stock, tools, furniture and fixtures) of these affected railway lines was ¥8,146 million and ¥3,925 million ($42 million) as of March 31, 2012 and 2013, respectively.

Furthermore, the Company's railway line facilities, railway stop facilities (excluding station buildings), electric cable facilities and other fixtures, which were owned by or leased by the Company, were insured against earthquakes for up to ¥71,000 million ($755 million) (¥10,000 million deductible) as of March 11, 2011. As calculation of damages of some of the facilities was completed by insurance companies during the year ended March 31, 2013, the Group recorded ¥24,261 million ($258 million) as "insurance proceeds related to earthquake" on the consolidated statements of income.

› NOTE 4: 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 5: INVENTORIES

Inventories at March 31, 2012 and 2013 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2012	**2013**	**2013**
Merchandise and finished goods	¥ 8,173	**¥ 8,359**	**$ 89**
Work in process	18,649	**28,439**	**303**
Raw materials and supplies	25,115	**26,135**	**278**
	¥51,937	**¥62,933**	**$670**

› NOTE 6: REAL ESTATE FOR SALE

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

› NOTE 7: INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATED COMPANIES

Investments in and advances to unconsolidated subsidiaries and affiliated companies at March 31, 2012 and 2013 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2012	**2013**	**2013**
Unconsolidated subsidiaries:			
Investments	¥ 5,208	**¥ 4,971**	**$ 53**
Advances	340	**590**	**6**
	5,548	**5,561**	**59**
Affiliated companies:			
Investments (including equity in earnings of affiliated companies)	27,354	**42,544**	**452**
Advances	179	**143**	**2**
	¥33,081	**¥48,248**	**$513**

NOTE 8: FINANCIAL INSTRUMENTS

1) Items Relating to the Status of Financial Instruments

a) Policy in relation to financial instruments

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

b) Details of financial instruments and related risk

Trade receivables are exposed to credit risk in relation to customers, transportation operators with connecting railway services, and other parties. Further, short-term loans receivable, which principally comprise loans receivable as a result of credit card cashing services, are exposed to credit risk in relation to customers. Regarding the said risk, pursuant to the internal regulations of the Companies, due dates and balances are managed appropriately for each counterparty. Securities are exposed to market price fluctuation risk. Substantially all of trade payables—payables, accrued consumption taxes and accrued income taxes—have payment due dates within one year. Bonds and loans are exposed to risk associated with inability to make payments on due dates because of unforeseen decreases in free cash flow. Further, certain bonds and loans are exposed to market price fluctuation risk (foreign exchange/interest rates). Long-term liabilities incurred for purchase of railway facilities are liabilities with regard to the Japan Railway Construction, Transport and Technology Agency and, pursuant to the Law Related to the Transference of Shinkansen Railway Facilities, comprise principally of (interest-bearing) debts related to the Company's purchase of Shinkansen railway facilities for a total purchase price of ¥3,106,970 million ($33,053 million) from the Shinkansen Holding Corporation on October 1, 1991. The Company pays such purchase price, based on regulations pursuant to the Law Related to the Transference of Shinkansen Railway Facilities, enacted in 1991, and other laws, in semiannual installments calculated using the equal payment method, whereby interest and principal are paid in equal amounts semiannually, based on interest rates approved by the Minister of Land, Infrastructure, Transport and Tourism (at the time of enactment). Long-term liabilities incurred for purchase of railway facilities are exposed to risk associated with inability to make payments on due dates because of a decrease in free cash flow for unforeseen reasons. Further, certain long-term liabilities incurred for purchase of railway facilities are exposed to market price fluctuation risk (interest rates).

c) Risk management system for financial instruments

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

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

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

2) Items Relating to the Fair Values of Financial Instruments

Amounts recognized for selective items in the consolidated balance sheets as of March 31, 2012 and 2013, fair values of such items, and the differences between such amounts and values were 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		
	2012			2013			2013		
	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	¥ 167,525	¥ 167,525	¥ –	¥ 189,262	¥ 189,262	¥ –	$ 2,013	$ 2,013	$ –
b Receivables	363,016	363,016	–	387,127	387,127	–	4,119	4,119	–
c Securities									
Held-to-maturity debt securities	209	211	2	160	162	2	1	1	0
Available-for-sale securities	100,460	100,460	–	126,971	126,971	–	1,351	1,351	–
Assets	¥ 631,210	¥ 631,212	¥ 2	¥ 703,520	¥ 703,522	¥ 2	$ 7,484	$ 7,484	$ 0
a Payables	¥ 568,031	¥ 568,031	¥ –	¥ 589,064	¥ 589,064	¥ –	$ 6,267	$ 6,267	$ –
b Accrued consumption taxes	13,554	13,554	–	12,244	12,244	–	130	130	–
c Accrued income taxes	70,571	70,571	–	86,917	86,917	–	925	925	–
d Long-term debt									
Bonds	1,599,662	1,717,897	118,235	1,659,730	1,839,985	180,255	17,657	19,574	1,917
Long-term loans	861,958	880,365	18,407	893,592	926,999	33,407	9,506	9,862	356
e Long-term liabilities incurred for purchase of railway facilities	923,853	1,297,655	373,802	793,230	1,184,041	390,811	8,439	12,596	4,157
Liabilities	¥4,037,629	¥4,548,073	¥510,444	¥4,034,777	¥4,639,250	¥604,473	$42,924	$49,354	$6,430
Derivative transactions*1									
a Hedge accounting not applied*2	¥ 525	¥ 525	¥ –	¥ –	¥ –	¥ –	$ –	$ –	$ –
b Hedge accounting applied	(583)	(583)	–	1,097	1,097	–	12	12	–

*1 Net receivables/payables arising from derivatives are shown. Items that are net payables are shown in parenthesis.
*2 The fair value of natural disaster derivative transactions as of March 31, 2013 was not measured because it is extremely difficult to establish a justifiable fair value.

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 Note18)

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

	Consolidated balance sheet amount		
	Millions of Yen		Millions of U.S. Dollars
Classification	2012	2013	2013
Unlisted equity securities	¥6,024	¥6,508	$69
Unlisted corporate bonds	–	72	1
Preferred equity securities	1,000	1,000	11
Natural disaster derivative transactions	–	1,224	13

*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 couldn't be estimated, they were not included in "c Securities—Available-for-sale securities."
*2 The fair value of natural disaster derivative transactions as of March 31, 2013 was not measured because it is extremely difficult to establish a justifiable fair value.

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

4. The annual maturities of financial assets and securities with maturities at March 31, 2012 and 2013 were as follows.

	Millions of Yen								Millions of U.S. Dollars			
	2012				2013				2013			
	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	¥167,525	¥ –	¥ –	¥ –	¥189,262	¥ –	¥ –	¥ –	$2,013	$ –	$–	$–
Receivables	355,889	7,110	17	–	380,346	6,771	10	–	4,047	72	0	–
Securities												
Held-to-maturity debt securities (Government bonds)	50	150	–	10	–	150	–	10	–	2	–	0
Available-for-sale securities which have maturity (Government bonds)	–	6	–	–	–	6	–	–	–	0	–	–
Total	¥523,464	¥7,266	¥17	¥10	¥569,608	¥6,927	¥10	¥10	$6,060	$74	$0	$0

5. The annual maturities of bonds, long-term loans, and long-term liabilities incurred for purchase of railway facilities at March 31, 2013 (See Notes 12 and 13)

NOTE 9: SECURITIES

For held-to-maturity debt securities, the amount on balance sheets and market value at March 31, 2012 and 2013 were as follows:

	Millions of Yen						Millions of U.S. Dollars		
	2012			2013			2013		
	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.	¥159	¥161	¥ 2	¥160	¥162	¥ 2	$ 1	$ 1	$ 0
Of which market value does not exceed the amount on balance sheet:									
Government, municipal bonds, etc.	50	50	–	–	–	–	–	–	–
Total	¥209	¥211	¥ 2	¥160	¥162	¥ 2	$ 1	$ 1	$ 0

For available-for-sale securities, the acquisition cost and amount on balance sheets at March 31, 2012 and 2013 were as follows:

	Millions of Yen						Millions of U.S. Dollars		
	2012			2013			2013		
	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	¥33,473	¥ 51,788	¥ 18,315	¥59,230	¥ 97,444	¥38,214	$630	$1,037	$407
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	60,869	48,666	(12,203)	34,598	29,521	(5,077)	368	314	(54)
Debt securities	–	–	–	–	–	–	–	–	–
Total	¥94,348	¥100,460	¥ 6,112	¥93,834	¥126,971	¥33,137	$998	$1,351	$353

Note: In the year ended March 31, 2012, ¥1,805 million in available-for-sale securities on which there were market values were written off as losses on devaluation of securities. In the year ended March 31, 2013, ¥2,825 million ($30 million) in available-for-sale securities on which there were market values were written off as losses on devaluation of securities.

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 10: PLEDGED ASSETS

Pledged assets at March 31, 2012 and 2013 were summarized as follows:
Pledged assets as a collateral

	Millions of Yen		Millions of U.S. Dollars
	2012	2013	2013
Buildings and fixtures with net book value	¥24,085	**¥22,847**	**$243**
Other assets with net book value	4,851	**4,844**	**52**

Counterpart long-term debt and other liabilities

	Millions of Yen		Millions of U.S. Dollars
	2012	2013	2013
Long-term debt and other liabilities totaling	¥3,036	**¥2,544**	**$27**

Pledged assets as a mortgage for long-term liabilities

	Millions of Yen		Millions of U.S. Dollars
	2012	2013	2013
Buildings and fixtures with net book value	¥53,470	**¥52,111**	**$554**
Other assets with net book value	6,082	**6,764**	**72**

Counterpart long-term liabilities

	Millions of Yen		Millions of U.S. Dollars
	2012	2013	2013
Long-Term Liabilities Incurred for Purchase of Railway Facilities	¥5,005	**¥3,932**	**$42**

› NOTE 11: 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 cases 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%.

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

Impairment losses on fixed assets at March 31, 2012 and 2013 were summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2012	2013	2013
Land	¥2,485	**¥27,964**	**$297**
Buildings and fixtures	6,267	**1,839**	**20**
Others	408	**226**	**2**
Total	¥9,160	**¥30,029**	**$319**

NOTE 12: LONG-TERM DEBT

Long-term debt at March 31, 2012 and 2013 were summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2012	2013	2013
General Mortgage Bonds issued in 1997 to 2001 with interest rates ranging from 2.30% to 3.30% due in 2017 to 2021	¥ 179,900	¥ 179,900	$ 1,914
Unsecured Bonds issued in 2002 to 2012 with interest rates ranging from 0.23% to 2.55% due in 2013 to 2033	1,180,879	1,240,897	13,201
Secured Loans due in 2014 to 2018 principally from banks and insurance companies with interest rates mainly ranging from 1.95% to 6.50%	2,095	1,630	17
Unsecured Loans due in 2013 to 2036 principally from banks and insurance companies with interest rates mainly ranging from 0.66% to 4.90%	859,863	891,962	9,489
Euro-pound bonds issued in 2006 to 2007 with interest rates ranging from 4.50% to 5.25% due in 2031 to 2036	238,883	238,933	2,542
	2,461,620	2,553,322	27,163
Less current portion	223,846	222,937	2,372
	¥2,237,774	¥2,330,385	$24,791

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, 2013 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2014	¥ 80,000	$ 851
2015	75,000	798
2016	55,000	585
2017	80,000	851
2018	119,900	1,276
2019 and thereafter	1,250,959	13,308

The annual maturities of long-term loans at March 31, 2013 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2014	¥142,938	$1,521
2015	124,921	1,329
2016	119,314	1,269
2017	106,708	1,135
2018	116,820	1,243
2019 and thereafter	282,891	3,009

› NOTE 13: 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 ($33,053 million) payable in equal semiannual installments consisting of principal and interest payments in three tranches: ¥2,101,898 million ($22,361 million) and ¥638,506 million ($6,793 million) in principal amounts payable through March 2017; and ¥366,566 million ($3,900 million) payable through September 2051. In March 1997, the liability of ¥27,946 million ($297 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 ($391 million) payable to Japan Railway Construction Public Corporation.

The long-term liabilities incurred for purchase of railway facilities outstanding at March 31, 2012 and 2013 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2012	2013	2013
The long-term liability incurred for purchase of the Tohoku and Joetsu Shinkansen facilities:			
Payable semiannually including interest at a rate currently approximating 4.11% through 2017	¥347,335	¥258,668	$2,752
Payable semiannually including interest at 6.35% through 2017	215,076	177,264	1,886
Payable semiannually including interest at 6.55% through 2051	345,041	343,087	3,650
	907,452	779,019	8,288
The long-term liability incurred for purchase of the Akita hybrid Shinkansen facilities:			
Payable semiannually at an average rate currently approximating 1.65% through 2022	11,396	10,279	109
The long-term liability incurred for purchase of the Tokyo Monorail facilities:			
Payable semiannually at an average rate currently approximating 2.84% through 2029	5,005	3,932	42
	923,853	793,230	8,439
Less current portion:			
The Tohoku and Joetsu Shinkansen purchase liability	128,279	124,568	1,326
The Akita hybrid Shinkansen purchase liability	1,058	1,068	11
Tokyo Monorail purchase liability	502	483	5
	129,839	126,119	1,342
	¥794,014	¥667,111	$7,097

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, 2013 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2014	¥126,119	$1,342
2015	121,085	1,288
2016	106,861	1,137
2017	97,474	1,037
2018	4,380	47
2019 and thereafter	337,311	3,588

› NOTE 14: CONSUMPTION TAXES

The Japanese consumption taxes are indirect taxes levied at the rate of 5%. Accrued consumption taxes represent the difference between consumption taxes collected from customers and consumption taxes paid on purchases.

❯ NOTE 15: CONTINGENT LIABILITIES

The Company is contingently liable for the in-substance defeasance of general mortgage bonds issued by the Company, which were assigned to certain banks under debt assumption agreements. The outstanding amounts contingently liable under such debt assumption agreements at March 31, 2013 were ¥70,000 million ($745 million) and ¥100,000 million ($1,064 million) by general bonds.

❯ NOTE 16: 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 shareholders' meeting, 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 annual shareholders' meeting held in June 2013, the shareholders approved cash dividends amounting to ¥23,741million ($253 million). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2013. Such appropriations are recognized in the period in which they are approved by the shareholders.

❯ NOTE 17: INFORMATION REGARDING CERTAIN LEASES

Future lease payments for non-cancellable operating leases including those due within one year at March 31, 2012 and 2013 were as follows:

				Millions of Yen		Millions of U.S. Dollars
	2012		2013		2013	
	Within one year	Total	Within one year	Total	Within one year	Total
Non-cancellable operating leases	¥2,413	¥41,658	**¥2,413**	**¥39,244**	**$26**	**$417**

❯ NOTE 18: INFORMATION FOR DERIVATIVE TRANSACTIONS

1) Items Regarding Trading Circumstances (See Note 8)

2) Derivative Transactions not Applied to Hedge Accounting

				Millions of Yen		Millions of U.S. Dollars
	2012		2013		2013	
Classification	Transactions other than market transactions		Transactions other than market transactions		Transactions other than market transactions	
Type	Natural disaster derivatives transactions bought	Total	Natural disaster derivatives transactions bought	Total	Natural disaster derivatives transactions bought	Total
Contract amount etc.	¥21,356	¥21,356	**¥—**	**¥—**	**$—**	**$—**
Of which more-than-one-year contract amount etc.	—	—	**—**	**—**	**—**	**—**
Fair value	525	525	**—**	**—**	**—**	**—**
Gain or loss from valuation	(2,137)	(2,137)	**—**	**—**	**—**	**—**

Notes: 1. Contract amount etc. is the maximum amount receivable, and converted to yen in accordance with a market exchange rate that prevailed on the closing date of accounts.
2. Fair value is calculated based on the current value presented by financial institutions, etc. with which transactions are conducted.
3. The fair value of natural disaster derivative transactions as of March 31, 2013 was not included because it is extremely difficult to establish a justifiable fair value.

3) Derivative Transactions Applied to Hedge Accounting

		Millions of Yen					
		2012			2013		
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	¥(908)	**¥ 20,000**	**¥ 20,000**	**¥ 638**
Forward exchange	Accounts payable—trade	12	–	0	**23**	**–**	**(0)**
Commodity swap	Fuel purchasing	1,965	1,242	325	**1,999**	**1,281**	**459**
Currency swap	Foreign currency denominated bonds	239,959	239,959	*1	**239,959**	**239,959**	***1**
Interest swap	Long-term loans	237,240	164,720	*1	**164,720**	**62,700**	***1**
Total		¥499,176	¥425,921	¥(583)	**¥426,701**	**¥323,940**	**¥1,097**

		Millions of U.S. Dollars		
		2013		
Type	Hedged item	Contract amount etc.	Of which more-than-one-year contract amount etc.	Fair value*2
Currency swap	Long-term loans	**$ 213**	**$ 213**	**$ 7**
Forward exchange	Accounts payable—trade	**0**	**–**	**(0)**
Commodity swap	Fuel purchasing	**21**	**14**	**5**
Currency swap	Foreign currency denominated bonds	**2,553**	**2,553**	***1**
Interest swap	Long-term loans	**1,752**	**666**	***1**
Total		**$4,539**	**$3,446**	**$12**

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 8)
2. Fair value is calculated based on the current value presented by financial institutions, etc. with which transactions are conducted.

› NOTE 19: EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2012 and 2013 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2012	2013	2013
Projected benefit obligation	¥(652,225)	**¥(658,529)**	**$(7,006)**
Plan assets	5,138	**7,128**	**76**
Unfunded projected benefit obligation	(647,087)	**(651,401)**	**(6,930)**
Unrecognized actuarial differences	9,411	**8,865**	**94**
Unrecognized prior service costs	(5,622)	**(5,731)**	**(61)**
Book value (net)	(643,298)	**(648,267)**	**(6,897)**
Prepaid pension expense	103	**114**	**1**
Employees' severance and retirement benefits	¥(643,401)	**¥(648,381)**	**$(6,898)**

Employees' severance and retirement benefit expenses included in the consolidated statements of income for the years ended March 31, 2012 and 2013, consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2012	2013	2013
Service costs	¥29,758	¥30,117	$320
Interest costs	13,301	12,923	137
Expected return on plan assets	(67)	(59)	(1)
Amortization of actuarial differences	(3,091)	(3,015)	(32)
Amortization of prior service costs	1,284	661	7
Employees' severance and retirement benefit expenses	41,185	40,627	431
Total	¥41,185	¥40,627	$431

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

The discount rates are mainly 2.0% in the years ended March 31, 2012 and 2013. The rates of expected return on pension assets used by the Companies were mainly 2.0% in the years ended March 31, 2012 and 2013.

❯ NOTE 20: INCOME TAXES

The major components of deferred income taxes and deferred tax liabilities at March 31, 2012 and 2013 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2012	2013	2013
Deferred income taxes:			
Employees' severance and retirement benefits	¥231,663	¥232,049	$2,469
Reserves for bonuses	24,310	27,299	290
Losses on impairment of fixed assets	16,817	26,559	283
Unrealized holding gains on fixed assets	10,595	11,371	121
Environmental conservation cost	11,280	10,883	116
Excess depreciation and amortization of fixed assets	7,744	8,264	88
Loss carry forwards for tax purposes	7,161	7,660	81
Accrued enterprise tax	5,426	7,204	77
Asset retirement obligations	4,888	4,595	49
Other	36,535	34,971	371
	356,419	370,855	3,945
Less valuation allowance	(30,554)	(42,604)	(453)
Less amounts offset against deferred tax liabilities	(40,877)	(47,256)	(503)
Net deferred income taxes	¥284,988	¥280,995	$2,989
Deferred tax liabilities:			
Tax deferment for gain on transfers of certain fixed assets	¥ 29,311	¥ 29,726	$ 316
Net unrealized holding gains on securities	6,491	13,041	139
Valuation for assets and liabilities of consolidated subsidiaries	2,974	2,974	32
Reserve for special depreciation	1,971	1,613	17
Other	3,373	4,561	50
	44,120	51,915	554
Less amounts offset against deferred income taxes	(40,877)	(47,256)	(503)
Net deferred tax liabilities	¥ 3,243	¥ 4,659	$ 51

For the years ended March 31, 2012, and 2013, the actual effective income tax rate differed from the aggregate standard effective tax rate for the following reasons:

	2012	2013
The aggregate standard effective tax rate	40.5%	**37.8%**
Adjustments		
Increase in valuation allowance	(0.3)	**3.8**
Other net	12.9	**0.4**
The actual effective rate after applying tax effect accounting	53.1%	**42.0%**

› NOTE 21: 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, 2012 and March 31, 2013, the amounts of net income related to rental property were ¥66,629 million and ¥68,737 million ($731 million) (rental income is recognized in operating revenues and rental expense is principally charged to operating expenses.) The amounts recognized in the consolidated balance sheets and fair values related to investment and rental property were as follows.

Millions of Yen				Millions of U.S. Dollars	
Consolidated balance sheet amount			Fair value	Consolidated balance sheet amount	Fair value
2012	Difference	2013	2013	2013	2013
¥499,846	¥40,419	**¥540,265**	**¥1,401,976**	**$5,748**	**$14,915**

Notes: 1. The consolidated balance sheet amount is the amount equal to acquisition cost, less accumulated depreciation.
2. Regarding difference above the table, the increases in the year ended March 31, 2012, and 2013, were principally attributable to acquisition of real estate and renewal (¥49,140 million/$523 million), and the decreases were mainly attributable to depreciation expenses (¥20,785 million/$221million).
3. Regarding fair values at the end of fiscal year, the amount for significant properties is based on real-estate appraisals prepared by external real-estate appraisers, and the amount for other properties is estimated by the Company based on certain appraisal values or indicators that reflect appropriate market prices. If after obtaining a property from a third party or since the most recent appraisal, there has been no material change in the relevant appraisal values or indicators that reflect the appropriate market prices, the amount is based on such appraisal values or indicators.
4. Because fair values are extremely difficult to establish, this table does not include property that is being constructed or developed for future use as investment property.

› NOTE 22: 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.

Transportation segment is primarily engaged in passenger transportation mainly on passenger railway. Station Space Utilization segment creates commercial spaces in railway stations and develops various types of businesses, including retail sales, food and convenience stores, targeting customers that use railway stations. Shopping Centers & Office Buildings segment develops railway stations and land near railway stations, operates shopping centers, and leases office buildings, etc., targeting customers in and around railway stations.

2) Basis of measurement about reported 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.

(Change in depreciation method)

Following the revision of the Corporation Tax Law, from the year ended March 31, 2013, the Companies began applying a depreciation method based on the revised Corporation Tax Law to property, plant and equipment acquired since April 1, 2012. The impact on segment information as a result of this change is minimal.

Fiscal 2012 (April 1, 2011 to March 31, 2012)

Millions of Yen

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
Operating revenues:							
Outside customers	¥1,705,794	¥396,168	¥229,637	¥200,575	¥2,532,174	¥ –	¥2,532,174
Inside group	50,528	13,531	9,345	315,806	389,210	(389,210)	–
Total	1,756,322	409,699	238,982	516,381	2,921,384	(389,210)	2,532,174
Segment income	¥ 236,633	¥ 33,965	¥ 66,509	¥ 21,991	¥ 359,098	¥ 927	¥ 360,025
Segment Assets	¥5,745,011	¥199,081	¥903,772	¥904,613	¥7,752,477	¥(692,068)	¥7,060,409
Depreciation	273,888	11,822	30,614	42,380	358,704	–	358,704
Increase in fixed assets (Note 5)	310,765	8,135	57,063	26,091	402,054	–	402,054

Notes: 1. "Others" represent categories of business that are not included in reportable segments and include hotel operation, and advertising and publicity services.
2. The ¥927 million upward adjustment to segment income included a ¥352 million elimination of unrealized holding gains (losses) on fixed assets and inventory assets and a ¥588 million elimination for intersegment transactions. Moreover, the ¥692,068 million downward adjustment to segment assets included a ¥(883,889) million elimination of intersegment claims and obligations, offset by ¥191,821 million in corporate assets not allocated to each reportable segment.
3. Segment income was adjusted to ensure consistency with the operating income set forth in the consolidated statements of income.
4. Segment information on liabilities was omitted from record, as it is not a metric used in deciding the allocation of management resources or evaluating earnings performance.
5. Increase in fixed assets included a portion contributed mainly by national and local governments.

Fiscal 2013 (April 1, 2012 to March 31, 2013)

Millions of Yen

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
Operating revenues:							
Outside customers	¥1,795,125	¥404,207	¥238,945	¥ 233,546	¥2,671,823	¥ –	¥2,671,823
Inside group	53,432	14,228	10,261	345,066	422,987	(422,987)	–
Total	1,848,557	418,435	249,206	578,612	3,094,810	(422,987)	¥2,671,823
Segment income	¥ 266,442	¥ 37,575	¥ 68,198	¥ 26,863	¥ 399,078	¥ (1,515)	¥ 397,563
Segment Assets	¥5,796,623	¥205,629	¥939,996	¥1,011,834	¥7,954,082	¥(730,877)	¥7,223,205
Depreciation	267,348	10,794	31,084	37,582	346,808	–	346,808
Increase in fixed assets (Note 5)	400,378	8,078	63,107	36,336	507,899	–	507,899

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	$19,097	$4,300	$ 2,542	$ 2,485	$28,424	$ –	$28,424
Inside group	569	151	109	3,670	4,499	(4,499)	–
Total	19,666	4,451	2,651	6,155	32,923	(4,499)	28,424
Segment income	$ 2,835	$ 399	$ 725	$ 285	$ 4,244	$ (15)	$ 4,229
Segment Assets	$61,666	$2,188	$10,000	$10,764	$84,618	$(7,775)	$76,843
Depreciation	2,844	115	330	400	3,689	–	3,689
Increase in fixed assets (Note 5)	4,259	86	671	387	5,403	–	5,403

Notes: 1. "Others" represent categories of business that are not included in reportable segments and include hotel operation, and advertising and publicity services.
2. The ¥(1,515) million ($(15) million) downward adjustment to segment income included a ¥(2,134) million ($(22) million) elimination of unrealized holding gains (losses) on fixed assets and inventory assets and a ¥614 million ($7 million) elimination for intersegment transactions. Moreover, the ¥730,877 million ($7,775 million) downward adjustment to segment assets included a ¥(991,901) million ($(10,552)million) elimination of intersegment claims and obligations, offset by ¥261,024 million ($2,777million) 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 loss on fixed assets in reportable segments

Fiscal 2012 (Year ended March 31, 2012)

Millions of Yen

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note)	Total
Impairment losses on fixed assets	¥255	¥4,082	¥4,432	¥391	¥9,160

Fiscal 2013 (Year ended March 31, 2013)

Millions of Yen

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note)	Total
Impairment losses on fixed assets	**¥28,875**	**¥558**	**¥213**	**¥383**	**¥30,029**

Millions of U.S. dollars

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note)	Total
Impairment losses on fixed assets	**$307**	**$6**	**$2**	**$4**	**$319**

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

5) Information about amortized amount of goodwill and unamortized balance of goodwill by reportable segments

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

6) Information about gain on negative goodwill by reportable segments

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

NOTE 23: CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

—For the year ended March 31, 2012 and 2013

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
	2012	2013	2013
Net unrealized holding gains (losses) on securities			
Amount arising during the year	¥(4,621)	**¥23,878**	**$254**
Reclassification adjustments	2,098	**2,825**	**30**
Sub-total, before tax	(2,523)	**26,703**	**284**
Tax (expense) or benefit	1,331	**(8,974)**	**(95)**
Sub-total, net of tax	(1,192)	**17,729**	**189**
Net deferred gains (losses) on derivatives under hedge accounting			
Amount arising during the year	1,027	**1,756**	**19**
Reclassification adjustments	131	**62**	**0**
Acquisition cost adjustments	(96)	**(138)**	**(1)**
Sub-total, before tax	1,062	**1,680**	**18**
Tax (expense) or benefit	(464)	**(594)**	**(6)**
Sub-total, net of tax	598	**1,086**	**12**
Share of other comprehensive income of associates accounted for using equity method			
Amount arising during the year	172	**2,140**	**23**
Reclassification adjustments	141	**123**	**1**
Acquisition cost adjustments	(6)	**—**	**—**
Sub-total	307	**2,263**	**24**
Total other comprehensive income	¥ (287)	**¥21,078**	**$225**

NOTE 24: SUBSEQUENT EVENTS

Share Repurchase

The Board of Directors of the Company resolved at its meeting held on April 30, 2013 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 further enhance returns to shareholders

(2) Class of shares to be repurchased: Common stock

(3) Total number of shares that may be repurchased:1,000,000 shares (maximum) (0.25% of issued shares (excluding treasury stock))

(4) Aggregate repurchase price: ¥10,000 million (maximum)

(5) Period of repurchase: From May 8, 2013 to May 31, 2013

Repurchase of the Company's common stock based on this resolution was completed after market purchases on the Tokyo Stock Exchange from May 8, 2013 to May 23, 2013. The total repurchased was 1,000,000 shares of common stock at an aggregate repurchase price of ¥8,375 million ($89 million).

KPMG

Independent Auditor's Report

To the Board of Directors of East Japan Railway Company:

We have audited the accompanying consolidated financial statements of East Japan Railway Company and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2013 and 2012, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we 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, 2013 and 2012, and their financial performance and cash flows for the years 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, 2013 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 21, 2013
Tokyo, Japan