SECTION

3 STATISTICAL PORTRAIT OF JR EAST

The 'Statistical Portrait of JR East' section presents data on the economic environment and geographical characteristics of JR East, and financial information on the Company such as business analysis and the consolidated financial statements and notes.

FINANCIAL SECTION

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, 2012.

KEY ACCOUNTING POLICIES AND ESTIMATES

JR East prepares financial statements in accordance with accounting principles generally accepted in Japan. Forward-looking estimates included in those financial statements are based on a variety of factors that, in light of JR East's past performance and 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 2012, ended March 31, 2012. 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, 2012, the Japanese economy was affected by the Great East Japan Earthquake on March 11, 2011, as well as the significant strengthening of the yen, rising oil prices and a financial crisis in Europe. Yet, the economy began to improve modestly in the second half as reconstruction demand since the Great East Japan Earthquake started contributing to a gradual recovery in the domestic market. Amid business conditions that remained challenging, East Japan Railway Company and its consolidated subsidiaries and equity-method affiliates (JR East) actively worked on initiatives to improve the quality of core transportation, life-style and *Suica* card services. These initiatives were also aimed at securing revenues amid business conditions that were challenged by factors such as the suspension of tolls on expressways, in addition to the Great East Japan Earthquake and tsunami.

As a result, during the fiscal year under review, operating revenues decreased 0.2% year-on-year to ¥2,532.2 billion ($30,880 million), primarily reflecting a decline in transportation revenues at JR East due to the effects of the Great East Japan Earthquake. Operating income increased 4.3% to ¥360.0 billion ($4,391 million) mainly as a result of a decrease in JR East's non-personnel expenses. Furthermore, net income increased 42.7% to ¥108.7 billion ($1,326 million), due to such factors as a significant decrease in provision for allowance for earthquake-damage losses.

Recovery from the Great East Japan Earthquake is an issue of utmost priority for JR East in the fiscal year ended March 31, 2012, and various initiatives have been implemented to this end.

Service resumed on a normal time schedule on the Tohoku Shinkansen Line on September 23, 2011 upon completion of restoration work. JR East is coordinating its efforts to restore conventional lines along the northeastern Pacific coast that were severely damaged in the tsunami with other plans to rebuild the area as a whole and develop towns. To this end, the Group engaged in discussions with relevant national and local government authorities. Service also resumed along the entire Hachinohe Line and in sections of the Joban Line, Senseki Line and other lines. JR East has adopted a plan to construct new rails in rebuilding the Senseki Line between Takagimachi and Rikuzen-ono, the Joban Line between Soma and Watari, and the Ishinomaki Line between Watanoha and Urashuku. At the same time, in the interest of achieving an expeditious launch of safe transportation services, JR East has been negotiating a proposal to provisionally restore the Kesennuma Line with a BRT (Bus Rapid Transit) system, while considering various proposals for the Yamada Line and Ofunato Line, including provisional restoration with a BRT system. Meanwhile, in an effort to ensure local access to transportation, the Group has operated bus routes to cover for the lines that remain out of service.

JR East also made every effort to fulfill its social mission as a corporate group that conducts businesses throughout eastern Japan. Various initiatives to date for contributing to recovery include farmers' markets and produce fairs in support of areas affected by the disaster, as well as housing and increased hiring quotas for victims of the disaster. Measures the Group took in the wake of the disaster have also been reviewed. As a result, heavily traveled commuter lines and segments were prioritized for inspection, along with other emergency responses, to ensure the Group's readiness in promptly restoring services in the Tokyo metropolitan area. In addition, the Group designated stations within a 30 kilometer radius of Tokyo Station as temporary shelters for passengers unable to go home, and held talks with relevant municipal authorities on the procedure for evacuating such passengers to these shelters. At the same time, JR East took steps to stock its major railway terminals with drinking water, blankets and other emergency provisions.

Apart from these measures going forward, JR East sought to conserve energy in response to electric power shortages following the disaster. Among the measures the Group implemented to this end was a special train schedule for the summer of 2011 that was designed to address the Power Usage Limitation Order the government issued. For the duration of the special train schedule, the Group sought the understanding of its customers, and turned down or turned off lighting within stations and railcars, among other measures to conserve energy. In view of the ongoing tight balance between power supply and demand, JR East continued to review and implement necessary power conservation measures within stations, railcars and other facilities.

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, with the aim of contributing to the recovery and stimulating tourism in the regions affected by the disaster, JR East implemented the *Aomori Destination Campaign* and the *Gunma Destination Campaign*, based on the theme "Be Strong Japan!," and sold discount train tickets such as *JR EAST PASS*. In an effort to support tourism demand that had fallen after the earthquake in these regions, the Group launched the *"Ikuze, Tohoku." Campaign* to stimulate the flow of tourism traffic throughout Tohoku and contribute to the recovery of the region, in time for the first anniversary of service commencement along the entire Tohoku Shinkansen Line to Shin-Aomori Station, and showcase trains pulled by steam locomotives and other events. Further efforts were made to enhance the attraction of rail travel in response to a reduction in expressway tolls through the sale of special tickets such as the *Weekend Pass*, the *Three-day Pass* and the *Furusato-Yuki-no Josha-ken*, which is a round-trip passenger ticket for people visiting their hometowns during the year-end to New Year period. With the revision of train schedules in March 2012, JR East rolled out more of the new Series E5 Shinkansen trains in service on the Tohoku Shinkansen Line and began operating a new series of conventional limited express trains on the Joban Line. Meanwhile, measures such as the opening of a new Yoshikawaminami Station on the Musashino Line and an increase in the frequency of trains on the Yokohama Line and Nambu Line were taken to further enhance the convenience of the "Tokyo Megaloop." Moreover, JR East continued to introduce new railcars to local service on the Joban Line and other lines, and commenced operations of its *ATACS* wireless railway car control system in October 2011 along the Aoba-dori and Higashi-Shiogama segment of the Senseki Line. In applying the lessons from the Great East Japan Earthquake, JR East began implementing aseismatic reinforcement measures to prepare for, among other catastrophes, an earthquake triggered by a fault directly beneath the Tokyo metropolitan area, by pushing forward the aseismatic reinforcement of structures such as viaduct columns and reinforcing embankments. In addition, the Group took steps such as the installation of more P-wave seismographs to enhance its seismic observation system. Furthermore, Yotsuya Station was renovated as the first "*ecoste*" model station incorporating technologies for preserving the environment. The upgraded facilities of this station went into operation in March 2012. To mark the tenth anniversary of *Suica* electronic money, in July 2011 the Group launched a smartphone version of its *Mobile Suica* service for Android™ handsets compatible with the *Osaifu-Keitai* service.*

JR East announced in March 2012 that it had decided to abandon restoring the Iwaizumi Line as a railway line, after operations along the entire line were suspended in July 2010 due to a train derailment caused by a landslide in a section of the line between Oshikado and Iwate-Okawa. The decision was reached due to the large costs and long-term work needed to ensure train safety, and the already very small number of passengers on the line that has recently been declining every year. JR East plans to continue using buses instead to fulfill its responsibility to offer transportation services to the region, and has begun talks with relevant parties in the region to ask for their understanding and cooperation.

Amid the continuation of challenging business conditions, efforts were made to ensure that the frequency of Highway Bus services was sufficient to meet passenger demand, as well as strengthen the competitiveness of the Group's bus operations by setting more attractive fares. In monorail operations, a discount round-trip ticket to Haneda Airport and other measures were introduced to further promote the line's usage.

Despite these initiatives, the Transportation segment posted operating revenues of ¥1,756.3 billion ($21,419 million), a year-on-year decrease of 0.9%, due to a decline in traffic volume as a result of suspension in train services and a decreased number of trips taken by consumers following the earthquake, among other factors. Operating income was ¥236.6 billion ($2,886 million), an increase of 4.2%, due mainly to a decrease in JR East's non-personnel expenses.

Note *Osaifu-Keitai* is a registered trademark of NTT DOCOMO, INC., and Android™ is a trademark of Google Inc.

Shinkansen Network

In the Shinkansen network, passenger kilometers increased 4.4% year on year, to 18.4 billion. Use increased mainly as a result of demand linked to the recovery from the Great East Japan Earthquake and full-year contribution from services along the Hachinohe-Shin-Aomori segment of the Tohoku Shinkansen Line starting up. These and other factors offset use that had fallen mainly for the Tohoku Shinkansen as a whole due to the suspension and reduction of services in the wake of the Great East Japan Earthquake. Revenues from passenger tickets increased 1.9%, to ¥439.7 billion ($5,362 million), and revenues from commuter passes decreased 1.4%, to ¥22.4 billion ($273 million). Non-commuter passes revenues increased, 2.1%, to ¥417.3 billion ($5,089 million), owing to demand linked to the Great East Japan Earthquake and full-year contribution from services along the Hachinohe-Shin-Aomori segment of the Tohoku Shinkansen Line starting up.

Kanto Area Network

In the Kanto area network, passenger kilometers decreased 0.7% year on year, to 101.0 billion, due to the suspension and reduction of limited express services in the wake of the Great East Japan Earthquake, among other factors. Revenues from passenger tickets declined 1.3%, to ¥1,087.0 billion ($13,256 million). Specifically, revenues from commuter passes declined 1.6%, to ¥441.8 billion ($5,387 million), and non-commuter passes revenues were down 1.1%, to ¥645.2 billion ($7,869 million).

Other

In the intercity and regional networks, passenger kilometers declined 9.2% year on year, to 5.7 billion, due to the suspension and reduction of services along some lines affected by the Great East Japan Earthquake, among other reasons. Revenues from passenger tickets were down 10.4%, to ¥68.7 billion ($837 million), as a result of decreases of 5.8% in revenues from commuter passes, to ¥18.4 billion ($225 million) and 12.0% in non-commuter passes revenues, to ¥50.3 billion ($612 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 fully opened *ecute Shinagawa South* (Tokyo) and *ecute Akabane* (Tokyo), and renovated its commercial facilities within Nishi-Funabashi Station and Asagaya Station.

The Station Space Utilization segment posted a 2.4% increase in operating revenues to ¥409.7 billion ($4,996 million), as a result of these initiatives and other additional factors, such as the opening of Tokyo Station *NorthCourt (GranSta Dining)* (Tokyo) in the year ended March 31, 2011, that contributed to the increase. Operating income increased 8.3%, to ¥34.0 billion ($414 million).

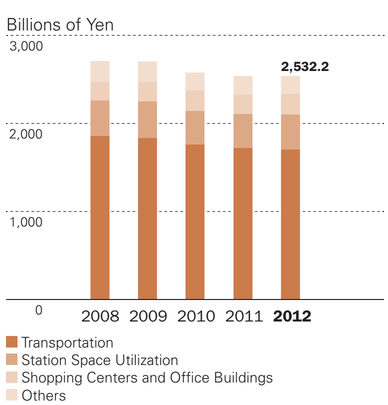
Shopping Centers and Office Buildings

In the Shopping Centers and Office Buildings segment, JR East opened *LUMINE Yurakucho* (Tokyo), the Group's first full-scale shopping facility outside of a railway station, as well as other new facilities such as *excel MiNAMi* (Ibaraki). In addition, the segment renovated existing facilities, including *GRANDUO Tachikawa* (Tokyo) as well as *atré Kameido* (Tokyo) and *atré Yotsuya* (Tokyo), while it continued to reinvigorate existing shopping centers and promote the introduction of tenants with high levels of customer footfall. Furthermore, the segment proceeded with preparations to start the construction of *Shinjuku New South Exit Building*.

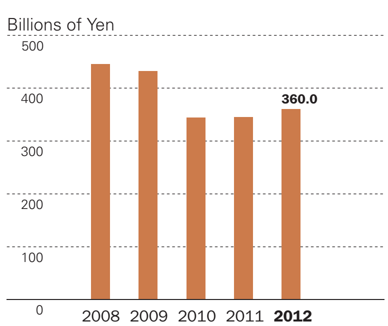
As a result of these initiatives and other additional factors, such as the renewal of *atré Kichijoji* (Tokyo) in the year ended March 31, 2011, the Shopping Centers and Office Buildings segment posted a 2.7% increase in operating revenues to ¥239.0 billion ($2,914 million). Operating income increased 3.5%, to ¥66.5 billion ($811 million).

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

OPERATING REVENUES



OPERATING INCOME



Others

In hotel operations, JR East opened *Hotel R-Mets Utsunomiya* (Tochigi) and launched a new membership organization for *Suica* card holders named *EASTYLE MEMBERS*.

In advertising and publicity services, JR East promoted sales of advertising on *J-AD Vision*, an advertising medium at stations that uses large LCD screens, and *Train Channel*, an advertising medium for showing video commercials in trains. The credit card operations received donations in support of disaster recovery efforts in the form of points accumulated by card members who participated in the *View Thanks Point* program, while implementing campaigns of its own tied to various events. In *Suica* shopping services (electronic money), JR East actively developed affiliated stores in markets beyond railway stations, including through the launch of *Suica* settlement of parcel delivery services at YAMATO TRANSPORT CO., LTD.'s direct sales bases and purchases at BOOKOFF CORPORATION LIMITED stores and SKYLARK GROUP restaurants within the Group's service area. As a result, *Suica* electronic money was accepted at approximately 177,630 stores as of March 31, 2012. In other service operations, JR East opened the *JeXer FITNESS CLUB & SPA Kameido* (Tokyo), among other facilities.

Despite these initiatives, Others posted a 3.6% decrease in operating revenues to ¥516.4 billion ($6,297 million), which mainly reflected a decline in revenues in relation to systems development. Operating income was down 4.7%, to ¥22.0 billion ($268 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 decreased 0.9%, to ¥2,172.1 billion ($26,489 million). Operating expenses as a percentage of operating revenues was 85.8%, compared with 86.4% in the previous fiscal year.

Transportation, other services and cost of sales decreased 1.4%, to ¥1,710.6 billion ($20,861 million), because of a decrease in personnel expenses.

Selling, general and administrative expenses were up 0.8%, to ¥461.5 billion ($5,628 million), which was due to an increase in the start-up expenses of new commercial facilities.

Operating income rose 4.3%, to ¥360.0 billion ($4,391 million), for the second consecutive fiscal year. Operating income as a percentage of operating revenues was 14.2%, compared with 13.6% in the previous fiscal year.

INCOME BEFORE INCOME TAXES

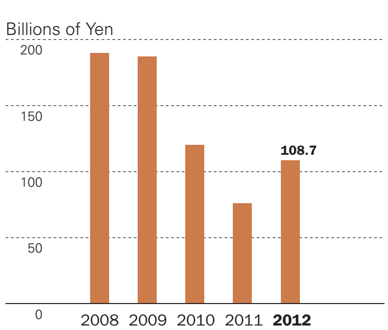
Other income increased 30.3%, to ¥90.1 billion ($1,099 million), due mainly to an increase in the gain on sales of fixed assets.

Other expenses decreased 18.9%, to ¥216.2 billion ($2,638 million), which mainly resulted from a decrease in the provision for allowance for earthquake-damage loses.

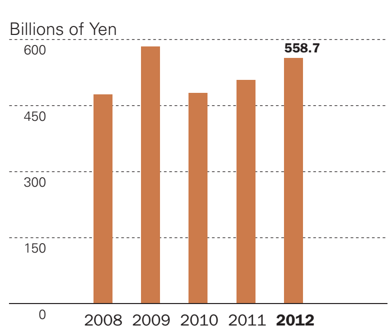
Interest and dividend income and other financial income, net of interest and dividend expense and other financial expenses, amounted to a ¥98.1 billion ($1,197 million) expense, an improvement of 4.1%.

Income before income taxes increased 58.7%, to ¥233.9 billion ($2,852 million). Income before income taxes as a percentage of operating revenues was 9.2%, an increase from 5.8%.

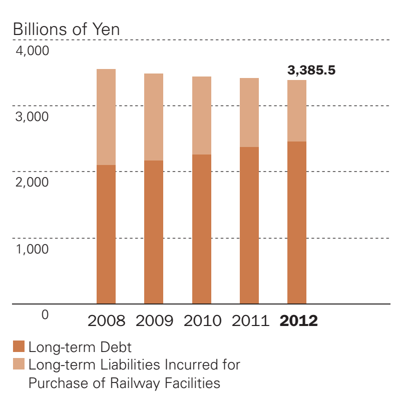
NET INCOME



CASH FLOWS FROM OPERATING ACTIVITIES



TOTAL LONG-TERM DEBT



NET INCOME

Net income increased for the first time in four years, increasing 42.7%, to ¥108.7 billion ($1,326 million), due mainly to an increase in income before income taxes, despite income taxes that rose as a result of a change in the corporate income tax rates. Earnings per share were ¥275 ($3), up from ¥193 per share. Further, net income as a percentage of operating revenues was 4.3%, compared with 3.0% in the previous fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

In the fiscal year ended March 31, 2012, operating activities provided net cash of ¥558.7 billion ($6,813 million), ¥49.8 billion more than in the previous fiscal year. This result was mainly due to an increase in major payables.

Investing activities used net cash of ¥370.7 billion ($4,521 million), ¥62.5 billion less than in the previous fiscal year. This result was mainly due to a decrease 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 at Shinagawa Station, Akabane Station, and other stations.

In shopping centers and office buildings operations, JR East undertook capital expenditures for such initiatives as *LUMINE Yurakucho* and *excel MiNAMi*. At the same time, those operations remodeled *GRANDUO Tachikawa* and other properties. In other services, capital expenditures initiatives included the construction of *Hotel R-Mets Utsunomiya*.

Further, free cash flows increased ¥112.3 billion, to ¥188.0 billion ($2,292 million).

Financing activities used net cash of ¥152.4 billion ($1,859 million), ¥124.9 billion more than in the previous fiscal year. This result was mainly due to a decrease in commercial paper.

Consequently, cash and cash equivalents as of March 31, 2012 were ¥167.5 billion ($2,043 million), an increase of ¥35.6 billion from ¥131.9 billion on March 31, 2011.

FINANCIAL POLICY

Total long-term debt at the end of fiscal 2012 stood at ¥3,385.5 billion ($41,286 million). That debt consists of long-term liabilities incurred for purchase of railway facilities associated with JR East's assumption of Shinkansen railway facilities and other facilities, bonds, and long-term loans.

Long-term liabilities incurred for purchase of railway facilities 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. ¥347.3 billion ($4,235 million) payable at a variable interest rate (annual interest rate in fiscal 2012: 4.08%) through March 31, 2017
b. ¥215.1 billion ($2,623 million) payable at a fixed annual interest rate of 6.35% through March 31, 2017
c. ¥345.0 billion ($4,208 million) payable at a fixed annual interest rate of 6.55% through September 30, 2051

In addition, at fiscal year-end, JR East had long-term liabilities incurred for purchase of railway facilities of ¥11.4 billion ($139 million) for the Akita hybrid Shinkansen facilities and ¥5.0 billion ($61 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 ¥20.4 billion ($249 million) in fiscal 2012.

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 long-term 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, 2012, JR East issued eight unsecured straight bonds, with a total nominal amount of ¥150.0 billion ($1,829 million) and maturities from 2016 through 2031. 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 ($4,024 million). JR East did not have any bank overdrafts on March 31, 2012. R&I and Moody's rated JR East's commercial paper a-1+ and P-1, respectively, as of the end of fiscal 2012. There is no outstanding balance of commercial paper JR East issued as of March 31, 2012.

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

OPERATIONAL AND OTHER RISK INFORMATION

The following are issues related to 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 JR East as of March 31, 2012.

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, 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 SURCHARGE

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 FOR APPROVAL DF 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).

Although JR passenger railway companies can revise fares independently, a system was created among those companies when JNR was restructured to ensure the convenience of users. At present, contracts among those companies enable the realization of total fares and surcharges for passengers or packages requiring services that span two or more such companies. In addition, the JR passenger railway companies have established a system in which the fares and surcharges decrease relatively as distance traveled increases.

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 LINE

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 (provisional name) 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 (provisional name) segment of the Hokuriku Shinkansen Line).

Also, new Shinkansen lines not under the jurisdiction of JR East are being developed on the Shin-Aomori–Shin-Hakodate (provisional name) segment of the Hokkaido Shinkansen Line, the Joetsu (provisional name)–Hakusan general rail yard (provisional name) segment of the Hokuriku Shinkansen Line, and the Takeo-Onsen–Isahaya 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 ¥21.4 billion ($261 million), comprising the fixed amount calculated based on the corresponding benefits of ¥17.5 billion ($213 million) and taxes and maintenance fees of ¥3.9 billion ($48 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 ¥9.2 billion ($112 million), comprising the fixed amount calculated based on the corresponding benefits of ¥7.9 billion ($96 million) and taxes and maintenance fees of ¥1.3 billion ($16 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 ($102 million), comprising the fixed amount of ¥7.0 billion ($85 million) and taxes and maintenance fees of ¥1.4 billion ($17 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 (provisional name) 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 (provisional name) 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. Based on a 5-year safety plan covering the period through fiscal 2014, *2013 Safety Vision*, JR East is taking measures to build a railway with high safety levels by addressing infrastructural and operational issues.

Specifically, as an initiative in light of the Great East Japan Earthquake, JR East inspected the operating conditions of earthquake detection systems, its evacuation guidance procedures in the event of a tsunami, and the mechanics behind the damage to Shinkansen facilities, and formulated policies for responding to the issues the inspections revealed. In addition, the Group moved up its schedule for seismic reinforcement of viaduct columns and installed more P-wave seismographs to enhance its seismic observation system as part of its seismic reinforcement measures against an anticipated earthquake directly beneath the Tokyo metropolitan area. Also, JR East has continued to introduce ATS-P and ATS-Ps systems to conventional lines to automatically stop trains and prevent train accidents. Further, in light of the derailment that occurred on the Uetsu Line in 2005, JR East introduced a driving restriction method that evaluates the exposure of railcars to wind velocity more appropriately along segments of the Uetsu Line and Keiyo Line. As a measure to prevent accidents at railway crossings, JR East installed equipment for detecting obstacles. Also taken were initiatives, in response to a railway crossing accident on the Iiyama Line in February 2011, to thoroughly refamiliarize employees with the correct procedures for securing safety, and to begin examining measures set up to prevent the accident from reoccurring. Aiming to prevent accidents on railway station platforms, JR East moved forward with the introduction of automatic platform gates to Osaki Station and Ikebukuro Station on the Yamanote Line, among others. In addition, the Company launched a joint campaign for Zero Platform Accidents with 23 other railway operators in the Tokyo metropolitan area.

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 16.5 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 suspension of tolls 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 opening of nearby commercial premises could variously affect earnings from JR East's non-transportation operations.

REDUCTION OF TOTAL LONG-TERM DEBT

At the end of fiscal 2012, total long-term debt was ¥3,385.5 billion ($41,286 million). In addition, interest expense amounted to ¥101.1 billion ($1,233 million) in fiscal 2012, which was equivalent to 28.1% of operating income.

JR East will continue to reduce total long-term 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, 2011 and 2012

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2011	2012	2012
Assets			
Current Assets:			
Cash and cash equivalents (Notes 4 and 8)	¥ 131,929	¥ 167,525	$ 2,043
Receivables (Note 8) :			
Accounts receivable—trade	288,444	344,808	4,205
Unconsolidated subsidiaries and affiliated companies	5,518	8,928	109
Other	11,425	9,280	113
Allowance for doubtful accounts (Note 2 (4))	(2,632)	(2,335)	(28)
	302,755	360,681	4,399
Inventories (Notes 2 (5) and 5)	44,017	51,937	633
Real estate for sale (Notes 2 (6) and 6)	1,865	1,515	18
Deferred income taxes (Note 20)	41,168	43,023	525
Other current assets	49,578	53,300	650
Total current assets	571,312	677,981	8,268
Investments:			
Unconsolidated subsidiaries and affiliated companies (Notes 2 (2), (3) and 7)	31,883	33,081	403
Other (Notes 2 (7), 8 and 9)	114,038	111,679	1,362
	145,921	144,760	1,765
Property, Plant and Equipment (Notes 2 (8), 10, 11 and 22):			
Buildings	2,187,634	2,214,702	27,009
Fixtures	5,378,260	5,423,325	66,138
Machinery, rolling stock and vehicles	2,479,229	2,517,822	30,705
Land	2,006,184	2,012,107	24,538
Construction in progress	253,730	284,741	3,472
Other	179,382	186,407	2,273
	12,484,419	12,639,104	154,135
Less accumulated depreciation	6,581,133	6,775,034	82,622
Net property, plant and equipment	5,903,286	5,864,070	71,513
Other Assets:			
Long-term deferred income taxes (Note 20)	268,408	241,965	2,951
Other	153,973	131,633	1,606
	422,381	373,598	4,557
	¥ 7,042,900	¥ 7,060,409	$ 86,103

See accompanying notes.

	Millions of Yen 2011	2012	Millions of U.S. Dollars (Note 2 (1)) 2012
Liabilities and Net Assets			
Current Liabilities:			
Current portion of long-term debt (Notes 8, 10 and 12)	¥ 234,909	¥ 223,846	$ 2,730
Current portion of long-term liabilities incurred for purchase of railway facilities (Notes 8, 10 and 13)	124,382	129,839	1,583
Prepaid railway fares received	79,566	84,257	1,028
Payables (Note 8) :			
Accounts payable—trade	34,541	48,911	596
Unconsolidated subsidiaries and affiliated companies	40,375	51,972	634
Other	442,251	467,148	5,697
	517,167	568,031	6,927
Accrued expenses	102,086	101,397	1,237
Accrued consumption taxes (Notes 8 and 14)	9,950	13,554	165
Accrued income taxes (Notes 2 (12), 8 and 20	13,275	70,571	861
Other current liabilities	147,755	38,745	472
Total current liabilities	1,229,090	1,230,240	15,003
Long-Term Debt (Notes 8, 10 and 12)	2,138,644	2,237,774	27,290
Long-Term Liabilities Incurred for Purchase of Railway Facilities (Notes 8, 10 and 13)	924,096	794,014	9,683
Employees' Severance and Retirement Benefits (Notes 2 (9) and 19)	658,371	643,401	7,846
Deposits Received for Guarantees	137,684	134,231	1,637
Long-Term Deferred Tax Liabilities (Note 20)	3,431	3,219	39
Other Long-Term Liabilities	117,028	126,896	1,548
Contingent Liabilities (Note 15)			
Net Assets (Note 16):			
Common stock:			
Authorized 1,600,000,000 shares;			
Issued, 2012—400,000,000 shares;			
Outstanding, 2012—395,568,237 shares	200,000	200,000	2,439
Capital surplus	96,733	96,732	1,180
Retained earnings	1,534,340	1,599,683	19,508
Treasury stock, at cost, 4,431,763 shares in 2012	(25,841)	(25,846)	(315)
Accumulated other comprehensive income:			
Net unrealized holding gains on securities	4,904	3,909	48
Net deferred losses on derivatives under hedge accounting	(780)	(74)	(1)
Minority Interests	25,200	16,230	198
Total net assets	1,834,556	1,890,634	23,057
	¥7,042,900	¥7,060,409	$86,103

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

East Japan Railway Company and Subsidiaries
Years ended March 31, 2010, 2011 and 2012

(I) CONSOLIDATED STATEMENTS OF INCOME

			Millions of Yen	Millions of U.S. Dollars (Note 2 (1))
	2010	2011	2012	2012
Operating Revenues (Note 23)	¥2,573,724	¥2,537,353	¥2,532,174	$30,880
Operating Expenses (Note 23):				
Transportation, other services and cost of sales	1,720,974	1,734,357	1,710,615	20,861
Selling, general and administrative expenses	507,901	457,909	461,534	5,628
	2,228,875	2,192,266	2,172,149	26,489
Operating Income (Note 23)	344,849	345,087	360,025	4,391
Other Income (Expenses):				
Interest expense on short- and long-term debt	(45,329)	(45,322)	(46,208)	(564)
Interest expense incurred for purchase of railway facilities	(67,267)	(60,596)	(54,865)	(669)
Loss on sales of fixed assets	(2,033)	(2,857)	(1,343)	(16)
Environmental conservation costs	(6,484)	(9,149)	(11,524)	(141)
Impairment losses on fixed assets (Notes 2 (15) and 11)	(5,801)	(13,622)	(9,160)	(112)
Interest and dividend income	2,619	3,558	2,948	36
Equity in net income (loss) of affiliated companies	(5,283)	(438)	860	10
Gain on sales of transferable development air rights	16,891	—	—	—
Gain on sales of fixed assets	2,087	4,917	5,114	62
Earthquake-damage losses (Note 3)	—	(1,771)	—	—
Provision for allowance for earthquake-damage losses (Note 3)	—	(56,937)	(16,179)	(197)
Other, net	(19,375)	(15,439)	4,232	52
	(129,975)	(197,656)	(126,125)	(1,539)
Income before Income Taxes	214,874	147,431	233,900	2,852
Income Taxes (Notes 2 (12) and 20):				
Current	100,191	66,451	98,955	1,207
Deferred	(7,706)	3,406	25,354	309
Income before Minority Interests	—	77,574	109,591	1,336
Minority Interests in Net Income of Consolidated Subsidiaries	(2,175)	(1,350)	(853)	(10)
Net Income	¥ 120,214	¥ 76,224	¥ 108,738	$ 1,326

			Yen	U.S. Dollars (Note 2 (1))
Earnings per Share (Note 2(13))	¥ 303	¥ 193	¥ 275	$ 3

See accompanying notes.

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

			Millions of Yen	Millions of U.S. Dollars (Note 2 (1))
	2010	2011	2012	2012
Income before Minority Interests	—	¥77,574	¥109,591	$1,336
Other Comprehensive Income	—	(3,930)	(287)	(3)
Net unrealized holding gains (losses) on securities	—	(3,489)	(1,192)	(14)
Net deferred gains (losses) on derivatives under hedge accounting	—	(290)	598	7
Share of other comprehensive income of associates accounted for using equity method	—	(151)	307	4
Comprehensive Income	—	¥73,644	¥109,304	$1,333
Comprehensive Income attributable to				
Comprehensive income attributable to owners of the parent	—	¥72,302	¥108,448	$1,323
Comprehensive income attributable to minority interests	—	1,342	856	10

* Accounting Standard for Presentation of Comprehensive Income were adopted beginning with the year ended March 31, 2011.
See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

East Japan Railway Company and Subsidiaries
Years ended March 31, 2010, 2011 and 2012

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	Minority Interests	Total
Balance at March 31, 2009	400,000,000	¥200,000	¥96,733	¥1,424,739	¥ (2,878)	¥ 63	¥ (70)	¥26,119	¥1,744,706
Cash dividends (¥110 per share)	—	—	—	(43,746)	—	—	—	—	(43,746)
Net income	—	—	—	120,214	—	—	—	—	120,214
Increase due to merger	—	—	—	738	—	—	—	—	738
Change of scope of consolidation	—	—	—	654	—	—	—	—	654
Change of scope of equity method	—	—	—	(962)	—	—	—	—	(962)
Purchase of treasury stock	—	—	—	—	(22,957)	—	—	—	(22,957)
Disposal of treasury stock	—	—	(0)	—	3	—	—	—	3
Other	—	—	—	—	—	8,593	(540)	844	8,897
Balance at March 31, 2010	400,000,000	¥200,000	¥96,733	¥1,501,637	¥(25,832)	¥ 8,656	¥(610)	¥26,963	¥1,807,547
Cash dividends (¥110 per share)	—	—	—	(43,525)	—	—	—	—	(43,525)
Net income	—	—	—	76,224	—	—	—	—	76,224
Increase due to merger	—	—	—	4	—	—	—	—	4
Purchase of treasury stock	—	—	—	—	(10)	—	—	—	(10)
Disposal of treasury stock	—	—	(0)	—	1	—	—	—	1
Other	—	—	—	—	—	(3,752)	(170)	(1,763)	(5,685)
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**

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	Minority Interests	Total
Balance at March 31, 2011	400,000,000	$2,439	$1,180	$18,712	$(315)	$60	$(10)	$ 307	$22,373
Cash dividends ($1.34 per share)	**—**	**—**	**—**	**(531)**	**—**	**—**	**—**	**—**	**(531)**
Net income	**—**	**—**	**—**	**1,326**	**—**	**—**	**—**	**—**	**1,326**
Increase due to merger	**—**	**—**	**—**	**1**	**—**	**—**	**—**	**—**	**1**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(0)**	**—**	**—**	**—**	**(0)**
Disposal of treasury stock	**—**	**—**	**(0)**	**—**	**0**	**—**	**—**	**—**	**0**
Other	**—**	**—**	**—**	**—**	**—**	**(12)**	**9**	**(109)**	**(112)**
Balance at March 31, 2012	**400,000,000**	**$2,439**	**$1,180**	**$19,508**	**$(315)**	**$48**	**$ (1)**	**$ 198**	**$23,057**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

East Japan Railway Company and Subsidiaries
Years ended March 31, 2010, 2011 and 2012

	Millions of Yen			Millions of U.S. Dollars (Note 2 (1))
	2010	2011	2012	2012
Cash Flows from Operating Activities:				
Income before income taxes	¥ 214,874	¥ 147,431	¥ 233,900	$ 2,852
Depreciation (Note 23)	356,365	366,415	358,704	4,374
Impairment losses on fixed assets	5,801	13,622	9,160	112
Amortization of long-term prepaid expense	6,269	6,460	6,333	77
Net change in employees' severance and retirement benefits	27,112	(14,419)	(14,971)	(183)
Interest and dividend income	(2,619)	(3,558)	(2,948)	(36)
Interest expense	112,596	105,918	101,073	1,233
Construction grants received	(58,125)	(42,303)	(59,528)	(726)
Loss from disposition and provision for cost reduction of fixed assets	83,857	71,436	83,226	1,015
Earthquake-damage losses	—	1,771	—	—
Provision for allowance for earthquake-damage losses	—	56,937	16,179	197
Net change in major receivables	(10,409)	9,546	(54,835)	(669)
Net change in major payables	8,893	(34,009)	53,344	651
Other	(13,838)	13,671	8,132	100
Sub-total	730,776	698,918	737,769	8,997
Proceeds from interest and dividends	2,823	3,763	3,148	38
Payments of interest	(113,429)	(106,577)	(101,271)	(1,235)
Payments of earthquake-damage losses	(418)	(185)	(38,563)	(470)
Payments of income taxes	(140,572)	(87,073)	(42,433)	(517)
Net cash provided by operating activities	479,180	508,846	558,650	6,813
Cash Flows from Investing Activities:				
Payments for purchases of fixed assets	(446,232)	(488,919)	(407,622)	(4,971)
Proceeds from sales of fixed assets	5,834	20,692	8,866	108
Proceeds from construction grants	45,331	50,224	50,696	618
Proceeds from sales of transferable development air rights	13,674	—	—	—
Payments for purchases of investment in securities	(7,000)	(9,645)	(7,015)	(86)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	486	470	321	4
Other	(3,775)	(6,001)	(15,931)	(194)
Net cash used in investing activities	(391,682)	(433,179)	(370,685)	(4,521)
Cash Flows from Financing Activities:				
Net change in commercial paper	—	61,000	(61,000)	(744)
Proceeds from long-term loans	112,300	165,020	174,300	2,126
Payments of long-term loans	(88,714)	(131,878)	(125,870)	(1,535)
Proceeds from issuance of bonds	190,000	130,000	150,000	1,829
Payments for redemption of bonds	(120,000)	(60,380)	(110,430)	(1,347)
Payments of liabilities incurred for purchase of railway facilities	(138,915)	(129,315)	(124,625)	(1,520)
Payments for acquisition of treasury stock	(22,957)	(11)	(5)	(0)
Cash dividends paid	(43,746)	(43,526)	(43,525)	(531)
Other	(3,295)	(18,422)	(11,273)	(137)
Net cash used in financing activities	(115,327)	(27,512)	(152,428)	(1,859)
Net Change in Cash and Cash Equivalents	(27,829)	48,155	35,537	433
Cash and Cash Equivalents at Beginning of Year	110,871	83,756	131,929	1,609
Increase due to Addition of Consolidated Subsidiaries and Other	807	25	59	1
Decrease in Cash and Cash Equivalents due to Corporate Division	(93)	(7)	—	—
Cash and Cash Equivalents at End of Year	¥ 83,756	¥ 131,929	¥ 167,525	$ 2,043

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

East Japan Railway Company and Subsidiaries
Years ended March 31, 2010, 2011 and 2012

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, 1,689 railway stations and 7,512.6 operating kilometers as of March 31, 2012.

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 ($37,890 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, 2012, which was ¥82 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, 2012, 72 subsidiaries were consolidated. During the year ended March 31,2012 one company was newly consolidated, and four companies were excluded from consolidation.

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

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

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to 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, 2012, three affiliated companies were accounted for by the equity method, and there was no change in those companies during the year.

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

4) Allowance for Doubtful Accounts

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

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

5) Inventories

Inventories are stated at cost as follows:

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, 2010, 2011 and 2012.

(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 determined mainly by the moving-average method.

(b) Available-for-sale securities without market value
Available-for-sale securities for which market quotations are not available are mainly stated at moving-average cost.

If there are significant declines in the market values of held-to-maturity debt securities, equity securities issued by subsidiaries and affiliated companies 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 determined primarily by the declining balance method based on the estimated useful lives of the assets as prescribed by the Japanese Tax Law. Regarding the replacement method for certain fixtures, the initial acquisition costs are depreciated to 50% of the costs under the condition that subsequent replacement costs are charged to income. Certain property, plant and equipment of the consolidated subsidiaries are depreciated using the straight-line method. Buildings (excluding related fixtures) acquired from April 1, 1998 onward are depreciated using the straight-line method according to the Japanese Tax Law.

The range of useful lives is mainly as follows:

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

9) Accounting for Employees' Retirement Benefits

Almost all employees of the Companies are generally entitled to receive lump-sum severance and retirement benefits (some subsidiaries have adopted a pension plan of their own in addition to those severance and retirement benefits). 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. Previously, most of the Companies accrued a liability for such obligation equal to 40% of the amount required if all eligible employees had voluntarily terminated their employment at the balance sheet date.

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

The excess of the projected benefit obligations over the total of the fair value of plan assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") is being charged to income over 10 years from the year ended March 31, 2001 on a straight-line basis. Such treatment was completed during the year ended March 31, 2010.

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 determined 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, 2010, 2011 and 2012 were ¥16,487 million, ¥16,414 million and ¥15,596 million ($190million), 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.

NOTE 3: EARTHQUAKE DAMAGE

The Companies' 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 Companies' railroad and other facilities due to intermittent earthquakes since April 2011. In light of this, the Companies recorded extraordinary losses as "provision for allowance for earthquake-damage losses" for the estimated amount of additional restoration and other expenses in the year ended March 31, 2012.

With respect to the parts of the lines which run along the Pacific coast and were damaged by the tsunami, such as the Joban Line and the Senseki Line, where a decision was made to resume operations at the original location and restoration and other expenses can be reasonably estimated, the Companies recorded extraordinary losses as "provision for allowance for earthquake-damage losses" for the estimated amount of restoration and other expenses in the year ended March 31, 2012.

The Companies intend 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 "provision for allowance for earthquake-damage losses." For reference, the net book value of property, plant and equipment (excluding rolling stock, tools, furniture and fixtures) of these affected railway lines was ¥22,002 million and ¥8,146 million ($99 million) as of March 31, 2011 and 2012, 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 ($866 million) (¥10,000 million ($122 million) deductible) as of March 11, 2011. This insurance income has not been recorded in the year ended March 31, 2012, as insurance claims are under discussion with insurance companies in light of the ongoing rebuilding efforts.

The related losses reflected in the consolidated statements of income for the year ended March 31, 2011 and 2012, were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2011	2012	2012
Earthquake-damage losses	¥ 1,771	¥ —	$ —
Provision for allowance for earthquake-damage losses	56,937	16,179	197

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, 2011 and 2012 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2011	2012	2012
Merchandise and finished goods	¥ 7,496	¥ 8,173	$100
Work in process	14,684	18,649	227
Raw materials and supplies	21,837	25,115	306
	¥44,017	¥51,937	$633

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, 2011 and 2012 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2011	2012	2012
Unconsolidated subsidiaries:			
Investments	¥ 5,139	**¥ 5,208**	**$ 64**
Advances	120	**340**	**4**
	5,259	**5,548**	**68**
Affiliated companies:			
Investments (including equity in earnings of affiliated companies)	26,410	**27,354**	**333**
Advances	214	**179**	**2**
	¥31,883	**¥33,081**	**$403**

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 ($37,890 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, 2011 and 2012, 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		
	2011			2012			2012		
	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	¥ 131,929	¥ 131,929	¥ —	¥ 167,525	¥ 167,525	¥ —	$ 2,043	$ 2,043	$ —
b Receivables	305,387	305,387	—	363,016	363,016	—	4,427	4,427	—
c Securities									
Held-to-maturity debt securities	208	208	(0)	209	211	2	3	3	0
Available-for-sale securities	104,053	104,053	—	100,460	100,460	—	1,225	1,225	—
Assets	¥ 541,577	¥ 541,577	¥ (0)	¥ 631,210	¥ 631,212	¥ 2	$ 7,698	$ 7,698	$ 0
a Payables	¥ 517,167	¥ 517,167	¥ —	¥ 568,031	¥ 568,031	¥ —	$ 6,927	$ 6,927	$ —
b Accrued consumption taxes	9,950	9,950	—	13,554	13,554	—	165	165	—
c Accrued income taxes	13,275	13,275	—	70,571	70,571	—	861	861	—
d Long-term debt									
Bonds	1,560,025	1,638,167	78,142	1,599,662	1,717,897	118,235	19,508	20,950	1,442
Long-term loans	813,528	826,249	12,721	861,958	880,365	18,407	10,512	10,736	224
e Long-term liabilities incurred for purchase of railway facilities	1,048,478	1,440,550	392,072	923,853	1,297,655	373,802	11,266	15,825	4,559
Liabilities	¥3,962,423	¥4,445,358	¥482,935	¥4,037,629	¥4,548,073	¥510,444	$49,239	$54,464	$6,225
Derivative transactions*									
a Hedge accounting not applied	¥ 2,662	¥ 2,662	¥ —	¥ 525	¥ 525	¥ —	$ 6	$ 6	$ —
b Hedge accounting applied	(1,645)	(1,645)	—	(583)	(583)	—	(7)	(7)	—

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

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

Assets

a. Cash and cash equivalents

b. Receivables

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

c. Securities

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

Liabilities

a. Payables

b. Accrued consumption taxes

c. Accrued income taxes

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

d. Long-term debt

Bonds

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

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

Long-term loans

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

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

Because these liabilities are special monetary liabilities that are subject to constraints pursuant to laws and statutory regulations and not based exclusively on free agreement between contracting parties in accordance with market principles, and because repeating fund raising using similar methods would be difficult, as stated in "1) Items relating to the status of financial instruments, b. Details of financial instruments and related risk," the fair values of long-term liabilities incurred for purchase of railway facilities are estimated by assuming that future cash flows were raised through bonds,the Company's basic method of fund raising, and discounting them based on estimated interest rates if similar domestic bonds were newly issued. Further, certain long-term liabilities incurred for purchase of railway facilities with variable interest rates are estimated based on the most recent interest rates, notification of which is provided by the Japan Railway Construction, Transport and Technology Agency.

Derivative Transactions (See Note 18)

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

	Consolidated balance sheet amount		
	Millions of Yen		Millions of U.S. Dollars
Classification	2011	2012	2012
Unlisted equity securities	¥6,233	¥6,024	$73
Preferred equity securities	1,000	1,000	12

Because the fair values of these financial instruments were extremely difficult to determine, 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."

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, 2011 and 2012 were as follows.

	Millions of Yen								Millions of U.S. Dollars			
	2011				2012				2012			
	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	¥131,929	¥ —	¥—	¥—	¥167,525	¥ —	¥—	¥—	$2,043	$—	$—	$—
Receivables	297,339	8,023	25	—	355,889	7,110	17	—	4,340	87	0	—
Securities												
Held-to-maturity debt securities (Government bonds)	—	200	—	10	50	150	—	10	1	2	—	0
Available-for-sale securities which have maturity (Government bonds)	—	6	—	—	—	6	—	—	—	0	—	—
Total	¥429,268	¥8,229	¥25	¥10	¥523,464	¥7,266	¥17	¥10	$6,384	$89	$ 0	$ 0

5. The annual maturities of bonds, long-term loans, and long-term liabilities incurred for purchase of railway facilities at March 31, 2012
(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, 2011 and 2012 were as follows:

	Millions of Yen						Millions of U.S. Dollars		
	2011			2012			2012		
	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.	¥ 20	¥ 20	¥ 0	¥159	¥161	¥ 2	$2	$2	$0
Of which market value does not exceed the amount on balance sheet:									
Government, municipal bonds, etc.	188	188	(0)	50	50	—	1	1	—
Total	¥208	¥208	¥(0)	¥209	¥211	¥ 2	$3	$3	$0

For available-for-sale securities, the acquisition cost and amount on balance sheets at March 31, 2011 and 2012 were as follows:

	Millions of Yen						Millions of U.S. Dollars		
	2011			2012			2012		
	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	¥37,976	¥ 59,385	¥21,409	¥33,473	¥ 51,788	¥18,315	$ 409	$ 632	$ 223
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	57,436	44,662	(12,774)	60,869	48,666	(12,203)	742	593	(149)
Debt securities	—	—	—	—	—	—	—	—	—
Total	¥95,418	¥104,053	¥ 8,635	¥94,348	¥100,460	¥ 6,112	$1,151	$1,225	$ 74

Note: In the year ended March 31, 2011, ¥5,046 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, 2012, ¥1,805 million ($22 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, 2011 and 2012 were summarized as follows:
Pledged assets as a collateral

	Millions of Yen		Millions of U.S. Dollars
	2011	2012	2012
Buildings and fixtures with net book value	¥25,161	**¥24,805**	**$294**
Other assets with net book value	5,465	**4,851**	**59**

Counterpart long-term debt and other liabilities

	Millions of Yen		Millions of U.S. Dollars
	2011	2012	2012
Long-term debt and other liabilities totaling	¥4,795	**¥3,036**	**$37**

Pledged assets as a mortgage for long-term liabilities

	Millions of Yen		Millions of U.S. Dollars
	2011	2012	2012
Buildings and fixtures with net book value	¥52,873	**¥53,470**	**$653**
Other assets with net book value	7,020	**6,082**	**74**

Counterpart long-term liabilities

	Millions of Yen		Millions of U.S. Dollars
	2011	2012	2012
Long-Term Liabilities Incurred for Purchase of Railway Facilities	¥5,819	**¥5,005**	**$61**

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, 2010, 2011 and 2012 were summarized as follows:

	Millions of Yen			Millions of U.S. Dollars
	2010	2011	2012	2012
Land	¥—	¥ 6,832	**¥—**	**$—**
Buildings and fixtures	—	6,249	**—**	**—**
Others	—	541	**—**	**—**
Total	¥—	¥13,622	**¥—**	**$—**

Detail amounts for the years ended March 31, 2010 and 2012 were omitted because related items were negligible.

NOTE 12: LONG-TERM DEBT

Long-term debt at March 31, 2011 and 2012 were summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2011	2012	2012
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	$ 2,194
Unsecured Bonds issued in 2002 to 2011 with interest rates ranging from 0.45% to 2.55% due in 2012 to 2033	1,141,292	1,180,879	14,401
Secured Loans due in 2012 to 2018 principally from banks and insurance companies with interest rates mainly ranging from 1.94% to 6.50%	3,963	2,095	26
Unsecured Loans due in 2012 to 2036 principally from banks and insurance companies with interest rates mainly ranging from 1.00% to 4.90%	809,565	859,863	10,486
Euro-pound bonds issued in 2006 to 2007 with interest rates ranging from 4.50% to 5.25% due in 2031 to 2036	238,833	238,883	2,913
	2,373,553	2,461,620	30,020
Less current portion	234,909	223,846	2,730
	¥2,138,644	¥2,237,774	$27,290

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, 2012 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2013	¥ 90,000	$ 1,097
2014	80,000	976
2015	75,000	915
2016	55,000	671
2017	80,000	976
2018 and thereafter	1,220,859	14,888

The annual maturities of long-term loans at March 31, 2012 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2013	¥133,848	$1,632
2014	142,956	1,744
2015	124,921	1,524
2016	119,314	1,455
2017	106,708	1,301
2018 and thereafter	234,211	2,856

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 ($37,890 million) payable in equal semiannual installments consisting of principal and interest payments in three tranches: ¥2,101,898 million ($25,633 million) and ¥638,506 million ($7,787 million) in principal amounts payable through March 2017; and ¥366,566 million ($4,470 million) payable through September 2051. In March 1997, the liability of ¥27,946 million ($341 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 ($448 million) payable to Japan Railway Construction Public Corporation.

The long-term liabilities incurred for purchase of railway facilities outstanding at March 31, 2011 and 2012 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2011	2012	2012
The long-term liability incurred for purchase of the Tohoku and Joetsu Shinkansen facilities:			
Payable semiannually including interest at a rate currently approximating 4.08% through 2017	¥ 432,690	¥347,335	$ 4,235
Payable semiannually including interest at 6.35% through 2017	250,596	215,076	2,623
Payable semiannually including interest at 6.55% through 2051	346,874	345,041	4,208
	1,030,160	907,452	11,066
The long-term liability incurred for purchase of the Akita hybrid Shinkansen facilities:			
Payable semiannually at an average rate currently approximating 1.58% through 2022	12,499	11,396	139
The long-term liability incurred for purchase of the Tokyo Monorail facilities:			
Payable semiannually at an average rate currently approximating 2.90% through 2029	5,819	5,005	61
	1,048,478	923,853	11,266
Less current portion:			
The Tohoku and Joetsu Shinkansen purchase liability	122,820	128,279	1,564
The Akita hybrid Shinkansen purchase liability	1,045	1,058	13
Tokyo Monorail purchase liability	517	502	6
	124,382	129,839	1,583
	¥ 924,096	¥794,014	$ 9,683

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, 2012 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2013	¥129,839	$1,583
2014	126,239	1,540
2015	121,154	1,477
2016	106,927	1,304
2017	97,537	1,189
2018 and thereafter	342,157	4,173

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, 2012 were ¥70,000 million ($854 million) and ¥100,000 million ($1,220 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 2012, the shareholders approved cash dividends amounting to ¥21,763 million ($265 million). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2012. 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 amounted to ¥43,830 million and ¥41,658 million ($508 million), including those due within one year of ¥2,329 million and ¥2,413 million ($29 million), at March 31, 2011 and 2012.

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	
	2011		2012		2012	
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.	¥21,619	¥21,619	¥21,356	¥21,356	$260	$260
Of which more-than-one-year contract amount etc.	21,619	21,619	—	—	—	—
Fair value	2,662	2,662	525	525	6	6
Gain or loss from valuation	811	811	(2,137)	(2,137)	(26)	(26)

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) Derivative Transactions Applied to Hedge Accounting

		Millions of Yen					
		2011			2012		
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	¥(1,896)	¥ 20,000	¥ 20,000	¥(908)
Forward exchange	Accounts payable–trade	6	—	0	12	—	0
Commodity swap	Fuel purchasing	1,889	1,249	251	1,965	1,242	325
Currency swap	Foreign currency denominated bonds	239,959	239,959	*1	239,959	239,959	*1
Interest swap	Long-term loans	315,760	237,240	*1	237,240	164,720	*1
Total		¥577,614	¥498,448	¥(1,645)	¥499,176	¥425,921	¥(583)

		Millions of U.S. Dollars		
		2012		
Type	Hedged item	Contract amount etc.	Of which more-than-one-year contract amount etc.	Fair value *2
Currency swap	Long-term loans	$ 244	$ 244	$(11)
Forward exchange	Accounts payable–trade	0	—	0
Commodity swap	Fuel purchasing	24	15	4
Currency swap	Foreign currency denominated bonds	2,927	2,927	*1
Interest swap	Long-term loans	2,893	2,008	*1
Total		$6,088	$5,194	$ (7)

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, 2011 and 2012 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2011	2012	2012
Projected benefit obligation	¥(674,769)	¥(652,225)	$(7,954)
Plan assets	4,866	5,138	63
Unfunded projected benefit obligation	(669,903)	(647,087)	(7,891)
Unrecognized actuarial differences	9,055	9,411	115
Unrecognized prior service costs	2,591	(5,622)	(69)
Book value (net)	(658,257)	(643,298)	(7,845)
Prepaid pension expense	114	103	1
Employees' severance and retirement benefits	¥(658,371)	¥(643,401)	$(7,846)

Employees' severance and retirement benefit expenses included in the consolidated statements of income for the years ended March 31, 2010, 2011and 2012, consisted of the following:

	Millions of Yen			Millions of U.S. Dollars
	2010	2011	2012	2012
Service costs	¥29,320	¥30,305	¥29,758	$363
Interest costs	19,542	13,597	13,301	162
Expected return on plan assets	(66)	(64)	(67)	(1)
Amortization of net transition obligation	48,820	—	—	—
Amortization of actuarial differences	(6,442)	(3,095)	(3,091)	(38)
Amortization of prior service costs	2,796	2,432	1,284	16
Employees' severance and retirement benefit expenses	93,970	43,175	41,185	502
Total	¥93,970	¥43,175	¥41,185	$502

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 were mainly 2.0% in the years ended March 31, 2010, 2011 and 2012. The rates of expected return on pension assets used by the Companies were mainly 2.0% in the years ended March 31, 2010, 2011 and 2012.

NOTE 20: INCOME TAXES

The major components of deferred income taxes and deferred tax liabilities at March 31, 2011 and 2012 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2011	2012	2012
Deferred income taxes:			
Employees' severance and retirement benefits	¥266,533	¥231,663	$2,825
Reserves for bonuses	26,810	24,310	296
Losses on impairment of fixed assets	17,816	16,817	205
Environmental conservation cost	8,323	11,280	138
Unrealized holding gains on fixed assets	10,866	10,595	129
Excess depreciation and amortization of fixed assets	9,038	7,744	94
Loss carry forwards for tax purposes	8,783	7,161	87
Accrued enterprise tax	1,873	5,426	66
Asset retirement obligations	5,901	4,888	60
Devaluation losses on fixed assets	5,243	4,576	56
Other	31,795	31,959	391
	392,981	356,419	4,347
Less valuation allowance	(35,660)	(30,554)	(372)
Less amounts offset against deferred tax liabilities	(47,745)	(40,877)	(499)
Net deferred income taxes	¥309,576	¥284,988	$3,476
Deferred tax liabilities:			
Tax deferment for gain on transfers of certain fixed assets	¥ 33,476	¥ 29,311	$ 357
Net unrealized holding gains on securities	8,667	6,491	79
Valuation for assets and liabilities of consolidated subsidiaries	3,423	2,974	36
Reserve for special depreciation	1,858	1,971	24
Other	3,754	3,373	42
	51,178	44,120	538
Less amounts offset against deferred income taxes	(47,745)	(40,877)	(499)
Net deferred tax liabilities	¥ 3,433	¥ 3,243	$ 39

For the years ended March 31, 2011, and 2012, the actual effective income tax rate differed from the aggregate standard effective tax rate for the following reasons:

	2011	2012
The aggregate standard effective tax rate	40.5%	40.5%
Adjustments		
Changes in tax rate	—	13.6
Tax credits	(0.7)	(0.5)
Gain on negative goodwill	(0.0)	(0.8)
Other net	7.6	0.3
The actual effective rate after applying tax effect accounting	47.4%	53.1%

On December 2, 2011, Law to Amend Part of the Income Tax Law, etc. to Establish Tax System Corresponding to Structural Changes to Economic Society (Law No. 114 of 2011) and Law on Special Measures for Securing Finance Resources to Implement Measures for Reconstruction from The Great East Japan Earthquake (Law No. 117 of 2011) were promulgated. As a result of these amendments, the statutory income tax rate for the Companies will be reduced for years beginning on or after April 1, 2012. Based on the amendments, the statutory income tax rates utilized as of March 31, 2012 for the measurement of deferred income taxes and deferred tax liabilities expected to be settled or realized from April 1, 2012 to March 31, 2015 and on April 1, 2015 and thereafter are 37.8 % and 35.4%, respectively. Due to these changes in statutory income tax rates, net deferred income taxes decreased by ¥31,590 million ($385 million) as of March 31, 2012 and deferred income tax expenses recognized for the year ended March 31, 2012 increased by ¥31,865 million ($389 million). The effect of this change on net unrealized holding gains (losses) on securities and other items was negligible.

NOTE 21: BUSINESS COMBINATIONS

Business combinations (for the year ended March 31, 2010) were as follows;

1) Summary of the target business, legal form of the business combination, corporate name after the combination and summary of the transaction, including transaction purposes

a) Summary of the target business: Credit card business of the Company

b) Legal form of the business combination: Absorption-type corporate division (split-type) effected by the Company pursuant to which Viewcard Co., Ltd. (a wholly-owned subsidiary of the Company) became the successor company

c) Corporate name after the combination: Viewcard Co., Ltd. (a consolidated subsidiary of the Company)

d) Summary of the transaction, including transaction purposes: Reinforcement of the Company's credit card business, pursuant to an absorption-type corporate division agreement effective as of February 1, 2010; the Company's credit card business was succeeded by Viewcard Co., Ltd.

2) Summary of the accounting treatment

In accordance with the Accounting Standard for Business Combinations (October 31, 2003, Business Accounting Council) and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (Accounting Standards Board of Japan Guideline No.10, published on November 15, 2007), it is treated as a transaction between parties under common control.

In the years ended March 31 2011 and 2012, there were no significant business combinations.

NOTE 22: INVESTMENT AND RENTAL PROPERTY

The Companies own rental office buildings and rental commercial facilities (hereafter "investment and rental property") principally within the Company's service area. In the years ended March 31, 2011 and March 31, 2012, the amounts of net income related to rental property were ¥62,367 million and ¥66,629 million ($813 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.

Consolidated balance sheet amount			Fair value	Consolidated balance sheet amount			Fair value	Consolidated balance sheet amount	Fair value
Millions of Yen								Millions of U.S. Dollars	
2010	Difference	2011	2011	2011	Difference	**2012**	**2012**	**2012**	**2012**
¥514,144	¥(498)	¥513,646	¥1,338,951	¥513,646	¥(13,800)	**¥499,846**	**¥1,304,406**	**$6,096**	**$15,907**

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, 2011, and 2012, were principally attributable to acquisition of real estate and renewal (¥31,270 million and ¥20,162 million/$246 million, respectively), and the decreases were mainly attributable to depreciation expenses (¥21,018 million and ¥20,453 million/$249million, respectively).
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 determine, this table does not include property that is being constructed or developed for future use as investment property.

NOTE 23: SEGMENT INFORMATION

—For the year ended March 31, 2010

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

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Other Services	Elimination and/or Corporate	Consolidated
	Millions of Yen					
	2010					
Operating revenues:						
Outside customers	¥1,757,994	¥387,104	¥226,932	¥201,694	¥ —	¥2,573,724
Inside group	50,711	12,854	8,915	326,438	(398,918)	—
	1,808,705	399,958	235,847	528,132	(398,918)	2,573,724
Costs and expenses	1,577,379	366,628	166,539	514,626	(396,297)	2,228,875
Operating income	¥ 231,326	¥ 33,330	¥ 69,308	¥ 13,506	¥ (2,621)	¥ 344,849
Identifiable assets	¥5,717,136	¥178,574	¥858,828	¥826,925	¥(585,969)	¥6,995,494
Depreciation	267,109	10,542	30,549	48,165	—	356,365
Capital investments	396,360	14,865	38,795	29,146	—	479,166

The main activities of each business segment are as follows:

Transportation:

Passenger transportation mainly by passenger railway;

Station space utilization:

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

Shopping centers & office buildings:

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

Other services:

Hotel operations, advertising and publicity, wholesales, truck delivery, information processing, cleaning services / station operations, cleaning, credit card business, and other services

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

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

—For the years ended March 31, 2011 and 2012

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.

3) Information about reported segment operating revenues, segment income or loss, segment assets, and other material items

Fiscal 2010 (April 1, 2009 to March 31, 2010)

Segment information based on past segment classifications was omitted from the Consolidated Financial Statements, as such information was already presented in compliance with the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (Accounting Standards Board of Japan Statement No. 17, March 27, 2009) 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)

Included in the ¥(2,621) million in elimination and/or corporate of operating income for Segment Information by Business Activities in the consolidated year ended March 31, 2010, were ¥(3,339) million in elimination of unrealized holding gains (losses) on fixed assets and inventory assets, and ¥720 million in elimination for intersegment transactions. Moreover, included in ¥(585,969) million in elimination and/or corporate of identifiable assets were ¥(742,385) million of elimination of intersegment claims and obligations and ¥156,416 million in corporate assets not allocated to each segment.

Fiscal 2011 (April 1, 2010 to March 31, 2011)

Millions of Yen

							2011
	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
Operating revenues:							
Outside customers	¥1,721,922	¥385,891	¥223,293	¥206,247	¥2,537,353	¥ —	¥2,537,353
Inside group	50,572	14,011	9,473	329,186	403,242	(403,242)	—
Total	1,772,494	399,902	232,766	535,433	2,940,595	(403,242)	2,537,353
Segment income	¥ 227,151	¥ 31,359	¥ 64,240	¥ 23,072	¥ 345,822	¥ (735)	¥ 345,087
Segment Assets	¥5,782,741	¥187,136	¥876,454	¥858,254	¥7,704,585	¥(661,685)	¥7,042,900
Depreciation	276,918	11,597	30,870	47,030	366,415	—	366,415
Increase in fixed assets (Note 5)	378,565	13,867	50,243	26,944	469,619	—	469,619

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 ¥735 million downward adjustment to segment income included a ¥(1,753) million elimination of unrealized holding gains (losses) on fixed assets and inventory assets and a ¥1,016 million elimination for intersegment transactions. Moreover, the ¥661,685 million downward adjustment to segment assets included a ¥(794,846) million elimination of intersegment claims and obligations, offset by ¥133,161million 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 2012 (April 1, 2011 to March 31, 2012)

Millions of Yen

	2012						
	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

Millions of U.S. Dollars

	2012						
	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
Operating revenues:							
Outside customers	$20,803	$4,831	$ 2,800	$ 2,446	$30,880	$ —	$30,880
Inside group	616	165	114	3,851	4,746	(4,746)	—
Total	21,419	4,996	2,914	6,297	35,626	(4,746)	30,880
Segment income	$ 2,886	$ 414	$ 811	$ 268	$ 4,379	$ 12	$ 4,391
Segment Assets	$70,061	$2,428	$11,022	$11,032	$94,543	$(8,440)	$86,103
Depreciation	3,340	144	373	517	4,374	—	4,374
Increase in fixed assets (Note 5)	3,790	99	696	318	4,903	—	4,903

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 ($12 million) upward adjustment to segment income included a ¥352 million ($4 million) elimination of unrealized holding gains (losses) on fixed assets and inventory assets and a ¥588 million ($7 million) elimination for intersegment transactions. Moreover, the ¥692,068 million ($8,440 million) downward adjustment to segment assets included a ¥(883,889) million ($(10,779) million) elimination of intersegment claims and obligations, offset by ¥191,821 million ($2,339 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.

4) 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.

5) Information about impairment loss on fixed assets in reportable segments

Fiscal 2011 (Year ended March 31, 2011)

Millions of Yen

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note)	Total
Impairment losses on fixed assets	¥8,848	¥667	¥3,512	¥595	¥13,622

Fiscal 2012 (Year ended March 31, 2012)

	Millions of Yen					Millions of U.S. Dollars				
	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note)	Total	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note)	Total
Impairment losses on fixed assets	¥255	¥4,082	¥4,432	¥391	¥9,160	$3	$50	$54	$5	$112

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

6) 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.

7) 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.

(Additional Information)

From the year ended March 31,2011, the Companies began adopting the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (Accounting Standards Board of Japan Statement No. 17, March 27, 2009) 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).

NOTE 24: CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

—For the year ended March 31, 2011

1) Comprehensive Income for the year ended March 31, 2010

Comprehensive income attributable to owners of the parent	¥128,268 million
Comprehensive income attributable to minority interests	¥ 2,181 million
Total	¥130,449 million

2) Other Comprehensive Income for the year ended March 31, 2010

Net unrealized holding gains (losses) on securities	¥ 8,123 million
Net deferred gains (losses) on derivatives under hedge accounting	¥ (437) million
Share of other comprehensive income of associates accounted for using equity method	¥ 374 million
Total	¥ 8,060 million

—For the year ended March 31, 2012

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	2012
Net unrealized holding gains (losses) on securities		
Amount arising during the year	¥(4,621)	$(56)
Reclassification adjustments	2,098	25
Sub-total, before tax	(2,523)	(31)
Tax (expense) or benefit	1,331	17
Sub-total, net of tax	(1,192)	(14)
Net deferred gains (losses) on derivatives under hedge accounting		
Amount arising during the year	1,027	13
Reclassification adjustments	131	1
Acquisition cost adjustments	(96)	(1)
Sub-total, before tax	1,062	13
Tax (expense) or benefit	(464)	(6)
Sub-total, net of tax	598	7
Share of other comprehensive income of associates accounted for using equity method		
Amount arising during the year	172	2
Reclassification adjustments	141	2
Acquisition cost adjustments	(6)	(0)
Sub-total	307	4
Total other comprehensive income	¥ (287)	$ (3)

(Additional information)

Accounting Standard for Presentation of Comprehensive Income were adopted beginning with the year ended March 31, 2011.

INDEPENDENT AUDITOR'S REPORT

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, 2012 and 2011, and the consolidated statements of income and comprehensive income for each of the two years in the period ended March 31, 2012, the consolidated statements of income for the year ended March 31, 2010, and the consolidated statements of changes in net assets and statements of cash flows for each of the three years in the period ended March 31, 2012, 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, 2012 and 2011, and their financial performance and cash flows for each of the three years in the period ended March 31, 2012 in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

A description of earthquake damage is included in Note 3 to the consolidated financial statements.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 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 22, 2012
Tokyo, Japan