Financial Section

FINANCIAL SECTION

Eleven-Year Summary

East Japan Railway Company and Subsidiaries
Years ended March 31

Millions of Yen (except for Per share data, Ratios, Number of consolidated subsidiaries, and Number of employees)	1999	2000	2001	2002
Operating Results				
Operating revenues	2,483,594	2,502,909	2,546,041	2,543,378
Operating expenses	2,149,122	2,160,952	2,222,290	2,227,038
Operating income	334,472	341,957	323,751	316,340
Net income	21,929	66,963	69,174	47,551
Segment Information[1]				
Operating Revenues from Outside Customers:				
Transportation	N/A	N/A	1,801,370	1,789,599
Station space utilization	N/A	N/A	348,994	368,553
Shopping centers & office buildings	N/A	N/A	165,818	165,276
Other services	N/A	N/A	229,859	219,950
Total	N/A	N/A	2,546,041	2,543,378
Segment Information				
Operating Revenues from Outside Customers:				
Transportation	1,808,925	1,799,051	1,805,663	N/A
Merchandise sales	356,260	379,213	386,033	N/A
Real estate leasing	158,515	143,432	152,438	N/A
Other services	159,894	181,213	201,907	N/A
Total	2,483,594	2,502,909	2,546,041	N/A
Financial Position				
Total assets	7,287,033	7,308,391	7,247,089	7,022,271
Long-term debt (including current portion)	2,320,246	2,319,664	2,307,483	2,060,838
Railway facilities purchase liabilities (including current portion)[2]	2,610,966	2,499,023	2,392,241	2,318,997
Total long-term debt (sum of two items above)	4,931,212	4,818,687	4,699,724	4,379,835
Shareholders' equity[3]	766,880	856,401	923,568	930,746
Cash Flows[4]				
Cash flows from operating activities	365,296	474,715	455,470	455,045
Cash flows from investing activities	(282,082)	(292,438)	(266,319)	(105,645)
Cash flows from financing activities	(72,298)	(168,133)	(161,109)	(433,589)
Per Share Data[5]				
Earnings	5,482	16,741	17,294	11,888
Shareholders' equity[3]	191,720	214,100	230,892	232,687
Cash dividends[6]	5,000	5,000	5,000	5,000
Ratios				
Net income as a percentage of revenues	0.9	2.7	2.7	1.9
Return on average equity (ROE)	2.9	8.3	7.8	5.1
Ratio of operating income to average assets (ROA)	4.6	4.7	4.4	4.4
Equity ratio	10.5	11.7	12.7	13.3
Total long-term debt to shareholders' equity	6.4	5.6	5.1	4.7
Other Data				
Depreciation	319,687	329,583	329,651	321,995
Capital expenditures[7]	258,080	288,106	296,957	301,781
Interest expense	230,887	220,421	205,155	187,601
Number of consolidated subsidiaries (As of March 31)	81	96	96	101
Number of employees[8]	87,880	82,747	82,285	80,200

1 The business segmentation was changed to four new segments beginning with the year ended March 31, 2002. The information for the year ended March 31, 2001, has been reclassified according to the new business segmentation.
2 Long-term liabilities incurred for the purchase of the Tohoku and Joetsu Shinkansen facilities, the Akita hybrid Shinkansen facilities, and the Tokyo Monorail facilities.
3 Shareholders' equity equals total net assets less minority interests beginning with the year ended March 31, 2007 (as in the balance sheets).
4 Due to a change in accounting standards, statements of cash flows after the year ended March 31, 2000, use presentation methods different to those of previous years.
5 JR East implemented a stock split at a ratio of 100 shares for 1 share of common stock with an effective date of January 4, 2009. Per share data for Fiscal 2009 reflects the stock split.
6 The total amount of dividends for the year ended March 31 comprises interim dividends for the interim period ended September 30 and year-end dividends for the year ended March 31, which were decided at the annual shareholders' meeting in June.
7 These figures exclude expenditures funded by third parties, mainly governments and their agencies, which will benefit from the resulting facilities.
8 Beginning with the year ended March 31, 2000, "Number of employees" excludes employees assigned to other companies and employees on temporary leave.
9 Upon the merger of the Japan Railways Group Mutual Aid Association into the Welfare Pension, the Company shared the shortage of the assets to be transferred amounting to ¥77,566 million. This was paid in a lump sum and was accounted for as a long-term prepaid expense included in the other item of other assets on the balance sheets and was charged to income from the year ended March 31, 1998, to the year ended March 31, 2002, on a straight-line basis.

2003	2004	2005	2006	2007	2008	2009
2,565,671	2,542,297	2,537,481	2,592,393	2,657,346	2,703,564	2,697,000
2,222,576	2,190,877	2,178,946	2,196,293	2,229,248	2,258,404	2,264,445
343,095	351,420	358,535	396,100	428,098	445,160	432,555
97,986	119,866	111,592	157,575	175,871	189,673	187,291
1,800,434	1,798,132	1,781,776	1,805,406	1,825,387	1,857,756	1,831,933
368,961	366,438	369,790	383,904	399,998	404,006	415,020
170,321	175,180	181,956	190,466	197,140	205,347	222,628
225,955	202,547	203,959	212,617	234,821	236,455	227,419
2,565,671	2,542,297	2,537,481	2,592,393	2,657,346	2,703,564	2,697,000
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
6,853,403	6,781,692	6,716,268	6,821,584	6,968,032	6,942,003	6,965,793
1,942,983	1,940,321	1,940,255	1,960,211	2,034,558	2,101,439	2,171,860
2,174,581	2,034,203	1,892,827	1,743,657	1,601,646	1,457,360	1,316,708
4,117,564	3,974,524	3,833,082	3,703,867	3,636,204	3,558,799	3,488,568
981,856	1,100,176	1,183,546	1,357,359	1,488,554	1,596,398	1,718,587
433,304	387,061	407,737	447,722	541,850	475,601	584,360
(196,422)	(234,591)	(214,948)	(309,489)	(348,800)	(400,789)	(396,796)
(310,658)	(196,193)	(209,041)	(141,599)	(172,027)	(80,407)	(159,238)
24,453	29,928	27,868	39,370	44,008	47,464	469
245,463	275,052	296,106	339,599	372,493	399,483	4,301
8,000	6,000	6,500	8,000	9,000	10,000	110
3.8	4.7	4.4	6.1	6.6	7.0	6.9
10.2	11.5	9.8	12.4	12.4	12.3	11.3
4.9	5.2	5.3	5.9	6.2	6.4	6.2
14.3	16.2	17.6	19.9	21.4	23.0	24.7
4.2	3.6	3.2	2.7	2.4	2.2	2.0
322,564	322,300	317,957	316,038	318,526	335,587	343,101
307,579	313,911	319,912	361,372	413,310	417,144	402,582
173,298	160,944	148,431	136,548	131,376	126,047	120,395
101	98	92	86	85	82	82
78,760	77,009	74,923	72,802	71,316	72,214	72,550

10 Net income decreased significantly in the year ended March 31, 1999, mainly because "Cash charges for additional obligation related to transfer to Welfare Pension" was accounted for in other expenses. This additional obligation of ¥70,475 million, including the interest portion, was paid in accordance with the enactment of the Law for Disposal of Debts and Liabilities of the Japanese National Railways Settlement Corporation.

11 Accounting Standards for Financial Instruments were adopted beginning with the year ended March 31, 2001.

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

13 Accounting Standards for Retirement Benefits were adopted beginning with the year ended March 31, 2001. (See Notes 2 (9) and 14 to consolidated financial statements)

14 Accounting Standards for Impairment of Fixed Assets were early adopted beginning with the year ended March 31, 2005. (See Notes 2 (15) and 9 to consolidated financial statements)

15 Pursuant to an amendment of the Japanese Tax Law, from the fiscal year ended March 31, 2008, a depreciation method based on the amended Japanese Tax Law has been used for property, plant and equipment acquired on or after April 1, 2007. Further, for property, plant and equipment acquired on or before March 31, 2007, from the fiscal year following the fiscal year in which assets reach 5% of acquisition cost through the application of a depreciation method based on the Japanese Tax Law prior to amendment, the difference between the amount equivalent to 5% of the acquisition cost and the memorandum value (residual value under the amended Japanese Tax Law) is depreciated evenly over a five-year period and recognized in depreciation. (see Note 2 (8))

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, 2009.

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 2009, ended March 31, 2009. 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 fiscal year under review, ended March 31, 2009, Japan's economy rapidly moved further into recession as the increasing severity of the worldwide financial crisis that began in the United States led to falling exports, slumping production, and lackluster consumer spending, particularly from the second half of the fiscal year. Amid such increasingly challenging economic conditions, East Japan Railway Company, its consolidated subsidiaries, and equity-method affiliated companies worked to secure revenues by further improving services in railway operations and developing life-style businesses centered on railway stations. At the same time, JR East actively developed businesses that capitalize on *Suica*.

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

As a result, in the fiscal year under review, operating revenues decreased by 0.2%, to ¥2,697.0 billion ($27,520 million), due to a decrease in revenues from transportation operations, among other factors. Operating income decreased by 2.8%, to ¥432.6 billion ($4,414 million), due to higher deprecation expenses and other factors. Net income was down 1.3%, to ¥187.3 billion ($1,911 million).

Business results by business segment were as follows.

Segment Information

• Transportation

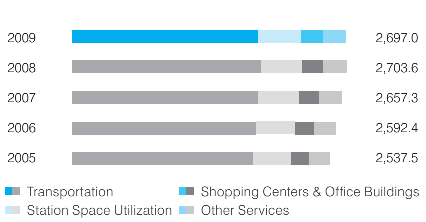
JR East sought to further improve the safety and stability in transportation operations centered on railway operations. At the same time, JR East sought to increase usage of and secure revenues from its Shinkansen network and Tokyo metropolitan area network.

Specifically, in its Shinkansen network JR East increased train services and the number of railcars with seats available for reservation to meet the demand from passengers, in particular during the Golden Week spring holiday, the summer vacation period, the year-end and New Year period. Further, JR East generated a greater volume of tourism in its service area by implementing such campaigns as the *Yamanashi Destination Campaign* and the *Sendai / Miyagi Destination Campaign*.

Also, JR East sought to increase the *Otona no Kyujitsu Club* membership by launching products exclusively for the members, including the *Otona no Kyujitsu Club Member Pass*. In addition, JR East further improved the convenience and comfort experienced by passengers by revising service schedules mainly for its Shinkansen services and the Tokyo metropolitan area in March 2009 and introducing new-type railcars to the Keihin-Tohoku and Negishi lines, and the Yamagata Shinkansen

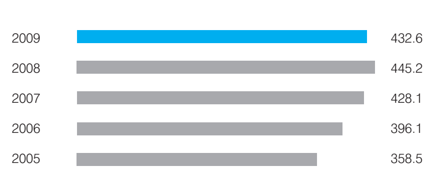
Operating Revenues

Billions of Yen



Operating Income

Billions of Yen



Line. Further, *Suica* became usable at an additional 115 railway stations in the JR East service area in March 2009. Also, JR East expanded use of conventional line IC tickets with Hokkaido Railway Company's *Kitaca*. In bus operations, amid business conditions that continued to be challenging, JR East worked to strengthen operational foundations by increasing services on short-distance routes, setting fares flexibly, and reorganizing unprofitable routes. In monorail operations, JR East promoted greater use by introducing an earlier first-train service from Haneda Airport Terminal 2.

However, the volumes of railway network transportation of JR East decreased because of such factors as the recession and the effect of earthquakes in the Tohoku region. As a result, the segment recorded a decrease of 1.4% in operating revenues, to ¥1,889.0 billion ($19,276 million), and a decrease of 6.8%, in operating income, to ¥309.2 billion ($3,156 million).

- Shinkansen Network

In the Shinkansen network, passenger kilometers decreased 3.1%, to 19.3 billion, because the recession resulted in significant decreases in usage of long-distance Shinkansen line segments on the Tohoku Shinkansen Line and Shinkansen line segments in the Tokyo metropolitan area, such as Tokyo–Utsunomiya on the Tohoku Shinkansen Line and Tokyo–Takasaki on the Joetsu Shinkansen Line. Revenues from passenger tickets declined 3.3%, to ¥474.9 billion ($4,846 million), as a decrease in non-commuter passes revenues counteracted an increase in revenues from commuter passes. Specifically, revenues from commuter passes rose 0.8%, to ¥22.9 billion ($234 million), due to favorable usage of commuter passes. Meanwhile, non-commuter passes revenues decreased 3.5%, to ¥451.9 billion ($4,611 million), due to a significant reduction in usage of long-distance Shinkansen line segments, including Tokyo–Sendai / Morioka on the Tohoku Shinkansen Line and a significant reduction in usage of Shinkansen line segments in the Tokyo metropolitan area, such as Tokyo–Utsunomiya on the Tohoku Shinkansen Line and Tokyo–Takasaki on the Joetsu Shinkansen Line.

- Kanto Area Network

In the Kanto area network, passenger kilometers edged down 0.2%, to 103.7 billion, because the effect of a leap year in the previous fiscal year and the opening of the Tokyo Metro Fukutoshin Line subway offset increased usage arising from the opening of new commercial facilities in areas alongside railway lines. Revenues from passenger tickets declined 0.5%, to ¥1,149.4 billion ($11,729 million), as lower non-commuter passes revenues cancelled the contribution from an increase in revenues from commuter passes. Specifically, revenues from commuter passes edged up 0.5%, to ¥453.6 billion ($4,629 million), thanks to higher commuter usage that reflected improvement in the job market in the first half of the fiscal year. However, non-commuter passes revenues were down 1.2%, to ¥695.8 billion ($7,100 million), because increased usage stemming from the opening of new commercial facilities in areas alongside railway lines did not fully compensate for the effect of a leap year in the previous fiscal year, unfavorable usage during Golden Week and three-day weekends, and the opening of the Tokyo Metro Fukutoshin Line subway.

- Other

In intercity and regional networks, passenger kilometers declined 1.2%, to 6.7 billion, due to the effect of earthquakes in the Tohoku region. Revenues from passenger tickets were down 1.7%, to ¥84.6 billion ($863 million), due to a 2.5% decrease in non-commuter passes revenues, to ¥64.6 billion ($659 million), which offset a 1.2% increase in revenues from commuter passes, to ¥20.0 billion ($204 million).

- Station Space Utilization

JR East advanced its *Station Renaissance* program, which maximizes the value of spaces within railway stations. Specifically, JR East opened *atrévie Tabata* (Tokyo) and the second phase of *ecute Tachikawa* (Tokyo). Further, JR East opened additional *NEWDAYS* convenience stores, developed new convenience stores within railway stations and on railway platforms, and revitalized existing convenience stores. Also, JR East began mail-order sales of the natural mineral water *Tanigawa Rempo No Uruoi Tennen Sui* and undertook joint product development and sales with a major beverage manufacturer.

As a result of these initiatives, the effect of the commencement of operations at *GranSta* (Tokyo), the first phase of *ecute Tachikawa* in October 2007 and other factors, the segment achieved an increase of 3.0% in operating revenues, to ¥433.1 billion ($4,419 million), and an increase of 5.2% in operating income, to ¥38.2 billion ($389 million).

• Shopping Centers & Office Buildings

JR East began operations at *Granduo Kamata* (Tokyo), *S-PAL II* (Miyagi), and *CoCoLo Minamikan* (Niigata). Further, JR East remodeled *LUMINE EST* (Tokyo), *Kawasaki BE* (Kanagawa), *Kokubunji L* (Tokyo), and other facilities. Also, JR East actively brought in major tenants with the ability to attract customers.

As a result of these initiatives and such factors as the opening of the first phase of *GranTokyo North Tower* and *GranTokyo South Tower* (Tokyo) in November 2007, the segment posted an increase of 8.2% in operating revenues, to ¥231.6 billion ($2,364 million), and an increase of 17.1% in operating income, to ¥70.0 billion ($715 million).

• Other Services

JR East began operations at *HOTEL METS Tachikawa* (Tokyo) and expanded *HOTEL METS Kamakura Ofuna* (Kanagawa). In addition, JR East continued efforts to strengthen its competitiveness further through initiatives that included the remodeling of the banquet halls of *Hotel Metropolitan* (Tokyo). In advertising and publicity operations, JR East promoted sales of advertising within railcars such as the *Train Channel*. In other services, JR East began operations at the *Jexer Fitness Club Metropolitan Ikebukuro* (Tokyo) and the *Jexer Fitness Studio Kamata* (Tokyo). Further, in credit card operations, JR East worked to increase the number of members of various types of *View Card*, such as the *Otona no Kyujitsu Club Zipangu Card* and the *Otona no Kyujitsu Club Middle Card*. Moreover, JR East began issuing various types of affiliated credit cards with Sumitomo Mitsui Banking Corporation and All Nippon Airways Co., Ltd. For *Suica* shopping services (electronic money), JR East continued its aggressive efforts to develop affiliated stores. Also, from March 2009 JR East expanded use of electronic money through *Kitaca*, electronic money services operated by JR Hokkaido. There were approximately 59,220 *Suica* compatible stores as of the end of the fiscal year.

As a result, operating revenues increased 0.6%, to ¥545.1 billion ($5,562 million). However, operating income decreased 0.3%, to ¥17.3 billion ($176 million).

Operating Income

Operating expenses edged up 0.3%, to ¥2,264.4 billion ($23,106 million). Operating expenses as a percentage of operating revenues was 84.0%, compared with 83.5% in the previous fiscal year. Transportation, other services and cost of sales increased 0.1%, to ¥1,749.3 billion ($17,849 million), because an increase in depreciation due to a revision of the Japanese Tax Law offset a decrease in property expenses such as repair expenses.

Selling, general and administrative expenses were up 1.0%, to ¥515.2 billion ($5,257 million), which was due to a increase in property expenses.

Operating income was down 2.8%, to ¥432.6 billion ($4,414 million). Operating income as a percentage of operating revenues was 16.0%, compared with 16.5% in the previous fiscal year.

Income before Income Taxes

Other income declined 27.0%, to ¥102.1 billion ($1,042 million), principally associated with decreases in gain on investment in anonymous association and construction grants received, counteracting an increase in gain on sales of fixed assets.

Other expenses decreased 17.4%, to ¥212.2 billion ($2,165 million), which mainly resulted from a decrease in interest payments due to a decline in interest-bearing debt, lower losses on reduction entry for construction grants, and a decline in impairment losses on fixed assets, which offset an increase in losses on devaluation of investments in securities.

Interest and dividend income and other financial income, net of interest and dividend expense and other financial expenses, amounted to a ¥116.6 billion ($1,190 million) expense, an improvement of 5.2%.

Income before income taxes decreased 1.7%, to ¥322.5 billion ($3,291 million). Income before income taxes as a percentage of operating revenues was 12.0%, a decline from 12.1%.

Net Income

Net income decreased 1.3% compared with the highest-ever net income, which was posted in the previous fiscal year, to ¥187.3 billion ($1,911 million). Earnings per share were ¥468.68, down from ¥47,463.57 (¥474.64 per share if the stock split effective January 4, 2009 had been executed at the beginning of the previous fiscal year). Further, net income as a percentage of operating revenues was 6.9%, compared with 7.0% in the previous fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Net cash provided by operating activities was up ¥108.8 billion, to ¥584.4 billion ($5,963 million), mainly resulting from a decrease in payments of income taxes and an increase in major payables, which counteracted a decrease in income before income taxes.

Net cash used in investing activities decreased ¥4.0 billion, to ¥396.8 billion ($4,049 million), which was due to such factors as decreased payments for purchase 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. Station space utilization operations advanced the *Station Renaissance* program through capital expenditures for the construction in Tokyo of *atrévie Tabata* and the second phase of *ecute Tachikawa*. Shopping centers & office buildings operations constructed the second phase of *GranTokyo North Tower* in Tokyo as part of construction projects on the Yaesu side of Tokyo Station as well as undertaking capital expenditures such as *Granduo Kamata* department store in Tokyo. In other services, capital expenditures focused on the construction of *HOTEL METS Tachikawa* in Tokyo and the strengthening of functions through the development of systems.

Further, free cash flows increased ¥112.8 billion, to ¥187.6 billion ($1,914 million).

Net cash used in financing activities was up ¥78.8 billion, to ¥159.2 billion ($1,625 million), primarily due to a rise in payments of short-term loans.

Cash and cash equivalents at the end of fiscal 2009, which was ¥82.1 billion at the end of the previous fiscal year, was up ¥28.8 billion, to ¥110.9 billion ($1,131 million).

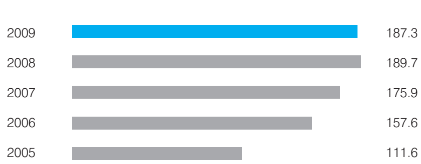
Financial Policy

Total long-term debt at the end of fiscal 2009 stood at ¥3,488.6 billion ($35,597 million). That debt consists of long-term liabilities incurred for the purchase of railway facilities associated with JR East's assumption of Shinkansen railway facilities and other facilities, bonds, and long-term loans.

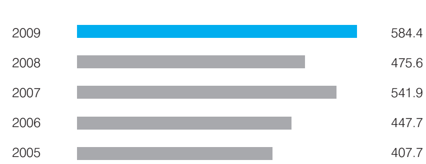
Long-term liabilities incurred for purchase of railway facilities associated with JR East's assumption of Shinkansen railway facilities are paid in equal semi-annual installments, consisting of principal and interest payments, and are divided into the following three tranches:

a. ¥627.9 billion ($6,408 million) payable at a variable interest rate (annual interest rate in fiscal 2009: 4.21%) through March 31, 2017
b. ¥315.3 billion ($3,217 million) payable at a fixed annual interest rate of 6.35% through March 31, 2017
c. ¥350.2 billion ($3,574 million) payable at a fixed annual interest rate of 6.55% through September 30, 2051

Net Income
Billions of Yen



Cash Flows from Operating Activities
Billions of Yen



In addition, at fiscal year-end, JR East had long-term liabilities incurred for the purchase of railway facilities of ¥14.7 billion ($150 million) for the Akita hybrid Shinkansen Line and ¥8.6 billion ($87 million) for the Tokyo Monorail.

Since fiscal 1998, JR East has made annual early repayments of long-term liabilities incurred for the purchase of railway facilities associated with JR East's assumption of Shinkansen railway facilities based on an agreement with the Japan Railway Construction, Transport and Technology Agency (JRTT). JR East made early repayments of ¥38.0 billion ($388 million) in fiscal 2009.

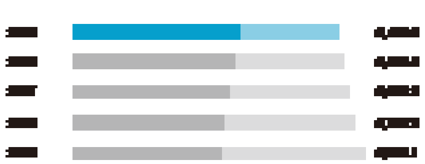
In fiscal 2002, JR East introduced a cash management system that integrated the management of the Group's cash and funding, which previously was carried out separately by subsidiaries, with the aim of reducing JR East's total long-term debt. Also, JR East is enhancing capital management methods that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

In the year ended March 31, 2009, JR East issued seven unsecured straight bonds, with a total nominal amount of ¥175.0 billion ($1,786 million) and maturities from 2018 through 2028. 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 Aa1 (upgraded from Aa2 in September 2008), respectively.

In order to respond to short-term financing requirements, JR East has bank overdraft facilities with its principal banks totaling ¥300.0 billion ($3,061 million). R&I and Moody's rated JR East's commercial paper a-1+ and P-1, respectively, as of the end of fiscal 2009. Further, JR East did not have any bank overdrafts or outstanding commercial paper on March 31, 2009.

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

Total Long-Term Debt
Billions of Yen



Long-term debt
Long-term liabilities incurred for purchase of railway facilities

FINANCIAL SECTION

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, 2009.

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 "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 new companies or among the new companies and JR Companies) with respect to the establishment of appropriate passenger fares and surcharges, the unhindered utilization of railway facilities, and other factors relating to railway operations
  - Items relating to the appropriate maintenance of railway routes currently in operation reflecting trends in transportation demand and other changes in circumstances following the restructuring of 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 new companies should give consideration to the avoidance of actions that inappropriately obstruct business activities or infringe upon the interests of

small and medium-sized companies operating businesses within the operational areas of the new companies that are similar to the businesses of the new companies

(d) The MLIT may advise and issue instructions to the new companies to secure operations that are in accordance with those guidelines (supplementary provision, article 3). Moreover, the amended JR Law enables the MLIT to issue warnings and directives in the event that operational management runs counter to the guidelines without any justifiable reason (supplementary provision, article 4).

(e) With respect to the provisions of those guidelines, JR East has always given, and of course will continue to give, adequate consideration to such items in the management of its railway operations. Therefore, JR East does not anticipate that those provisions will have a significant impact on its management.

(f) In addition, the amended JR Law includes required transitional measures, such as the stipulation that all bonds issued by the new companies prior to the amended JR Law's enactment date are and will continue to be general mortgage bonds as determined in article 4 of the JR Law (supplementary provision, article 7).

ESTABLISHMENT OF AND CHANGES TO FARES AND SURCHARGES

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

System for Approval of Fares and Surcharges

The Railway Business Law stipulates that railway operators are required to obtain the approval of the MLIT when setting or changing the upper limit for fares and surcharges (Railway Business Law, article 16, item 1). Subject to prior notification, railway operators can then set or change fares and surcharges within those upper limits, including limited express surcharges on conventional lines and other charges (Railway Business Law, article 16, items 3 and 4).

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 (total cost) (Railway Business Law, article 16, item 2). In addition, a three-year period is stipulated for the calculation of costs.

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

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

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

The calculation of total cost is as follows:

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

1. With respect to comparable costs among railway operators, in order to promote enhanced management efficiency, a "yardstick formula" is used to encourage indirect competition among respective operators. The results of those comparisons are issued at the end of every business year and form the basis for the calculation of costs.
2. Working capital = operating costs and certain inventories
3. Equity ratio, 30%; borrowed capital ratio, 70%
4. Return rate on equity is based on the average of yields on public and corporate bonds and the overall industrial average return on equity and dividend yield ratio. Return rate on borrowed capital is based on the average actual rate on loans and other liabilities.

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

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

PLAN FOR THE DEVELOPMENT OF NEW SHINKANSEN LINES

Construction Plans for New Shinkansen Lines

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

Within JR East's service area, the Hachinohe–Shin-Aomori segment of the Tohoku Shinkansen Line and the Nagano–Joetsu segment of the Hokuriku Shinkansen Line are 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 both of those Shinkansen line segments would be standard gauge lines. 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 Hachinohe–Shin-Aomori segment of the Tohoku Shinkansen Line by the end of fiscal 2011 and the Nagano–Hakusan general rail yard segment of the Hokuriku Shinkansen Line by the end of fiscal

2015 (JR East has jurisdiction of the Nagano–Joetsu segment of the Hokuriku Shinkansen Line). Furthermore, JR East announced in November 2008 that it aims to begin operations on the Hachinohe–Shin-Aomori segment of the Tohoku Shinkansen Line in December 2010.

Also, new Shinkansen lines not under the jurisdiction of JR East are being developed on the Shin-Aomori–Shin-Hakodate segment of the Hokkaido Shinkansen Line, the Joetsu–Hakusan general rail yard segment of the Hokuriku Shinkansen Line, and the Hakata–Shin-Yatsushiro and Takeo-Onsen–Isahaya segments 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 company 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 2009 totaled ¥22.1 billion ($225 million), comprising the fixed amount calculated based on the corresponding benefits of ¥17.5 billion ($179 million) and taxes and maintenance fees of ¥4.6 billion ($47 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 2009 totaled ¥9.4 billion ($96 million), comprising the fixed amount calculated based on the corresponding benefits of ¥7.9 billion ($81 million) and taxes and maintenance fees of ¥1.5 billion ($15 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, in December 2002, at the time of the opening of the Morioka–Hachinohe segment of the Tohoku Shinkansen Line, the management of that segment on the Tohoku Line was 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 Hachinohe–Shin-Aomori segment of the Tohoku Shinkansen Line and the Nagano–Joetsu 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 conventional lines that run parallel to those Shinkansen lines upon commencement of operations: the Hachinohe–Aomori segment of the Tohoku Line and 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.

An agreement of the national government and ruling parties reconfirmed those conditions in December 1996, and they continued to be firmly maintained at the time of opening the Takasaki–Nagano segment of the Hokuriku Shinkansen Line and the Morioka–Hachinohe segment of the Tohoku Shinkansen Line. Also in December 1996, the national government and ruling parties agreed that, based on consultations and an agreement between the JR Companies and the JRTT, prior payment of usage fees would be implemented. Consequently, the construction of the Hachinohe–Shin-Aomori segment of the Tohoku Shinkansen Line and the Nagano–Joetsu segment of the Hokuriku Shinkansen Line began in March 1998. Given the aforementioned reasons, JR East has estimated that those new

Shinkansen line segments will not adversely affect the maintenance of its sound management base.

However, a change to the conditions and arrangements related to the construction of new Shinkansen lines could adversely affect JR East's financial condition and business performance.

In addition, in December 2007 deliberations began regarding "securing financial resources to begin construction of Shinkansen line segments not yet constructed" in connection with "agreement items of the national government and ruling parties' examination committee for the development of new Shinkansen lines." A working group of the national government and ruling parties concerned with the construction of new Shinkansen lines decided to "concentrate the utmost efforts on reaching a conclusion, upon establishing a schedule for measures to stably secure financial resources by the end of the current fiscal year." In response, the MLIT issued a request regarding the prior calculation of usage fees for Shinkansen line segments in which services have not yet commenced with a view to securing financial resources for the construction of new Shinkansen lines. In the view of JR East, the calculation of usage fees is not possible at this stage because service schedules and charge structures upon commencement of Shinkansen services have not yet been decided and the conditions relating to competing transportation operators directly prior to the commencement of Shinkansen services should be reflected. Accordingly, JR East issued a response to the effect that usage fees should be decided through discussion between the management team and related parties based on a variety of information and actual management conditions directly prior to the commencement of Shinkansen services on the said Shinkansen line segments.

SAFETY MEASURES

Railway operations can potentially suffer significant damage resulting from natural disasters, human error, crime, terrorism, or other factors.

JR East regards ensuring safety as a major issue that fundamentally underpins its operations. Based on its 5-year *Safety Plan 2008*, JR East is taking measures to build a railway with high safety levels by addressing infrastructural and operational issues.

Specifically, to prevent train accidents, JR East has continued to introduce ATS-P and ATS-Ps systems, which automatically stop trains to prevent collisions and excessive speed, particularly on curved track sections on conventional lines. In particular, in light of the derailment that occurred on the Uetsu Line in 2005, JR East continued to increase the installation of wind speed measurement equipment and review operational regulations as well as undertaking trials of operational regulations that use real-time meteorological information. With respect to countermeasures for earthquakes, JR East continued to reinforce elevated railway tracks and upgraded railcars and ground equipment in order to minimize the damage resulting from derailments of Shinkansen trains. Also, as a measure to prevent accidents at railway crossings, JR East installed equipment for detecting obstacles. In addition, as a measure to prevent accidents on railway station platforms, JR East began research and designs for the advance introduction of automatic platform gates to Ebisu Station and Meguro Station on the Yamanote Line. Moreover, JR East prepared a 5-year safety plan, *2013 Safety Vision*, which adds two new approaches in relation to safety efforts, "improve human resource development and systems" and "accident prevention through risk evaluation," and announced it in March 2009.

INFORMATION SYSTEMS AND PROTECTION OF PERSONAL DATA

JR East uses many computer systems in a variety of transportation and non-transportation operations. Further, computer systems play an important role among travel agencies, Railway Information Systems Co., Ltd., and other companies with which JR East has close business relationships. If the functions of those computer 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 computer systems was leaked to unrelated third parties due to computer systems becoming infected by viruses or unauthorized manipulation, it could affect JR East's financial condition and business performance.

JR East takes measures to prevent damage, such as continuously upgrading the functions of in-house systems and training related personnel. In the unlikely event of a system failure, 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

JR East 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 other services (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 JR East, or result in the failure of tenants or business partners. The occurrence of any of those contingencies could have an impact on JR East's financial position and business performance. JR East's stations are used by roughly 17 million people every day (average daily number of passengers). JR East will fully leverage those railway stations as its largest management resource to develop operations. At the same time, JR East will enhance earnings and secure customer trust by implementing stringent hygiene management and credit controls.

COMPETITION

JR East's transportation operations compete with the operations of airlines, automobiles, bus transportation, and other railway companies. Furthermore, JR East's non-transportation operations compete with existing and newly established businesses. The competition of JR East's transportation and non-transportation operations with such rival operators could have an impact on JR East's financial condition and business performance. In particular, intensified competition in the transportation market could affect earnings from JR East's transportation operations. Such competition includes the advancement of large-scale upgrading works by other railway operators, the commencement of services on the Narita New Rapid Line, and an increase in flight services as a result of the enlargement of Tokyo International Airport (Haneda Airport). Also, in station space utilization operations and shopping centers and office buildings businesses, JR East's competitiveness could lessen as a result of intensified competition created by the new entry of other companies into markets or the renewal or opening of nearby commercial premises. In addition, the earnings of JR East's hotel operations could be affected by increasingly fierce competition from foreign-affiliated luxury hotels as well as economy business hotels and dedicated wedding reception facilities operated by domestic companies.

REDUCTION OF TOTAL LONG-TERM DEBT

At the end of fiscal 2009, total long-term debt was ¥3,488.6 billion ($35,597 million). In addition, interest expense amounted to ¥120.4 billion ($1,229 million) in fiscal 2009, which was equivalent to 27.8% 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.

ADMINISTRATIVE MEASURES RELATING TO THE SENJU POWER PLANT, THE OJIYA POWER PLANT, AND THE SHIN-OJIYA POWER PLANT

On March 10, 2009, the Director General of the Hokuriku Regional Development Bureau of the Ministry of Land, Infrastructure, Transport and Tourism ordered administrative measures in relation to JR East that included cancellation of its permit to possess running water in relation to usage of water from the river system of the Shinano River because JR East's water intake at the Senju Power Plant, Ojiya Power Plant, and Shin-Ojiya Power Plant exceeded the maximum permitted water intake in violation of conditions attached based on the River Law (1964, Law No. 167). The resulting possibility of an increase in the volume of electric power that the JR East Group has to purchase from electric power utility companies and an increase in the volume of electric power that the Kawasaki Power Plant, a thermal power plant, has to generate could affect the JR East Group's financial condition and financial results.

FINANCIAL SECTION

Consolidated Balance Sheets

East Japan Railway Company and Subsidiaries
March 31, 2008 and 2009

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2008	2009	2009
Assets			
Current Assets:			
Cash and cash equivalents (Note 3)	¥ 82,058	¥ 110,871	$ 1,131
Receivables:			
Accounts receivable–trade	274,030	286,328	2,922
Unconsolidated subsidiaries and affiliated companies	6,495	7,384	75
Other	19,285	18,194	186
Allowance for doubtful accounts (Note 2 (4))	(2,495)	(2,819)	(29)
	297,315	309,087	3,154
Inventories (Notes 2 (5) and 4)	35,004	36,494	372
Real estate for sale (Notes 2 (6) and 5)	5,509	3,756	38
Deferred income taxes (Note 13)	54,328	50,114	511
Other current assets	33,744	48,505	496
Total current assets	507,958	558,827	5,702
Investments:			
Unconsolidated subsidiaries and affiliated companies (Notes 2 (2) and 6)	34,325	34,472	352
Other (Notes 2 (7) and 7)	143,876	106,462	1,086
	178,201	140,934	1,438
Property, Plant and Equipment (Notes 2 (8), 8 and 9):			
Buildings	2,030,431	2,077,712	21,201
Fixtures	5,161,059	5,239,973	53,469
Machinery, rolling stock and vehicles	2,306,162	2,340,701	23,885
Land	2,012,448	2,007,490	20,485
Construction in progress	176,956	195,979	2,000
Other	169,827	158,688	1,618
	11,856,883	12,020,543	122,658
Less accumulated depreciation	6,018,868	6,182,346	63,085
Net property, plant and equipment	5,838,015	5,838,197	59,573
Other Assets:			
Long-term deferred income taxes (Note 13) .	235,416	256,756	2,620
Other	182,413	171,079	1,747
	417,829	427,835	4,367
	¥ 6,942,003	¥ 6,965,793	$ 71,080

See accompanying notes.

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2008	2009	2009
Liabilities and Net Assets			
Current Liabilities:			
Current portion of long-term debt (Notes 8 and 10)	¥ 234,446	¥ 208,198	$ 2,124
Current portion of long-term liabilities incurred for purchase of railway facilities (Notes 8 and 11)	139,699	137,926	1,407
Prepaid railway fares received	89,401	87,649	894
Payables:			
Accounts payable–trade	45,958	43,311	442
Unconsolidated subsidiaries and affiliated companies	46,979	47,503	485
Other	452,232	432,848	4,417
	545,169	523,662	5,344
Accrued expenses	109,370	105,475	1,076
Accrued consumption tax (Note 12)	4,617	13,524	138
Accrued income taxes (Notes 2 (12) and 13)	59,992	74,717	763
Other current liabilities	77,799	30,057	307
Total current liabilities	1,260,493	1,181,208	12,053
Long-Term Debt (Notes 8 and 10)	1,866,993	1,963,662	20,037
Long-Term Liabilities Incurred for Purchase of Railway Facilities (Notes 8 and 11)	1,317,661	1,178,782	12,029
Employees' Severance and Retirement Benefits (Notes 2 (9) and 14)	617,086	644,468	6,576
Deposits Received for Guarantees	159,210	153,506	1,567
Long-Term Deferred Tax Liabilities (Note 13)	2,010	1,642	17
Other Long-Term Liabilities	96,544	97,819	998
Contingent Liabilities (Note 15)			
Net Assets (Note 16):			
Common stock:			
Authorized 1,600,000,000 shares;			
Issued, 2009—400,000,000 shares;			
Outstanding, 2009—399,572,760 shares	200,000	200,000	2,041
Capital surplus	96,728	96,733	987
Retained earnings	1,278,942	1,424,739	14,538
Treasury stock, at cost, 427,240 shares in 2009	(2,631)	(2,878)	(29)
Net unrealized holding gains on securities	24,373	63	1
Net deferred losses on derivatives under hedge accounting	(1,014)	(70)	(1)
Minority interests	25,608	26,119	266
Total net assets	1,622,006	1,744,706	17,803
	¥6,942,003	¥6,965,793	$71,080

FINANCIAL SECTION

Consolidated Statements of Income

East Japan Railway Company and Subsidiaries
Years ended March 31, 2007, 2008 and 2009

			Millions of Yen	Millions of U.S. Dollars (Note 2 (1))
	2007	2008	2009	2009
Operating Revenues (Note 17)	¥2,657,346	¥2,703,564	¥2,697,000	$27,520
Operating Expenses (Note 17):				
Transportation, other services and cost of sales	1,718,576	1,748,293	1,749,262	17,849
Selling, general and administrative expenses	510,672	510,111	515,183	5,257
	2,229,248	2,258,404	2,264,445	23,106
Operating Income (Note 17)	428,098	445,160	432,555	4,414
Other Income (Expenses):				
Interest expense on short- and long-term debt	(42,512)	(44,412)	(46,409)	(474)
Interest expense incurred for purchase of railway facilities	(88,864)	(81,635)	(73,986)	(755)
Losses for redemption of bonds (Note 10)	(20,557)	—	—	—
Loss on sales of fixed assets	(650)	(2,820)	(3,418)	(35)
Environmental conservation costs	(13,884)	(1,577)	(3,697)	(38)
Impairment losses on fixed assets (Notes 2 (15), 9 and 17)	(3,507)	(11,712)	(946)	(10)
Losses on devaluation of investment in securities (Notes 2 (7) and 7)	—	—	(10,795)	(110)
Interest and dividend income	1,954	3,069	3,767	38
Equity in net income (loss) of affiliated companies	(1,978)	91	344	4
Gain on sales of transferable development air rights	10,456	—	—	—
Gain on sales of fixed assets	35,489	10,448	16,908	173
Other, net	2,635	11,500	8,161	84
	(121,418)	(117,048)	(110,071)	(1,123)
Income before Income Taxes	306,680	328,112	322,484	3,291
Income Taxes (Notes 2 (12) and 13):				
Current	140,556	127,224	134,638	1,374
Deferred	(12,135)	9,374	(1,508)	(15)
Minority Interests in Net Income of Consolidated Subsidiaries	(2,388)	(1,841)	(2,063)	(21)
Net Income	¥ 175,871	¥ 189,673	¥ 187,291	$ 1,911

			Yen	U.S. Dollars (Note 2 (1))
Earnings per Share (Note 2 (13))	¥44,008	¥47,464	¥469	$5

See accompanying notes.

FINANCIAL SECTION

Consolidated Statements of Changes in Net Assets

East Japan Railway Company and Subsidiaries
Years ended March 31, 2007, 2008 and 2009

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, 2006	4,000,000	¥200,000	¥96,600	¥ 984,525	¥(2,309)	¥ 78,543	¥ —	¥ —	¥1,357,359
Reclassification due to adoption of new accounting standards for presentation of net assets in the balance sheet as of April 1, 2006	—	—	—	—	—	—	—	25,022	25,022
Net assets at April 1, 2006	4,000,000	¥200,000	¥96,600	¥ 984,525	¥(2,309)	¥ 78,543	¥ —	¥25,022	¥1,382,381
Cash dividends (¥8,500 per share)	—	—	—	(33,974)	—	—	—	—	(33,974)
Bonuses to directors and corporate auditors	—	—	—	(243)	—	—	—	—	(243)
Net income	—	—	—	175,871	—	—	—	—	175,871
Increase due to addition of consolidated subsidiaries and other	—	—	—	1,055	—	—	—	—	1,055
Purchase of treasury stock	—	—	—	—	(741)	—	—	—	(741)
Disposal of treasury stock	—	—	121	—	455	—	—	—	576
Other	—	—	—	—	—	(11,574)	225	(471)	(11,820)
Balance at March 31, 2007	4,000,000	¥200,000	¥96,721	¥1,127,234	¥(2,595)	¥ 66,969	¥ 225	¥24,551	¥1,513,105
Cash dividends (¥9,500 per share)	—	—	—	(37,971)	—	—	—	—	(37,971)
Net income	—	—	—	189,673	—	—	—	—	189,673
Increase due to addition of consolidated subsidiaries and other	—	—	—	6	—	—	—	—	6
Purchase of treasury stock	—	—	—	—	(52)	—	—	—	(52)
Disposal of treasury stock	—	—	7	—	16	—	—	—	23
Other	—	—	—	—	—	(42,596)	(1,239)	1,057	(42,778)
Balance at March 31, 2008	4,000,000	¥200,000	¥96,728	¥1,278,942	¥(2,631)	¥ 24,373	¥(1,014)	¥25,608	¥1,622,006
Cash dividends (¥105 per share)	—	—	—	(41,968)	—	—	—	—	(41,968)
Net income	—	—	—	187,291	—	—	—	—	187,291
Increase due to addition of consolidated subsidiaries and other	—	—	—	474	—	—	—	—	474
Purchase of treasury stock	—	—	—	—	(276)	—	—	—	(276)
Disposal of treasury stock	—	—	5	—	29	—	—	—	34
Other	—	—	—	—	—	(24,310)	944	511	(22,855)
Increase due to stock split	396,000,000	—	—	—	—	—	—	—	—
Balance at March 31, 2009	400,000,000	¥200,000	¥96,733	¥1,424,739	¥(2,878)	¥ 63	¥ (70)	¥26,119	¥1,744,706

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, 2008	4,000,000	$2,041	$987	$13,050	$(27)	$ 249	$(10)	$261	$16,551
Cash dividends ($1.07 per share)	—	—	—	(428)	—	—	—	—	(428)
Net income	—	—	—	1,911	—	—	—	—	1,911
Increase due to addition of consolidated subsidiaries and other	—	—	—	5	—	—	—	—	5
Purchase of treasury stock	—	—	—	—	(2)	—	—	—	(2)
Disposal of treasury stock	—	—	0	—	0	—	—	—	0
Other	—	—	—	—	—	(248)	9	5	(234)
Increase due to stock split	396,000,000	—	—	—	—	—	—	—	—
Balance at March 31, 2009	400,000,000	$2,041	$987	$14,538	$(29)	$ 1	$ (1)	$266	$17,803

See accompanying notes.

FINANCIAL SECTION

Consolidated Statements of Cash Flows

East Japan Railway Company and Subsidiaries
Years ended March 31, 2007, 2008 and 2009

	Millions of Yen			Millions of U.S. Dollars (Note 2 (1))
	2007	2008	2009	2009
Cash Flows from Operating Activities:				
Income before income taxes	¥ 306,680	¥ 328,112	¥ 322,484	$ 3,291
Depreciation (Note 17)	318,526	335,587	343,101	3,501
Impairment losses on fixed assets	3,507	11,712	946	10
Amortization of long-term prepaid expense	5,079	5,377	5,614	57
Net change in employees' severance and retirement benefits	2,051	15,665	27,378	279
Interest and dividend income	(1,954)	(3,069)	(3,767)	(38)
Interest expense	131,376	126,047	120,395	1,229
Construction grants received	(65,452)	(97,556)	(60,042)	(613)
Loss from disposition and provision for cost reduction of fixed assets	93,655	111,765	80,249	819
Net change in major receivables	(52,546)	(26,289)	(10,673)	(109)
Net change in major payables	68,643	(41,825)	(8,111)	(83)
Other	(14,655)	(16,872)	5,210	53
Subtotal	794,910	748,654	822,784	8,396
Proceeds from interest and dividends	2,159	3,282	3,969	41
Payments of interest	(130,114)	(124,887)	(120,978)	(1,235)
Payments of earthquake-damage losses	(6,291)	(2,849)	(1,471)	(15)
Payments of income taxes	(118,814)	(148,599)	(119,944)	(1,224)
Net cash provided by operating activities	541,850	475,601	584,360	5,963
Cash Flows from Investing Activities:				
Payments for purchases of fixed assets	(458,097)	(488,211)	(460,504)	(4,699)
Proceeds from sales of fixed assets	39,667	16,290	27,221	278
Proceeds from construction grants	69,834	67,985	55,382	565
Proceeds from sales of transferable development air rights	5,228	13,343	—	—
Payments for purchases of investment in securities	(12,238)	(17,070)	(15,452)	(158)
Other	6,806	6,874	(3,443)	(35)
Net cash used in investing activities	(348,800)	(400,789)	(396,796)	(4,049)
Cash Flows from Financing Activities:				
Net increase (decrease) in commercial paper	(40,000)	—	—	—
Proceeds from long-term loans	109,162	170,500	130,000	1,327
Payments of long-term loans	(116,247)	(202,001)	(134,630)	(1,374)
Proceeds from issuance of bonds	180,081	138,314	174,982	1,786
Payments for redemption of bonds	(100,000)	(40,000)	(100,000)	(1,020)
Payments of liabilities incurred for purchase of railway facilities	(142,012)	(144,285)	(140,652)	(1,435)
Payments for acquisition of treasury stock	(40)	(52)	(57)	(1)
Cash dividends paid	(33,974)	(37,971)	(41,968)	(428)
Other	(28,997)	35,088	(46,913)	(480)
Net cash used in financing activities	(172,027)	(80,407)	(159,238)	(1,625)
Net Increase (Decrease) in Cash and Cash Equivalents	21,023	(5,595)	28,326	289
Cash and Cash Equivalents at Beginning of Year	64,373	86,980	82,058	837
Increase due to Addition of Consolidated Subsidiaries and Other	1,584	673	487	5
Cash and Cash Equivalents at End of Year	¥ 86,980	¥ 82,058	¥ 110,871	$ 1,131

See accompanying notes.

FINANCIAL SECTION

Notes to Consolidated Financial Statements

East Japan Railway Company and Subsidiaries
Years ended March 31, 2007, 2008 and 2009

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, 1,705 railway stations and 7,526.8 operating kilometers as of March 31, 2009.

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 from the Shinkansen Holding Corporation (see Note 11). 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 10).

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 a regulated company.

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, 2009, which was ¥98 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, 2009, 82 subsidiaries were consolidated. One subsidiary was established and newly consolidated in the year ended March 31, 2009. Furthermore, one subsidiary was deconsolidated in the year ended March 31, 2009 because of the completion of the subsidiary's liquidation on October 31, 2008.

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 in the consolidated balance sheets and amortized using the straight-line method over five years.

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, 2009, two affiliated companies were accounted for by the equity method, and there was no change in those companies during that year.

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

4) Allowance for Doubtful Accounts

According to the Japanese Accounting Standards for Financial Instruments, the Companies provide an allowance based on the past loan loss experience for a certain reference period in general. Furthermore, for receivables from debtors with financial difficulty, which could affect their ability to perform in accordance with their obligations, the allowance is provided for estimated unrecoverable amounts on an individual basis.

5) Inventories

Inventories are stated at cost as follows:

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

6) Real Estate for Sale

For the year ended March 31, 2007, real estate for sale is stated at the identified cost, which is reduced for significant declines in value. Devaluation losses on real estate for sale included in the other, net item of other expenses on the consolidated statements of income for the year ended March 31, 2007 were ¥1,563 million.

From the year ended March 31, 2008, carrying amounts in the balance sheet are calculated with consideration of write-down due to decreased profitability. The said written down amount is included in operating expenses. However, for the years ended March 31, 2008 and 2009, these were insignificant.

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, 2007, 2008 and 2009.
(2) Held-to-maturity debt securities are stated at amortized cost.
(3) Equity securities issued by subsidiaries and affiliated companies which are not consolidated nor accounted for using the equity method are mainly stated at moving-average cost.
(4) Available-for-sale securities are stated as follows:
  (a) Available-for-sale securities with market value
  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 not consolidated nor accounted for using the equity method or available-for-sale securities, the said securities are stated at market values in the balance sheet, and the difference between the market value and the original book value is recognized as a loss in the period. The 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

Pursuant to an amendment of the Japanese Tax Law, from the fiscal year ended March 31, 2008, a depreciation method based on the amended Japanese Tax Law has been used for property, plant and equipment acquired on or after April 1, 2007. As a result, operating income and income before income taxes both decreased ¥3,383 million for the year ended March 31, 2008. Further, for property, plant and equipment acquired on or before March 31, 2007, from the fiscal year following the fiscal year in which assets reach 5% of acquisition cost through the application of a depreciation method based on the Japanese Tax Law prior to amendment, the difference between the amount equivalent to 5% of the acquisition cost and the memorandum value (residual value under the amended Japanese Tax Law) is depreciated evenly over a five-year period and recognized in depreciation. As a result, compared to the previous method, operating income and income before income taxes both decreased ¥11,492 million for the year ended March 31, 2008.

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. The balance of unrecognized net transition obligation as of March 31, 2009 was ¥48,816 million ($498 million).

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

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

10) Accounting for Certain Lease Transactions

With respect to finance lease transactions that do not transfer ownership, previously the Companies used accounting methods in accordance with those for normal lease transactions. However, from this fiscal year, the Companies adopted Accounting Standard for Lease Transactions (Accounting Standards Board of Japan Statement No. 13, revised March 30, 2007) and Guidance on Accounting Standard for Lease Transactions (Accounting Standards Board of Japan Guidance No. 16, revised March 30, 2007) and implemented accounting treatments in adherence with those for normal sales transactions. In addition, for finance lease transactions that do not transfer ownership to the lessee with lease transaction commencement dates on or before March 31, 2008, the Companies will continue to use accounting treatments in adherence with those for normal lease transactions. The effect of those changes is negligible.

11) Accounting for Research and Development Costs

According to the Accounting Standard 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, 2007, 2008 and 2009 were ¥17,095 million, ¥15,649 million and ¥16,403 million ($167 million), respectively.

12) Income Taxes

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

13) Earnings per Share

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

Pursuant to the resolutions at the meetings of the Board of Directors held on April 28, 2008 and December 17, 2008, and approval of amendments to the Articles of Incorporation at the 21st annual shareholders' meeting held on June 24, 2008, the Company implemented a stock split of 100 shares for 1 share of common stock and adopted a unit share system under which 1 trading unit comprises 100 shares with an effective date of January 4, 2009, and the number of issued shares increased 396,000,000 shares, to 400,000,000 shares.

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 amount, 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 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 4 INVENTORIES

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

Note 5 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. Further, until the fiscal year ended March 31, 2007, significant decreases in value were reflected in balance sheet values. From the fiscal year ended March 31, 2008, carrying amounts in the balance sheet are calculated with consideration of write-down due to decreased profitability.

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

Investments in and advances to unconsolidated subsidiaries and affiliated companies at March 31, 2008 and 2009 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
Unconsolidated subsidiaries:			
Investments	¥ 4,507	¥ 4,229	$ 43
Advances	593	502	5
	5,100	4,731	48
Affiliated companies:			
Investments (including equity in earnings of affiliated companies)	29,225	29,741	304
	¥34,325	¥34,472	$352

Note 7 SECURITIES

For held-to-maturity debt securities with market value, amount on balance sheets and market value at March 31, 2008 and 2009 were as follows:

	Millions of Yen						Millions of U.S. Dollars		
	2008			2009			2009		
	Amount on Balance Sheet	Market Value	Difference	Amount on Balance Sheet	Market Value	Difference	Amount on Balance Sheet	Market Value	Difference
Of which market value exceeds the amount on balance sheet:									
Government, municipal bonds, etc.	¥148	¥148	¥ 0	¥159	¥160	¥ 1	$ 2	$ 2	$ 0
Of which market value does not exceed the amount on balance sheet:									
Government, municipal bonds, etc.	20	20	(0)	—	—	—	—	—	—
Total	¥168	¥168	¥ 0	¥159	¥160	¥ 1	$ 2	$ 2	$ 0

For available-for-sale securities with market value, acquisition cost and amount on balance sheets at March 31, 2008 and 2009 were as follows:

	Millions of Yen						Millions of U.S. Dollars		
	2008			2009			2009		
	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	¥51,295	¥ 97,428	¥46,133	¥24,636	¥40,554	¥ 15,918	$251	$414	$ 163
Debt securities	48	56	8	206	206	0	2	2	0
Of which amount on balance sheet does not exceed the acquisition cost:									
Equity shares	38,184	32,376	(5,808)	72,191	57,119	(15,072)	737	583	(154)
Debt securities	241	240	(1)	11	10	(1)	0	0	(0)
Total	¥89,768	¥130,100	¥40,332	¥97,044	¥97,889	¥ 845	$990	$999	$ 9

In the years ended March 31, 2008 and 2009, gains and losses on the sale of available-for-sale securities were immaterial.

The major components of available-for-sale securities without market value at March 31, 2008 and 2009 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
Available-for-sale securities without market value:			
Unlisted equity securities	¥11,019	¥5,887	$60
Preferred equity securities	1,000	1,000	10

Annual maturities of available-for-sale securities with maturities and held-to-maturity debt securities as of March 31, 2009 were as follows:

	Millions of Yen				Millions of U.S. Dollars			
	2009				2009			
	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
Debt securities	¥220	¥140	¥6	¥10	$2	$1	$0	$0
Total	¥220	¥140	¥6	¥10	$2	$1	$0	$0

Note 8 PLEDGED ASSETS

At March 31, 2008 and 2009, buildings and fixtures with net book value of ¥29,736 million and ¥27,554 million ($281 million), respectively, and other assets with net book value of ¥245 million and ¥245 million ($3 million), respectively, were pledged as collateral for long-term debt and other liabilities totaling ¥4,075 million and ¥3,398 million ($35 million), at the respective dates.

In addition, at March 31, 2008 and 2009, buildings and fixtures with net book value of ¥51,850 million and ¥49,480 million ($505 million), respectively, and other assets with net book value of ¥7,923 million and ¥7,397 million ($75 million), respectively, were pledged as collateral for long-term liabilities incurred for purchase of the Tokyo Monorail facilities amounting to ¥10,339 million and ¥8,566 million ($87 million) at March 31, 2008 and 2009, respectively (see Note 11).

Note 9 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 (such as employee housing) or idle.

As of fiscal 2008, for fixed assets such as shopping centers for which profitability has decreased markedly due to such factors as the likelihood that fixed assets will be disposed of earlier than initially anticipated, the book values were reduced to the recoverable amounts and the said reductions were recognized as impairment losses on fixed assets (¥11,712 million).

Asset status	Asset type	Area
Shopping centers	Buildings and fixtures	Takasaki, Gunma Prefecture, etc.
Loaned land and others	Land, buildings and fixtures	Omiya-ku, Saitama, Saitama Prefecture, etc.

* Breakdown of impairment loss:
Buildings and fixtures: ¥8,077 million; Land: ¥3,035 million; Other: ¥600 million; Total: ¥11,712 million

The Companies determine recoverable amounts for the above asset groups by measuring the net selling prices or values in use.

Measurements of recoverable amounts made using the net selling prices are calculated based on real estate appraisals, etc. Values in use for the measurement of recoverable amounts are based on the present values of expected cash flows with the discount rate of 6.0%. Further, presentation has been omitted for the years ended March 31, 2007 and 2009, because related items were insignificant.

Note 10 LONG-TERM DEBT

Long-term debt at March 31, 2008 and 2009 is summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
General mortgage bonds issued in 1997 to 2001 with interest rates ranging from 1.70% to 3.30% due in 2009 to 2021	¥ 459,900	¥ 359,900	$ 3,672
Unsecured bonds issued in 2002 to 2009 with interest rates ranging from 0.71% to 2.55% due in 2011 to 2033	645,821	820,822	8,376
Secured loans due in 2010 to 2016 principally from banks and insurance companies with interest rates mainly ranging from 5.35% to 5.80%	3,286	2,877	29
Unsecured loans due in 2009 to 2036 principally from banks and insurance companies with interest rates mainly ranging from 1.397% to 2.208%	753,748	749,527	7,648
Euro-pound bonds issued in 2006 to 2007 with interest rates ranging from 4.50% to 5.25% due in 2031 to 2036	238,684	238,734	2,436
	2,101,439	2,171,860	22,161
Less current portion	234,446	208,198	2,124
	¥1,866,993	¥1,963,662	$20,037

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 250 million pound 5.25% bonds, amounting to ¥58,750 million, were issued in April 2007. These bonds have been hedged by a foreign currency swap contract with a bank.

Seeking to mitigate future interest burden, the Company concluded debt assumption agreements on January 24, 2007. Details of affected bonds are (1) Issue: Straight bonds, third issue, East Japan Railway Company; (2) Issue date: March 11, 1996; (3) Coupon: 3.95%; (4) Maturity date: February 25, 2016; and (5) Nominal amounts; ¥100,000 million ($1,020 million).

In fiscal 2007, the Company recorded losses of ¥20,557 million for redemption of bonds. The annual maturities of long-term debt at March 31, 2009 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2010	¥ 208,198	$2,124
2011	189,754	1,936
2012	234,623	2,394
2013	223,771	2,283
2014	188,909	1,928
2015 and thereafter	1,128,107	11,511

Note 11 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 payable in equal semiannual installments consisting of principal and interest payments in three tranches: ¥2,101,898 million and ¥638,506 million in principal amounts payable through March 2017; and ¥366,566 million payable through September 2051. In March 1997, the liability of ¥27,946 million payable in equal semiannual installments through March 2022 to Japan Railway Construction Public Corporation was incurred with respect to the acquisition of the Akita hybrid Shinkansen facilities. In February 2002, the Company acquired a majority interest in Tokyo Monorail Co., Ltd. As a result, the consolidated balance sheet as of March 31, 2002 includes liabilities of Tokyo Monorail Co., Ltd. amounting to ¥36,726 million payable to Japan Railway Construction Public Corporation.

The long-term liabilities incurred for purchase of railway facilities outstanding at March 31, 2008 and 2009 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
The long-term liability incurred for purchase of the Tohoku and Joetsu Shinkansen facilities:			
Payable semiannually including interest at a rate currently approximating 4.21% through 2017	¥ 734,784	¥ 627,950	$ 6,408
Payable semiannually including interest at 6.35% through 2017	344,757	315,310	3,217
Payable semiannually including interest at 6.55% through 2051	351,713	350,203	3,574
	1,431,254	1,293,463	13,199
The long-term liability incurred for purchase of the Akita hybrid Shinkansen facilities:			
Payable semiannually at an average rate currently approximating 1.12% through 2022	15,767	14,679	150
The long-term liability incurred for purchase of the Tokyo Monorail facilities:			
Payable semiannually at an average rate currently approximating 2.89% through 2029	10,339	8,566	87
	1,457,360	1,316,708	13,436
Less current portion:			
The Tohoku and Joetsu Shinkansen purchase liability	137,961	136,257	1,390
The Akita hybrid Shinkansen purchase liability	1,042	1,040	11
Tokyo Monorail purchase liability	696	629	6
	139,699	137,926	1,407
	¥1,317,661	¥1,178,782	$12,029

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, 2009 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2010	¥137,926	$1,407
2011	128,913	1,316
2012	124,559	1,271
2013	129,940	1,326
2014	126,349	1,289
2015 and thereafter	669,021	6,827

Note 12 CONSUMPTION TAX

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

Note 13 INCOME TAXES

The major components of deferred income taxes and deferred tax liabilities at March 31, 2008 and 2009 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
Deferred income taxes:			
Employees' severance and retirement benefits	¥249,556	¥260,658	$2,660
Reserves for bonuses	29,976	28,684	293
Losses on impairment of fixed assets	17,218	14,824	151
Excess depreciation and amortization of fixed assets	10,522	8,779	90
Environmental conservation cost	8,203	7,467	76
Devaluation losses on fixed assets	5,419	—	—
Accrued enterprise tax	5,130	6,109	62
Net unrealized holding losses on securities	—	6,093	62
Other	43,844	47,911	489
	369,868	380,525	3,883
Less valuation allowance	(24,707)	(26,275)	(269)
Less amounts offset against deferred tax liabilities	(55,416)	(47,380)	(483)
Net deferred income taxes	¥289,745	¥306,870	$3,131
Deferred tax liabilities:			
Tax deferment for gain on transfers of certain fixed assets	¥ 33,006	¥ 35,187	$ 359
Net unrealized holding gains on securities	18,665	6,439	66
Valuation for assets and liabilities of consolidated subsidiaries	3,458	—	—
Other	2,299	7,396	75
	57,428	49,022	500
Less amounts offset against deferred income taxes	(55,416)	(47,380)	(483)
Net deferred tax liabilities	¥ 2,012	¥ 1,642	$ 17

For the years ended March 31, 2007, 2008, and 2009, the difference between the actual effective income tax rate after applying tax effect accounting and the aggregate standard effective tax rate was less than 5% of the aggregate standard effective tax rate. In view of its insignificant size, the difference is not discussed here.

Note 14 EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

As mentioned in Note 2 (9), beginning with the year ended March 31, 2001, the Companies adopted the Japanese Accounting Standards for Retirement Benefits, under which the liabilities and expenses for employees' severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2008 and 2009 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2008	2009	2009
Projected benefit obligation	¥(689,485)	¥(672,205)	$(6,859)
Plan assets	4,736	4,295	44
Unfunded projected benefit obligation	(684,749)	(667,910)	(6,815)
Unrecognized net transition obligation	97,637	48,816	498
Unrecognized actuarial differences	(39,357)	(32,396)	(330)
Unrecognized prior service costs	9,581	7,177	73
Book value (net)	(616,888)	(644,313)	(6,574)
Prepaid pension expense	198	155	2
Employees' severance and retirement benefits	¥(617,086)	¥(644,468)	$(6,576)

Employees' severance and retirement benefit expenses included in the consolidated statements of income for the years ended March 31, 2007, 2008 and 2009 consisted of the following:

	Millions of Yen			Millions of U.S. Dollars
	2007	2008	2009	2009
Service costs	¥ 31,141	¥29,551	¥28,160	$287
Interest costs	22,120	20,930	20,051	205
Expected return on plan assets	(82)	(88)	(80)	(1)
Amortization of net transition obligation	48,952	48,820	48,821	498
Amortization of actuarial differences	(5,092)	(6,592)	(6,476)	(66)
Amortization of prior service costs	2,401	1,063	2,404	25
Employees' severance and retirement benefit expenses	99,440	93,684	92,880	948
Losses related to retirement of a large number of employees from a consolidated subsidiary	9,603	—	—	—
Total	¥109,043	¥93,684	¥92,880	$948

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. The discount rates used by the Companies are mainly 3.0%. The rates of expected return on pension assets used by the Companies were mainly 2.0% in the years ended March 31, 2007, 2008 and 2009.

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, 2009 were ¥70,000 million ($714 million) and ¥100,000 million ($1,020 million) by general bonds.

Note 16 NET ASSETS

The Japanese Corporate Law ("the Corporate Law") became effective on May 1, 2006, replacing the Japanese Commercial Code. The Corporate Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

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 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 2009, the shareholders approved cash dividends amounting to ¥21,983 million ($224 million). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2009. Such appropriations are recognized in the period in which they are approved by the shareholders.

Note 17 SEGMENT INFORMATION

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

Millions of Yen

2007

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Other Services	Elimination and/or Corporate	Consolidated
Operating revenues:						
Outside customers	¥1,825,387	¥399,998	¥197,140	¥234,821	¥ —	¥2,657,346
Inside group	57,562	14,320	8,785	291,495	(372,162)	—
	1,882,949	414,318	205,925	526,316	(372,162)	2,657,346
Costs and expenses	1,563,906	381,099	147,280	508,383	(371,420)	2,229,248
Operating income	¥ 319,043	¥ 33,219	¥ 58,645	¥ 17,933	¥ (742)	¥ 428,098
Identifiable assets	¥5,597,031	¥185,956	¥778,709	¥751,939	¥(345,603)	¥6,968,032
Depreciation	236,887	9,122	27,703	44,814	—	318,526
Capital investments	343,825	9,166	52,608	69,118	—	474,717

2008

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Other Services	Elimination and/or Corporate	Consolidated
Operating revenues:						
Outside customers	¥1,857,756	¥404,006	¥205,347	¥236,455	¥ —	¥2,703,564
Inside group	58,912	16,583	8,714	305,312	(389,521)	—
	1,916,668	420,589	214,061	541,767	(389,521)	2,703,564
Costs and expenses	1,584,850	384,322	154,240	524,453	(389,461)	2,258,404
Operating income	¥ 331,818	¥ 36,267	¥ 59,821	¥ 17,314	¥ (60)	¥ 445,160
Identifiable assets	¥5,555,426	¥180,589	¥813,835	¥789,504	¥(397,351)	¥6,942,003
Depreciation	249,713	9,706	29,081	47,087	—	335,587
Impairment losses on fixed assets	2,573	556	6,870	1,713	—	11,712
Capital investments	325,349	16,149	64,869	66,560	—	472,927

2009

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Other Services	Elimination and/or Corporate	Consolidated
Operating revenues:						
Outside customers	¥1,831,933	¥415,020	¥222,628	¥227,419	¥ —	¥2,697,000
Inside group	57,095	18,075	8,993	317,681	(401,844)	—
	1,889,028	433,095	231,621	545,100	(401,844)	2,697,000
Costs and expenses	1,579,809	394,936	161,583	527,839	(399,722)	2,264,445
Operating income	¥ 309,219	¥ 38,159	¥ 70,038	¥ 17,261	¥ (2,122)	¥ 432,555
Identifiable assets	¥5,580,551	¥181,511	¥826,778	¥815,578	¥(438,625)	¥6,965,793
Depreciation	254,320	10,139	30,922	47,720	—	343,101
Capital investments	359,175	10,995	41,267	38,595	—	450,032

Millions of U.S. Dollars

2009

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Other Services	Elimination and/or Corporate	Consolidated
Operating revenues:						
Outside customers	$18,693	$4,235	$2,272	$2,320	$ —	$27,520
Inside group	583	184	92	3,242	(4,101)	—
	19,276	4,419	2,364	5,562	(4,101)	27,520
Costs and expenses	16,120	4,030	1,649	5,386	(4,079)	23,106
Operating income	$ 3,156	$ 389	$ 715	$ 176	$ (22)	$ 4,414
Identifiable assets	$56,945	$1,852	$8,437	$8,322	$(4,476)	$71,080
Depreciation	2,595	103	316	487	—	3,501
Capital investments	3,665	112	421	394	—	4,592

The main activities of each business segment are as follows:

Transportation:

Passenger transportation mainly by passenger railway;

Station space utilization:

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

Shopping centers & office buildings:

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

Other services:

Advertising and publicity, hotel operations, wholesale, truck delivery, cleaning, information processing, 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.

Pursuant to an amendment of the Japanese Tax Law, from the fiscal year ended March 31, 2008, a depreciation method based on the amended Japanese Tax Law has been used for property, plant and equipment acquired on or after April 1, 2007. Further, for property, plant and equipment acquired on or before March 31, 2007, from the fiscal year following the fiscal year in which assets reach 5% of acquisition cost through the application of a depreciation method based on the Japanese Tax Law prior to amendment, the difference between the amount equivalent to 5% of the acquisition cost and the memorandum value (residual value under the amended Japanese Tax Law) is depreciated evenly over a five-year period and recognized in depreciation. As a result, compared with the previous method, in the year ended March 31, 2008, the Company recorded increases in operating expenses of ¥12,363 million for transportation, ¥454 million for station space utilization, ¥1,616 million for shopping centers & office buildings, and ¥442 million for other services, and the respective operating incomes of these segments decreased by the same amounts.

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.

Note 18 INFORMATION REGARDING CERTAIN LEASES

As mentioned in Note 2 (10), for finance lease transactions that do not transfer ownership from fiscal years beginning on or after April 1, 2008, the Companies adopted the accounting standard and implemented accounting treatments in adherence with those for normal sales transactions.

The amount of finance lease obligation at March 31, 2009 was negligible. In addition, for finance lease transactions that do not transfer ownership on or before March 31, 2008, the Companies will continue to use accounting treatments in adherence with those for normal lease transactions.

Under such finance leases, lease payments, which were charged to income for the year ended March 31, 2008, amounted to ¥12,039 million. Lease income which was credited to income for the year ended March 31, 2008 was ¥4,995 million.

Future lease payments inclusive of interest were ¥28,796 million, including due in one year of ¥11,211 million, and future lease receipts inclusive of interest were ¥16,456 million, including due in one year of ¥4,545 million, at March 31, 2008.

Future lease receipts for operating leases amounted to ¥18,401 million, including those due within one year of ¥2,386 million, at March 31, 2008. The amount of operating leases at March 31, 2009 was negligible, so presentation has been omitted.

Note 19 INFORMATION FOR DERIVATIVE TRANSACTIONS

1) Items Regarding Trading Circumstances

The Companies use foreign exchange contracts transactions, currency swap transactions, and interest swap transactions with the aim of avoiding risk (market risk) related to fluctuation of future market prices (foreign exchange / interest) in relation to bonds, loans, and so on. 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 and expenditure fluctuation risk due to natural disasters.

Because all of the derivative transaction contracts that the Company and its consolidated subsidiaries enter into are the transaction whose counterparties are financial institutions that have high creditworthiness, the Company believes that there is almost no risk of parties to contracts defaulting on obligations.

Under the basic policy approved by the Board of Directors, with the aim of appropriate implementation of transactions and risk management, financial departments in respective companies process those derivative transactions following appropriate internal procedures or approval of the Board of Directors, based on relevant internal regulations.

2) Items Regarding the Fair Value of Transactions, etc.

	Millions of Yen				Millions of U.S. Dollars	
	2008		2009		2009	
Classification	Transactions other than market transactions	Total	Transactions other than market transactions	Total	Transactions other than market transactions	Total
Type	Natural disaster derivatives transactions bought		Natural disaster derivatives transactions bought		Natural disaster derivatives transactions bought	
Contract amount, etc.	¥26,052	¥26,052	¥25,548	¥25,548	$261	$261
Of which more-than-one-year contract amount, etc.	26,052	26,052	25,548	25,548	261	261
Fair value	2,992	2,992	3,761	3,761	38	38
Gain or loss from valuation	(1,153)	(1,153)	769	769	8	8

1 In the year ended March 31, 2007, hedge accounting was applied to all derivative transactions. Therefore, items relating to the fair value of transactions have been omitted.
2 Contract amount, etc. is the maximum amount receivable.
3 Fair value is calculated based on the current value presented by financial institutions, etc. with which transactions are conducted.
4 Derivative transactions for which hedge accounting is applied are not subject to inclusion and are therefore omitted.

Note 20 SUBSEQUENT EVENT

The Board of Directors of the Company resolved to repurchase shares of the Company's common stock at the meeting held on April 27, 2009 pursuant to Article 156 of the Japanese Corporate Law as applied pursuant to Article 165, Paragraph 3 thereof, as detailed below.

i) Reason for share repurchase

To improve capital flexibility in response to the business environment.

ii) Class of shares to be repurchased

Common stock of the Company

iii) Total number of shares to be repurchased

4,000,000 shares (maximum) (1.00 % of issued shares (excluding treasury stock))

iv) Aggregate repurchase price

¥30,000 million ($306 million) (maximum)

v) Period of repurchase

From April 30, 2009 to May 29, 2009

Further, between April 30, 2009, and May 22, 2009, the Company implemented a market purchase on the Tokyo Stock Exchange and completed an acquisition of treasury stock based on the said resolution.

The Company acquired at total of 4,000,000 shares of common stock, and the total acquisition price was ¥22,943 million ($234 million).

FINANCIAL SECTION

Independent Auditors' Report

KPMG

Independent Auditors' Report

To the Board of Directors of East Japan Railway Company:

We have audited the accompanying consolidated balance sheets of East Japan Railway Company and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2009, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of East Japan Railway Company and consolidated subsidiaries as of March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2009, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
As discussed in the Note 20 to the consolidated financial statements, the Board of Directors of the Company resolved to repurchase shares of the Company's common stock at the meeting held on April 27, 2009, and the Company has performed the acquisition between April 30, 2009, and May 22, 2009.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 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 & Co.

Tokyo, Japan
June 23, 2009