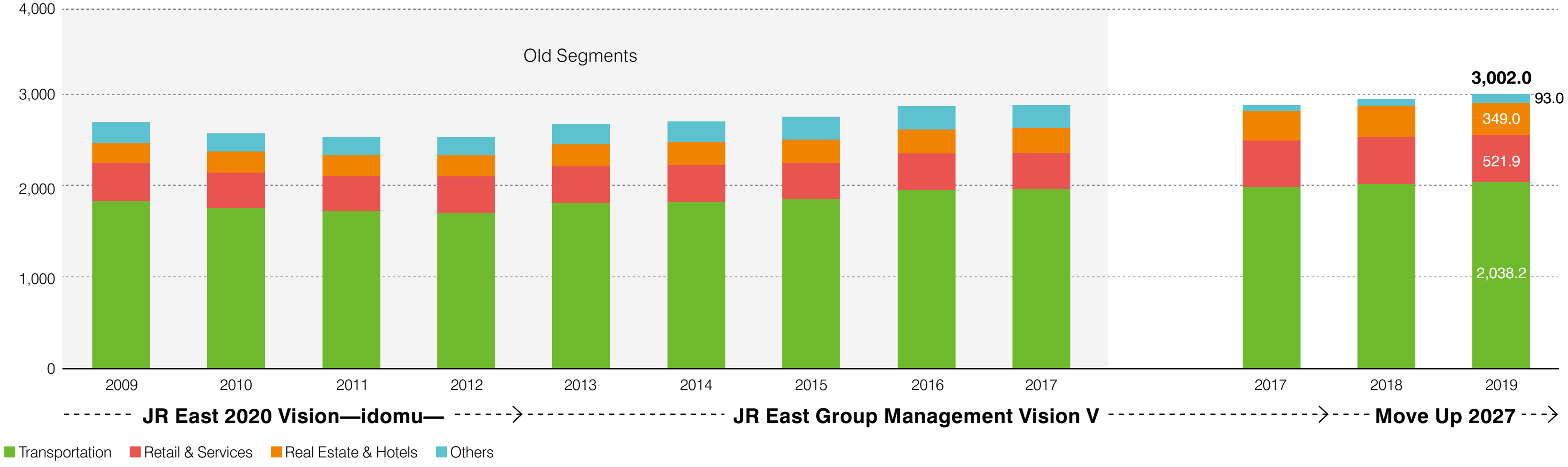
Selected Financial Data

East Japan Railway Company and Subsidiaries
Years ended March 31

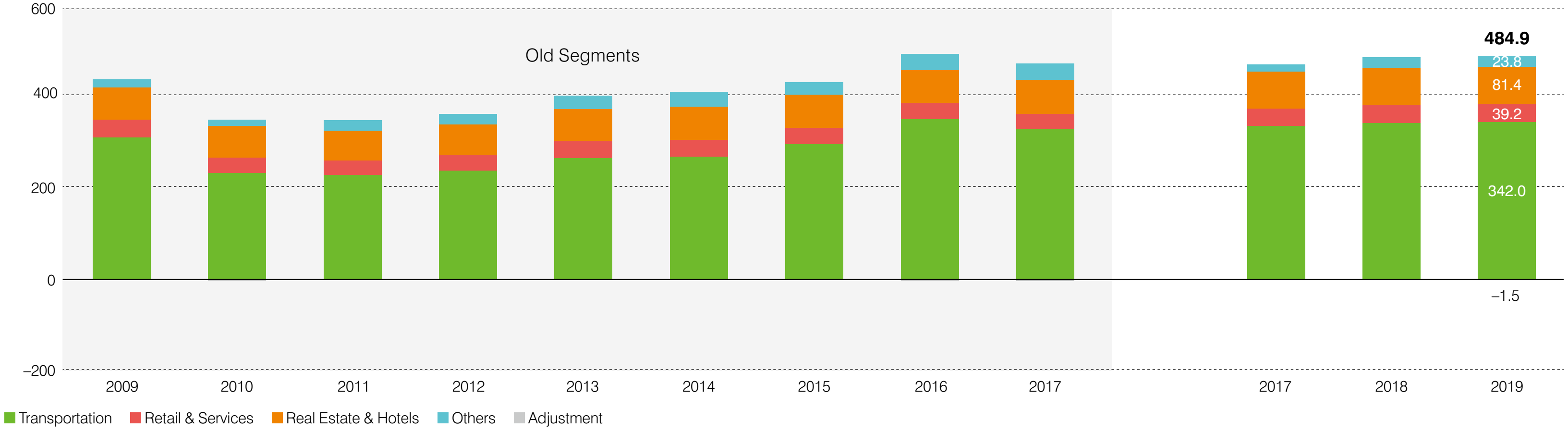
Operating revenues*1

Billions of Yen



Operating income*1

Billions of Yen



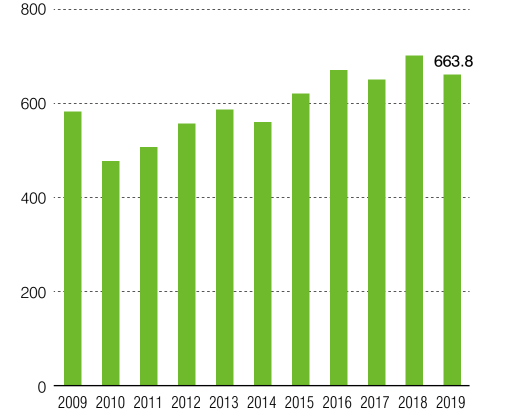
*1 From the year ended March 31, 2018, JR East has changed its reportable segments from Transportation, Station Space Utilization, Shopping Centers & Office Buildings, and Others to Transportation, Retail & Services, Real Estate & Hotels, and Others.

Selected Financial Data

East Japan Railway Company and Subsidiaries
Years ended March 31

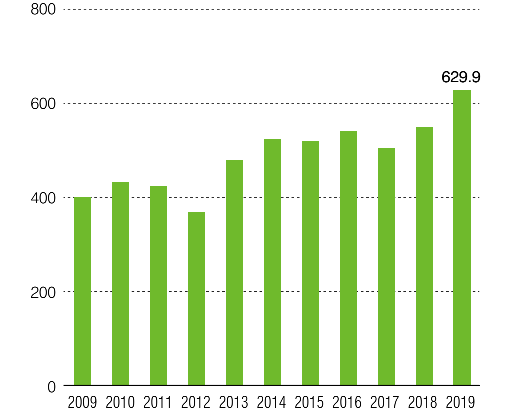
Cash flows from operating activities

Billions of Yen



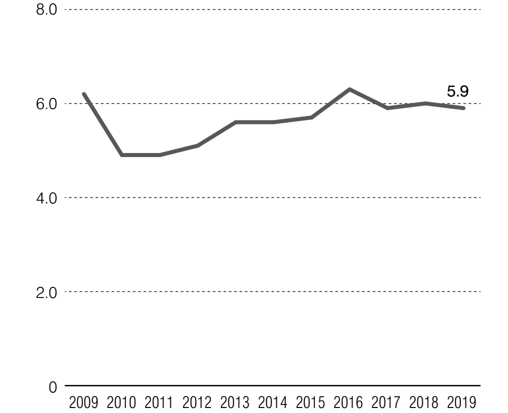
Capital expenditures*2

Billions of Yen



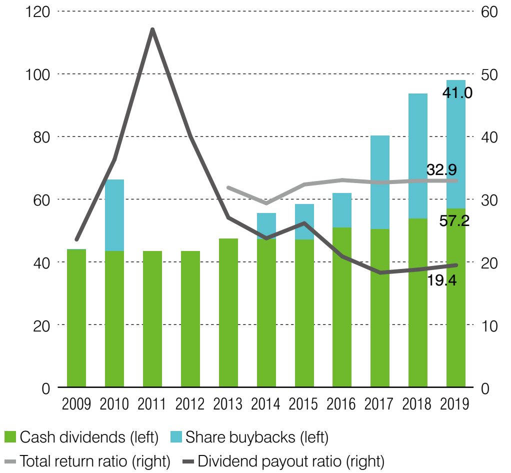
ROA

%



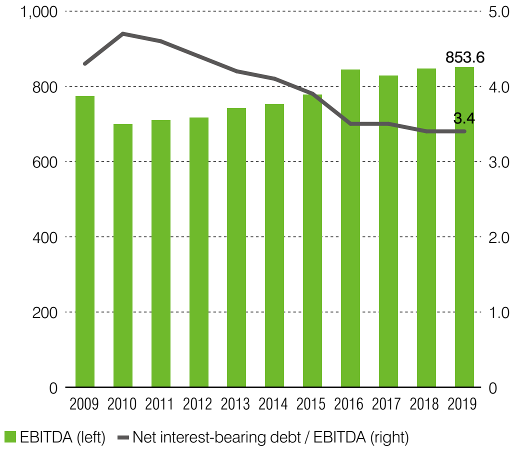
Cash dividends / Share buybacks / Total return ratio*3 / Dividend payout ratio

Billions of Yen %



EBITDA / Net interest-bearing debt / EBITDA*4

Billions of Yen Times



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

*3 Total return ratio for FY2018: In the case that the total ¥41 billion of our own shares is acquired.

*4 Net interest-bearing debt = Balance of consolidated interest-bearing debt – Balance of consolidated cash and cash equivalents
EBITDA = Consolidated operating income + Consolidated depreciation expense

WEB Financial highlights, which were previously included in the annual report, are continuously updated and can be viewed at the following site.
http://www.jreast.co.jp/e/investor/ar/2019/index.html

Transportation

Numbers

Conventional network (Kanto area)
Operating kilometers
2,535.0 kilometers
(as of March 31, 2019)

Conventional network (Outside Kanto area)
Operating kilometers
3,672.5 kilometers
(as of March 31, 2019)

Shinkansen network operating kilometers
1,194.2 kilometers
(as of March 31, 2019)

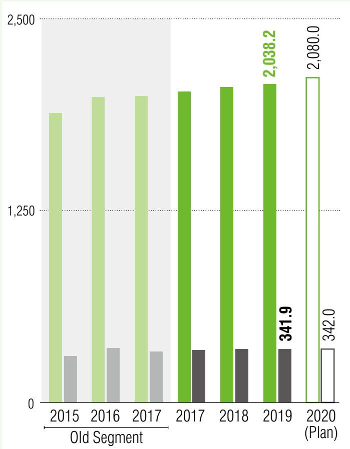
Fiscal 2019 conventional revenues
(Kanto area) from passenger tickets
¥1,190.2 billion

Fiscal 2019 conventional revenues
(Outside Kanto area) from passenger tickets
¥69.2 billion

Fiscal 2019 Shinkansen revenues
from passenger tickets
¥597.1 billion

Operating Revenues and Operating Income by Segment

Billions of Yen



■ Operating revenues ■ Operating income

Fiscal 2019 Topics

- *Tochigi* Destination Campaign (April–June 2018)
- *Shinshu* After Destination Campaign (July–September 2018)
- Beginning of the *Touch de Go! Shinkansen* service (April 2018)
- Increases in Joetsu Shinkansen Line Series E7 railcars and Chuo Line Series E353 railcars

Retail & Services

Numbers

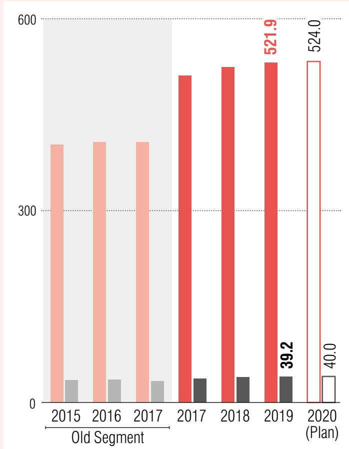
Railway stations used by more than
100,000 passengers per day*
98
(as of March 31, 2019)

Railway stations used by more than
200,000 passengers per day*
40
(as of March 31, 2019)

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

Operating Revenues and Operating Income by Segment

Billions of Yen



■ Operating revenues ■ Operating income

Fiscal 2019 Topics

- Merger of JR East Station Retailing and JR East Retail Net*
  * JR East Retail Net is the surviving company.
- Conversion of JR East Water Business into a subsidiary of JR East Retail Net
- *SPORU SHINAGAWA OIMACHI* (opened in August 2018)
- *KINOKUNIYA entrée Musashi-Kosugi Store* (opened in October 2018)

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Real Estate & Hotels

Numbers

JR East's shopping centers
169
(as of March 31, 2019)

Shopping centers–Total floor space
2,380,000 m²
(as of March 31, 2019)

Office buildings–Leased floor space
380,000 m²
(as of March 31, 2019)

Hotels–Total guest rooms
7,420
(as of March 31, 2019)

Metropolitan Hotels

Hotels	Guest rooms	Occupancy
12	3,471	82.7%

(as of March 31, 2019)

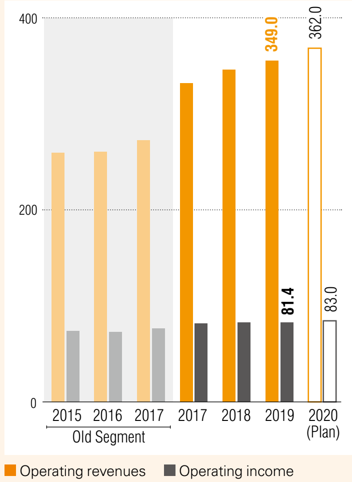
HOTEL METS

Hotels	Guest rooms	Occupancy
25	3,057	89.2%

(as of March 31, 2019)

Operating Revenues and Operating Income by Segment

Billions of Yen



Fiscal 2019 Topics

- *Perie Chiba* (opened completely in June 2018)
- *COTONIOR GARDEN Shin-Kawasaki* (opened completely in April 2018)
- *JR-EAST HOTEL METS SAPPORO* (opened in February 2019)
- *R-Lieto MITAKA* (opened in March 2019)

Others

Numbers

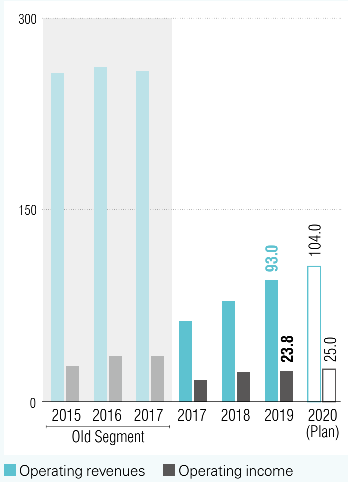
Suica cards issued
75.9 million
(as of March 31, 2019)

Public transportation electronic money, record daily transactions
7.8 million (Highest ever)
(as of March 31, 2019)

Public transportation electronic money, compatible stores
616,410
(as of March 31, 2019)

Operating Revenues and Operating Income by Segment

Billions of Yen



Fiscal 2019 Topics

- Verification tests of *Ringo Pass* app (August 2018)
- Achievement of compatibility between *Suica* services and Google Pay (May 2018)
- *Mizuho Suica* (August 2018)
- Beginning of *Suica* charging through Seven Bank (October 2018)

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Peer Group Comparisons

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

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

INTERNATIONAL

Total Stock Market Value*1
Millions of U.S. Dollars

JR East	**36,674**
IAG	16,007
Lufthansa	10,504
Union Pacific	99,923
FedEx	66,247
UPS	83,898

Operating Revenues
Millions of U.S. Dollars

JR East	**27,045**
IAG	27,384
Lufthansa	40,217
Union Pacific	22,832
FedEx	65,450
UPS	71,861

Cash Flows from Operating Activities
Millions of U.S. Dollars

JR East	**5,980**
IAG	3,631
Lufthansa	4,610
Union Pacific	8,686
FedEx	4,674
UPS	12,711

Return on Average Equity (ROE)*2
%

JR East	**10.0**
IAG	43.3
Lufthansa	23.4
Union Pacific	26.4
FedEx	25.8
UPS	238.7

Profit Attributable to Owners of Parent
Millions of U.S. Dollars

JR East	**2,660**
IAG	3,237
Lufthansa	2,427
Union Pacific	5,966
FedEx	4,572
UPS	4,791

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

JR East	**5.9**
IAG	13.3
Lufthansa	7.6
Union Pacific	14.6
FedEx	9.7
UPS	14.7

JR East: International and Domestic Perspectives

Peer Group Comparisons

DOMESTIC

Total Stock Market Value*1
Millions of U.S. Dollars

JR East	**36,674**
ANA	12,237
Tokyu	10,587
Kansai Electric Power	13,132
NTT	81,239

Operating Revenues
Millions of U.S. Dollars

JR East	**27,045**
ANA	18,543
Tokyu	10,427
Kansai Electric Power	29,799
NTT	107,026

Cash Flows from Operating Activities
Millions of U.S. Dollars

JR East	**5,980**
ANA	2,668
Tokyu	1,247
Kansai Electric Power	4,051
NTT	21,677

Return on Average Equity (ROE)*2
%

JR East	**10.0**
ANA	10.6
Tokyu	8.0
Kansai Electric Power	7.8
NTT	9.3

Profit Attributable to Owners of Parent
Millions of U.S. Dollars

JR East	**2,660**
ANA	998
Tokyu	521
Kansai Electric Power	1,037
NTT	7,699

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

JR East	**5.9**
ANA	6.3
Tokyu	3.5
Kansai Electric Power	2.9
NTT	7.7

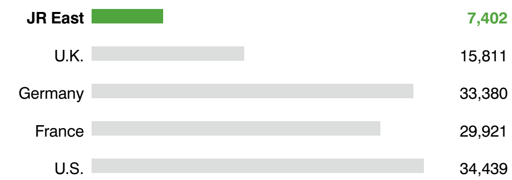
*1 Data in these graphs has been computed from each company's share price and shares outstanding at the end of the previous fiscal year.
*2 Average equity is the average of equity at the end of the previous and applicable fiscal years.
*3 Average assets is the average of assets at the end of the previous and applicable fiscal years.
- Year ended March 31, 2019 (Year ended December 31, 2018 for IAG, Lufthansa, Union Pacific, and UPS and year ended May 31, 2018 for FedEx).
- ANA: ANA HOLDINGS INC.; Tokyu: Tokyu Corporation; NTT: Nippon Telegraph and Telephone Corporation
- Data in this section is based on consolidated figures from each company's annual report or financial press releases.
- The exchange rate used is the prevailing rate at March 31, 2019 (U.S.$1=¥111, £1=$1.33, and €1=$1.12).
- Share prices at the close of the respective previous fiscal years and computed using the above exchange rates are $96.22 for JR East, $8.07 for IAG, $22.10 for Lufthansa, $138.23 for Union Pacific, $249.12 for FedEx, $97.53 for UPS, $36.57 for ANA, $17.41 for Tokyu, $14.70 for Kansai Electric Power, and $42.37 for NTT.

International Railway Comparisons

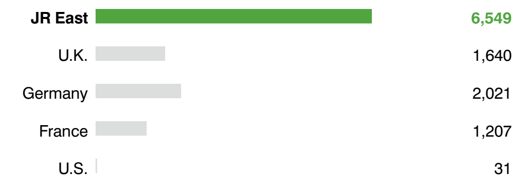
Japan's high reliance on railways due to the size of the economy and geographic characteristics affords railway companies an extremely large source of demand, especially in urban areas. In addition to being Japan's top railway company, JR East is one of the largest railway companies in the world.

TRANSPORTATION MARKET

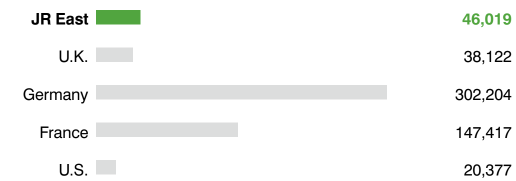
Railway Line Networks
Kilometers



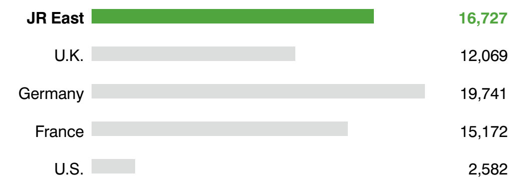
Number of Passengers
Millions



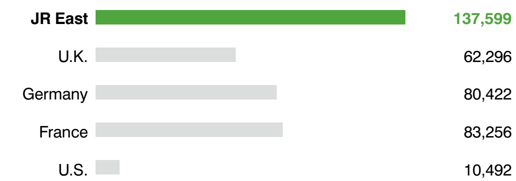
Number of Employees



Revenues from Railway Operations
Millions of U.S. Dollars



Passenger Kilometers
Millions



- Figures are for the years ended March 2019 for JR East, March 2016 and March 2014 for the U.K. (Network Rail Ltd. and Association of Train Operating Companies, respectively), December 2016 for Germany, December 2016, December 2015 and December 2013 for France (Societe Nationale des Chemins de fer Francais (SNCF) and Reseau Ferre de France (RFF), respectively), and September 2018 for the U.S. (U.S. figures for number of passengers and passenger kilometers are for the year ended September 2016.).
- U.K.: Association of Train Operating Companies (railway tracks owned by Network Rail Ltd.); Germany: Deutsche Bahn AG; France: SNCF (railway tracks owned by RFF); U.S.: National Railroad Passenger Corporation (Amtrak)
- Revenues from railway operations do not include freight and other service revenues.
- Figures for JR East do not include Tokyo Monorail.
- The exchange rate used is the prevailing rate at March 31, 2019 (U.S.$1=¥111 and €1=U.S.$1.12).

Source: International Railway Statistics 2016 and Amtrak National Facts.

JR East: International and Domestic Perspectives

FUNDAMENTALS

Gross Domestic Product

Billions of U.S. Dollars

2018	
Japan	5,485
U.K.	3,074
Germany	4,505
France	3,068
U.S.	20,494

Population Density

Per Square Kilometer

2018	Population per square kilometer of total national land area	Population per square kilometer of habitable land area
Japan	334	1,616
U.K.	277	318
Germany	231	339
France	119	171
U.S.	33	49

Population

Millions

2018	
Japan	126.4
U.K.	67.0
Germany	82.4
France	65.5
U.S.	329.1

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

Population

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

Other countries: United Nations data

Habitable land area

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

Other countries: Global Forest Resources Assessment 2015, FAO

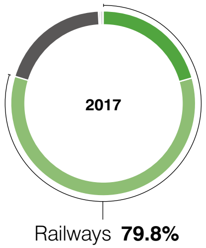
JR East: International and Domestic Perspectives

Railway Operations in Japan

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

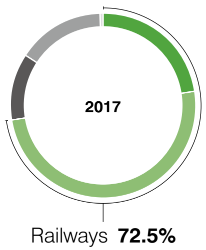
SHARE OF DOMESTIC TRANSPORTATION

Number of Passengers



Year ended March 31		Millions	2017 %
Railways	JR East	6,411	20.8
	Other railways	18,187	59.0
	Motor vehicles*	6,035	19.6
	Airlines	98	0.3
	Ships	87	0.3
	Total	30,819	100.0

Passenger Kilometers

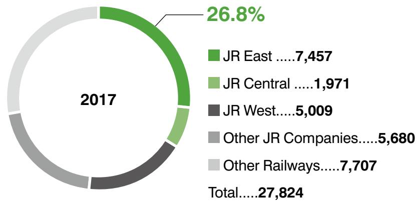


Year ended March 31		Millions	2017 %
Railways	JR East	135,098	22.7
	Other railways	296,701	49.8
	Motor vehicles*	70,119	11.8
	Airlines	90,576	15.2
	Ships	3,275	0.5
	Total	595,769	100.0

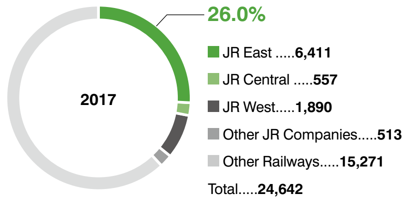
As of March 31, 2017
* "Motor vehicles" only includes commercial vehicles. It does not include private passenger cars and light cars.
- Figures for Tokyo Monorail are not included in JR East.
Source: Summary of Transport Statistics, Ministry of Land, Infrastructure, Transport and Tourism

SHARE OF DOMESTIC RAILWAYS

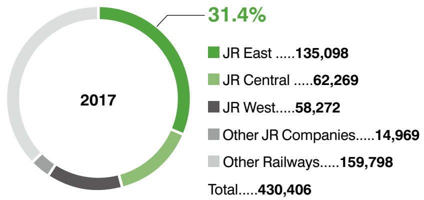
Passenger Line Network
Kilometers



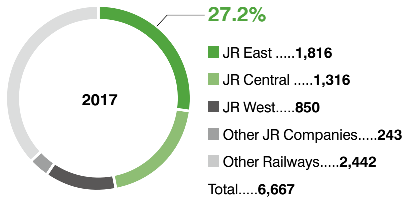
Number of Passengers
Millions



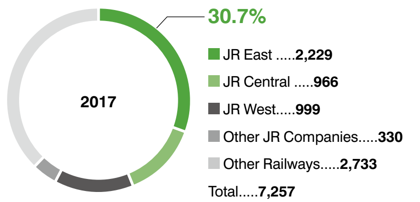
Passenger Kilometers
Millions



Revenues from Passenger Tickets
Billions of Yen



Rolling Stock Kilometers
Millions



As of March 31, 2017
- Figures for Passenger Line Network do not include freight traffic.
- Figures for Rolling Stock Kilometers do not include locomotives and freight cars.
- Figures for Tokyo Monorail are included in other railways.
Source: Statistics of Railways 2016, Ministry of Land, Infrastructure, Transport and Tourism

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, 2019.

Key Accounting Policies and Estimates

JR East prepares consolidated financial statements in accordance with accounting principles generally accepted in Japan. Forward-looking estimates included in those financial statements are based on a variety of factors that, in light of JR East's past performance and current circumstances, can be reasonably assumed to have affected results for assets and liabilities on the consolidated settlement date and consolidated revenues and expenses in fiscal 2019, ended March 31, 2019. JR East continuously assesses those factors. However, actual results may differ materially from those estimates, given the uncertainty of forward-looking statements.

Performance Analysis

Overview

In fiscal 2019, despite recent signs of weakness in terms of certain exports and production activities, the Japanese economy improved in such areas as employment and income conditions and continued to recover gradually. In July 2018, the JR East Group established a new management vision, the JR East Group Management Vision "Move Up" 2027, and revised the JR East Group Philosophy in order for the Group as a whole to boldly pursue new growth strategies and realize sustained growth in anticipation of drastic change in its business environment, such as population decline and the commercialization of autonomous driving. In light of this, JR East expeditiously executed various initiatives centered on transportation services, life-style services, and IT & *Suica* services.

As a result of these initiatives, during the fiscal year under review, operating revenues increased 1.8% year on year, to ¥3,002.0 billion ($27,045 million), with operating income rising 0.7%, to ¥484.9 billion ($4,368 million). These increases were largely due to growth in JR East's transportation revenues. Profit attributable to owners of parent increased 2.2%, to ¥295.2 billion ($2,660 million).

PURSUING ULTIMATE SAFETY LEVELS AND IMPLEMENTING ESG MANAGEMENT

The JR East Group will work to help resolve social issues through its businesses and contribute to the development of local communities to gain greater trust from local community members and customers and thereby achieve sustainable growth. Furthermore, the Group will pursue ultimate safety levels and implement ESG management based on the three perspectives of environmental (E), social (S), and governance (G) factors.

In consideration of the Tokyo Stock Exchange's revisions to Japan's Corporate Governance Code, JR East revised the East Japan Railway Company Corporate Governance Guidelines in November 2018 to realize sustainable growth and improve corporate value over the medium to long term, from the perspective of corporate governance.

Pursuing ultimate safety levels

Based on "Move Up" 2027, the JR East Group will continue to pursue ultimate safety levels by focusing on safety as its top management priority and thoroughly reinforcing this shared understanding among all its employees. Specifically, JR East established its seventh five-year safety plan, "Group Safety Plan 2023," in November 2018 and continued to make efforts on a Groupwide level toward the enhancement and innovation of "safety management" and "safety conduct" by each employee as well as the installation of safety equipment that proactively leverages new technologies in railway operations.
(Specific measures)

- Introduction of simulators for train crews that enable training using actual video as well as more practical education and training activities to deepen each employee's understanding of the nature of their work
- Exchange of opinions between the Company's management and Group companies and other companies to enhance safety within the Group as a whole
- Expansion and renovation of the Accident History Exhibition Hall in October 2018 to ensure that Group employees will not forget past accidents and will gain a deep understanding of the lessons learned from these accidents
- Increase in number of security cameras on railcars and within railway facilities and implementation of network monitoring systems to strengthen railway safety and security
- Completion of crime-prevention / self-defense equipment installation on Shinkansen railcars and at major railway stations
- Additional seismic reinforcement covering more areas and facilities to be prepared for a major earthquake, such as an earthquake directly beneath the Tokyo metropolitan area
- Installation of automatic platform gates to steadily reduce injury- or death-causing accidents on railway platforms based on a policy of introducing them at all 243 railway stations (330 railway stations on a line-by-line basis) along main conventional lines in the Tokyo metropolitan area by roughly March 31, 2033; installation completed at 36 railway stations (41 railway stations on a line-by-line basis) as of March 31, 2019

Service quality reforms

Based on the "Medium-term Vision for Service Quality Reforms 2020," the JR East Group accelerated various initiatives, including to prevent transportation service disruptions and their impact on passengers from spreading as well as to strengthen information provision. Through these initiatives, the Group worked to realize its aim of becoming No. 1 for customer satisfaction in the Japanese railway industry. Especially, in regard to the disruption to transportation services on Shinkansen lines and conventional lines in the Tokyo metropolitan area, JR East conducted an analysis of the cause of each of the disruptions and steadily made efforts to prevent their reoccurrence.

(Specific measures)

- Improvement of electrical equipment on conventional lines in the Tokyo metropolitan area to steadily reduce transportation disruptions due to internal causes
- As a measure to address the railcar failure that occurred between Sendai and Furukawa on the Tohoku Shinkansen Line in June 2018, sequential remodeling of railcars to minimize the impact of ground faults (short), with their completion targeted for June 30, 2019 or earlier
- Expansion of matters subject to periodic examination of railcars and establishment of emergency treatment workflow, in response to the railcar failure of the Tohoku Shinkansen at Tokyo Station in December 2018
- Review of operation rules at substations and other facilities and implementation of training to accurately cut electricity when a problem occurs, in response to a fire at the Niigata substation in January 2019
- Enhancement of flame proofing at construction sites jointly run by the Company and construction companies, and expansion of the scope of structural measures to prevent fire damage, in response to a cable burnout on the Chuo Line in February 2019
- Step-by-step implementation of efforts to strengthen the provision of relevant information to customers through such means as social media and to ensure that operations resume smoothly in the event of a planned suspension of operations to prevent the spread of damage from typhoons and other natural disasters
- Promotion of the use of a translation app and other language-related tools to provide guidance in multiple languages under extraordinary circumstances
- Promotion of efforts to improve mobile phone connection inside Shinkansen tunnels that are located in areas under the Company's control and orderly expansion of segments where mobile phone services can be used
- Collaboration with other railway operators and companies on a campaign to strengthen efforts to support customers, which encourages the Company's personnel to proactively ask customers whether they require assistance
- Conclusion of an agreement in September 2018 with the Sano Educational Foundation (KANDA GAIGO GROUP) in relation to a comprehensive alliance for cooperation to strengthen the ability to handle demand from overseas visitors to Japan, among other matters
- Continued efforts to improve services for overseas visitors to Japan in such ways as increasing the number of staff that can provide foreign-language guidance within train stations and opening the *JR EAST Travel Service Center* in Hamamatsucho Station

Environment

The JR East Group moved forward with efforts toward addressing global warming. These efforts focused on three perspectives: conserving energy, generating energy, and introducing new technologies. In addition, the Group worked to diversify its energy sources through the use of hydrogen.

(Specific measures)

- Entry into a basic agreement in September 2018 and promotion of discussions for a comprehensive business partnership centered on a hydrogen-based mobility partnership between railways and automobiles with Toyota Motor Corporation
- Commencement of commercial operations in April 2018 of a woody biomass power plant in Hachinohe City, Aomori Prefecture, in collaboration with Sumitomo Forestry Co., Ltd., and others
- Development of Oga Station on the Oga Line as an "ecoste" model station in July 2018
- Development of operating styles that conserve energy on railways to realize power-saving operation
- Full-scale commencement in November 2018 of renewable energy business in collaboration with JFE Engineering Corporation that uses food waste from a food recycling plant located in Yokohama City, Kanagawa Prefecture, to generate renewable energy

REALIZING AFFLUENT LIVES FOR "EVERYONE"

By creating new values and services with a focus on people and by reinforcing its network with a focus on technologies and information, the JR East Group aims to help all people ("everyone") achieve affluent lives and thereby sustain its growth.

Strengthening transportation network centered on technologies and information

In June 2018, the Group established the Technology Innovation Headquarters as a cross-department, in-house organization. In doing so, the Group took steps to expand collaborations with outside parties and conducted research and development and verification tests.

(Specific measures)

- Preparations under way for the service launch of *Ringo Pass*, a smartphone app linked to *Suica* and credit cards, after verification tests were conducted to enable seamless use with multiple means of transportation, including taxis
- Preparations under way with Tokyu Corporation and others for the implementation of verification tests for tourism-oriented MaaS in the Izu area in April 2019; MaaS will utilize *Izuko*, a dedicated app
- Preparations under way for the integrated planning and design of business strategies for MaaS and the April 2019 establishment of a dedicated structure for implementing measures in a timely manner
- Preparations under way for the May 2019 launch of ALFA-X, a test railcar geared toward realizing the next generation of Shinkansen, and the start of its test runs
- Preparations under way for the installation of track facility monitoring devices on operational railcars with the aim of introducing technology to remotely monitor the track status of conventional lines in 50 line segments by March 31, 2021
- Implementation of verification tests for the "JR EAST STARTUP PROGRAM" for the purpose of creating new businesses and services; completion of five tests to date
- Verification tests for AI guidance systems that respond to customer inquiries at terminal stations on the Yamanote Line and other locations

<u>*Making Suica* a shared infrastructure</u>

The JR East Group proceeded with the introduction of *Suica* as a shared infrastructure to enable the use of *Suica* in a variety of situations by linking it with various payment methods and apps. As a result, the number of *Suica* cards issued and outstanding was approximately 75.87 million as of March 31, 2019.

(Specific measures)

- Commencement of *Touch de Go! Shinkansen* in April 2018, which enables the use of *Suica* for non-reserved seats of Shinkansen services, on the line segment between Tokyo and Nasushiobara on the Tohoku Shinkansen Line and on other line segments
- Achievement of compatibility with the Google Pay payment service in May 2018 and improvement of convenience of *Suica* in relation to mobile terminals
- Commencement of *Mizuho Suica* service, a type of electronic money that enables deposits from Mizuho Bank accounts without the need for card issuance, in collaboration with Mizuho Bank, Ltd., starting in August 2018
- An alliance with Seven Bank, Ltd., and commencement in October 2018 of service allowing customers to add money to their public transportation electronic money cards, and to make related transactions, at Seven Bank ATMs
- Preparations under way for the September 2019 launch of *Welcome Suica*, a new IC card for overseas visitors to Japan
- Preparations under way for the commencement of verification tests in October 2019 with Mizuho Bank, Ltd., for charging digital currency onto the *Suica* app
- Preparations for a new Shinkansen IC ticket service, which will enable ticketless usage of Shinkansen lines through online reservation services such as *eki-net*, to be introduced as of March 31, 2020
- Progress in the joint system development with Sony Imaging Products & Solutions Inc. of a regionally linked IC card, to be offered starting in spring 2021, that combines the functions of *Suica* and those of the IC public transportation cards of regional transportation systems

<u>Making cities more comfortable</u>

The JR East Group took a variety of measures, such as reform of transportation service quality and efforts to create lifestyles (town development) in preparation for the Tokyo 2020 Olympic and Paralympic Games, in order to establish an environment where customers can seamlessly use services for their daily lives through optimal combinations of transportation, purchases, and payments, thereby making cities more comfortable.

(Specific measures)

- Verification tests for the development of facilities for automated railway operation on the Yamanote Line, with the aim of realizing “driverless operations”
- Preparations for the commencement of verification tests for *noricon*, a service on Shinkansen lines that transmits various content such as books and videos
- Preparations for the operation of a new limited express service for tourists from spring 2020, which will promote the “real charm” of the Izu area
- Preparations to introduce new Series E235 railcars to the Yokosuka Line and the Sobu Line Rapid Service from fiscal 2021
- Preparations under way for the expansion of the *mamorail* service, which watches over children, to the railway stations of the Bureau of Transportation of Tokyo Metropolitan Government and to the railway stations of Tokyo Metro Co., Ltd., in spring 2020 in collaboration with CENTRAL SECURITY PATROLS CO., LTD.
- Efforts to open a cumulative total of 150 child-rearing support facilities by March 31, 2023 (cumulative total of 131 child-rearing support facilities as of March 31, 2019)
- Integration of *JRE POINT* with *View Thanks Point* in June 2018 (membership of *JRE POINT* reached approx. 9.98 million people as of March 31, 2019)
- Issuance of the *JRE CARD* credit card, which offers bargains for shopping at *JRE POINT* compatible stores, from July 2018
- Implementation of the second phase of verification tests of an unmanned store with AI-enabled payment systems on a platform at Akabane Station
- Verification tests for the shared office business *STATION WORK* inside Tokyo Station and at other locations
- Construction below, including on station buildings, to increase the overall appeal and value of local towns together with local communities

  Phase 1 (East Bldg.) of *SHIBUYA SCRAMBLE SQUARE* (Tokyo), scheduled for opening in November 2019
  Gotanda East Exit Building (provisional name), scheduled for opening in spring 2020
  Phase 1 of *WATERS takeshiba* high-rise building and parking lot building (Tokyo), scheduled for opening in April 2020
  JR Yokohama Tower and *JR Yokohama Tsuruyacho Building* (Kanagawa) and
  Phase 2 of *WATERS takeshiba* theater building (Tokyo), scheduled for opening in 2020
  Sendai Station East Exit Office (provisional name), scheduled for opening in winter fiscal 2021
  The *Kawasaki Station West Exit Development Plan*, scheduled for completion in spring 2021
  World Trade Center South Hall (Tokyo), scheduled for opening in 2021
- Construction of hotels below to establish a hotel chain with more than 10,000 guest rooms by around 2020

  JR-EAST HOTEL METS AKIHABARA (Tokyo): Scheduled for opening in October 2019
  JR-EAST HOTEL METS TOKYO BAY SHIN-KIBA (Tokyo): Scheduled for opening in November 2019
  HOTEL METROPOLITAN KAMAKURA (Kanagawa): Scheduled for opening in March 2020
  JR-EAST HOTEL METS GOTANDA (provisional name): Scheduled for opening in spring 2020
  HOTEL METROPOLITAN KAWASAKI (provisional name): Scheduled for opening in spring 2020
  JR-EAST HOTEL METS SAKURAGICHO (provisional name): Scheduled for opening during fiscal 2021

- Construction toward the opening of Takanawa Gateway Station in spring 2020 and commencement of procedures related to urban planning of the northern peripheral area of Shinagawa Station in September 2018 for the opening of the town around 2024
- Preparations under way for the implementation of environmental assessments of plans for the Haneda Airport Access Line (provisional name)
- Upgrade of railway stations near stadiums to complete them around spring 2020, as part of its role as an official passenger rail transportation services partner of the Tokyo 2020 Olympic and Paralympic Games

Making regional areas more affluent

The JR East Group advanced various measures, including town development centered on core regional train stations and increasing passenger traffic through tourism promotion, in order to stimulate flows of people and goods between the Tokyo metropolitan area and regional areas and make regional areas more affluent.

(Specific measures)

- Enabling transfers between the Shinkansen line and conventional lines on the same platform of Niigata Station in connection with the completion of the first phase of its station-elevation project in April 2018
- Identification and distribution of information about the many different attractions of regional areas through the operation of the *TRAIN SUITE SHIKI-SHIMA* cruise train
- Progress in the *sextic industrialization* of agriculture in coordination with regional producers, processors, and other participants
- Conclusion of an agreement with JAPAN POST Co., Ltd., in June 2018 aimed at revitalizing regional communities and leveraging of the networks of both companies in November 2018 to carry out the trial sale of agricultural produce from Miyagi Prefecture on the day of harvest in Tokyo Station
- Verification tests for automated driving technologies for buses on the BRT route along the Ofunato Line
- Implementation of a joint campaign with ALL NIPPON AIRWAYS CO., LTD., to establish new products that combine train and airline transport and strengthening of information transmission with the aim of promoting and increasing the flow of tourists to the Tohoku area
- Opening of a sports medicine clinic in May 2018 at the east exit of Akita Station, progress in construction of *Akita Northern Gate Square* (Akita), and other efforts to promote urban development centered on Akita Station
- Construction toward the remodeling and reopening of the entire Tsuchiura Station Building as *PLAY atré Tsuchiura* (Ibaraki), which will be one of Japan's largest resorts for cyclists, from spring 2020, in order to promote urban development centered on Tsuchiura Station

In particular, to restore line segments on the Pacific coast severely damaged by the Great East Japan Earthquake, JR East worked in close collaboration with the national government and relevant local authorities and made progress in the rebuilding of the area as a whole.

(Specific measures)

- Completion of restoration efforts along the Yamada Line between Miyako and Kamaishi stations and transfer of operations to Sanriku Railway Company in March 2019
- Progress in restoration work to restore operations between Tomioka and Namie stations on the Joban Line by March 31, 2020
- Preparations under way for the April 2019 opening of J-Village Station, a new railway station along the Joban Line

Further, in June 2017 JR East and Fukushima Prefecture reached an agreement to restore operations and separate the ownership and operation of railway facilities on the line segment between Aizu-Kawaguchi and Tadami stations on the Tadami Line, suspended since July 2011 due to damage sustained from heavy rains. To facilitate this agreement, JR East commenced construction to restore operations on this segment in June 2018.

Developing businesses for the world

The JR East Group developed transportation services and life-style services overseas to meet the needs of its target countries and offer more affluent lifestyles.

(Specific measures)

- Participation in operations of the West Midlands Railway in the United Kingdom, together with Mitsui & Co., Ltd., and Abellio UK (the U.K. subsidiary of Nederlandse Spoorwegen N.V. Group)
- Opening of *LUMINE JAKARTA* (Indonesia), the second overseas store of subsidiary Lumine Co., Ltd., in December 2018
- Preparations at subsidiary atré Co., Ltd., for opening stores in commercial facilities in Taipei in January 2019 through collaboration with Mitsui & Co., Ltd., among other companies
- Preparations under way for the launch of JR EAST Technical Intern Training, a human resources development program for foreigners
- Preparations under way for the April 2019 opening of *JW360°*, a store featuring restaurants, retail outlets, and other establishments, within Singapore's Jewel Changi Airport by a local subsidiary of JR East in collaboration with a local subsidiary of Mitsui & Co., Ltd.

HAPPINESS OF EMPLOYEES AND THEIR FAMILIES

The JR East Group made efforts to promote operational and workstyle reforms, strengthen its corporate structure, and realize the happiness of its employees and their families with the goal of creating a sense of fulfillment in work for its employees, who represent the foundation for the sustainable growth "Move Up" 2027 aims to achieve.

(Specific measures)

- Revision to train crew systems in March 2019 with the aim of realizing flexible, more diverse workstyles for employees serving in frontline operations and in planning divisions
- Commencement of a cross-organizational project in March 2019 in which employees serving in frontline operations go beyond the frameworks of their assigned duties and areas of expertise in order to resolve issues
- Preparations for the April 2019 launch of the Shinkansen General Management Department, which will integrate operations in a centralized, specialized manner with the aim of providing safer, higher-quality services on the Shinkansen

Results by business segment were as follows.

Segment Information

Transportation

In the Transportation segment, JR East made efforts that gave priority to increasing the safety and reliability of transportation. At the same time, JR East advanced measures centered on railways to promote the use of its transportation networks and thereby achieve reliable revenues. Specifically, JR East conducted the *Honmono no Deai Tochigi* Destination Campaign to increase inter-regional railway travel. In addition, JR East operated a special Shinkansen service from Omiya Station to Shin-Hakodate-Hokuto for the first time in June and July 2018. In order to capitalize on the high demand from visitors to Japan, JR East promoted the sale of products aimed at overseas visitors. At the same time, JR East enhanced the lineup of such tourist-oriented products as *air and land* Japan visit travel packages that offer railway services and flights in coordination with airlines in Asia. JR East also operated an access train in September 2018 in cooperation with Sendai Rinkai Railway Co., Ltd., while a cruise ship was docked at the Port of Sendai. Further, JR East moved forward with preparations for revising train schedules and improving convenience, including efforts to shorten required travel times of certain trains for the *Hayabusa* and *Hayate* services on the Tohoku and Hokkaido Shinkansen lines.

As a result of these initiatives, JR East's number of passengers for railway operations exceeded that of the previous fiscal year, and operating revenues in the Transportation segment increased 0.9% year on year, to ¥2,123.0 billion ($19,126 million). Similarly, operating income rose 0.5% year on year, to ¥341.9 billion ($3,081 million).

Shinkansen Network

In the Shinkansen network, passenger kilometers increased 1.6% year on year, to 23.7 billion, mainly due to a favorable performance during the three-day autumnal equinox vacation and an increase in visitors to Japan among passengers. Shinkansen commuter pass revenues grew 1.6% year on year, to ¥24.7 billion ($222 million), and non-commuter pass revenues rose 1.5%, to ¥572.5 billion ($5,158 million). The total of Shinkansen commuter pass revenues and non-commuter pass revenues increased 1.5% year on year, to ¥597.2 billion ($5,380 million).

Conventional Lines (Kanto Area Network)

For conventional lines in the Kanto area network, passenger kilometers were up 0.7% year on year, to 108.3 billion. Commuter pass revenues increased 0.7%, to ¥463.3 billion ($4,174 million), while non-commuter pass revenues rose 1.1%, to ¥727.0 billion ($6,549 million). The total of commuter pass revenues and non-commuter pass revenues increased 0.9% year on year, to ¥1,190.3 billion ($10,723 million).

Conventional Lines (Other Network)

In the conventional lines other than the Kanto area network, passenger kilometers decreased 0.2% year on year, to 5.6 billion. Commuter pass revenues were down 0.2%, to ¥18.4 billion ($166 million), while non-commuter pass revenues increased 0.1%, to ¥50.9 billion ($458 million). The total of commuter pass revenues and non-commuter pass revenues was approximately the same level as the total of the previous fiscal year at ¥69.3 billion ($624 million).

Retail & Services

In the Retail & Services segment, JR East made efforts toward lifestyle development (town development) and enhanced the value of existing businesses. Specifically, in order to strengthen the development capabilities of stores in station concourses, in April 2018 JR East subsidiary JR East Retail Net Co., Ltd., conducted an absorption-type merger with JR East Station Retailing Co., Ltd., and JR East Water Business Co., Ltd., became a 100% subsidiary of JR East Retail Net Co., Ltd. Additionally, JR East opened an integrated sports entertainment complex, *SPORU SHINAGAWA OIMACHI* (Tokyo), which enables users to experience the sports of the Tokyo 2020 Olympic and Paralympic Games, in August 2018. JR East also proceeded with the renewal of private brand products at *NewDays* convenience stores. In addition, JR East held *Ekiben Grand Prix 2018*, which communicates the appeal of boxed lunches sold at train stations, in fall 2018. Further, in January 2019 JR East's local subsidiary opened the *JAPAN RAIL CAFE* Taiwan in Taipei, the Group's second cafe for disseminating information for visitors to Japan.

As a result of these initiatives, and in addition to favorable sales at stores in Tokyo Station and other stations, operating revenues of the Retail & Services segment increased 1.8%, to ¥593.7 billion ($5,349 million), and operating income rose 0.6%, to ¥39.2 billion ($353 million).

Real Estate & Hotels

In the Real Estate & Hotels segment, JR East proceeded with development projects that reflected an awareness of lifestyle (local and town) development in line-side areas and surrounding areas of large-scale terminal stations, including those in the Tokyo metropolitan area, to increase the overall appeal and value of local towns together with local communities. Specifically, JR East completed the opening in April 2018 of the *COTONIOR GARDEN Shin-Kawasaki* (Kanagawa) facility, intended for interaction among people across generations. JR East also completed the opening of *PERIE CHIBA* (Chiba) in June 2018. In addition, as part of its efforts to become a hotel chain with over 10,000 rooms by around 2020, JR East opened *JR-EAST HOTEL METS SAPPORO* (Hokkaido), the first of its kind to be established outside of eastern Japan, in February 2019. JR East also commenced operations of the *R-Lieto MITAKA* (Tokyo) proposal-type rental apartment, which underwent renovations for Company housing, in March 2019.

As a result of these initiatives, as well as the increased revenues following the opening of the entire *PERIE CHIBA* and the overall strong performance of the hotel business, operating revenues of the Real Estate & Hotels segment were up 2.7%, to ¥369.5 billion ($3,329 million). Similarly, operating income increased 0.5%, to ¥81.4 billion ($734 million).

Others

In *Suica* shopping services (electronic money), JR East continued to actively increase the number of compatible stores through efforts that included the introduction of *Suica* electronic money to chain stores that operate extensively, such as Yoshinoya, and to taxis. Also, in July 2018 monthly transactions for *Suica* and other public transportation electronic money broke previous records, surpassing 200 million transactions.

With respect to participation in overseas railway projects, through subsidiary Japan International Consultants for Transportation Co., Ltd., JR East provided consultation services for the "Detailed Design Study on the High Speed Railway Construction Project in India" and supervised the construction of a training center for National High Speed Rail Corporation Limited (NHSRCL) in India.

Operating revenues from Others increased 12.6%, to ¥259.2 billion ($2,335 million), due to the above efforts as well as increased revenues from information processing operations and credit card operations, while operating income increased 5.4%, to ¥23.8 billion ($214 million).

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

Operating Income

Operating expenses increased 2.0% year on year, to ¥2,517.2 billion ($22,677 million). Operating expenses as a percentage of operating revenues were 83.8%, compared with 83.7% in the previous fiscal year.

Transportation, other services and cost of sales were up 1.6%, to ¥1,921.5 billion ($17,311 million), because of an increase in cost of equipment.

Selling, general and administrative expenses rose 3.2%, to ¥595.7 billion ($5,366 million), which was due to an increase in cost of equipment.

Operating income grew 0.7%, to ¥484.9 billion ($4,368 million), which was ¥2.8 billion above the business results forecast. Operating income as a percentage of operating revenues was 16.2%, compared with 16.3% in the previous fiscal year.

Income before Income Taxes

Other income rose 71.2%, to ¥100.4 billion ($904 million), due mainly to an increase in construction grants received.

Other expenses were up 32.3%, to ¥156.6 billion ($1,411 million), mainly as a result of an increase in losses on reduction entry for construction grants.

Interest and dividend income and other financial income, net of interest and other financial expenses, amounted to a ¥57.1 billion ($514 million) expense, which was 4.3% lower than the expense recorded in the previous fiscal year.

Income before income taxes increased 1.7%, to ¥428.6 billion ($3,861 million). Income before income taxes as a percentage of operating revenues was 14.3%, which was approximately the same level that they were in the previous fiscal year.

Profit Attributable to Owners of Parent

Profit attributable to owners of parent increased 2.2%, to ¥295.2 billion ($2,660 million), mainly due to higher income before income taxes. Moreover, profit attributable to owners of parent reached a new record high. Earnings per share were ¥773.26 ($7), up from ¥749.20 per share. Further, profit attributable to owners of parent as a percentage of operating revenues was 9.8%, which was approximately the same level that it was in the previous fiscal year.

Liquidity and Capital Resources

Cash Flows

In fiscal 2019, net cash provided by operating activities totaled ¥663.8 billion ($5,980 million), ¥40.4 billion less than in the previous fiscal year. This result was mainly due to an increase in major receivables.

Net cash used in investing activities amounted to ¥594.4 billion ($5,355 million), ¥52.6 billion more than in the previous fiscal year. This result was mainly due to an increase in payments for purchases of fixed assets.

Capital expenditures were as follows. In the Transportation segment, JR East implemented capital expenditures to further measures for ensuring transportation safety and reliability, institute countermeasures for large-scale earthquakes, install automatic platform gates, and produce new railcars. In the Retail & Services segment, JR East opened new stores, conducted renovation work at existing stores, and developed systems for sales management and other purposes. In the Real Estate & Hotels segment, capital expenditures included those for *PERIE CHIBA* (Chiba), *COTONIOR GARDEN Shin-Kawasaki* (Kanagawa), and *R-Lieto MITAKA* (Tokyo). In the Others segment, capital expenditures included those for systems development. Further, free cash flows decreased ¥93.0 billion, to a positive ¥69.4 billion ($625 million).

Net cash used in financing activities came to ¥120.7 billion ($1,088 million), ¥14.4 billion less than in the previous fiscal year. This result was mainly due to an increase in proceeds from procurement of interest-bearing debt.

Consequently, cash and cash equivalents as of March 31, 2019, were ¥263.7 billion ($2,376 million), a decrease of ¥51.2 billion from ¥314.9 billion on March 31, 2018.

Financial Policy

The JR East Group Management Vision "Move Up" 2027 states that the balance of consolidated interest-bearing debt should correspond to consolidated operating revenues and income. Specifically, JR East aims for net interest-bearing debt / EBITDA of about 3.5 times.

Net interest-bearing debt is consolidated interest-bearing debt net of consolidated cash and cash equivalents at end of year. Net interest-bearing debt at March 31, 2019, stood at ¥2,900.0 billion ($26,126 million). Further, EBITDA is the sum of consolidated operating income and consolidated depreciation expense. In fiscal 2019, EBITDA was ¥853.6 billion ($7,690 million).

JR East operates a cash management system that integrates the management of the surplus funds and the fund-raising of companies participating in the cash management system with the aim of enhancing capital efficiency on a consolidated basis. Also, JR East employs such capital management methods as the offsetting of internal settlements among subsidiaries and the operation of a payment agency system that consolidates payment operations within the Group.

In fiscal 2019, JR East issued 10 unsecured straight bonds in Japan, with a total nominal amount of ¥125.0 billion ($1,126 million) and maturities from 2028 through 2059. Rating and Investment Information, Inc. (R&I), a Japanese rating agency, rated these bonds AA+. Further, JR East received long-term debt ratings from S&P Global Ratings Japan Inc. and Moody's Japan K.K. of AA– and Aa3, respectively.

Long-term liabilities incurred for purchase of railway facilities associated with JR East's assumption of Shinkansen railway facilities stood at ¥328.3 billion ($2,958 million), payable at a fixed annual interest rate of 6.55% through September 30, 2051.

In addition, at the fiscal year-end JR East had long-term liabilities incurred for purchase of railway facilities of ¥3.1 billion ($28 million) for the Akita hybrid Shinkansen facilities and ¥0.7 billion ($6 million) for Tokyo Monorail Co., Ltd.

In order to respond to short-term financing requirements, JR East has bank overdraft facilities with its principal banks totaling ¥330.0 billion ($2,973 million). R&I and Moody's Japan rated JR East's commercial paper a-1+ and P-1, respectively, as of the end of fiscal 2019. As of March 31, 2019, JR East did not have any outstanding balance of commercial paper issued by it and did not have any bank overdrafts.

In April 2015, JR East established a committed bank credit line (a financing framework that permits unrestricted borrowing within contract limits based on certain conditions) with an amount of ¥60.0 billion ($541 million).

Operational and Other Risk Information

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

Forward-looking statements in the following section are based on the assessments of the JR East Group as of March 31, 2019.

Legal Issues Relating to Operations

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

Railway Business Act (Act No. 92 of 1986)

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

JR Law (Act No. 88 of 1986)

AIM OF THE ESTABLISHMENT OF THE JR LAW

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

AMENDED JR LAW

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

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

(c) The guidelines stipulate items relating to the following three areas:
- Items relating to ensuring alliances and cooperation among companies (among the new companies or among the new companies and JR Companies) with respect to the establishment of appropriate passenger fares and surcharges, the unhindered utilization of railway facilities, and other factors relating to railway operations.
- Items relating to the appropriate maintenance of railway routes currently in operation reflecting trends in transportation demand and other changes in circumstances following the restructuring of Japanese National Railways (JNR) and items relating to ensuring the convenience of users through the development of stations and other railway facilities.
- Items stating that the new companies should give consideration to the avoidance of actions that inappropriately obstruct business activities or infringe upon the interests of small and medium-sized companies operating businesses within the operational areas of the new companies that are similar to the businesses of the new companies.

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

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

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

Establishment of and Changes to Fares and Surcharges

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

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

JR East's Stance

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

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

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

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

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

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

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

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

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

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

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

- Total cost = Operating cost*1 + Operational return
- Operational return =Assets utilized in railway business operations (rate base) × Operational return rate
- Assets utilized in railway business operations = Railway business operations fixed assets + Construction in progress + Deferred assets + Working capital*2
- Operational return rate = Equity ratio*3 × Return rate on equity*4 + Borrowed capital ratio*3 × Return rate on borrowed capital*4

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

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

New Shinkansen Line Segment Openings

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

Usage Fees for New Shinkansen Lines

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

(b) That enforcement ordinance stipulates that the Japan Railway Construction, Transport and Technology Agency (hereinafter the "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 expected benefits are calculated based on expected demand and revenues and expenses over a 30-year period after opening. Further, a part of the usage fees, which are calculated based on the expected benefits, is fixed for the 30-year period after commencing services.

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

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

End of Loan Period

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

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

Safety Measures

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

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

Specifically, regarding earthquake countermeasures, JR East proceeded with additional seismic reinforcement in preparation for a major earthquake, such as an earthquake directly beneath the Tokyo metropolitan area, and expanded the target area and facilities. At the same time, JR East added submarine seismograph data to the Shinkansen early earthquake alert system and began utilizing this data.

With respect to countermeasures for strong wind, JR East is taking ongoing measures to reduce risks, such as upgrading the algorithms of a strong wind detection system that uses Doppler radars. As measures for preventing railway crossing accidents, JR East eliminated and consolidated railway crossings, installed alarms and crossing gates, and increased the number of obstruction warning devices and obstacle detection devices for railway crossings. Also, as of the end of fiscal 2019, JR East had completed the installation of automatic platform gates at 36 railway stations (41 railway stations on a line-by-line basis), mainly on the Yamanote Line and the Keihin-Tohoku and Negishi lines. JR East will proceed with installation based on a policy of introducing automatic platform gates to all 243 railway stations (330 railway stations on a line-by-line basis) on the main conventional lines of the Tokyo metropolitan area by roughly March 31, 2033. With the aim of shortening construction periods and reducing costs, JR East has been verifying "Smart" automatic platform gates, which it will introduce to Warabi Station on the Keihin-Tohoku Line.

Further, JR East established its seventh five-year safety plan, "Group Safety Plan 2023," in November 2018. The plan's subheading is "Evolution" and "Move Up." In light of changes in the Group's internal and external environment, JR East will continue aiming for ultimate safety levels by responding accurately to changes, actively utilizing new technologies, and implementing other initiatives.

Information Systems and Protection of Personal Data

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

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

Development of the Life-Style Service Business

The JR East Group has positioned the life-style service business as a central pillar of management and is developing the Retail & Services and the Real Estate & Hotels segments.

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

Competition

The JR East Group's railway business competes with transportation sources including airlines, automobiles, buses, and other railway companies. Further, the JR East Group's life-style service business competes with existing and newly established businesses. The competition of the JR East Group's railway and life-style service businesses with such rivals could have an impact on the JR East Group's financial condition and business performance. Intensified competition in the transportation market could adversely affect earnings from JR East's railway business. Such competition includes the expansion of low-cost carrier (LCC) routes, toll discounts and other sales promotion measures on expressways, and the advancement of large-scale upgrading works by other railway operators in the Tokyo metropolitan area. Also, developments such as the new entry of other companies into markets or the renovation or reopening of existing commercial facilities could result in increased competition, and thereby adversely affect earnings from JR East's life-style service business.

Total Interest-Bearing Debt

Net interest-bearing debt at March 31, 2019, stood at ¥2,900.0 billion ($26,126 million). Further, net interest-bearing debt is consolidated interest-bearing debt net of consolidated cash and cash equivalents at end of year. In addition, consolidated interest-bearing debt at March 31, 2019, stood at ¥3,163.7 billion ($28,502 million).

In fiscal 2019, interest expense amounted to ¥62.5 billion ($563 million), which was equivalent to 12.9% of operating income.

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

Compliance

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

The JR East Group endeavors to ensure compliance and implements measures to prevent scandals of the type that have occurred at other companies. In addition to having established Legal Compliance and Corporate Ethics Guidelines, the Group is enhancing employee education about legal compliance and checks the status of compliance with statutory laws and regulations that relate to all areas of the Group's operations. Further, the Group encourages use of its internal whistle-blowing system by rigorously informing all employees about it.

International Operations

Overseas, the JR East Group is using the technology and expertise that it has accumulated to establish international operations as a new mainstay business for future growth. At the same time, the JR East Group is absorbing overseas expertise and knowledge about services that it cannot acquire in Japan. Through this process of taking on the challenge of international operations, the JR East Group aims to develop globally competent personnel and reform its corporate culture.

International operations include a variety of risk factors, such as changes in political systems or social factors; changes in local laws and regulations for investment, tax, or the environment; differences in business practices; differences in awareness in relation to the performance of contracts and compliance with rules as well as delays in construction work due to such factors; economic trends; and fluctuations in exchange rates. Further, large-scale projects can require long periods to realize return on investment and can require large amounts of capital, and increases in expenses accompanying investment could surpass increases in revenues.

With respect to these various risk factors, the JR East Group conducts analysis of risks in light of advice from lawyers, consultants, and other experts and in some cases takes measures while obtaining the cooperation of the Japanese government. However, unexpected changes in situations could affect the JR East Group's financial condition and business performance.

Consolidated Balance Sheets

East Japan Railway Company and Subsidiaries
March 31, 2018 and 2019

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2018	2019	2019
Assets			
Current Assets:			
Cash and cash equivalents (Notes 3, 7 and 9)	¥ 314,934	¥ 263,740	$ 2,376
Receivables (Note 7):			
Accounts receivable–trade	510,682	575,386	5,184
Unconsolidated subsidiaries and affiliated companies	13,412	13,777	124
Other	4,332	4,744	42
Allowance for doubtful accounts (Note 2 (4))	(1,522)	(2,019)	(18)
	526,904	591,888	5,332
Inventories (Notes 2 (5) and 4)	62,062	60,253	543
Real estate for sale (Notes 2 (6) and 5)	451	1,393	13
Other current assets	47,547	61,501	554
Total current assets	951,898	978,775	8,818
Investments:			
Unconsolidated subsidiaries and affiliated companies (Notes 2 (2), 2 (3) and 6)	63,856	79,405	715
Other (Notes 2 (7), 7 and 8)	226,795	221,923	2,000
	290,651	301,328	2,715
Property, Plant and Equipment (Notes 2 (8), 2 (12), 2 (17), 9, 10 and 20):			
Buildings	2,718,360	2,796,233	25,191
Fixtures	6,066,664	6,171,476	55,599
Machinery, rolling stock and vehicles	2,824,004	2,883,496	25,977
Land	2,020,742	2,064,591	18,600
Construction in progress	319,903	385,348	3,472
Other	258,138	268,842	2,422
	14,207,811	14,569,986	131,261
Less accumulated depreciation	7,707,065	7,877,762	70,971
Net property, plant and equipment	6,500,746	6,692,224	60,290
Other Assets:			
Deferred tax assets (Note 19)	228,087	209,049	1,883
Other	176,294	178,300	1,606
	404,381	387,349	3,489
	¥ 8,147,676	¥ 8,359,676	$ 75,312

See accompanying notes.

Consolidated Balance Sheets

East Japan Railway Company and Subsidiaries
March 31, 2018 and 2019

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2018	2019	2019
Liabilities and Net Assets			
Current Liabilities:			
Current portion of long-term debt (Notes 7 and 11)	¥ 284,707	¥ 235,453	$ 2,121
Current portion of long-term liabilities incurred for purchase of railway facilities (Notes 7, 9 and 12)	4,257	4,200	38
Prepaid railway fares received	100,523	105,215	948
Payables (Notes 7 and 9):			
Accounts payable–trade	56,857	61,766	556
Unconsolidated subsidiaries and affiliated companies	107,912	116,174	1,047
Other	620,563	648,611	5,843
	785,332	826,551	7,446
Accrued expenses	114,970	115,833	1,044
Accrued consumption taxes (Notes 7 and 13)	22,317	22,532	203
Accrued income taxes (Notes 2 (14), 7 and 19)	64,713	58,882	530
Allowance for partial transfer costs of railway operation (Note 2 (10))	10,333	—	—
Other current liabilities	47,177	70,309	634
Total current liabilities	1,434,329	1,438,975	12,964
Long-Term Liabilities:			
Long-term debt (Notes 7 and 11)	2,569,273	2,601,878	23,440
Long-term liabilities incurred for purchase of railway facilities (Notes 7, 9 and 12)	332,288	327,927	2,954
Net defined benefit liability (Notes 2 (9) and 18)	601,163	554,237	4,993
Deposits received for guarantees	141,427	146,407	1,319
Deferred tax liabilities (Note 19)	3,054	3,704	33
Allowance for partial transfer costs of railway operation (Note 2 (10))	2,689	2,418	22
Provision for large-scale renovation of Shinkansen infrastructure (Note 2 (11))	48,000	72,000	649
Other long-term liabilities	130,901	117,751	1,061
Total long-term liabilities	3,828,795	3,826,322	34,471
Contingent Liabilities (Note 14)			
Net Assets (Note 15):			
Common stock:			
Authorized 1,600,000,000 shares;			
Issued, 2019—381,822,200 shares;			
Outstanding, 2019—381,160,555 shares	200,000	200,000	1,802
Capital surplus	96,730	96,797	872
Retained earnings	2,496,075	2,705,184	24,371
Treasury stock, at cost, 661,645 shares in 2019	(5,457)	(5,508)	(49)
Accumulated other comprehensive income:			
Net unrealized holding gains (losses) on securities	63,339	58,966	531
Net deferred gains (losses) on derivatives under hedge accounting	730	1,584	14
Revaluation reserve for land (Note 2 (18))	(474)	(418)	(4)
Foreign currency translation adjustments	—	(6)	(0)
Remeasurements of defined benefit plans	8,387	10,575	95
Non-Controlling Interests	25,222	27,205	245
Total net assets	2,884,552	3,094,379	27,877
	¥8,147,676	¥8,359,676	$75,312

Consolidated Statements of Income and Comprehensive Income

East Japan Railway Company and Subsidiaries
Years ended March 31, 2018 and 2019

(I) CONSOLIDATED STATEMENTS OF INCOME

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2018	2019	2019
Operating Revenues (Note 21)	¥2,950,157	¥3,002,043	$27,045
Operating Expenses:			
Transportation, other services and cost of sales	1,891,897	1,921,527	17,311
Selling, general and administrative expenses	576,964	595,655	5,366
	2,468,861	2,517,182	22,677
Operating Income (Note 21)	481,296	484,861	4,368
Other Income (Expenses):			
Interest expense on short- and long-term debt	(42,829)	(40,851)	(368)
Interest expense incurred for purchase of railway facilities	(21,904)	(21,694)	(195)
Loss on sales of fixed assets	(192)	(280)	(3)
Impairment losses on fixed assets (Notes 2 (17), 10 and 21)	(4,177)	(2,275)	(20)
Interest and dividend income	5,019	5,404	49
Equity in net income (loss) of affiliated companies	5,142	5,871	53
Gain on sales of fixed assets	442	2,675	24
Other, net	(1,203)	(5,092)	(47)
	(59,702)	(56,242)	(507)
Income before Income Taxes	421,594	428,619	3,861
Income Taxes (Notes 2 (14) and 19):			
Current	114,455	110,110	992
Deferred	15,649	21,184	190
Profit	291,490	297,325	2,679
Profit Attributable to Non-Controlling Interests	(2,533)	(2,109)	(19)
Profit Attributable to Owners of Parent	¥ 288,957	¥ 295,216	$ 2,660

	Yen		U.S. Dollars (Note 2 (1))
Earnings per Share (Note 2 (15))	¥749	¥773	$7
Cash Dividends Applicable to the Year (Note 2 (15))	140	150	1

See accompanying notes.

Consolidated Statements of Income and Comprehensive Income

East Japan Railway Company and Subsidiaries
Years ended March 31, 2018 and 2019

(II) CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Note 22)

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2018	2019	2019
Profit	¥291,490	¥297,325	$2,679
Other Comprehensive Income:	9,157	(1,397)	(13)
Net unrealized holding gains (losses) on securities	9,227	(4,414)	(40)
Net deferred gains (losses) on derivatives under hedge accounting	(232)	587	5
Foreign currency translation adjustments	—	(6)	(0)
Remeasurements of defined benefit plans	(827)	1,324	12
Share of other comprehensive income of associates accounted for using equity method	989	1,112	10
Comprehensive Income	¥300,647	¥295,928	$2,666
Comprehensive Income Attributable to:			
Comprehensive income attributable to owners of parent	¥298,096	¥293,878	$2,648
Comprehensive income attributable to non-controlling interests	2,551	2,050	18

See accompanying notes.

Consolidated Statements of Changes in Net Assets

East Japan Railway Company and Subsidiaries
Years ended March 31, 2018 and 2019

	Shares	Millions of Yen										
	Number of Issued Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Net Unrealized Holding Gains (Losses) on Securities	Net Deferred Gains (Losses) on Derivatives under Hedge Accounting	Revaluation Reserve for Land	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Non-Controlling Interests	Total
Balance at March 31, 2017	389,407,900	¥200,000	¥96,812	¥2,298,925	¥ (5,162)	¥52,940	¥ 1,847	¥(474)	¥—	¥ 8,531	¥21,934	¥2,675,353
Cash dividends (¥140 per share)	—	—	—	(52,263)	—	—	—	—	—	—	—	(52,263)
Profit attributable to owners of parent	—	—	—	288,957	—	—	—	—	—	—	—	288,957
Increase due to merger	—	—	—	—	—	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	(40,024)	—	—	—	—	—	—	(40,024)
Disposal of treasury stock	—	—	0	—	1	—	—	—	—	—	—	1
Retirement of treasury stock	(3,752,400)	—	(0)	(39,728)	39,728	—	—	—	—	—	—	—
Change of scope of consolidation	—	—	—	172	—	—	—	—	—	—	—	172
Purchase of shares of consolidated subsidiaries	—	—	(82)	—	—	—	—	—	—	—	—	(82)
Increase by corporate division in consolidated subsidiaries	—	—	—	12	—	—	—	—	—	—	—	12
Increase/decrease caused by organization restructuring of companies to which the equity method is applicable	—	—	—	—	—	—	—	—	—	—	—	—
Reversal of revaluation reserve for land	—	—	—	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	10,399	(1,117)	—	—	(144)	3,288	12,426
Balance at March 31, 2018	385,655,500	¥200,000	¥96,730	¥2,496,075	¥ (5,457)	¥63,339	¥ 730	¥(474)	¥—	¥ 8,387	¥25,222	¥2,884,552
Cash dividends (¥150 per share)	—	—	—	**(55,585)**	—	—	—	—	—	—	—	**(55,585)**
Profit attributable to owners of parent	—	—	—	**295,216**	—	—	—	—	—	—	—	**295,216**
Increase/decrease due to merger	—	—	—	**(140)**	—	—	—	—	—	—	—	**(140)**
Purchase of treasury stock	—	—	—	—	**(41,021)**	—	—	—	—	—	—	**(41,021)**
Disposal of treasury stock	—	—	—	**(0)**	**3**	—	—	—	—	—	—	**3**
Retirement of treasury stock	**(3,833,300)**	—	—	**(40,967)**	**40,967**	—	—	—	—	—	—	—
Change of scope of consolidation	—	—	—	—	—	—	—	—	—	—	—	—
Purchase of shares of consolidated subsidiaries	—	—	**67**	—	—	—	—	—	—	—	—	**67**
Increase by corporate division in consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—
Increase caused by organization restructuring of companies to which the equity method is applicable	—	—	—	**10,641**	—	—	—	—	—	—	—	**10,641**
Reversal of revaluation reserve for land	—	—	—	**(56)**	—	—	—	—	—	—	—	**(56)**
Other	—	—	—	—	—	**(4,373)**	**854**	**56**	**(6)**	**2,188**	**1,983**	**702**
Balance at March 31, 2019	**381,822,200**	**¥200,000**	**¥96,797**	**¥2,705,184**	**¥ (5,508)**	**¥58,966**	**¥ 1,584**	**¥(418)**	**¥(6)**	**¥10,575**	**¥27,205**	**¥3,094,379**

Consolidated Statements of Changes in Net Assets

East Japan Railway Company and Subsidiaries
Years ended March 31, 2018 and 2019

	Shares	Millions of U.S. Dollars (Note 2 (1))											
	Number of Issued Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Net Unrealized Holding Gains (Losses) on Securities	Net Deferred Gains (Losses) on Derivatives under Hedge Accounting	Revaluation Reserve for Land	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Non-Controlling Interests	Total
Balance at March 31,2018	385,655,500	$1,802	$871	$22,487	$ (49)	$571	$ 7	$(4)	$—	$76	$227	$25,988
Cash dividends (¥150 per share)	—	—	—	(501)	—	—	—	—	—	—	—	(501)
Profit attributable to owners of parent	—	—	—	2,660	—	—	—	—	—	—	—	2,660
Increase due to merger	—	—	—	(1)	—	—	—	—	—	—	—	(1)
Purchase of treasury stock	—	—	—	—	(369)	—	—	—	—	—	—	(369)
Disposal of treasury stock	—	—	—	(0)	0	—	—	—	—	—	—	0
Retirement of treasury stock	(3,833,300)	—	—	(369)	369	—	—	—	—	—	—	—
Change of scope of consolidation	—	—	—	—	—	—	—	—	—	—	—	—
Purchase of shares of consolidated subsidiaries	—	—	1	—	—	—	—	—	—	—	—	1
Increase by corporate division in consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—
Increase caused by organization restructuring of companies to which the equity method is applicable	—	—	—	96	—	—	—	—	—	—	—	96
Reversal of revaluation reserve for land	—	—	—	(1)	—	—	—	—	—	—	—	(1)
Other	—	—	—	—	—	(40)	7	0	(0)	19	18	4
Balance at March 31, 2019	381,822,200	$1,802	$872	$24,371	$ (49)	$531	$14	$(4)	$(0)	$95	$245	$27,877

See accompanying notes.

Consolidated Statements of Cash Flows

East Japan Railway Company and Subsidiaries
Years ended March 31, 2018 and 2019

	Millions of Yen 2018	Millions of Yen 2019	Millions of U.S. Dollars (Note 2 (1)) 2019
Cash Flows from Operating Activities:			
Income before income taxes	¥ 421,594	¥ 428,619	$ 3,861
Depreciation	367,998	368,723	3,322
Impairment losses on fixed assets	4,177	2,275	20
Amortization of long-term prepaid expense	8,337	8,759	79
Net change in provision for large-scale renovation of Shinkansen infrastructure	24,000	24,000	216
Net change in net defined benefit liability	(41,222)	(45,131)	(407)
Interest and dividend income	(5,019)	(5,404)	(49)
Interest expense	64,733	62,545	563
Construction grants received	(23,815)	(59,847)	(539)
Loss from disposition and provision for cost reduction of fixed assets	60,163	97,003	874
Net change in major receivables	(38,309)	(66,286)	(597)
Net change in major payables	66,067	48,267	435
Other	(24,183)	(16,963)	(151)
Sub-total	884,521	846,560	7,627
Proceeds from interest and dividends	5,607	6,091	54
Payments of interest	(64,787)	(62,944)	(567)
Payments of earthquake-damage losses	(10,504)	(3,145)	(28)
Payments of partial transfer costs of railway operation	(7,590)	(6,848)	(62)
Payments of income taxes	(103,053)	(115,913)	(1,044)
Net cash provided by operating activities	704,194	663,801	5,980
Cash Flows from Investing Activities:			
Payments for purchases of fixed assets	(578,157)	(649,038)	(5,847)
Proceeds from sales of fixed assets	1,987	4,815	43
Proceeds from construction grants	49,076	65,196	587
Payments for purchases of investment in securities	(6,851)	(7,756)	(70)
Proceeds from sales of investment in securities	2,226	3,021	27
Other	(10,138)	(10,664)	(95)
Net cash used in investing activities	(541,857)	(594,426)	(5,355)
Cash Flows from Financing Activities:			
Proceeds from long-term loans	154,500	143,000	1,288
Payments of long-term loans	(117,767)	(119,707)	(1,078)
Proceeds from issuance of bonds	90,000	125,000	1,126
Payments for redemption of bonds	(159,900)	(165,000)	(1,486)
Payments of liabilities incurred for purchase of railway facilities	(4,424)	(4,419)	(40)
Payments of acquisition of treasury stock	(40,024)	(41,021)	(370)
Cash dividends paid	(52,263)	(55,585)	(501)
Other	(5,222)	(2,961)	(27)
Net cash used in financing activities	(135,100)	(120,693)	(1,088)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	—	(56)	(0)
Net Change in Cash and Cash Equivalents	27,237	(51,374)	(463)
Cash and Cash Equivalents at Beginning of Year	287,126	314,934	2,837
Increase in Cash and Cash Equivalents from Newly Consolidated Subsidiary	568	99	1
Increase in Cash and Cash Equivalents due to Merger	—	81	1
Increase in Cash and Cash Equivalents Resulting from Absorption-Type Demerger	3	—	—
Cash and Cash Equivalents at End of Year	¥ 314,934	¥ 263,740	$ 2,376

See accompanying notes.

Notes to Consolidated Financial Statements

East Japan Railway Company and Subsidiaries
Years ended March 31, 2018 and 2019

1 INCORPORATION OF EAST JAPAN RAILWAY COMPANY

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

East Japan Railway Company (the Company) is one of the six passenger railway companies and serves eastern Honshu (Japan's main island). The Company operates 69 railway lines, 1,655 railway stations and 7,401.7 operating kilometers as of March 31, 2019.

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

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

The land and railway fixtures of the Tohoku and Joetsu Shinkansen lines were owned by the Shinkansen Holding Corporation until September 30, 1991, and the Company leased such land and railway fixtures at a rent determined by Shinkansen Holding Corporation in accordance with related laws and regulations. On October 1, 1991, the Company purchased such Shinkansen facilities for a total purchase price of ¥3,106,970 million ($27,991 million) from the Shinkansen Holding Corporation (see Note 12). 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 11).

2 SIGNIFICANT ACCOUNTING POLICIES

1) Basis of Presentation of Financial Statements

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

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

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

The consolidated financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2019, which was ¥111 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, 2019, 70 subsidiaries were consolidated.

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

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

3) Equity Method

The effective-influence standard is applied according to Regulations for Consolidated Financial Statements. For the year ended March 31, 2019, five affiliated companies were accounted for by the equity method, and there was no change in those companies during the year.

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

4) Allowance for Doubtful Accounts

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

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

5) Inventories

Inventories are stated at cost as follows:

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

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

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

6) Real Estate for Sale

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

7) Securities

Securities are classified and stated as follows:

(1) Trading securities are stated at market value. The Companies had no trading securities through the year ended March 31, 2019.

(2) Held-to-maturity debt securities are stated at amortized cost.

(3) Equity securities issued by subsidiaries and affiliated companies that are neither consolidated nor accounted for using the equity method are mainly stated at moving-average cost.

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

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

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

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

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

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

8) Property, Plant and Equipment

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

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

The range of useful lives is mainly as follows:

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

9) Accounting for Employees' Retirement Benefits

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

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

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

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

10) Allowance for Partial Transfer Costs of Railway Operation

The Company provides an allowance for partial transfer costs of railway operation is established based upon the estimated costs of restoration to the original state and other activities related to the disposition for free of railway facilities for the section between Aizu-Kawaguchi and Tadami on the Tadami Line from the Company to Fukushima Prefecture.

11) Provision for Large-Scale Renovation of Shinkansen Infrastructure

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

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

12) Accounting for Certain Lease Transactions

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

13) Accounting for Research and Development Costs

According to the Accounting Standards for Research and Development Costs, etc., in Japan, research and development costs are recognized as they are incurred. Research and development costs included in operating expenses for the years ended March 31, 2018 and 2019 were ¥18,158 million and ¥20,754 million ($187 million), respectively.

14) Income Taxes

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

15) Per Share Data

(1) Earnings per share

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

(2) Cash dividends per share

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

16) Derivative Transactions

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

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

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

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

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

17) Impairment of Fixed Assets

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

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

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

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

18) Revaluation of Land

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

(1) Revaluation method

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

(2) Revaluation date

March 31, 2002

(3) Difference between book value after revaluation and market value on March 31, 2019

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

19) Standards and Guidance Not yet Adopted

The following standard and guidance were issued but not yet adopted.

Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 30, 2018) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

(1) Summary

It is a comprehensive accounting standard for revenue recognition. Revenue is recognized through the application of the following five steps.

Step 1: Identify contracts with clients
Step 2: Identify contractual performance obligations
Step 3: Calculate transaction prices
Step 4: Allocate transaction prices to contractual performance obligations
Step 5: Recognize revenue when performance obligations are satisfied or as they are satisfied

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022

(3) Effect of the application of the said accounting standard, etc.

The effect is under evaluation as of the time of preparation of these consolidated financial statements.

20) Changes in Presentation Method

(Changes due to adoption of "Partial Amendments to Accounting Standard for Tax Effect Accounting")

Upon application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the current fiscal year, the Company and its domestic subsidiaries changed the presentation of Deferred tax assets and Deferred tax liabilities, such that Deferred tax assets and Deferred tax liabilities are classified as part of "Investments and Other Assets" and "Long-Term Liabilities," respectively.

As a result, Deferred tax assets of ¥51,478 million classified as Current assets have been included in Deferred tax assets in Other assets, and Deferred tax liabilities of ¥28 million that was included in Other current liabilities classified as Current liabilities have been included in Deferred tax liabilities classified as Long-term liabilities in the balance sheet as of the end of the previous fiscal year.

(Consolidated statements of cash flows)

From the fiscal year under review, the Company has presented and included Insurance proceeds related to earthquake in Other of Cash flows from operating activities because in the fiscal year under review the monetary significance was negligible.

To reflect this change in presentation method, in the consolidated statement of cash flows for the previous fiscal year the Company has presented and included ¥4,905 million in Other of Cash flows from operating activities that was classified separately as Insurance proceeds related to earthquake.

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.

4 INVENTORIES

Inventories at March 31, 2018 and 2019 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2018	2019	2019
Merchandise and finished goods	¥ 9,909	¥ 9,427	$ 85
Work in process	23,142	22,114	199
Raw materials and supplies	29,011	28,712	259
	¥62,062	¥60,253	$543

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.

6 INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATED COMPANIES

Investments in and advances to unconsolidated subsidiaries and affiliated companies at March 31, 2018 and 2019 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2018	2019	2019
Unconsolidated subsidiaries:			
Investments	¥ 6,728	¥ 6,597	$ 59
Advances	350	—	—
	7,078	6,597	59
Affiliated companies:			
Investments (including equity in earnings of affiliated companies)	¥56,778	¥72,670	$655
Advances	—	138	1
	56,778	72,808	656
	¥63,856	¥79,405	$715

7 FINANCIAL INSTRUMENTS

1) Items Relating to the Status of Financial Instruments

a) Policy in relation to financial instruments

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

b) Details of financial instruments and related risk

Trade receivables are exposed to credit risk in relation to customers, transportation operators with connecting railway services and other parties. Regarding the said risk, pursuant to the internal regulations of the Companies, due dates and balances are managed appropriately for each counterparty. Securities are exposed to market price fluctuation risk. Substantially all of trade payables—payables, accrued consumption taxes and accrued income taxes—have payment due dates within one year. Bonds and loans are exposed to risk associated with inability to make payments on due dates because of unforeseen decreases in free cash flow. Further, certain bonds and loans are exposed to market price fluctuation risk (foreign exchange / interest rates). Long-term liabilities incurred for purchase of railway facilities are liabilities with regard to the Japan Railway Construction, Transport and Technology Agency and, pursuant to the Law Related to the Transference of Shinkansen Railway Facilities, comprise principally interest-bearing debt related to the Company's purchase of Shinkansen railway facilities for a total purchase price of ¥3,106,970 million ($27,991 million) from the Shinkansen Holding Corporation on October 1, 1991. The Company pays such purchase price, based on regulations pursuant to the Law Related to the Transference of Shinkansen Railway Facilities, enacted in 1991, and other laws, in semiannual installments calculated using the equal payment method, whereby interest and principal are paid in equal amounts semiannually, based on interest rates approved by the Minister of Land, Infrastructure, Transport and Tourism (at the time of enactment). Long-term liabilities incurred for purchase of railway facilities are exposed to risk associated with inability to make payments on due dates because of a decrease in free cash flow for unforeseen reasons. Further, certain long-term liabilities incurred for purchase of railway facilities are exposed to market price fluctuation risk (interest rates).

c) Risk management system for financial instruments

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

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

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

2) Items Relating to the Fair Values of Financial Instruments

Amounts recognized for selective items in the consolidated balance sheets as of March 31, 2018 and 2019, fair values of such items and the differences between such amounts and values are shown below. Further, items for which fair values were extremely difficult to establish were not included in the following table.

						Millions of Yen			Millions of U.S. Dollars
		2018				2019			2019
	Consolidated balance sheet amount	Fair value	Difference	Consolidated balance sheet amount	Fair value	Difference	Consolidated balance sheet amount	Fair value	Difference
a Cash and cash equivalents	¥ 314,934	¥ 314,934	¥ —	¥ 263,740	¥ 263,740	¥ —	$ 2,376	$ 2,376	$ —
b Receivables	528,426	528,426	—	593,907	593,907	—	5,350	5,350	—
c Securities:									
Held-to-maturity debt securities	157	161	4	157	160	3	1	1	0
Available-for-sale securities	210,248	210,248	—	204,244	204,244	—	1,840	1,840	—
Assets	¥1,053,765	¥1,053,769	¥ 4	¥1,062,048	¥1,062,051	¥ 3	$ 9,567	$ 9,567	$ 0
a Payables	¥ 785,332	¥ 785,332	¥ —	¥ 826,551	¥ 826,551	¥ —	$ 7,446	$ 7,446	$ —
b Accrued consumption taxes	22,317	22,317	—	22,532	22,532	—	203	203	—
c Accrued income taxes	64,713	64,713	—	58,882	58,882	—	530	530	—
d Long-term debt:									
Bonds	1,770,134	1,984,280	214,146	1,730,192	1,954,570	224,378	15,587	17,609	2,022
Long-term loans	1,083,846	1,144,496	60,650	1,107,139	1,175,761	68,622	9,974	10,592	618
e Long-term liabilities incurred for purchase of railway facilities	336,545	724,373	387,828	332,127	732,080	399,953	2,992	6,595	3,603
Liabilities	¥4,062,887	¥4,725,511	¥662,624	¥4,077,423	¥4,770,376	¥692,953	$36,732	$42,975	$6,243
Derivative transactions*1:									
Hedge accounting applied	¥ 1,433	¥ 1,433	¥ —	¥ 2,281	¥ 2,281	¥ —	$ 21	$ 21	$ —

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

Notes to Consolidated Financial Statements

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

Assets

a. Cash and cash equivalents

b. Receivables

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

c. Securities

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

Liabilities

a. Payables

b. Accrued consumption taxes

c. Accrued income taxes

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

d. Long-term debt

Bonds

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

Long-term loans

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

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

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

Derivative Transactions (See Note 17)

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

	Consolidated balance sheet amount		
	Millions of Yen		Millions of U.S. Dollars
Classification	2018	2019	2019
Unlisted equity securities	¥7,228	¥6,673	$60
Unlisted corporate bonds	360	360	3
Capital contributions to limited liability companies	400	1,012	9
Investment in investment business limited partnership (*toshi jigyo yugen sekinin kumiai*)	—	59	1
Investment in anonymous associations (*tokumei kumiai*)	4,390	5,030	45
Preferred equity securities	1,256	2,004	18
Natural disaster derivative transactions	1,351	1,453	13

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

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

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

4. The annual maturities of financial assets and securities with maturities at March 31, 2018 and 2019 were as follows.

	Millions of Yen								Millions of U.S. Dollars			
	2018				2019				2019			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 Years	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and cash equivalents	¥314,934	¥ —	¥ —	¥—	¥263,740	¥ —	¥—	¥—	$2,376	$—	$—	$—
Receivables	521,354	6,739	330	3	588,324	5,572	11	—	5,300	50	0	—
Securities:												
Held-to-maturity debt securities (Government bonds)	—	150	10	—	10	140	10	—	0	1	0	—
Available-for-sale securities which have maturity (Government bonds)	—	—	6	—	—	—	6	—	—	—	0	—
Total	¥836,288	¥6,889	¥346	¥ 3	¥852,074	¥5,712	¥27	¥—	$7,676	$51	$ 0	$—

5. The annual maturities of bonds, long-term loans and long-term liabilities incurred for purchase of railway facilities at March 31, 2019 (See Notes11 and 12)

8 SECURITIES

For held-to-maturity debt securities, the amount on balance sheets and market value at March 31, 2018 and 2019 were as follows:

	Millions of Yen						Millions of U.S. Dollars		
	2018			2019			2019		
	Amount on balance sheet	Market value	Difference	Amount on balance sheet	Market value	Difference	Amount on balance sheet	Market value	Difference
Of which market value exceeds the amount on balance sheet:									
Government, municipal bonds, etc.	¥157	¥161	¥4	¥157	¥160	¥3	$1	$1	$0
Of which market value does not exceed the amount on balance sheet:									
Government, municipal bonds, etc.	—	—	—	—	—	—	—	—	—
Total	¥157	¥161	¥4	¥157	¥160	¥3	$1	$1	$0

For available-for-sale securities, the acquisition cost and amount on balance sheets at March 31, 2018 and 2019 were as follows:

	Millions of Yen						Millions of U.S. Dollars		
	2018			2019			2019		
	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	¥ 99,277	¥185,410	¥86,133	¥ 97,966	¥181,483	¥83,516	$ 882	$1,635	$753
Debt securities	6	6	0	6	6	0	0	0	0
Of which amount on balance sheet does not exceed the acquisition cost:									
Equity shares	26,964	24,832	(2,132)	28,632	22,755	(5,877)	258	205	(53)
Debt securities	—	—	—	—	—	—	—	—	—
Total	¥126,247	¥210,248	¥84,001	¥126,604	¥204,244	¥77,639	$1,140	$1,840	$700

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

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

9 PLEDGED ASSETS

Pledged assets at March 31, 2018 and 2019 were summarized as follows:

Pledged assets as a collateral

	Millions of Yen		Millions of U.S. Dollars
	2018	2019	2019
Cash and cash equivalents	¥ 164	¥164	$1
Other	1,264	464	4

Counterpart liabilities

	Millions of Yen		Millions of U.S. Dollars
	2018	2019	2019
Payables	¥817	¥969	$9
Other	27	17	0

Pledged assets as a mortgage for long-term liabilities

	Millions of Yen		Millions of U.S. Dollars
	2018	2019	2019
Buildings and fixtures with net book value	¥47,115	¥45,430	$409
Other assets with net book value	14,197	15,143	136

Counterpart liabilities

	Millions of Yen		Millions of U.S. Dollars
	2018	2019	2019
Long-term liabilities incurred for purchase of railway facilities	¥974	¥674	$6

10 IMPAIRMENT LOSSES ON FIXED ASSETS

In adherence with management accounting classifications, the Companies generally categorize assets according to operations or properties. For railway business assets, the Companies treat railway lines as a single asset group because the railway network generates cash flow as a whole. Also, the Companies separately categorize assets that are slated to be disposed of or idle. The Companies determine recoverable amounts for the above asset groups by measuring the net selling prices or values in use. In case the Companies determine recoverable amounts for the above asset groups by measuring the net selling prices, the prices and other amounts are adjusted rationally applying the tax-appraised value of fixed assets. Values in use for the measurement of recoverable amounts are based on the present values of expected cash flows with the discount rate of 4.0% in the fiscal year.

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

Impairment losses on fixed assets were ¥4,177 million and ¥2,275 million ($20 million) in the years ended March 31, 2018 and 2019, respectively.

11 LONG-TERM DEBT

Long-term debt at March 31, 2018 and 2019 were summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2018	2019	2019
General mortgage bonds issued in 2000 to 2001 with interest rates ranging from 2.30% to 2.65% due in 2020 to 2021	¥ 80,000	¥ 50,000	$ 450
Unsecured bonds issued in 2002 to 2019 with interest rates ranging from 0.06% to 2.55% due in 2019 to 2059	1,450,953	1,440,960	12,982
Secured loans due in 2018 from bank with interest rates 1.95%	10	—	—
Unsecured loans due in 2019 to 2049 principally from banks and insurance companies with interest rates mainly ranging from 0.10% to 2.80%	1,083,835	1,107,139	9,974
Euro-pound bonds issued in 2006 to 2007 with interest rates ranging from 4.50% to 5.25% due in 2031 to 2036	239,182	239,232	2,155
	2,853,980	2,837,331	25,561
Less current portion	284,707	235,453	2,121
	¥2,569,273	¥2,601,878	$23,440

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

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

The annual maturities of bonds at March 31, 2019 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2020	¥ 125,000	$ 1,126
2021	120,000	1,081
2022	90,000	811
2023	111,000	1,000
2024	65,000	586
2025 and thereafter	1,219,959	10,991

The annual maturities of long-term loans at March 31, 2019 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2020	¥110,453	$ 995
2021	115,293	1,039
2022	133,320	1,201
2023	141,530	1,275
2024	152,030	1,369
2025 and thereafter	454,513	4,095

12 LONG-TERM LIABILITIES INCURRED FOR PURCHASE OF RAILWAY FACILITIES

In October 1991, the Company purchased the Tohoku and Joetsu Shinkansen facilities from the Shinkansen Holding Corporation for a total purchase price of ¥3,106,970 million ($27,991 million) payable in equal semiannual installments consisting of principal and interest payments in three tranches: ¥2,101,898 million ($18,936 million) and ¥638,506 million ($5,752 million) in principal amounts payable through March 2017; and ¥366,566 million ($3,302 million) payable through September 2051. In March 1997, the liability of ¥27,946 million ($252 million) payable in equal semiannual installments through March 2022 to Japan Railway Construction Public Corporation was incurred with respect to the acquisition of the Akita hybrid Shinkansen facilities. In February 2002, the Company acquired a majority interest in Tokyo Monorail Co., Ltd. As a result, the consolidated balance sheets as of March 31, 2002 included liabilities of Tokyo Monorail Co., Ltd. amounting to ¥36,726 million ($331 million) payable to Japan Railway Construction Public Corporation.

The long-term liabilities incurred for purchase of railway facilities outstanding at March 31, 2018 and 2019 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2018	2019	2019
Long-term liability incurred for purchase of the Tohoku and Joetsu Shinkansen facilities:			
Payable semiannually including interest at a rate currently approximating 4.09% through 2017	¥ —	¥ —	$ —
Payable semiannually including interest at 6.35% through 2017	—	—	—
Payable semiannually including interest at 6.55% through 2051	331,181	328,304	2,958
	331,181	328,304	2,958
Long-term liability incurred for purchase of the Akita hybrid Shinkansen facilities:			
Payable semiannually at an average rate currently approximating 0.83% through 2022	4,390	3,148	28
Long-term liability incurred for purchase of the Tokyo Monorail facilities:			
Payable semiannually at an average rate currently approximating 1.72% through 2029	974	675	6
	336,545	332,127	2,992
Less current portion:			
The Tohoku and Joetsu Shinkansen purchase liability	2,877	3,069	28
The Akita hybrid Shinkansen purchase liability	1,079	1,041	9
Tokyo Monorail purchase liability	301	90	1
	4,257	4,200	38
	¥332,288	¥327,927	$2,954

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, 2019 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2020	¥ 4,200	$ 38
2021	4,412	40
2022	4,641	42
2023	3,794	34
2024	4,033	36
2025 and thereafter	311,047	2,802

13 CONSUMPTION TAXES

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

14 CONTINGENT LIABILITIES

(1) The Company has extended contingent liabilities of ¥11,714 million ($106 million) for orders received by Japan Transportation Technology (Thailand) Co., Ltd. This contract guarantee is a joint guarantee by three companies including the Company.

(2) The Company has concluded a contract that promises to provide capital of up to ¥3,191 million ($29 million) if the financial ratio of West Midlands Trains Limited, which is an operating company of a railway business in the United Kingdom, is below an agreed fixed figure.

15 NET ASSETS

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

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

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

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

At the general meeting of shareholders held in June 2019, the shareholders approved cash dividends amounting to ¥28,612 million ($258 million). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2019. Such appropriations are recognized in the period in which they are approved by the shareholders.

16 INFORMATION REGARDING CERTAIN LEASES

Future lease payments for non-cancellable operating leases, including those due within one year, at March 31, 2018 and 2019 were as follows:

	Millions of Yen				Millions of U.S. Dollars	
	2018		2019		2019	
	Within one year	Total	Within one year	Total	Within one year	Total
Non-cancellable operating leases	¥4,822	¥41,243	¥4,943	¥41,673	$45	$375

17 INFORMATION FOR DERIVATIVE TRANSACTIONS

1) Items Regarding Trading Circumstances (See Note 7)

2) Derivative Transactions Applied to Hedge Accounting

Millions of Yen

		2018			2019		
Type	Hedged item	Contract amount, etc.	Of which more-than-one-year contract amount, etc.	Fair value (Note 2)	Contract amount, etc.	Of which more-than-one-year contract amount, etc.	Fair value (Note 2)
Currency swap	Long-term loans	¥ 20,000	¥ 20,000	¥ 1,584	¥ 20,000	¥ 20,000	¥ 2,309
Forward exchange	Accounts payable–trade	—	—	—	4	—	0
Commodity swap	Fuel purchasing	776	326	(151)	326	72	(28)
Currency swap	Foreign currency-denominated bonds	239,959	239,959	(Note 1)	239,959	239,959	(Note 1)
Interest swap	Long-term loans	65,400	65,400	(Note 1)	65,400	18,000	(Note 1)
Total		¥326,135	¥325,685	¥ 1,433	¥325,689	¥278,031	¥ 2,281

Millions of U.S. Dollars

		2019		
Type	Hedged item	Contract amount, etc.	Of which more-than-one-year contract amount, etc.	Fair value (Note 2)
Currency swap	Long-term loans	$ 180	$ 180	$ 21
Forward exchange	Accounts payable–trade	0	—	0
Commodity swap	Fuel purchasing	3	1	(0)
Currency swap	Foreign currency denominated bonds	2,162	2,162	(Note 1)
Interest swap	Long-term loans	589	162	(Note 1)
Total		$2,934	$2,505	$ 21

Notes: 1. Derivative transactions that meet certain hedging criteria, regarding foreign currency swaps or interest rate swaps, are treated in combination with bonds or long-term loans, the fair values of these derivatives are included in the fair values of these bonds or long-term loans. (See Note 7)
2. Fair value is calculated based on the current value presented by financial institutions, etc., with which transactions are conducted.

18 NET DEFINED BENEFIT LIABILITY

Net defined benefit liability included in the liability section of the consolidated balance sheets as of March 31, 2018 and 2019 consisted of the following:

1) Movement in Retirement Benefit Obligations

	Millions of Yen		Millions of U.S. Dollars
	2018	2019	2019
Balance at the beginning of the fiscal year	¥650,775	¥610,611	$5,501
Service costs	27,133	26,887	242
Interest costs	3,866	3,642	33
Actuarial losses (gains)	180	(1,731)	(16)
Benefits paid	(71,752)	(75,582)	(681)
Past service costs	48	226	2
Other	361	569	6
Balance at the end of the fiscal year	¥610,611	¥564,622	$5,087

2) Movements in Plan Assets

	Millions of Yen		Millions of U.S. Dollars
	2018	2019	2019
Balance at the beginning of the fiscal year	¥9,542	¥ 9,620	$87
Expected return on plan assets	103	111	1
Actuarial losses (gains)	(372)	494	4
Contributions paid by the employer	767	873	8
Benefits paid	(420)	(414)	(4)
Balance at the end of the fiscal year	¥9,620	¥10,684	$96

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

	Millions of Yen		Millions of U.S. Dollars
	2018	2019	2019
Funded retirement benefit obligations	¥ 11,610	¥ 12,144	$ 110
Plan assets	(9,620)	(10,684)	(96)
	1,990	1,460	14
Unfunded retirement benefit obligations	599,001	552,478	4,977
Total net liability (asset) for retirement benefits at March 31	600,991	553,938	4,991
Liability for retirement benefits	601,163	554,237	4,993
Asset for retirement benefits	(172)	(299)	(2)
Total net liability (asset) for retirement benefits at March 31	¥600,991	¥553,938	$4,991

Employees' severance and retirement benefit expenses included in the consolidated statements of income for the years ended March 31, 2018 and 2019 consisted of the following:

4) Retirement Benefit Costs

	Millions of Yen		Millions of U.S. Dollars
	2018	2019	2019
Service costs .	¥27,133	¥26,887	$242
Interest costs	3,866	3,642	33
Expected return on plan assets	(103)	(111)	(1)
Net actuarial loss amortization	481	434	4
Past service costs amortization	(683)	(635)	(6)
Other	398	740	7
Total retirement benefit costs for the fiscal year ended March 31	¥31,092	¥30,957	$279

5) Adjustments for Retirement Benefit Costs

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

	Millions of Yen		Millions of U.S. Dollars
	2018	2019	2019
Past service costs that are yet to be recognized	¥(731)	¥ (861)	$ (8)
Actuarial gains and losses that are yet to be recognized	(71)	2,659	24
Total balance at March 31	¥(802)	¥1,798	$16

6) Accumulated Adjustments for Retirement Benefit

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

	Millions of Yen		Millions of U.S. Dollars
	2018	2019	2019
Past service costs that are yet to be recognized	¥ 2,775	¥ 1,914	$ 17
Actuarial gains and losses that are yet to be recognized	13,313	15,972	144
Total balance at March 31	¥16,088	¥17,886	$161

7) Plan Assets

	2018	2019
Bonds	7%	7%
Equity securities	26%	27%
General account of life insurers	51%	42%
Other	16%	24%

The discount rates are mainly 0.6% in the years ended March 31, 2018 and 2019. The rates of expected return on pension assets used by the Companies were mainly 1.5% and 1.6% in the years ended March 31, 2018 and 2019, respectively.

The required contributions to the defined contribution plans of the Company and its consolidated subsidiaries were ¥888 million and ¥942 million ($8 million) in the years ended March 31, 2018 and 2019, respectively.

19 INCOME TAXES

The major components of deferred tax assets and deferred tax liabilities at March 31, 2018 and 2019 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2018	2019	2019
Deferred tax assets:			
Net defined benefit liability	¥183,704	¥169,485	$1,527
Reserves for bonuses	23,556	23,518	212
Losses on impairment of fixed assets	20,195	18,990	171
Unrealized holding gains on fixed assets	15,003	17,482	157
Allowance for point card certificates	3,236	7,776	70
Excess depreciation and amortization of fixed assets	5,036	4,888	44
Asset retirement obligations	4,834	4,638	42
Accrued enterprise tax	4,385	4,162	37
Social insurance premiums for bonuses to employees and allowance for bonuses to employees	3,572	3,571	32
Devaluation losses on fixed assets	3,345	3,011	27
Other	45,231	34,541	312
	312,097	292,062	2,631
Less valuation allowance	(26,971)	(25,460)	(230)
Less amounts offset against deferred tax liabilities	(57,039)	(57,553)	(518)
Net deferred tax assets	228,087	209,049	1,883
Deferred tax liabilities:			
Tax deferment for gain on transfers of certain fixed assets	26,785	28,224	254
Net unrealized holding gains on securities	25,700	24,896	224
Valuation for assets and liabilities of consolidated subsidiaries	2,336	2,336	21
Other	5,272	5,801	52
	60,093	61,257	551
Less amounts offset against deferred tax assets	(57,039)	(57,553)	(518)
Net deferred tax liabilities	¥ 3,054	¥ 3,704	$ 33

The differences between the aggregate standard effective tax rate and the actual effective rate after applying tax effect accounting were omitted for the years ended March 31, 2018 and 2019, as the variance between them was less than 5%.

20 INVESTMENT AND RENTAL PROPERTY

The Companies own rental office buildings and rental commercial facilities (hereafter "investment and rental property") principally within the Company's service area. In the years ended March 31, 2018 and 2019, the amounts of net income related to rental property were ¥77,682 million and ¥76,836 million ($692 million) (rental income is recognized in operating revenues and rental expense is principally charged to operating expenses), respectively. The amounts recognized in the consolidated balance sheets and fair values related to investment and rental property were as follows.

				Millions of U.S. Dollars	
			Millions of Yen		
Consolidated balance sheet amount			Fair value	Consolidated balance sheet amount	Fair value
2018	Difference	2019	2019	2019	2019
¥648,405	¥25,794	¥674,199	¥2,140,266	$6,074	$19,282

Notes: 1. The consolidated balance sheet amount is the amount equal to acquisition cost, less accumulated depreciation.
2. Regarding difference in the above table, the increases in the year ended March 31, 2019 were principally attributable to acquisition of real estate and renewal (¥76,495 million / $689 million), and the decreases were mainly attributable to depreciation expenses (¥24,324 million / $219 million).
3. Regarding fair values at the end of fiscal year, the amount for significant properties is based on real estate appraisals prepared by external real estate appraisers, and the amount for other properties is estimated by the Company based on certain appraisal values or indicators that reflect appropriate market prices. If after obtaining a property from a third party or since the most recent appraisal, there has been no material change in the relevant appraisal values or indicators that reflect the appropriate market prices, the amount is based on such appraisal values or indicators.
4. Because fair values are extremely difficult to establish, this table does not include property that is being constructed or developed for future use as investment property. The amount recognized in the consolidated balance sheet related to such property are ¥73,295 million and ¥149,217 million in the years ended March 31, 2018 and 2019, respectively.

21 SEGMENT INFORMATION

1) General Information about Reportable Segments

Transportation, Retail & Services and Real Estate & Hotels comprise JR East's three reportable segments. Each reportable segment is in turn comprised of business units within the Group with respect to which separate financial information is obtainable. These reportable segments are reviewed periodically by JR East's Board of Directors and form the basis on which to evaluate business performance and decide on how to allocate management resources of the Company.

The Transportation segment includes passenger transportation operations centered on railway operations, as well as travel agency services, cleaning services, station operations, facilities maintenance operations, railcar manufacturing operations and railcar maintenance operations. The Retail & Services segment consists of the part of JR East's life-style service business that includes retail sales and restaurant operations, a wholesale business, a truck transportation business, and advertising and publicity. The Real Estate & Hotels segment consists of the part of JR East's life-style service business that includes shopping center operations, leasing of office buildings and other properties, and hotel operations.

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

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

Fiscal 2018 (April 1, 2017 to March 31, 2018)

Millions of Yen

	Transportation	Retail & Services	Real Estate & Hotels	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
Operating revenues:							
Outside customers	¥2,017,877	¥514,963	¥ 340,144	¥ 77,173	¥2,950,157	¥ —	¥2,950,157
Inside group	85,664	68,485	19,806	153,053	327,008	(327,008)	—
Total	2,103,541	583,448	359,950	230,226	3,277,165	(327,008)	2,950,157
Segment income	¥ 340,413	¥ 38,998	¥ 80,986	¥ 22,589	¥ 482,986	¥ (1,690)	¥ 481,296
Segment assets	¥6,501,621	¥351,810	¥1,318,453	¥1,019,599	¥9,191,483	¥(1,043,807)	¥8,147,676
Depreciation	280,811	15,297	41,300	30,590	367,998	—	367,998
Increase in fixed assets (Note 5)	454,493	19,277	88,936	17,802	580,508	—	580,508

Notes: 1. "Others" represents categories of business that are not included in reportable segments and includes IT & *Suica* business including credit card business, information processing and certain other businesses.

2. The ¥(1,690) million ($(15) million) downward adjustment to segment income included a ¥(1,257) million ($(11) million) elimination of unrealized holding gains (losses) on fixed assets and inventory assets and a ¥(393) million ($(4) million) elimination for intersegment transactions. Moreover, the ¥(1,043,807) million ($(9,404) million) downward adjustment to segment assets included a ¥(1,367,041) million ($(12,316) million) elimination of intersegment claims and obligations, offset by ¥323,234 million ($2,912 million) in corporate assets not allocated to each reportable segment.

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

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

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

Fiscal 2019 (April 1, 2018 to March 31, 2019)

Millions of Yen

	Transportation	Retail & Services	Real Estate & Hotels	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
Operating revenues:							
Outside customers	**¥2,038,195**	**¥521,878**	**¥ 349,014**	**¥ 92,956**	**¥3,002,043**	**¥ —**	**¥3,002,043**
Inside group	**84,816**	**71,859**	**20,489**	**166,285**	**343,449**	**(343,449)**	**—**
Total	**2,123,011**	**593,737**	**369,503**	**259,241**	**3,345,492**	**(343,449)**	**3,002,043**
Segment income	**¥ 341,946**	**¥ 39,231**	**¥ 81,421**	**¥ 23,807**	**¥ 486,405**	**¥ (1,544)**	**¥ 484,861**
Segment assets	**¥6,565,068**	**¥375,102**	**¥1,405,070**	**¥1,068,627**	**¥9,413,867**	**¥(1,054,191)**	**¥8,359,676**
Depreciation	**284,104**	**12,984**	**42,156**	**29,479**	**368,723**	**—**	**368,723**
Increase in fixed assets (Note 5)	**456,864**	**23,183**	**143,713**	**30,706**	**654,466**	**—**	**654,466**

	Transportation	Retail & Services	Real Estate & Hotels	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
							Millions of U.S. Dollars
Operating revenues:							
Outside customers	$18,362	$4,702	$ 3,144	$ 837	$27,045	$ —	$27,045
Inside group	764	647	185	1,498	3,094	(3,094)	—
Total	19,126	5,349	3,329	2,335	30,139	(3,094)	27,045
Segment income	$ 3,081	$ 353	$ 734	$ 214	$ 4,382	$ (14)	$ 4,368
Segment assets	$59,145	$3,379	$12,658	$9,627	$84,809	$(9,497)	$75,312
Depreciation	2,559	117	380	266	3,322	—	3,322
Increase in fixed assets (Note 5)	4,116	209	1,295	276	5,896	—	5,896

Notes: 1. "Others" represents categories of business that are not included in reportable segments and includes IT & *Suica* business including credit card business, information processing and certain other businesses.
2. The ¥(1,544) million ($(14) million) downward adjustment to segment income included a ¥(1,123) million ($(10) million) elimination of unrealized holding gains (losses) on fixed assets and inventory assets and a ¥(422) million ($(4) million) elimination for intersegment transactions. Moreover, the ¥(1,054,191) million ($(9,497) million) downward adjustment to segment assets included a ¥(1,417,064) million ($(12,766) million) elimination of intersegment claims and obligations, offset by ¥362,873 million ($3,269 million) in corporate assets not allocated to each reportable segment.
3. Segment income was adjusted to ensure consistency with the operating income set forth in the consolidated statements of income.
4. Segment information on liabilities was omitted from record, as it is not a metric used in deciding the allocation of management resources or evaluating earnings performance.
5. Increase in fixed assets included a portion contributed mainly by national and local governments.

3) Relevant Information

i. Information about products and services

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

ii. Information about geographic areas

a Operating Revenues

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

b Property, plant and equipment

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

iii. Information about major customers

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

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

Fiscal 2018 (Year ended March 31, 2018)

	Transportation	Retail & Services	Real Estate & Hotels	Others (Note)	Total
					Millions of Yen
Impairment losses on fixed assets	¥341	¥2,724	¥1,112	¥0	¥4,177

Fiscal 2019 (Year ended March 31, 2019)

	Transportation	Retail & Services	Real Estate & Hotels	Others (Note)	Total
					Millions of Yen
Impairment losses on fixed assets	¥375	¥485	¥1,415	¥0	¥2,275

	Transportation	Retail & Services	Real Estate & Hotels	Others (Note)	Total
					Millions of U.S. Dollars
Impairment losses on fixed assets	$3	$4	$13	$0	$20

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

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

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

6) Information about Gain on Negative Goodwill by Reportable Segments

Information about gain on negative goodwill by reportable segments was omitted as there was no relevant information.

22 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended March 31, 2018 and 2019

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

	Millions of Yen		Millions of U.S. Dollars
	2018	2019	2019
Net unrealized holding gains (losses) on securities:			
Amount arising during the year	¥13,796	¥(5,230)	$(47)
Reclassification adjustments	(623)	(1,131)	(10)
Sub-total, before tax	13,173	(6,361)	(57)
Tax (expense) benefit	(3,946)	1,947	17
Sub-total, net of tax	9,227	(4,414)	(40)
Net deferred gains (losses) on derivatives under hedge accounting:			
Amount arising during the year	(348)	994	9
Reclassification adjustments	(159)	(191)	(1)
Acquisition cost adjustments	173	41	0
Sub-total, before tax	(334)	844	8
Tax (expense) benefit	102	(257)	(3)
Sub-total, net of tax	(232)	587	5
Foreign currency translation adjustments:			
Amount arising during the year	—	(6)	(0)
Reclassification adjustments	—	—	—
Sub-total, before tax	—	(6)	(0)
Tax (expense) benefit	—	—	—
Sub-total, net of tax	—	(6)	(0)
Remeasurements of defined benefit plans:			
Amount arising during the year	(600)	1,999	18
Acquisition cost adjustments	(202)	(201)	(2)
Sub-total, before tax	(802)	1,798	16
Tax (expense) benefit	(25)	(474)	(4)
Sub-total, net of tax	(827)	1,324	12
Share of other comprehensive income of associates accounted for using equity method:			
Amount arising during the year	84	272	2
Reclassification adjustments	905	840	8
Sub-total	989	1,112	10
Total other comprehensive income	¥ 9,157	¥(1,397)	$(13)

23 SUBSEQUENT EVENTS

Share Repurchase

The Board of Directors of the Company resolved at its meeting held on April 25, 2019 matters concerning the Company's repurchase of its common stock pursuant to Article 156 of the Business Corporation Law as applied pursuant to Article 165, Paragraph 3 thereof, as detailed below.

(1) Reason for share repurchase: To enhance returns to shareholders
(2) Class of shares to be repurchased: Common stock
(3) Total number of shares that may be repurchased:
5,000,000 shares (maximum) (1.31% of issued shares (excluding treasury stock))
(4) Aggregate repurchase price: ¥40,000 million (maximum)
(5) Period of repurchase: From May 15, 2019 to July 31, 2019

During May 2019, repurchase of shares of the Company's common stock was as follows.

(1) Class of shares to be repurchased: Common stock
(2) Total number of shares repurchased: 1,392,300 shares
(3) Aggregate repurchase price: ¥14,298 million ($129 million).
(4) Period of repurchase: From May 15, 2019 to May 31, 2019
(5) Method of repurchase: Placement of purchase orders on the Tokyo Stock Exchange

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

Independent Auditor's Report

KPMG

Independent Auditor's Report

To the Board of Directors of East Japan Railway Company:

We have audited the accompanying consolidated financial statements of East Japan Railway Company and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2019, and the consolidated statement of income, statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of East Japan Railway Company and its consolidated subsidiaries as at March 31, 2019, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2019 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2(1) to the consolidated financial statements.

KPMG AZSA LLC

June 21, 2019
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Corporate Data

As of March 31, 2019

Number of Employees

72,402* (46,019 at parent company)

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

Number of Stations

1,655

Number of Rolling Stock

12,966

Passenger Line Network

7,401.7 kilometers

Number of Passengers Served Daily

About 18 million (average for the year ended March 31, 2019)

Paid-in Capital

¥200,000 million

Rating Information

AA+ (Rating and Investment Information, Inc.)
AA– (S&P Global Ratings Japan Inc.)
Aa3 (Moody's Japan K.K.)

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Facsimile: +65-6536-1297
* Address as of August 2019

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JR East:
http://www.jreast.co.jp/e/

Environment:
http://www.jreast.co.jp/e/environment/
(Sustainability Report)

Stock Information

As of March 31, 2019

Total Number of Shares Issued

381,822,200

Total Number of Shares Outstanding

381,160,555

Number of Shareholders

205,233

Stock Exchange Listing

Tokyo

Transfer Agent

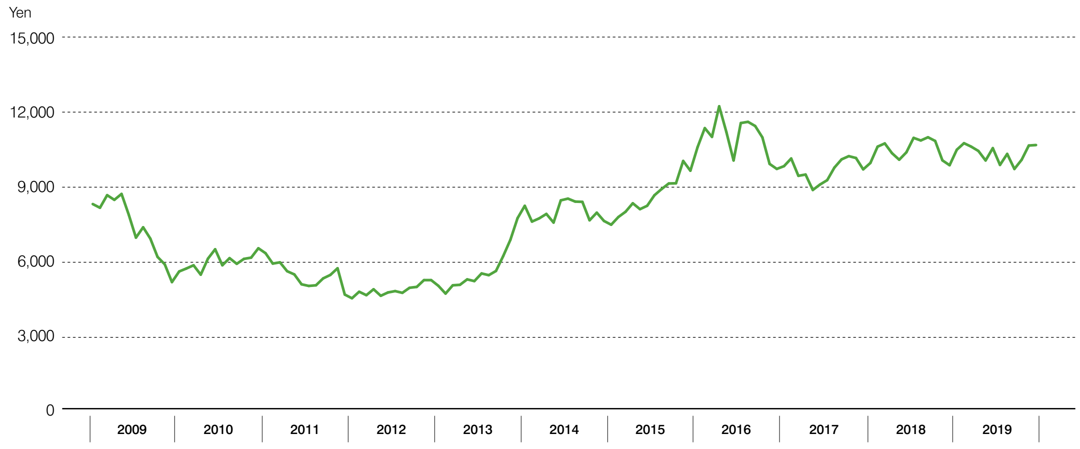
Mitsubishi UFJ Trust and
Banking Corporation
4-5, Marunouchi 1-chome,
Chiyoda-ku, Tokyo 100-8212, Japan

Major Shareholders

	Number of Shares Held (Shares)	Shareholding Percentage (%)
The Master Trust Bank of Japan, Ltd. (as Trustee)	20,316,500	5.33
Mizuho Bank, Ltd.	15,520,000	4.07
Japan Trustee Services Bank, Ltd. (as Trustee)	15,494,200	4.06
The JR East Employees Shareholding Association	10,276,401	2.69
MUFG Bank, Ltd.	9,712,000	2.55
Sumitomo Mitsui Banking Corporation	8,169,000	2.14
Nippon Life Insurance Company	8,015,560	2.10
The Dai-ichi Life Insurance Company, Limited	8,000,000	2.10
Japan Trustee Services Bank, Ltd. (as Trustee 9)	7,686,800	2.01
Japan Trustee Services Bank, Ltd. (as Trustee 5)	6,977,800	1.83

The shareholding percentage is calculated based on the total number of issued shares excluding 328,739 shares of treasury stock.

Stock Price*



* 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.
The share prices are the adjusted closing prices.