FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking statements in the following discussion and analysis are judgments of the JR East Group as of March 31, 2014.

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 2014, ended March 31, 2014. JR East continuously assesses those factors. Actual results may differ materially from those estimates, given the uncertainty of forward-looking statements.

PERFORMANCE ANALYSIS

OVERVIEW

In the year ended March 31, 2014, the Japanese economy continued to recover gradually, with improvements in consumer spending and corporate earnings. Under these conditions, and guided by *JR East Group Management Vision V—Ever Onward*, the Group made efforts to implement service quality reforms and generate revenues through steady execution of various initiatives centered around the railway and life-style service businesses, as well as *Suica* operations.

As a result, during the fiscal year under review, operating revenues increased 1.2% year-on-year to ¥2,702.9 billion ($26,242 million), mainly due to growth in the Company's transportation revenues. Operating income increased 2.3% to ¥406.7 billion ($3,949 million). Net income increased 14.0% to ¥199.9 billion ($1,941 million).

As of the first quarter of the fiscal year ended March 31, 2014, Japan Transport Engineering Company, which mainly manufactures railcars, was reclassified into the Transportation reporting segment from Others. This change reflects the plans that the Company commenced during the fiscal year under review to deepen cooperation in railway manufacturing operations between Japan Transport Engineering Company and the Company's Niitsu Rolling Stock Plant, based on *JR East Group Management Vision V*.

As a result of this change, in the Segment Information below, figures for the previous fiscal year ended March 31, 2013 have been restated to reflect the new reporting segment classification, and comparisons between this fiscal year under review and the previous fiscal year are based on restated figures.

Business results by business segment were as follows.

SEGMENT INFORMATION

Transportation

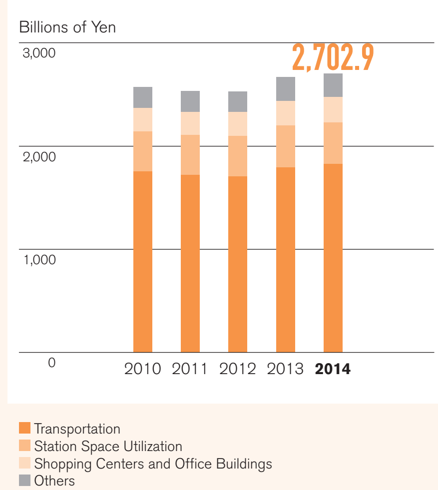
In the Transportation segment, with railway operations as its core operations, the Company, aiming to further improve reliable transportation and customer satisfaction, sought to secure revenues by steadily introducing measures to encourage the use of its Shinkansen network and conventional lines network.

With respect to safety measures, aiming for "extreme safety levels," JR East steadily continued the implementation of a seismic reinforcement plan as one of the countermeasures in the event of a major earthquake, such as a possible earthquake directly beneath the Tokyo metropolitan area. Specifically, these countermeasures included seismic reinforcement work, such as work on embankments near the Chuo Line's Ochanomizu Station, and work on viaducts and bridge piers. Approximately 30% of the work that is currently being planned was completed by the end of the fiscal year under review. Meanwhile, in order to accommodate people unable to return home in the event of a major disruption to public transportation, JR East completed the process of stocking approximately 200 stations within a 30 kilometer radius of Tokyo with emergency supplies, and continued talks with relevant municipalities on how to direct disaster evacuations. Further, in addition to the Group's ongoing efforts to prevent accidents at railway crossings, the total number of stations with automatic platform gates on the Yamanote Line increased to 11 as of March 31, 2014, after those gates began operating at seven stations including Shin-Okubo Station and Tamachi Station. In response to a derailment accident of *Komachi* railcars on the Ou Line in March 2013, JR East studied the findings and reviews of an internal committee established to investigate the cause, and installed snow fences and improved snow removal activities to prevent such an accident from reoccurring. Furthermore, JR East's sixth five-year safety plan, *Group Safety Plan 2018*, was designed in February 2014 as a roadmap for the entire Group in making further efforts to achieve "extreme safety levels." In response to a derailment accident within Kawasaki Station on the Keihin-Tohoku Line in February 2014, the Group has been making efforts to prevent the reoccurrence of a similar accident. Such efforts included clarification of the chain of command among contractors performing construction within closed railway lines, a review of the procedures for allowing entry of road-rail vehicles and heavy construction machinery in restricted construction areas, and enhanced on-site supervision of construction contractors by the Company's employees. JR East will continue to work on such initiatives aimed at further safety enhancements.

In an effort to improve safety and reliability of transportation, the Group made progress with measures that included introduction of new railcars to the Saikyo, Yokohama and other

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

OPERATING REVENUES



lines, installation of windbreaks and countermeasures against railroad switch malfunctions caused by snowfall. In introspection of a major transportation disruption caused by heavy snowfall in February 2014, JR East made progress in research on measures to improve capabilities for responding to snowfall. In March 2014, *JR EAST APP* for smartphones was launched to enhance the information the Group provides to the public, including on the operational status of its trains. Moreover, "Service Quality Improvement Projects" were developed for the Musashino, Saikyo and Yokohama lines to strengthen the management of its services tailored to the needs of each line. JR East also continued to implement campaigns urging safety precautions for passengers using baby carriages and escalators in collaboration with other railway operators as part of the Group's efforts to make railways more reliable and convenient.

In sales and marketing, JR East conducted holiday campaigns such as the *Sendai-Miyagi Destination Campaign* and the *Akita Destination Campaign* to encourage tourism and leverage these campaigns to help the Tohoku region recover from the March 2011 earthquake. In addition, the Group used trains that cater to people seeking to board for the "ride" itself, such as the *Tohoku Emotion* restaurant train on the Hachinohe Line, to stimulate tourism demand from the Tokyo metropolitan area to the Tohoku region. The additional measures JR East developed to increase railway usage included promotions for riding trains such as the Series E6 *Komachi* on the Akita Shinkansen Line, discount tickets and other travel products bound for the World Heritage Site Mt. Fuji, and the *JR SKI SKI* campaign. With respect to train services, JR East revised train schedules in March 2014 and raised the maximum operating speed of the entire *Hayabusa* and *Komachi* services to 320 km/h. The Group also introduced new Series E7 railcars to the Nagano Shinkansen Line. Service enhancements to improve convenience and comfort on conventional lines included introduction of a new *Swallow* seating service for commuters to the *Akagi* limited express on the Takasaki Line, and increased frequency of trains and extended segment for rapid service on the Nambu Line as part of the Group's efforts to enhance service on the *Tokyo Megaloop*. Moreover, initiatives for increasing the number of travelers from abroad included the development of *JR East Railway Holiday* as a new product brand for inbound travel, as well as the establishment of various discount tickets and other promotions. Furthermore, the Hokuriku Marketing Center was established in April 2013 in advance of the opening of the Hokuriku Shinkansen Line to Kanazawa scheduled in March 2015. In addition, the overall operating framework and names of train services on this line were finalized in October 2013. In addition, the Group upgraded its ICT systems and made passenger guidance easier to understand, and made other preparations in advance of the revision to train fares and other charges in conjunction with the April 2014 increase in Japan's consumption tax rate. With respect to *Suica* cards, JR East made efforts to further improve the convenience of this prepaid e-money card by expanding its mutual usage network to the service area for the Sapporo City Transportation Bureau's *SAPICA* card in June 2013. Initiatives for promoting energy and environmental conservation strategies included the operational launch of a mega-solar electricity plant at the Keiyo Rolling Stock Center, and the introduction of *ACCUM* storage battery-driven railcars to the Karasuyama Line.

With respect to JR East's participation in overseas railway projects, it was decided that the Group will participate in the railcar and ground facility maintenance services for the Purple Line, an urban mass transit railway system in Bangkok, Thailand, scheduled to enter into service around 2016. Subsequently, the Group began the preparatory work for providing this service. In railcar manufacturing operations, after concluding an agreement to supply the Purple Line with railcars, the Group made further efforts to win new projects and increase the number of orders worldwide by working to enhance its *sustina* stainless-steel railcars as a brand. Furthermore, progress was made with the Group's *Global Human Resource Development Program—Ever Onward* aimed at nurturing personnel for taking on global business development. Progress involved the establishment of a new, short-term overseas studies program. At the same time, approximately 600 employees were dispatched overseas in the fiscal year under review on assignments that included working as on-the-job trainees in the overseas railway consulting business.

As a result of the above, JR East's railway traffic volume increased from the previous fiscal year. Operating revenues from the Transportation segment increased by 1.1% to ¥1,883.5 billion ($18,287 million). Operating income increased 1.1% to ¥267.3 billion ($2,596 million).

JR East is coordinating its efforts with plans of other parties to restore train lines along the northeastern Pacific coast that were damaged by the tsunami caused by the Great East Japan Earthquake, to rebuild the area as a whole and develop individual towns. To this end, the Group is conducting discussions with the national government, local governments and other parties. With respect to the railway segments for which restoration of railway service has been approved, the Group proceeded with restoration work between Takagimachi and Rikuzen-Ono on the Senseki Line and Hirono and Tatsuta on the Joban Line, and began preparing for restoration work in the spring of 2014 between Soma and Hamayoshida on the Joban Line and Urashuku and Onagawa on the Ishinomaki Line. With respect to services with a provisional BRT (Bus Rapid Transit) system, JR East made efforts to further enhance passenger convenience, mainly by extending BRT roads on the Kesennuma Line and Ofunato Line in April and September 2013 and introducing *odeca* IC cards for boarding the BRT in August 2013. As for the Yamada Line, in January 2014 the Group proposed to relevant local governments that it be integrated with the North and South Rias lines for operation by Sanriku Railway Company. This proposal was made from the standpoint of promoting the line's usage by localizing its management and providing a compact and sustainable mode of transportation to the local community. Other initiatives for supporting recovery along the affected lines included construction work on the Senseki-Tohoku Connecting Line to improve passenger convenience by shortening the travel time between Sendai and Ishinomaki.

In March 2012, JR East announced that it had decided to forego restoring the Iwaizumi Line as a railway line, and declared its policy of providing transportation for the region with buses. The Group had been negotiating and seeking mutual understanding with the affected municipalities and other related parties. As a result, JR East reached an agreement with the related parties on the alternative transportation and other terms for abolishing the Iwaizumi Line. Accordingly, JR East filed a notice concerning termination of operations on this line with the Minister of Land, Infrastructure, Transport and Tourism in November 2013. After completing procedures for accelerating the termination date, the Iwaizumi Line was abolished in April 2014, and a local bus company began operating buses as an alternative mode of transportation. The Group is prepared to provide the support needed in operating this alternative bus transportation.

Shinkansen Network

In the Shinkansen network, passenger kilometers increased 3.7% year on year, to 20.8 billion, mainly due to the Japanese economy recovering and an increase in inbound foreign travelers boarding as passengers. Revenues from passenger tickets increased 3.1% year on year to ¥507.1 billion ($4,923 million). In particular, Shinkansen commuter pass revenues increased 0.6% year on year to ¥22.8 billion ($221 million). Non-commuter pass revenues rose 3.2% to ¥484.3 billion ($4,702 million).

Conventional Lines (Kanto Area Network)

In the conventional lines in the Kanto area network, passenger kilometers increased 1.8% year on year to 104.2 billion, due to increased usage during three-day national holiday weekends and the Year-end and New Year holiday season. Revenues from passenger tickets decreased 0.2% to ¥1,115.3 billion ($10,828 million). In particular, commuter pass revenues declined 1.5% to ¥439.2 billion ($4,264 million), due mainly to changes in estimation methods for prepaid railway fares received, while non-commuter pass revenues increased 0.7% to ¥676.0 billion ($6,563 million).

Conventional Lines (Other Network)

In the conventional lines other than the Kanto area network, passenger kilometers increased 2.9% year on year to 6.0 billion. This increase was mainly attributable to an increase in traffic volume in the Sendai area triggered by the *Sendai-Miyagi Destination Campaign*. Revenues from passenger tickets increased 2.1% to ¥73.9 billion ($717 million). In particular, commuter pass revenues decreased 0.9% to ¥18.6 billion ($181 million), due mainly to changes in estimation methods for prepaid railway fares received, while non-commuter pass revenues increased 3.2% to ¥55.2 billion ($536 million).

Station Space Utilization

In the Station Space Utilization segment, JR East opened *Perie KaihinMakuhari* (Chiba) and *mAAch ecute Kanda Manseibashi* (Tokyo). In addition, the Group made efforts to strengthen its competitiveness by developing attractive stores and continuing the renovation of station space commercial facilities centered in the Tokyo metropolitan area, such as those inside Tokyo and Tachikawa stations. Moreover, as part of the *Rediscovering the Region Projects*, the Group held *Sanchoku-Ichi* (farmers' markets) at Ueno, Omiya and other stations in an effort to highlight the appeal of various areas in Eastern Japan.

Despite these initiatives, and an increase in revenues such as from Tokyo Station's *CentralStreet* (Tokyo) that opened in the last fiscal year, operating revenues for the Station Space Utilization segment decreased by 0.6% to ¥415.8 billion ($4,037 million) mainly due to the closure of stores associated with construction work and weak performance of some of the existing stores, and operating income declined 4.0% to ¥36.0 billion ($350 million).

Shopping Centers and Office Buildings

In the Shopping Centers and Office Buildings segment, JR East opened *atrévie Otsuka* (Tokyo), *nonowa Higashikoganei* (Tokyo) and other facilities. Following the completion of the preservation and restoration of the Tokyo Station *Marunouchi Building* in October 2012, in September 2013 the Group completed the *GranRoof* (Tokyo) covered walkway above the Yaesu entrances to Tokyo Station connecting the two office towers to the north and south of the station. Further, JR East renovated *atré Kichijoji* (Tokyo), *LUMINE Yurakucho* (Tokyo), *S-PAL Koriyama* (Fukushima), and other facilities while continuing to reinvigorate existing stores and attract tenants that can generate customer traffic. In addition, the Group opened the *JR Ōtsuka Minamiguchi Building* (Tokyo) in August 2013 and continued construction of a new building at Nagano Station, scheduled to open at the end of fiscal 2015, and the *Shinjuku New South Exit Building* (provisional name), scheduled for completion in the spring of 2016.

As a result of these initiatives, as well as an increase in revenues from the opening of *KITTE GRANCHÉ* (Tokyo) in the JP Tower in the fiscal year ended March 31, 2013, and other additional positive factors, operating revenues of the Shopping Centers & Office Buildings segment increased by 5.1% to ¥261.8 billion ($2,541 million) and operating income increased 5.7% to ¥72.0 billion ($700 million).

Others

In hotel operations, JR East worked to improve its competitive strength further by opening *HOTEL METS Niigata* (Niigata) in April 2013 and through other measures including renovation of guest rooms and banquet halls at existing hotels. In advertising and publicity operations, the Group made efforts to promote advertising sales for *J-AD Vision*, an advertising medium at stations that uses large LCD screens, and *Train Channel*, an advertising medium used to show video commercials in trains. In addition, JR East joined other advertising agencies to invest in establishing a limited liability partnership in March 2014, with the aim of launching a digital signage business in Malaysia.

In credit card operations, JR East unrolled the *Commuter Pass Bill Cash Back Campaign*, among other campaigns tied to various events, in promoting increased card usage and membership. The *Suica* shopping services (electronic money) reached its 10th anniversary from when it was launched in March 2004. The Group worked actively to expand *Suica's* affiliated store network in markets other than railway stations. These efforts included the phased introduction of card settlements to taxis in the Tokyo metropolitan area, along with their expanded introduction to drugstores and restaurant chains. As a result of these efforts, *Suica* electronic money was usable at approximately 248,890 stores as of March 31, 2014.

Meanwhile, in the overseas railway business, JR East continued to develop a consulting business in connection with the construction plans for urban railway networks and high-speed railways in Asia, the U.K. and elsewhere. In the sports business, the Group opened *JeXer FITNESS & SPA Otsuka* (Tokyo) in September 2013, followed by the October 2013 opening of *JEXER Platina Gym Minami Urawa* (Saitama), the first gym dedicated to preventative care service. JR East also opened a second permanent *NOMONO* shop that sells local produce in Akihabara Station in March 2014, to revitalize industries in local communities through the sextic industrialization of agriculture, fishing and forestry.

As a result of these initiatives, as well as a revenue increase from the opening of *The Tokyo Station Hotel* (Tokyo) in the fiscal year ended March 31, 2013, and other additional positive factors, operating revenues from Others segment increased by 3.0% to ¥575.6 billion ($5,589 million). Operating income increased 12.5% to ¥32.6 billion ($318 million).

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

OPERATING INCOME

Operating expenses increased 1.0% year on year to ¥2,296.1 billion ($22,293 million). Operating expenses as a percentage of operating revenues were 84.9%, compared with 85.1% in the previous fiscal year.

Transportation, other services and cost of sales increased 0.2%, to ¥1,794.5 billion ($17,423 million), because of an increase in JR East's personnel expenses.

Selling, general and administrative expenses increased 3.9%, to ¥501.6 billion ($4,870 million), which was due to an increase in personnel expenses.

Operating income rose 2.3%, to ¥406.7 billion ($3,949 million) for the fourth consecutive fiscal year. Operating income as a percentage of operating revenues was 15.1% compared with 14.9% in the previous fiscal year.

INCOME BEFORE INCOME TAXES

Other income decreased 0.6%, to ¥18.9 billion ($183 million), due mainly to a decrease in equity in net income of affiliated companies.

Other expenses decreased 6.0%, to ¥93.2 billion ($905 million), mainly as a result of a decrease in interest expense.

Interest and dividend income and other financial income, net of interest and dividend expense and other financial expenses, amounted to a ¥85.3 billion ($828 million) expense, an improvement of 8.0%.

Income before income taxes increased 6.6%, to ¥324.6 billion ($3,151 million). Income before income taxes as a percentage of operating revenues was 12.0%, an increase from 11.4% the previous consolidated fiscal year.

NET INCOME

Net income increased 14.0% to a record ¥199.9 billion ($1,941 million), growing for a third consecutive year, due mainly to an increase in income before income taxes. Earnings per share were ¥506.77 ($5), up from ¥443.70 per share. Further, net income as a percentage of operating revenues was 7.4%, compared with 6.6% in the previous fiscal year.

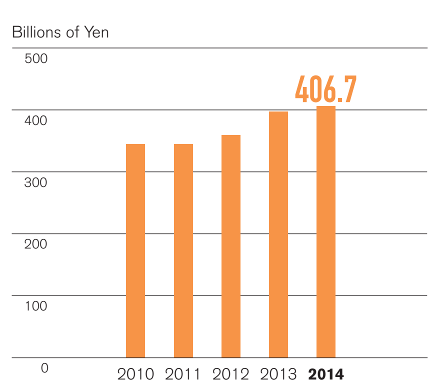
LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

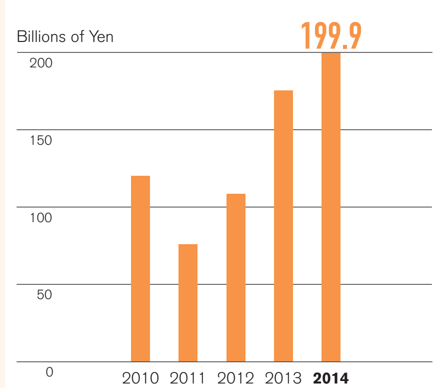
In the fiscal year ended March 31, 2014, operating activities provided net cash of ¥562.7 billion ($5,464 million), ¥25.7 billion less than in the previous fiscal year. This result was mainly due to an increase in payments of income taxes.

Investing activities used net cash of ¥474.6 billion ($4,609 million), ¥8.7 billion more than in the previous fiscal year. This result was mainly due to an increase in payments for purchases of fixed assets.

OPERATING INCOME



NET INCOME



Capital expenditures were as follows.

In transportation operations, JR East implemented capital expenditures to further measures for transportation safety and reliability as well as to build a highly competitive transportation network. The station space utilization operations developed stores in *mAAch ecute Kanda Manseibashi* and *Perie KaihinMakuhari*. In shopping centers and office buildings operations, JR East undertook capital expenditures for such initiatives as *GranRoof*, *atrévie Otsuka* and *nonowa Higashi-koganei*. At the same time, those operations remodeled *atré Kichijoji* and other properties. In other services, capital expenditures initiatives included systems development and functional enhancements as well as the construction of *HOTEL METS Niigata*.

Further, free cash flows decreased ¥34.5 billion, to ¥88.0 billion ($854 million).

Financing activities used net cash of ¥91.3 billion ($887 million), ¥9.7 billion less than in the previous fiscal year. This result was mainly due to a decrease in the repayment of interest-bearing debt.

Consequently, cash and cash equivalents as of March 31, 2014 were ¥186.0 billion ($1,806 million), a decrease of ¥3.2 billion from ¥189.2 billion on March 31, 2013.

FINANCIAL POLICY

Interest-bearing debt at the end of fiscal 2014 stood at ¥3,288.4 billion ($31,926 million).

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

a. ¥176.3 billion ($1,712 million) payable at a variable interest rate (annual interest rate in fiscal 2014: 4.12%) through March 31, 2017;
b. ¥137.0 billion ($1,330 million) payable at a fixed annual interest rate of 6.35% through March 31, 2017; and
c. ¥341.0 billion ($3,311 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 ¥9.1 billion ($88 million) for the Akita hybrid Shinkansen facilities and ¥2.9 billion ($28 million) for Tokyo Monorail.

Since fiscal 1998, JR East has made annual early repayments of long-term liabilities incurred for purchase of railway facilities associated with JR East's assumption of Shinkansen railway facilities based on an agreement with the Japan Railway Construction, Transport and Technology Agency (JRTT). JR East made early repayments of ¥21.3 billion ($207 million) in fiscal 2014.

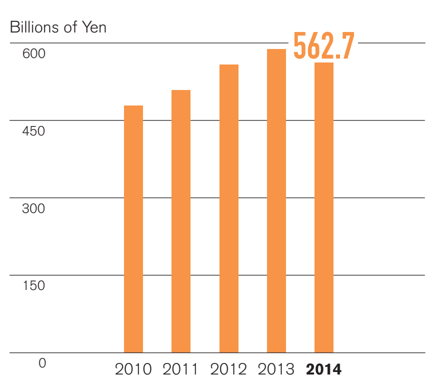
In fiscal 2002, JR East introduced a cash management system that integrated the management of the Group's cash and funding, which previously was carried out separately by subsidiaries, with the aim of reducing JR East's total interest-bearing debt. Also, JR East is enhancing capital management methods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

In the year ended March 31, 2014, JR East issued nine unsecured straight bonds, with a total nominal amount of ¥140.0 billion ($1,359 million) and maturities from 2018 through 2044. Rating and Investment Information, Inc. (R&I), a Japanese rating agency, rated these bonds AA+. Further, JR East received long-term debt ratings from Standard & Poor's and Moody's of AA– and Aa2, respectively.

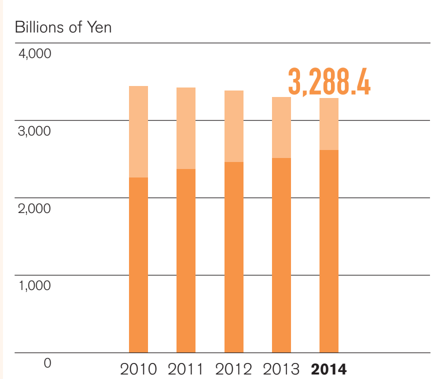
In order to respond to short-term financing requirements, JR East has bank overdraft facilities with its principal banks totaling ¥330.0 billion ($3,204 million). JR East did not have any bank overdrafts on March 31, 2014. R&I and Moody's rated JR East's commercial paper a-1+ and P-1, respectively, as of the end of fiscal 2014. There is no outstanding balance of commercial paper JR East issued as of March 31, 2014.

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

CASH FLOWS FROM OPERATING ACTIVITIES



INTEREST-BEARING DEBT



Long-term Debt
Long-term Liabilities Incurred for Purchase of Railway Facilities

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, 2014.

LEGAL ISSUES RELATING TO OPERATIONS

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

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

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

THE JR LAW (1986, LAW NO. 88)

Aim of the Establishment of the JR Law

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

AMENDMENT OF THE JR LAW

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

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

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

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

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

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

ESTABLISHMENT OF AND CHANGES TO FARES AND SURCHARGES

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

SYSTEM AND PROCEDURES FOR APPROVAL OF FARES AND SURCHARGES

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

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

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

JR EAST'S STANCE

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

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

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

(c) JR East primarily undertakes capital expenditure, which has a significant impact on the capital usage of railway operations, with a view to establishing a robust management base through ensuring safe and stable transportation, offering high-quality services, and implementing other measures. Further, JR East appreciates the need to independently conduct capital expenditure based upon clearly defined management responsibility.

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

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

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

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

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

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

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

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

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

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

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

PLAN FOR THE DEVELOPMENT OF NEW SHINKANSEN LINES

CONSTRUCTION PLANS FOR NEW SHINKANSEN LINES

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

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

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

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

COST BURDEN OF THE DEVELOPMENT OF NEW SHINKANSEN LINES

(a) The national government, local governments, and the JR Companies assume the cost of new Shinkansen lines constructed by the JRTT. Amounts to be funded by the JR Companies are to be paid out of the following.
  1) Usage fees and other charges paid by the JR Companies as the operator of the line
  2) Funds made available from the JRTT, to which JR East, JR Central, and JR West make payments of amounts due on their Shinkansen purchase liabilities

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

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

With respect to the usage fee amount for the Takasaki–Nagano segment of the Hokuriku Shinkansen Line, which opened in October 1997, JR East decided that the usage fees calculated by the former JRCC (currently, the JRTT) were within the limits of the corresponding benefits to result from the opening of that line and concluded an agreement with the JRCC in September 1997. Also, the JRCC received approval for those usage fees from the Minister of Transport in September 1997. Usage fees for fiscal 2014 totaled ¥21.0 billion ($204 million), comprising the fixed amount calculated based on the corresponding benefits of ¥17.5 billion ($170 million) and taxes and maintenance fees of ¥3.5 billion ($34 million).

In November 2002, JR East also concluded an agreement with the JRCC regarding the usage fees amount for the Morioka–Hachinohe segment of the Tohoku Shinkansen Line, which opened in December 2002. The JRCC received approval for those usage fees from the MLIT in November 2002. Usage fees for fiscal 2014 totaled ¥10.6 billion ($103 million), comprising the fixed amount calculated based on the corresponding benefits of ¥7.9 billion ($77 million) and taxes and maintenance fees of ¥2.7 billion ($26 million).

In December 2010, JR East also concluded an agreement with the JRTT regarding the usage fees amount for the Hachinohe–Shin-Aomori segment of the Tohoku Shinkansen Line, which opened in December 2010. The JRTT received approval for those usage fees from the MLIT in December 2010. Usage fees for fiscal 2013 totaled ¥8.3 billion ($80 million), comprising the fixed amount calculated based on the corresponding benefits of ¥7.0 billion ($68 million) and taxes and maintenance fees of ¥1.3 billion ($12 million).

(c) As well as being responsible for the construction of new Shinkansen lines, the JRTT procures construction costs and owns the facilities that it has constructed. JR East leases those facilities from the JRTT after completion and pays the usage fees mentioned in (b) above upon the commencement of the service. During the construction period, JR East is not required to directly assume the JRTT's construction costs.

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

The JR Companies are required to assume the costs of "usage fees and other charges" as mentioned in (a) above. "Other charges" refers exclusively to the payment of usage fees directly before the commencement of services. However, such prior payment is required to be based upon agreements concluded following consultations between JR East and the JRTT. Accordingly, it is assumed that JR East's position will be adequately reflected in such arrangements.

TREATMENT OF CONVENTIONAL LINES RUNNING PARALLEL TO NEW SHINKANSEN LINES

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

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

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

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

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

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

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

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

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

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

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

SAFETY MEASURES

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

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

Specifically, in preparation for an earthquake occurring directly beneath the Tokyo metropolitan area, among other major earthquake scenarios, JR East formulated plans to promote seismic reinforcement and other countermeasures at a total cost of ¥300 billion focused on the five fiscal years ending March 31, 2017. Specifically, these countermeasures included seismic reinforcement work, such as work on embankments near the Chuo Line's Ochanomizu Station, and work on viaducts, bridge piers and electrical poles. Approximately 30% of the work that is currently being planned was completed by the end of the fiscal year under review. Also in order to reinforce a seismic observation system, JR East made progress in research on high-speed transmission of seismographic observation and utilization of submarine seismograph information. Meanwhile, in order to accommodate people unable to return home in the event of a major disruption to public transportation, the Group completed the process of stocking approximately 200 stations within a 30 kilometer radius of Tokyo with emergency supplies, and continued talks with relevant municipalities on how to direct disaster evacuations. Further, as part of its ongoing efforts to prevent accidents at railway crossings, JR East converted type-4 crossings to type-1 crossings, eliminated and consolidated railway crossings and promoted installation of alarm devices that detect malfunctions and obstacles at crossings. Meanwhile, the total number of stations with automatic platform gates on the Yamanote Line increased to 11 as of March 31, 2014, after those gates began operating at seven stations including Shin-Okubo Station and Tamachi Station. In response to a derailment accident of *Komachi* railcars on the Ou Line in March 2013, JR East studied the findings and reviews of an internal committee established to investigate the cause, and installed snow fences and strengthened snow removal activities to prevent such an accident from reoccurring. Furthermore, our sixth five-year safety plan, *Group Safety Plan 2018*, was designed in February 2014 as a roadmap for individual employees who are engaged in railway operations and for the entire Group in making further efforts to achieve "extreme safety levels."

In response to a derailment accident within Kawasaki Station on the Keihin-Tohoku Line in February 2014, JR East has been making efforts to prevent the reoccurrence of a similar accident. Such efforts included clarification of the chain of command among contractors performing construction within closed railway lines, a review of the procedures for allowing entry of road-rail vehicles and heavy construction machinery in restricted construction areas, and enhanced on-site supervision of construction contractors by the Company's employees. JR East will continue to work on such initiatives aimed at further safety enhancements.

INFORMATION SYSTEMS AND PROTECTION OF PERSONAL DATA

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

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

DEVELOPMENT OF NON-TRANSPORTATION OPERATIONS

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

In non-transportation operations, JR East faces the risk of a downturn in consumption associated with an economic recession or unseasonable weather, which could lead to lower revenues from its shopping centers, office buildings, restaurants and stores in railway stations, hotels, and other operations. Such eventualities could also adversely affect sales of advertisement services and cause an increase in demands from tenants for rent reductions. Further, a fault in retail products or manufactured products, such as an outbreak of food poisoning or a similar incident, could reduce sales, damage trust in the JR East Group, or result in the failure of tenants or business partners. The occurrence of any of those contingencies could have an impact on the JR East Group's financial position and business performance. JR East's stations are used by roughly 17.1 million people every day (average daily number of passengers). The JR East Group will fully leverage those railway stations as its largest management resource to develop operations. At the same time, the JR East Group will enhance earnings and secure customer trust by implementing stringent hygiene management and credit controls.

COMPETITION

The JR East Group's transportation operations compete with the operations of airlines, automobiles, bus transportation, and other railway companies. Furthermore, the JR East Group's non-transportation operations compete with existing and newly established businesses.

The competition of the JR East Group's transportation and non-transportation operations with such rival operators could have an impact on the JR East Group's financial condition and business performance.

Competition intensifying in the transportation market could variously affect earnings from JR East's transportation operations. Such competition includes the expansion of Low Cost Carrier (LCC) routes, toll discounts and other sales promotion measures on expressways and the advancement of large-scale upgrading works by other railway operators in the Tokyo metropolitan area. Also, developments such as the new entry of other companies into markets or the renewal or reopening of existing commercial premises could variously affect earnings from JR East's non-transportation operations.

REDUCTION OF TOTAL INTEREST-BEARING DEBT

At the end of fiscal 2014, total interest-bearing debt was ¥3,288.4 billion ($31,926 million). In addition, interest expense amounted to ¥88.3 billion ($856 million), which was equivalent to 21.7% of operating income.

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

COMPLIANCE

The JR East Group conducts operations in a variety of areas that include railway operations, non-transportation operations and *Suica* operations pursuant to the stipulations of related statutory laws and regulations such as the Railway Business Law and conducts operations in adherence to corporate ethics. However, becoming subject to administrative measures or losing public confidence due to a breach of those statutory laws and regulations or corporate ethics could affect the JR East Group's financial condition and business performance.

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

CONSOLIDATED BALANCE SHEETS

East Japan Railway Company and Subsidiaries
March 31, 2013 and 2014

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2013	2014	2014
Assets			
Current Assets:			
Cash and cash equivalents (Notes 4 and 8)	¥ 189,262	¥ 186,058	$ 1,806
Receivables (Note 8):			
Accounts receivable—trade	368,147	437,524	4,248
Unconsolidated subsidiaries and affiliated companies	10,863	8,795	85
Other	8,117	7,851	76
Allowance for doubtful accounts (Note 2 (4))	(2,327)	(2,169)	(21)
	384,800	452,001	4,388
Inventories (Notes 2 (5) and 5)	62,933	67,393	654
Real estate for sale (Notes 2 (6) and 6)	1,330	1,200	12
Deferred income taxes (Note 20)	49,928	48,404	470
Other current assets	49,906	49,832	484
Total current assets	738,159	804,888	7,814
Investments:			
Unconsolidated subsidiaries and affiliated companies (Notes 2 (2), (3) and 7)	48,248	44,640	433
Other (Notes 2 (7), 8 and 9)	138,367	159,109	1,545
	186,615	203,749	1,978
Property, Plant and Equipment (Notes 2 (8), 10, 11 and 21):			
Buildings	2,325,409	2,381,867	23,125
Fixtures	5,496,806	5,600,232	54,371
Machinery, rolling stock and vehicles	2,611,384	2,653,869	25,766
Land	1,986,873	1,987,541	19,297
Construction in progress	276,371	279,626	2,715
Other	204,275	220,116	2,136
	12,901,118	13,123,251	127,410
Less accumulated depreciation	6,974,896	7,097,413	68,907
Net property, plant and equipment	5,926,222	6,025,838	58,503
Other Assets:			
Long-term deferred income taxes (Note 20)	231,067	222,416	2,159
Other	141,142	171,413	1,665
	372,209	393,829	3,824
	¥ 7,223,205	¥ 7,428,304	$ 72,119

See accompanying notes.

	Millions of Yen 2013	Millions of Yen 2014	Millions of U.S. Dollars (Note 2 (1)) 2014
Liabilities and Net Assets			
Current Liabilities:			
Current portion of long-term debt (Notes 8, 10 and 12)	¥ 222,937	¥ 197,921	$ 1,922
Current portion of long-term liabilities incurred for purchase of railway facilities (Notes 8, 10 and 13)	126,119	120,999	1,175
Prepaid railway fares received	88,580	135,879	1,319
Payables (Note 8):			
Accounts payable–trade	57,418	47,225	458
Unconsolidated subsidiaries and affiliated companies	90,680	94,047	913
Other	440,966	513,627	4,987
	589,064	654,899	6,358
Accrued expenses	110,569	112,035	1,088
Accrued consumption taxes (Notes 8 and 14)	12,244	5,799	56
Accrued income taxes (Notes 2 (12), 8 and 20)	86,917	57,549	559
Other current liabilities	37,734	40,884	396
Total current liabilities	1,274,164	1,325,965	12,873
Long-Term Debt (Notes 8, 10 and 12)	2,330,385	2,455,520	23,840
Long-Term Liabilities incurred for purchase of railway facilities (Notes 8, 10 and 13)	667,111	545,417	5,295
Employees' Severance and Retirement Benefits (Notes 2 (9) and 19)	648,381	–	–
Net defined benefit liability (Notes 2 (9) and 19)	–	644,809	6,260
Deposits Received for Guarantees	134,785	132,652	1,288
Long-Term Deferred Tax Liabilities (Note 20)	4,424	4,069	40
Other Long-Term Liabilities	115,762	120,514	1,170
Contingent Liabilities (Note 15)			
Net Assets (Note 16):			
Common stock:			
Authorized 1,600,000,000 shares;			
Issued, 2014—395,000,000 shares;			
Outstanding, 2014—394,370,706 shares	200,000	200,000	1,942
Capital surplus	96,791	96,791	939
Retained earnings	1,713,026	1,858,008	18,039
Treasury stock, at cost, 629,294 shares in 2014	(3,545)	(4,327)	(42)
Accumulated other comprehensive income:			
Net unrealized holding gains on securities	22,997	36,857	358
Net deferred gains (losses) on derivatives under hedge accounting	1,901	1,650	16
Revaluation reserve for land (Note 2 (16))	(504)	(504)	(5)
Remeasurements of defined benefit plans	–	(7,842)	(76)
Minority Interests	17,527	18,725	182
Total net assets	2,048,193	2,199,358	21,353
	¥7,223,205	¥7,428,304	$72,119

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

East Japan Railway Company and Subsidiaries
Years ended March 31, 2013 and 2014

(I) CONSOLIDATED STATEMENTS OF INCOME

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2013	2014	2014
Operating Revenues (Note 22)	¥2,671,823	¥2,702,917	$26,242
Operating Expenses:			
Transportation, other services and cost of sales	1,791,691	1,794,501	17,423
Selling, general and administrative expenses	482,569	501,622	4,870
	2,274,260	2,296,123	22,293
Operating Income (Note 22)	397,563	406,794	3,949
Other Income (Expenses):			
Interest expense on short- and long-term debt	(46,163)	(45,614)	(443)
Interest expense incurred for purchase of railway facilities	(49,149)	(42,665)	(414)
Loss on sales of fixed assets	(527)	(474)	(5)
Impairment losses on fixed assets (Notes 2 (15), 11 and 22)	(30,029)	(6,468)	(63)
Interest and dividend income	2,574	2,966	29
Equity in net income (loss) of affiliated companies	3,768	1,211	12
Gain on sales of fixed assets	3,800	2,248	22
Insurance proceeds related to earthquake (Note 3)	24,261	9,624	93
Other, net	(1,720)	(3,020)	(29)
	(93,185)	(82,192)	(798)
Income before Income Taxes	304,378	324,602	3,151
Income Taxes (Notes 2 (12) and 20):			
Current	133,178	119,621	1,161
Deferred	(5,462)	3,960	38
Income before Minority Interests	176,662	201,021	1,952
Minority Interests in Net Income of Consolidated Subsidiaries	(1,277)	(1,081)	(11)
Net Income	¥ 175,385	¥ 199,940	$ 1,941

	Yen		U.S. Dollars (Note 2 (1))
Earnings per Share (Note 2 (13))	¥ 444	¥ 507	$ 5
Cash dividends applicable to the year (Note 2 (13))	120	120	1

See accompanying notes.

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

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2013	2014	2014
Income before Minority Interests	¥176,662	¥201,021	$1,952
Other Comprehensive Income	21,078	13,611	132
Net unrealized holding gains (losses) on securities	17,729	13,310	129
Net deferred gains (losses) on derivatives under hedge accounting	1,086	275	3
Share of other comprehensive income of associates accounted for using equity method	2,263	26	0
Comprehensive Income	¥197,740	¥214,632	$2,084
Comprehensive Income attributable to			
Comprehensive income attributable to owners of the parent	¥196,456	¥213,549	$2,073
Comprehensive income attributable to minority interests	1,284	1,083	11

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

East Japan Railway Company and Subsidiaries
Years ended March 31, 2013 and 2014

Millions of Yen

	Number of Issued Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Net Unrealized Holding Gains (Losses) on Securities	Net Deferred Gains (Losses) on Derivatives under Hedge Accounting	Revaluation reserve for land	Remeasurements of defined benefit plans	Minority Interests	Total
Balance at March 31, 2012	400,000,000	¥200,000	¥96,732	¥1,599,683	¥(25,846)	¥ 3,909	¥ (74)	–	–	¥16,230	¥1,890,634
Cash dividends (¥120 per share)	–	–	–	(45,492)	–	–	–	–	–	–	(45,492)
Net income	–	–	–	175,385	–	–	–	–	–	–	175,385
Increase due to merger	–	–	–	434	–	–	–	–	–	–	434
Purchase of treasury stock	–	–	–	–	(9)	–	–	–	–	–	(9)
Disposal of treasury stock	–	–	72	–	1,042	–	–	–	–	–	1,114
Retirement of treasury stock	(4,000,000)	–	(13)	(23,093)	23,106	–	–	–	–	–	–
Change in equity in consolidated subsidiaries—treasury stock	–	–	–	–	(1,042)	–	–	–	–	–	(1,042)
Change in equity in affiliates accounted for by equity method—treasury stock	–	–	–	–	(796)	–	–	–	–	–	(796)
Change of scope of equity method	–	–	–	6,109	–	–	–	–	–	–	6,109
Other	–	–	–	–	–	19,088	1,975	(504)	–	1,297	21,856
Balance at March 31, 2013	396,000,000	¥200,000	¥96,791	¥1,713,026	¥ (3,545)	¥22,997	¥1,901	¥(504)	–	¥17,527	¥2,048,193
Cash dividends (¥120 per share)	–	–	–	(47,422)	–	–	–	–	–	–	(47,422)
Net income	–	–	–	199,940	–	–	–	–	–	–	199,940
Increase due to merger	–	–	–	215	–	–	–	–	–	–	215
Purchase of treasury stock	–	–	–	–	(8,444)	–	–	–	–	–	(8,444)
Disposal of treasury stock	–	–	0	–	0	–	–	–	–	–	0
Retirement of treasury stock	(1,000,000)	–	(0)	(7,751)	7,751	–	–	–	–	–	–
Change in equity in consolidated subsidiaries—treasury stock	–	–	–	–	–	–	–	–	–	–	–
Change in equity in affiliates accounted for by equity method—treasury stock	–	–	–	–	(89)	–	–	–	–	–	(89)
Change of scope of equity method	–	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	13,860	(251)	–	(7,842)	1,198	6,965
Balance at March 31, 2014	395,000,000	¥200,000	¥96,791	¥1,858,008	¥ (4,327)	¥36,857	¥1,650	¥(504)	¥(7,842)	¥18,725	¥2,199,358

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

	Number of Issued Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Net Unrealized Holding Gains (Losses) on Securities	Net Deferred Gains (Losses) on Derivatives under Hedge Accounting	Revaluation reserve for land	Remeasurements of defined benefit plans	Minority Interests	Total
Balance at March 31, 2013	396,000,000	$1,942	$939	$16,631	$(34)	$223	$18	$(5)	–	$170	$19,884
Cash dividends ($1.17 per share)	–	–	–	(460)	–	–	–	–	–	–	(460)
Net income	–	–	–	1,941	–	–	–	–	–	–	1,941
Increase due to merger	–	–	–	2	–	–	–	–	–	–	2
Purchase of treasury stock	–	–	–	–	(82)	–	–	–	–	–	(82)
Disposal of treasury stock	–	–	0	–	0	–	–	–	–	–	0
Retirement of treasury stock	(1,000,000)	–	(0)	(75)	75	–	–	–	–	–	–
Change in equity in consolidated subsidiaries—treasury stock	–	–	–	–	–	–	–	–	–	–	–
Change in equity in affiliates accounted for by equity method—treasury stock	–	–	–	–	(1)	–	–	–	–	–	(1)
Change of scope of equity method	–	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	135	(2)	–	(76)	12	69
Balance at March 31, 2014	395,000,000	$1,942	$939	$18,039	$(42)	$358	$16	$(5)	$(76)	$182	$21,353

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

East Japan Railway Company and Subsidiaries
Years ended March 31, 2013 and 2014

	Millions of Yen		Millions of U.S. Dollars (Note 2 (1))
	2013	2014	2014
Cash Flows from Operating Activities:			
Income before income taxes	¥ 304,378	¥ 324,602	$ 3,151
Depreciation (Note 22)	346,808	348,042	3,379
Impairment losses on fixed assets	30,029	6,468	63
Amortization of long-term prepaid expense	6,250	7,542	73
Net change in employees' severance and retirement benefits	3,307	–	–
Net change in net defined benefit liability	–	(6,951)	(67)
Interest and dividend income	(2,574)	(2,966)	(29)
Interest expense	95,312	88,279	857
Construction grants received	(41,519)	(41,789)	(406)
Insurance proceeds related to earthquake	(24,261)	(9,624)	(93)
Loss from disposition and provision for cost reduction of fixed assets	71,498	71,812	697
Net change in major receivables	(17,486)	(66,583)	(646)
Net change in major payables	17,802	86,730	842
Other	5,469	(12,509)	(121)
Sub-total	795,013	793,053	7,700
Proceeds from interest and dividends	2,989	3,348	33
Payments of interest	(95,386)	(88,698)	(861)
Insurance proceeds related to earthquake	24,261	9,624	93
Payments of earthquake-damage losses	(21,230)	(6,026)	(59)
Payments of income taxes	(117,118)	(148,537)	(1,442)
Net cash provided by operating activities	588,529	562,764	5,464
Cash Flows from Investing Activities:			
Payments for purchases of fixed assets	(494,567)	(514,529)	(4,995)
Proceeds from sales of fixed assets	5,390	5,535	54
Proceeds from construction grants	36,283	47,327	459
Proceeds from sales of transferable development air rights	8,446	–	–
Payments for purchases of investment in securities	(6,175)	(2,537)	(25)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	(2,794)	–	–
Other	(12,535)	(10,494)	(102)
Net cash used in investing activities	(465,952)	(474,698)	(4,609)
Cash Flows from Financing Activities:			
Proceeds from long-term loans	165,500	186,000	1,806
Payments of long-term loans	(133,866)	(145,944)	(1,417)
Proceeds from issuance of bonds	150,000	140,000	1,359
Payments for redemption of bonds	(90,000)	(80,000)	(777)
Payments of liabilities incurred for purchase of railway facilities	(130,622)	(126,814)	(1,231)
Payments of acquisition of treasury stock	(8)	(8,444)	(82)
Cash dividends paid	(45,492)	(47,422)	(460)
Other	(16,663)	(8,743)	(85)
Net cash used in financing activities	(101,151)	(91,367)	(887)
Net Change in Cash and Cash Equivalents	21,426	(3,301)	(32)
Cash and Cash Equivalents at Beginning of Year	167,525	189,262	1,837
Increase due to Addition of Consolidated Subsidiaries and Other	339	97	1
Decrease in Cash and Cash Equivalents due to Corporate Division	(28)	–	–
Cash and Cash Equivalents at End of Year	¥ 189,262	¥ 186,058	$ 1,806

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

East Japan Railway Company and Subsidiaries
Years ended March 31, 2013 and 2014

NOTE 1: INCORPORATION OF EAST JAPAN RAILWAY COMPANY

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

East Japan Railway Company (the Company) is one of the six passenger railway companies and serves eastern Honshu (Japan's main island). The Company operates 70 railway lines, 1,686 railway stations and 7,512.6 operating kilometers as of March 31, 2014.

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 ($30,165 million) from the Shinkansen Holding Corporation (see Note 13). Subsequent to the purchase, the Shinkansen Holding Corporation was dissolved. The Railway Development Fund succeeded to all rights and obligations of the Shinkansen Holding Corporation. In October 1997, the Railway Development Fund and Maritime Credit Corporation merged to form the Corporation for Advanced Transport & Technology. In October 2003, Japan Railway Construction Public Corporation and the Corporation for Advanced Transport & Technology merged to form the Japan Railway Construction, Transport and Technology Agency.

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

The amendment to the JR Law took effect on December 1, 2001 (2001 Law No. 61) and the Company is no longer subject generally to the JR Law, as amended (see Note 12).

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

1) Basis of Presentation of Financial Statements

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

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

The consolidated financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2014, which was ¥103 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, 2014, 73 subsidiaries were consolidated. During the year ended March 31, 2014 one company was newly consolidated.

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

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

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

3) Equity Method

The effective-influence standard is applied according to Regulations for Consolidated Financial Statements. For the year ended March 31, 2014, 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 gross average cost method (carrying amount in the balance sheet is calculated with consideration of write-downs due to decreased profitability of inventories)

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

7) Securities

Securities are classified and stated as follows:

(1) Trading securities are stated at market value. The Companies had no trading securities through the years ended March 31, 2013 and 2014.

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

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

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

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

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

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

8) Property, Plant and Equipment

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

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

The range of useful lives is mainly as follows:

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

(Change in depreciation method)

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

9) Accounting for Employees' Retirement Benefits

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

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

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

(Changes in accounting policies)

From the fiscal year ended March 31, 2014, the Company has adopted "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26, May 17, 2012, hereinafter the "Retirement Benefits Accounting Standard") and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012, hereinafter the "Retirement Benefits Guidance") (excluding, however, the stipulations set forth in the body text of article 35 of the Retirement Benefits Accounting Standard and the body text of article 67 of the Retirement Benefits Guidance).

Under these accounting standards, the Company has adopted the method of recording the amount of retirement benefit obligations less pension assets as a net defined benefit liability (or as a net defined benefit asset if the amount of pension assets exceeds the retirement benefit obligations). The Company has recorded unrecognized actuarial differences and unrecognized prior service costs as a net defined benefit asset and a net defined benefit liability.

With regard to the adoption of the retirement benefit accounting standards, the Company has followed the transitional treatment in Article 37 of the Retirement Benefits Accounting Standard. Accordingly, in the fiscal year ended March 31, 2014, the amounts that correspond to the effect of the change in retirement benefit accounting standards were added to, or deducted from, remeasurements of defined benefit plans in accumulated other comprehensive income.

Due to these changes in accounting policies, accumulated other comprehensive income decreased by ¥7,842 million ($76 million) and net assets per share decreased by ¥19.88 as of March 31, 2014.

10) Accounting for Certain Lease Transactions

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

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

11) Accounting for Research and Development Costs

According to the Accounting Standards for Research and Development Costs, etc., in Japan, research and development costs are recognized as they are incurred. Research and development costs included in operating expenses for the years ended March 31, 2013 and 2014 were ¥16,137 million and ¥17,039 million ($165 million), respectively.

12) Income Taxes

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

13) 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 comprise 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.

14) Derivative Transactions

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

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

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

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

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

15) Impairment of Fixed Assets

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

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

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

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

16) Revaluation of Land

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

(1) Revaluation method

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

(2) Revaluation date

March 31, 2002

(3) Difference between book value after revaluation and market value on March 31, 2014

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

17) Changes in Accounting Estimates

The Company records prepaid railway fares received under current liabilities by estimating the monetary amount based on certain assumptions. Of this amount, the estimated monetary amount with respect to commuter passes was previously calculated based on the date of sale. However, the Company has now adopted a calculation method based on the effective start date of the commuter passes.

Sales of commuter passes prior to their effective start date were expected to increase significantly ahead of the increase in the consumption tax rate. Taking this into consideration, this change was made because using a calculation method based on the effective start date would allow the Company to post a more reasonable estimate of prepaid railway fares received.

Compared to the previous method, this change had the effect of reducing operating revenues by ¥10,212 million ($99 million), and reducing operating income, ordinary income and income before income taxes by the same amount.

18) New Accounting Standards Not Yet Applied

"Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012)

(1) Overview

The method for recording actuarial differences and prior service costs was revised so as to recognize them in the Net Assets section of the balance sheets after tax effect adjustments, and to post them as a liability or asset indicating the amount of reserve accumulation. Moreover, the benefit formula method has become applicable in addition to the straight-line method as a method of attributing estimated retirement benefits to accounting periods, while the method for calculating the discount rate has also been revised.

(2) Planned adoption date

Revisions to the methods for attributing estimated retirement benefits to accounting periods and for calculating the discount rate are scheduled to take effect at the start of the next consolidated fiscal year.

(3) Impact of applying these accounting standards, etc.

Retained earnings at the start of the next consolidated fiscal year are estimated to decrease by approximately ¥65,000 million ($631 million) as a consequence of these accounting standards taking effect.

19) Changes in Presentation Method

(Consolidated statements of cash flows)

Due to rising monetary significance, Purchase of treasury stock that was included in Other in the consolidated statements of cash flows from the previous fiscal year was reclassified for posting as Purchase of treasury stock from the year ended March 31, 2014. Consequently, a cash outflow of ¥8 million that was included in Other in the consolidated statements of cash flows from the previous fiscal year was restated as Purchase of treasury stock under Cash Flows from Financing Activities in the statements herein.

NOTE 3: EARTHQUAKE DAMAGE

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

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

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

The Companies intends to work on the restoration of parts of the lines which run along the Pacific coast and were damaged by the tsunami, as part of the overall restoration and city-rebuilding plans with the local communities. Since it is difficult to reasonably estimate such restoration and other expenses at this time, such expenses are not included in consolidated balance sheets.

Furthermore, the Company's railway line facilities, railway stop facilities (excluding station buildings), electric cable facilities and other fixtures, which were owned by or leased by the Company, were insured against earthquakes for up to ¥71,000 million ($689 million) (¥10,000 million deductible) as of March 11, 2011. As calculation of damages of some of the facilities was completed by insurance companies during this fiscal year, the Group recorded extraordinary gains of ¥9,624 million ($93 million) and ¥24,261 million as "insurance proceeds related to earthquake" in the fiscal years ended March 31, 2014 and 2013, respectively.

The aggregate amount of insurance proceeds received for such insurance was ¥33,884 million ($328 million) as of March 31, 2014.

NOTE 4: CASH AND CASH EQUIVALENTS

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

NOTE 5: INVENTORIES

Inventories at March 31, 2013 and 2014 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2013	**2014**	**2014**
Merchandise and finished goods	¥ 8,359	**¥ 9,678**	**$ 93**
Work in process	28,439	**30,335**	**295**
Raw materials and supplies	26,135	**27,380**	**266**
	¥62,933	**¥67,393**	**$654**

NOTE 6: REAL ESTATE FOR SALE

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

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

Investments in and advances to unconsolidated subsidiaries and affiliated companies at March 31, 2013 and 2014 consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2013	2014	2014
Unconsolidated subsidiaries:			
Investments	¥ 4,971	¥ 5,017	$ 49
Advances	590	450	4
	5,561	5,467	53
Affiliated companies:			
Investments (including equity in earnings of affiliated companies)	¥42,544	¥39,066	$379
Advances	143	107	1
	42,687	39,173	380
	¥48,248	¥44,640	$433

NOTE 8: FINANCIAL INSTRUMENTS

1) Items Relating to the Status of Financial Instruments

(1) 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.

(2) Details of financial instruments and related risk

Trade receivables are exposed to credit risk in relation to customers, transportation operators with connecting railway services, and other parties. Further, short-term loans receivable, which principally comprise loans receivable as a result of credit card cashing services, are exposed to credit risk in relation to customers. Regarding the said risk, pursuant to the internal regulations of the Companies, due dates and balances are managed appropriately for each counterparty. Securities are exposed to market price fluctuation risk. Substantially all of trade payables—payables, accrued consumption taxes and accrued income taxes—have payment due dates within one year. Bonds and loans are exposed to risk associated with inability to make payments on due dates because of unforeseen decreases in free cash flow. Further, certain bonds and loans are exposed to market price fluctuation risk (foreign exchange/interest rates). Long-term liabilities incurred for purchase of railway facilities are liabilities with regard to the Japan Railway Construction, Transport and Technology Agency and, pursuant to the Law Related to the Transference of Shinkansen Railway Facilities, comprise principally of (interest-bearing) debts related to the Company's purchase of Shinkansen railway facilities for a total purchase price of ¥3,106,970 million ($30,165 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).

(3) 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.

(4) 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, 2013 and 2014, 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
			2013			2014			2014
	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	¥ 189,262	¥ 189,262	¥ –	¥ 186,058	¥ 186,058	¥ –	$ 1,806	$ 1,806	$ –
b Receivables	387,127	387,127	–	454,170	454,170	–	4,409	4,409	–
c Securities									
Held-to-maturity debt securities	160	162	2	160	161	1	2	2	0
Available-for-sale securities	126,971	126,971	–	238,165	238,165	–	1,429	1,429	–
Assets	¥ 703,520	¥ 703,522	¥ 2	¥ 878,553	¥ 878,554	¥ 1	$ 7,646	$ 7,646	$ 0
a Payables	¥ 589,064	¥ 589,064	¥ –	¥ 654,899	¥ 654,899	¥ –	$ 6,358	$ 6,358	$ –
b Accrued consumption taxes	12,244	12,244	–	5,799	5,799	–	56	56	–
c Accrued income taxes	86,917	86,917	–	57,549	57,549	–	559	559	–
d Long-term debt									
Bonds	1,659,730	1,839,985	180,255	1,719,793	1,881,859	162,066	16,697	18,270	1,573
Long-term loans	893,592	926,999	33,407	933,648	963,249	29,601	9,065	9,352	287
e Long-term liabilities incurred for purchase of railway facilities	793,230	1,184,041	390,811	666,416	1,009,709	343,293	6,470	9,803	3,333
Liabilities	¥4,034,777	¥4,639,250	¥604,473	¥4,038,104	¥4,573,064	¥534,960	$39,205	$44,398	$5,193
Derivative transactions*1									
Hedge accounting applied	¥ 1,097	¥ 1,097	¥ –	¥ 1,517	¥ 1,517	¥ –	$ 15	$ 15	$ –

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

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

Assets

a. Cash and cash equivalents

b. Receivables

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

c. Securities

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

Liabilities

a. Payables

b. Accrued consumption taxes

c. Accrued income taxes

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

d. Long-term debt

Bonds

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

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

Long-term loans

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

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

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

Derivative Transactions (See Note 18)

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

	Consolidated balance sheet amount		
	Millions of Yen		Millions of U.S. Dollars
Classification	2013	2014	2014
Unlisted equity securities	¥6,508	¥6,478	$63
Unlisted corporate bonds	72	360	3
Preferred equity securities	1,000	1,000	10
Natural disaster derivative transactions.	1,224	1,250	12

*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 justifiable fair value.

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

4. The annual maturities of financial assets and securities with maturities at March 31, 2013 and 2014 were as follows.

	Millions of Yen								Millions of U.S. Dollars			
	2013				2014				2014			
	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	¥189,262	¥ —	¥ —	¥ —	¥186,058	¥ —	¥ —	¥ —	$1,806	$ —	$ —	$ —
Receivables	380,346	6,771	10	—	447,033	7,124	13	—	4,340	69	0	—
Securities												
Held-to-maturity debt securities (Government bonds)	—	150	—	10	150	—	—	10	2	—	—	0
Available-for-sale securities which have maturity (Government bonds)	—	6	—	—	—	6	—	—	—	0	—	—
Total	¥569,608	¥6,927	¥10	¥10	¥633,241	¥7,130	¥13	¥10	$6,148	$69	$0	$0

5. The annual maturities of bonds, long-term loans, and long-term liabilities incurred for purchase of railway facilities at March 31, 2014 (see Notes 12 and 13).

NOTE 9: SECURITIES

For held-to-maturity debt securities, the amount on balance sheets and market value at March 31, 2013 and 2014 were as follows:

	Millions of Yen						Millions of U.S. Dollars		
	2013			2014			2014		
	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.	¥160	¥162	¥2	¥160	¥161	¥1	$2	$2	$0
Of which market value does not exceed the amount on balance sheet:									
Government, municipal bonds, etc.	—	—	—	—	—	—	—	—	—
Total	¥160	¥162	¥2	¥160	¥161	¥1	$2	$2	$0

For available-for-sale securities, the acquisition cost and amount on balance sheets at March 31, 2013 and 2014 were as follows:

	Millions of Yen						Millions of U.S. Dollars		
	2013			2014			2014		
	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	¥59,230	¥ 97,444	¥38,214	¥72,668	¥129,498	¥56,830	$706	$1,257	$551
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	34,598	29,521	(5,077)	21,121	17,661	(3,460)	205	172	(33)
Debt securities	—	—	—	—	—	—	—	—	—
Total	¥93,834	¥126,971	¥33,137	¥93,795	¥147,165	¥53,370	$911	$1,429	$518

Note: In the year ended March 31, 2013, ¥2,825 million in available-for-sale securities of which there were market values were written off as losses on devaluation of securities. No such write-offs were posted for available-for-sale securities of which there were market values in the year ended March 31, 2014.

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

NOTE 10: PLEDGED ASSETS

Pledged assets at March 31, 2013 and 2014 were summarized as follows:
Pledged assets as a collateral

	Millions of Yen		Millions of U.S. Dollars
	2013	2014	2014
Buildings and fixtures with net book value	¥22,847	**¥21,588**	**$210**
Other assets with net book value	4,844	**978**	**9**

Counterpart long-term debt and other liabilities

	Millions of Yen		Millions of U.S. Dollars
	2013	2014	2014
Long-term debt and other liabilities totaling	¥2,544	**¥1,789**	**$17**

Pledged assets as a mortgage for long-term liabilities

	Millions of Yen		Millions of U.S. Dollars
	2013	2014	2014
Buildings and fixtures with net book value	¥52,111	**¥51,046**	**$496**
Other assets with net book value	6,764	**7,489**	**73**

Counterpart long-term liabilities

	Millions of Yen		Millions of U.S. Dollars
	2013	2014	2014
Long-Term Liabilities Incurred for Purchase of Railway Facilities	¥3,932	¥2,935	$28

NOTE 11: IMPAIRMENT LOSSES ON FIXED ASSETS

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

Impairment losses on fixed assets at March 31, 2013 and 2014 were summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2013	2014	2014
Land	¥27,964	**¥–**	**$–**
Buildings and fixtures	1,839	**–**	**–**
Others	226	**–**	**–**
Total	¥30,029	**¥–**	**$–**

Detail amounts for the year ended March 31, 2014 were omitted because related items were negligible.

NOTE 12: LONG-TERM DEBT

Long-term debt at March 31, 2013 and 2014 were summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2013	2014	2014
General Mortgage Bonds issued in 1997 to 2001 with interest rates ranging from 2.30% to 3.30% due in 2017 to 2021	¥ 179,900	¥ 179,900	$ 1,747
Unsecured Bonds issued in 2002 to 2014 with interest rates ranging from 0.21% to 2.55% due in 2014 to 2044	1,240,897	1,300,910	12,630
Secured Loans due in 2014 to 2018 principally from banks and insurance companies with interest rates mainly ranging from 1.95% to 6.50%	1,630	1,033	10
Unsecured Loans due in 2014 to 2036 principally from banks and insurance companies with interest rates mainly ranging from 0.63% to 4.90%	891,962	932,615	9,055
Euro-pound bonds issued in 2006 to 2007 with interest rates ranging from 4.50% to 5.25% due in 2031 to 2036	238,933	238,983	2,320
	2,553,322	2,653,441	25,762
Less current portion	222,937	197,921	1,922
	¥2,330,385	¥2,455,520	$23,840

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, 2014 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2015	¥ 75,000	$ 728
2016	55,000	534
2017	80,000	777
2018	139,900	1,358
2019	165,000	1,602
2020 and thereafter	1,205,959	11,708

The annual maturities of long-term loans at March 31, 2014 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2015	¥122,921	$1,193
2016	118,305	1,149
2017	106,711	1,036
2018	116,820	1,134
2019	119,665	1,162
2020 and thereafter	349,226	3,391

NOTE 13: LONG-TERM LIABILITIES INCURRED FOR PURCHASE OF RAILWAY FACILITIES

In October 1991, the Company purchased the Tohoku and Joetsu Shinkansen facilities from the Shinkansen Holding Corporation for a total purchase price of ¥3,106,970 million ($30,165 million) payable in equal semiannual installments consisting of principal and interest payments in three tranches: ¥2,101,898 million ($20,407 million) and ¥638,506 million ($6,199 million) in principal amounts payable through March 2017; and ¥366,566 million ($3,559 million) payable through September 2051. In March 1997, the liability of ¥27,946 million ($271 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 ($357 million) payable to Japan Railway Construction Public Corporation.

The long-term liabilities incurred for purchase of railway facilities outstanding at March 31, 2013 and 2014 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2013	2014	2014
The long-term liability incurred for purchase of the Tohoku and Joetsu Shinkansen facilities:			
Payable semiannually including interest at a rate currently approximating 4.12% through 2017	¥258,668	¥176,321	$1,712
Payable semiannually including interest at 6.35% through 2017	177,264	137,013	1,330
Payable semiannually including interest at 6.55% through 2051	343,087	341,003	3,311
	779,019	654,337	6,353
The long-term liability incurred for purchase of the Akita hybrid Shinkansen facilities:			
Payable semiannually at an average rate currently approximating 1.68% through 2022	10,279	9,144	89
The long-term liability incurred for purchase of the Tokyo Monorail facilities:			
Payable semiannually at an average rate currently approximating 2.84% through 2029	3,932	2,935	28
	793,230	666,416	6,470
Less current portion:			
The Tohoku and Joetsu Shinkansen purchase liability	124,568	119,459	1,160
The Akita hybrid Shinkansen purchase liability	1,068	1,077	11
Tokyo Monorail purchase liability	483	463	4
	126,119	120,999	1,175
	¥667,111	¥545,417	$5,295

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, 2014 were as follows:

Year ending March 31,	Millions of Yen	Millions of U.S. Dollars
2015	¥120,999	$1,175
2016	106,779	1,037
2017	97,395	945
2018	4,334	42
2019	4,331	42
2020 and thereafter	332,578	3,229

NOTE 14: CONSUMPTION TAXES

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

NOTE 15: CONTINGENT LIABILITIES

The Company is contingently liable for the in-substance defeasance of general mortgage bonds issued by the Company, which were assigned to certain banks under debt assumption agreements. The outstanding amounts contingently liable under such debt assumption agreements at March 31, 2014 were ¥70,000 million ($680 million) and ¥100,000 million ($971 million) by general bonds.

JR East has extended contingent liabilities of ¥11,141 million ($108 million) for orders received by Japan Transportation Technology (Thailand) Co., Ltd.

NOTE 16: NET ASSETS

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

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

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

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

At the annual shareholders' meeting held in June 2014, the shareholders approved cash dividends amounting to ¥23,681 million ($230 million). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2014. Such appropriations are recognized in the period in which they are approved by the shareholders.

NOTE 17: INFORMATION REGARDING CERTAIN LEASES

Future lease payments for non-cancellable operating leases, including those due within one year, at March 31, 2013 and 2014 were as follows:

	Millions of Yen				Millions of U.S. Dollars	
	2013		2014		2014	
	Within one year	Total	Within one year	Total	Within one year	Total
Non-cancellable operating leases	¥2,413	¥39,244	¥2,424	¥36,945	$24	$359

NOTE 18: INFORMATION FOR DERIVATIVE TRANSACTIONS

1) Items Regarding Trading Circumstances (See Note 8)

2) Derivative Transactions Applied to Hedge Accounting

		Millions of Yen					
		2013			2014		
Type	Hedged item	Contract amount, etc.	Of which more-than-one-year contract amount, etc.	Fair value*2	Contract amount, etc.	Of which more-than-one-year contract amount, etc.	Fair value*2
Currency swap	Long-term loans	¥ 20,000	¥ 20,000	¥ 638	¥ 20,000	¥ 20,000	¥ 989
Forward exchange	Accounts payable—trade	23	–	(0)	13	–	0
Commodity swap	Fuel purchasing	1,999	1,281	459	2,123	1,385	528
Currency swap	Foreign currency denominated bonds	239,959	239,959	*1	239,959	239,959	*1
Interest swap	Long-term loans	164,720	62,700	*1	62,700	–	*1
Total		¥426,701	¥323,940	¥1,097	¥324,795	¥261,344	¥1,517

		Millions of U.S. Dollars		
		2014		
Type	Hedged item	Contract amount, etc.	Of which more-than-one-year contract amount, etc.	Fair value*2
Currency swap	Long-term loans	$ 194	$ 194	$10
Forward exchange	accounts payable—trade	0	–	0
Commodity swap	Fuel purchasing	20	13	5
Currency swap	Foreign currency denominated bonds	2,330	2,330	*1
Interest swap	Long-term loans	609	–	*1
Total		$3,153	$2,537	$15

Notes: 1. Derivative transactions that meet certain hedging criteria, regarding foreign currency swaps, or interest rate swaps, are treated in combination with bonds or long-term loans, the fair values of these derivatives are included in the fair values of these bonds or long-term loans (See Note 8).
2. Fair value is calculated based on the current value presented by financial institutions, etc., with which transactions are conducted.

NOTE 19: EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

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

	Millions of Yen
	2013
Projected benefit obligation	¥(658,529)
Plan assets	7,128
Unfunded projected benefit obligation	(651,401)
Unrecognized actuarial differences	8,865
Unrecognized prior service costs	(5,731)
Book value (net)	(648,267)
Prepaid pension expense	114
Employees' severance and retirement benefits	¥(648,381)

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

	Millions of Yen
	2013
Service costs	¥30,117
Interest costs	12,923
Expected return on plan assets	(59)
Amortization of actuarial differences	(3,015)
Amortization of prior service costs	661
Employees' severance and retirement benefit expenses	40,627
Total	¥40,627

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

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

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2014 consisted of the following:

1) Movement in Retirement Benefit Obligations

	Millions of Yen	Millions of U.S. Dollars
	2014	2014
Balance at April 1, 2013	¥658,529	$6,393
Service costs	28,207	274
Interest costs	12,894	125
Actuarial losses (gains)	(2,717)	(26)
Benefits paid	(44,942)	(436)
Past service costs	(199)	(2)
Other	11	0
Balance at March 31, 2014	¥651,783	$6,328

2) Movements in Plan Assets

	Millions of Yen	Millions of U.S. Dollars
	2014	2014
Balance at April 1, 2013	¥7,128	$69
Expected return on plan assets	75	1
Actuarial losses (gains)	(152)	(1)
Contributions paid by the employer	704	7
Benefits paid	(399)	(5)
Balance at March 31, 2014	¥7,356	$71

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

	Millions of Yen	Millions of U.S. Dollars
	2014	2014
Funded retirement benefit obligations	¥ 8,563	$ 83
Plan assets	(7,356)	(71)
	1,207	12
Unfunded retirement benefit obligations	643,220	6,245
Total Net liability (asset) for retirement benefits at March 31, 2014	644,427	6,257
Liability for retirement benefits	644,809	6,260
Asset for retirement benefits	(382)	(3)
Total Net liability (asset) for retirement benefits at March 31, 2014	644,427	6,257

Employees' severance and retirement benefit expenses included in the consolidated statements of income for the year ended March 31, 2014 consisted of the following:

4) Retirement Benefit Costs

	Millions of Yen	Millions of U.S. Dollars
	2014	2014
Service costs	¥28,207	$274
Interest costs	12,894	125
Expected return on plan assets	(75)	(1)
Net actuarial loss amortization	(2,395)	(23)
Past service costs amortization	(615)	(6)
Other	311	3
Total retirement benefit costs for the fiscal year ended March 31, 2014	¥38,327	$372

5) Accumulated Adjustments for Retirement Benefits

	Millions of Yen 2014	Millions of U.S. Dollars 2014
Past service costs that are yet to be recognized	¥ 5,316	$ 51
Actuarial gains and losses that are yet to be recognized	(8,695)	(84)
Total balance at March 31, 2014	¥(3,379)	$(33)

6) Plan Assets

	2014
Bonds	12%
Equity securities	35%
General account of life insurers	50%
Other	3%

The discount rates are mainly 2.0% in the years ended March 31, 2013 and 2014. The rates of expected return on pension assets used by the Companies were mainly 2.0% in the years ended March 31, 2013 and 2014.

The required contributions to the defined contribution plans of the Company and its consolidated subsidiaries were ¥792 million.

NOTE 20: INCOME TAXES

The major components of deferred income taxes and deferred tax liabilities at March 31, 2013 and 2014 were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2013	2014	2014
Deferred income taxes:			
Employees' severance and retirement benefits	¥232,049	¥ –	$ –
Net defined benefit liability	–	228,316	2,217
Reserves for bonuses	27,299	25,523	248
Losses on impairment of fixed assets	26,559	22,314	217
Unrealized holding gains on fixed assets	11,371	11,955	116
Environmental conservation cost	10,883	10,435	101
Excess depreciation and amortization of fixed assets	8,264	7,737	75
Loss carry forwards for tax purposes	7,660	7,325	71
Asset retirement obligations	4,595	4,986	48
Devaluation losses on fixed assets	4,554	4,497	44
Accrued enterprise tax	7,204	4,394	43
Other	30,417	34,203	332
	370,855	361,685	3,512
Less valuation allowance	(42,604)	(37,626)	(365)
Less amounts offset against deferred tax liabilities	(47,256)	(53,239)	(518)
Net deferred income taxes	¥280,995	¥270,820	$2,629
Deferred tax liabilities:			
Tax deferment for gain on transfers of certain fixed assets	¥ 29,726	¥ 29,496	$ 286
Net unrealized holding gains on securities	13,041	19,391	188
Valuation for assets and liabilities of consolidated subsidiaries	2,974	2,861	28
Reserve for special depreciation	1,613	1,197	12
Other	4,561	4,584	45
	51,915	57,529	559
Less amounts offset against deferred income taxes	(47,256)	(53,239)	(517)
Net deferred tax liabilities	¥ 4,659	¥ 4,290	$ 42

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

	2013
The aggregate standard effective tax rate	37.8%
Adjustments	
Increase in valuation allowance	3.8
Other net	0.4
The actual effective rate after applying tax effect accounting	42.0%

Note: The differences between the aggregate standard effective tax rate and the actual effective rate after applying tax effect accounting were omitted for the year ended March 31, 2014, as the variance between them was less than 5%.

Revisions in the amounts posted as deferred income taxes and deferred tax liabilities due to change in the income tax rate

In conjunction with the promulgation of the Act for Partial Revision to the Income Tax Act (Act No. 10 of 2014) on March 31, 2014, the Special Reconstruction Corporation Tax will no longer be applied to JR East from April 1, 2014. As a result, the aggregate standard effective tax rate for computing deferred income taxes and deferred tax liabilities was revised from 37.8% to 35.4%, mainly for temporary differences expected to be reversed from April 1, 2014 to March 31, 2015.

The effect of this change on the consolidated financial statements was negligible.

NOTE 21: INVESTMENT AND RENTAL PROPERTY

The Companies own rental office buildings and rental commercial facilities (hereafter "investment and rental property") principally within the Company's service area. In the years ended March 31, 2013 and 2014, the amounts of net income related to rental property were ¥68,737 million and ¥70,882 million ($688 million) (rental income is recognized in operating revenues and rental expense is principally charged to operating expenses). The amounts recognized in the consolidated balance sheets and fair values related to investment and rental property were as follows.

Millions of Yen				Millions of U.S. Dollars	
Consolidated balance sheet amount			Fair value	Consolidated balance sheet amount	Fair value
2013	Difference	2014	2014	2014	2014
¥540,265	¥13,076	¥553,341	¥1,472,687	$5,372	$14,298

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 years ended March 31, 2013, and 2014, were principally attributable to acquisition of real estate and renewal (¥43,023 million, $418 million), and the decreases were mainly attributable to depreciation expenses (¥20,910 million, $203 million).

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

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

NOTE 22: SEGMENT INFORMATION

1) General Information about Reportable Segments

Transportation, Station Space Utilization, and Shopping Centers & Office Buildings comprise 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 is primarily engaged in passenger transportation services centered on railway operations, and railcar manufacturing operations. The Station Space Utilization segment creates commercial spaces in railway stations and develops various types of businesses, including retail sales and restaurant operations. The Shopping Centers & Office Buildings segment develops railway stations and land near railway stations, operates shopping centers, and leases office buildings, etc.

(Matters concerning changes in reportable segments, etc.)

As of the first quarter of the fiscal year ended March 31, 2014, Japan Transport Engineering Company, which mainly manufactures railcars, was reclassified into the Transportation reporting segment from Others. This change reflects the plans that the Company commenced during the fiscal year under review to deepen cooperation in railway manufacturing operations between Japan Transport Engineering Company and the Company's Niitsu Rolling Stock Plant, based on "JR East Group Management Vision V."

Segment information for the fiscal year ended March 31, 2013 has been prepared based on the revised reportable segment classification.

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

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

(Changes in estimation method for prepaid railway fares received)

The Company records prepaid railway fares received under current liabilities by estimating the monetary amount based on certain assumptions. Of this amount, the estimated monetary amount with respect to commuter passes was previously calculated based on the date of sale. However, the Company has now adopted a calculation method based on the effective start date of the commuter passes.

Sales of commuter passes prior to their effective start date were expected to increase significantly ahead of the increase in the consumption tax rate. Taking this into consideration, this change was made because using a calculation method based on the effective start date would allow the Company to post a more reasonable estimate of prepaid railway fares received.

Compared to the previous method, this change had the effect of reducing operating revenues of the Transportation segment by ¥10,212 million ($99 million), and reducing segment income by the same amount.

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

Millions of Yen

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
Operating revenues:							
Outside customers	¥1,809,554	¥404,207	¥238,945	¥ 219,117	¥2,671,823	¥ –	¥2,671,823
Inside group	53,526	14,228	10,261	339,533	417,548	(417,548)	–
Total	1,863,080	418,435	249,206	558,650	3,089,371	(417,548)	2,671,823
Segment income	¥ 264,324	¥ 37,575	¥ 68,198	¥ 29,042	¥ 399,139	¥ (1,576)	¥ 397,563
Segment Assets	¥5,809,693	¥205,629	¥939,996	¥1,003,190	¥7,958,508	¥(735,303)	¥7,223,205
Depreciation	268,659	10,794	31,084	36,271	346,808	–	346,808
Increase in fixed assets (Note 5)	402,374	8,078	63,107	34,340	507,899	–	507,899

Notes: 1. "Others" represent categories of business that are not included in reportable segments and include hotel operation, and advertising and publicity services.
2. The ¥(1,576) million downward adjustment to segment income included a ¥(2,133) million elimination of unrealized holding gains (losses) on fixed assets and inventory assets and a ¥552 million elimination for intersegment transactions. Moreover, the ¥(735,303) million downward adjustment to segment assets included a ¥(996,327) million elimination of intersegment claims and obligations, offset by ¥261,024 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 the 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 2014 (April 1, 2013 to March 31, 2014)

Millions of Yen

	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
Operating revenues:							
Outside customers	¥1,827,467	¥400,948	¥251,070	¥ 223,432	¥2,702,917	¥ –	¥2,702,917
Inside group	56,045	14,880	10,736	352,205	433,866	(433,866)	–
Total	1,883,512	415,828	261,806	575,637	3,136,783	(433,866)	2,702,917
Segment income	¥ 267,336	¥ 36,062	¥ 72,058	¥ 32,686	¥ 408,142	¥ (1,348)	¥ 406,794
Segment Assets	¥5,964,807	¥195,058	¥952,606	¥1,093,841	¥8,206,312	¥(778,008)	¥7,428,304
Depreciation	271,726	10,552	31,104	34,660	348,042	–	348,042
Increase in fixed assets (Note 5)	442,669	10,000	43,098	60,680	556,447	–	556,447

							Millions of U.S. Dollars
	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
Operating revenues:							
Outside customers	$17,743	$3,893	$2,437	$ 2,169	$26,242	$ —	$26,242
Inside group	544	144	104	3,420	4,212	(4,212)	—
Total	18,287	4,037	2,541	5,589	30,454	(4,212)	26,242
Segment income	$ 2,596	$ 350	$ 700	$ 318	$ 3,964	$ (15)	$ 3,949
Segment Assets	$57,911	$1,894	$9,249	$10,620	$79,674	$(7,555)	$72,119
Depreciation	2,638	102	302	337	3,379	—	3,379
Increase in fixed assets (Note 5)	4,298	97	418	589	5,402	—	5,402

Notes: 1. "Others" represent categories of business that are not included in reportable segments and include hotel operation, and advertising and publicity services.
2. The ¥(1,348) million ($(15) million) downward adjustment to segment income included a ¥(1,650) million ($(16) million) elimination of unrealized holding gains (losses) on fixed assets and inventory assets and a ¥303 million ($3 million) elimination for intersegment transactions. Moreover, the ¥(778,008) million ($(7,555) million) downward adjustment to segment assets included a ¥(1,061,335) million ($(10,304) million) elimination of intersegment claims and obligations, offset by ¥283,328 million ($2,751 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 the record, as it is not a metric used in deciding the allocation of management resources or evaluating earnings performance.
5. Increase in fixed assets included a portion contributed mainly by national and local governments.

3) Relevant Information

i. Information about products and services

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

ii. Information about geographic areas

a. Operating Revenues

Information about geographic areas was omitted as operating revenues attributable to outside customers in Japan exceed 90% of the operating revenues reported in the Consolidated Statements of Income.

b. Property, plant and equipment

Information about geographic areas was omitted as property, plant and equipment in Japan exceed 90% of the property, plant and equipment reported in the Consolidated Balance Sheets.

iii. Information about major customers

Information about major customers was omitted as no single outside customer contributes 10% or more to operating revenues in the Consolidated Statements of Income.

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

Fiscal 2013 (Year ended March 31, 2013)

					Millions of Yen
	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note)	Total
Impairment losses on fixed assets	¥28,919	¥558	¥213	¥339	¥30,029

Fiscal 2014 (Year ended March 31, 2014)

					Millions of Yen
	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note)	Total
Impairment losses on fixed assets	¥575	¥580	¥5,244	¥69	¥6,468

					Millions of U.S. Dollars
	Transportation	Station Space Utilization	Shopping Centers & Office Buildings	Others (Note)	Total
Impairment losses on fixed assets	$6	$6	$51	$0	$63

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

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

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

6) Information about Gain on Negative Goodwill by Reportable Segments

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

NOTE 23: CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Year Ended March 31, 2013 and 2014

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
	2013	2014	2014
Net unrealized holding gains (losses) on securities			
Amount arising during the year	¥23,878	¥20,310	$197
Reclassification adjustments	2,825	(76)	(1)
Sub-total, before tax	26,703	20,234	196
Tax (expense) or benefit	(8,974)	(6,924)	(67)
Sub-total, net of tax	17,729	13,310	129
Net deferred gains (losses) on derivatives under hedge accounting			
Amount arising during the year	1,756	765	7
Reclassification adjustments	62	(49)	0
Acquisition cost adjustments	(138)	(296)	(3)
Sub-total, before tax	1,680	420	4
Tax (expense) or benefit	(594)	(145)	(1)
Sub-total, net of tax	1,086	275	3
Share of other comprehensive income of associates accounted for using equity method			
Amount arising during the year	2,140	8	0
Reclassification adjustments	123	18	0
Acquisition cost adjustments	—	—	—
Sub-total	2,263	26	0
Total other comprehensive income	¥21,078	¥13,611	$132

NOTE 24: SUBSEQUENT EVENTS

Share Repurchase

The Board of Directors of the Company resolved at its meeting held on April 30, 2014, matters concerning the Company's repurchase of its common stock pursuant to article 156 of the Business Corporation Law as applied pursuant to article 165, Paragraph 3 thereof, as detailed below.

(1) Reason for share repurchase: To further enhance returns to shareholders

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

(3) Total number of shares that may be repurchased: 1,500,000 shares (maximum) (0.38% of issued shares (excluding treasury stock))

(4) Aggregate repurchase price: ¥15,000 million (maximum)

(5) Period of repurchase: From May 1, 2014 to May 30, 2014

Repurchase of the Company's common stock based on this resolution was completed after market purchases on the Tokyo Stock Exchange from May 1, 2014 to May 30, 2014. The total repurchased was 1,500,000 shares of common stock at an aggregate repurchase price of ¥11,304 million ($110 million).

KPMG

Independent Auditor's Report

To the Board of Directors of East Japan Railway Company:

We have audited the accompanying consolidated financial statements of East Japan Railway Company and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of East Japan Railway Company and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 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 24, 2014
Tokyo, Japan