

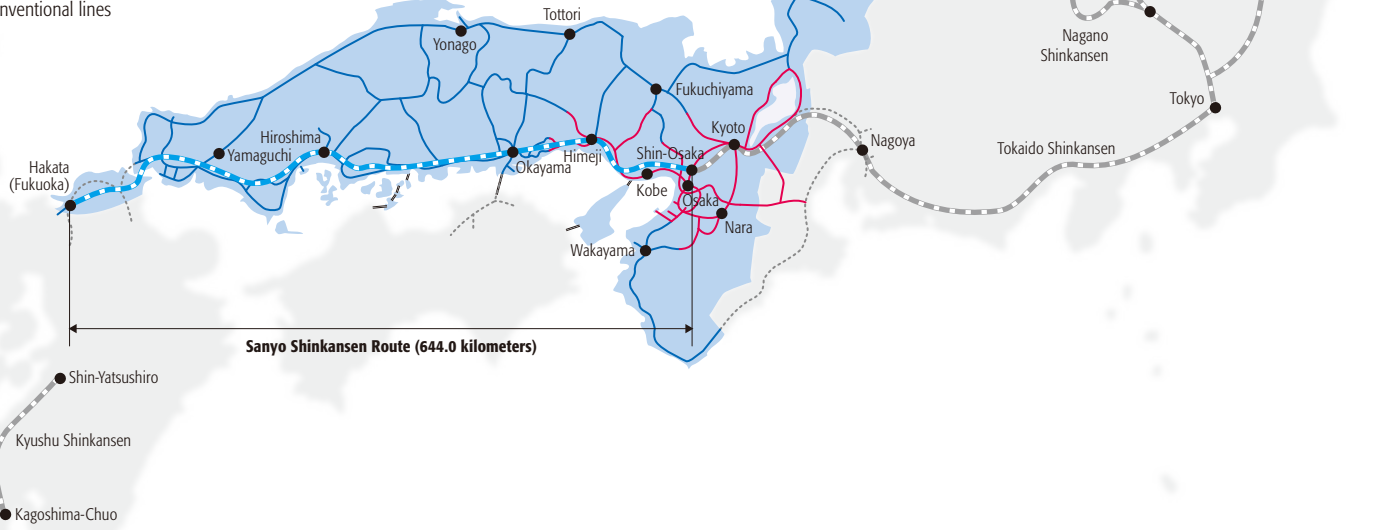


THE JR-WEST NETWORK

-  Sanyo Shinkansen
-  Urban Network (954.0-km basis)
-  Other conventional lines



Transportation Operations

OVERVIEW

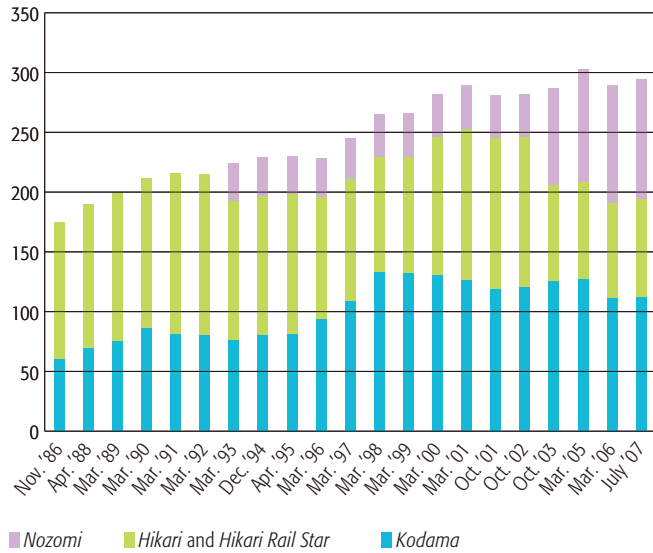
JR-West's Transportation Operations consist of the railway business, along with small-scale bus and ferry services. The railway business encompasses 18 prefectures in the western half of Honshu and the northern tip of Kyushu, an area of approximately 104,000 square kilometers. The region is home to approximately 43 million people, equivalent to 34% of the population of Japan. The Company operates 50 lines with a total of 1,208 stations. Operating route length totals 5,023.7 kilometers, a little less than 20% of all passenger railway kilometerage in Japan. By line, the Sanyo Shinkansen, a high-speed intercity transport line, stretches 644.0 kilometers, the Urban Network covering the Kyoto-Osaka-Kobe metropolitan area covers 621.7 kilometers (954.0 kilometers including the three branch offices in Kyoto, Osaka, and Kobe), and other conventional lines (excluding the three branch offices in Kyoto, Osaka, and Kobe) extend a total of 3,425.7 kilometers.

Operating revenues in the Transportation Operations segment rose 1.7% year on year, to ¥848.5 billion. The majority of this revenue is derived from the passenger railway revenue of the parent company JR-West, which rose 1.2% from the previous fiscal year, to ¥765.4 billion. Operating income in this segment, however, declined 0.8%, to ¥97.2 billion due to increases in maintenance and miscellaneous expenses arising from a focus on various measures to improve safety.

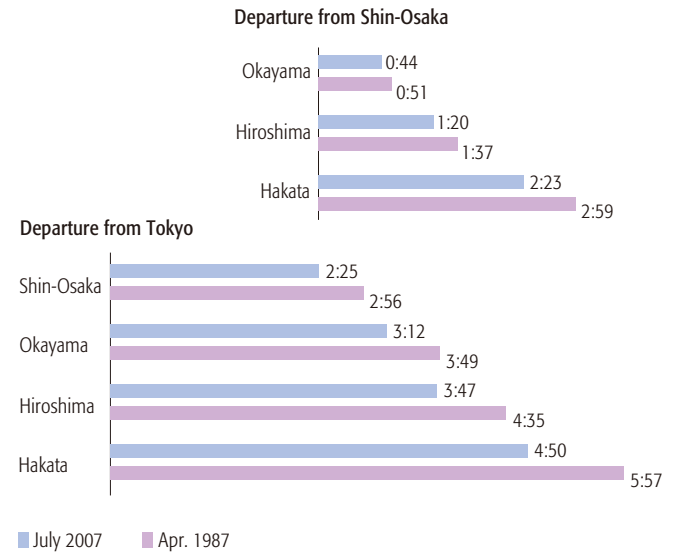
In fiscal 2007, JR-West concentrated on implementing its Safety Enhancement Plan and a range of other measures aimed at establishing a corporate culture that places a top priority on safety. Specific measures included enhancements to the safety training structure to make it more effective, such as expanded use of simulators for train conductors, and computer-aided instruction (CAI) for station staff involved in transportation operations. We also conducted comprehensive training for train accidents with the aim of enhancing response capabilities in the event of an accident, such as in the areas of providing aid to passengers, and cooperation with rescue crews, police, and other authorities.

In terms of facilities, the Company has expanded the area of tracks with both the ATS-SW and ATS-P automatic train stop systems that prevent trains from exceeding speed limits at points and crossings, and other portions of track. We also strengthened pillars supporting elevated tracks against earthquakes, increased the number of anemometers to help counter problems from strong winds.

Number of Sanyo Shinkansen Trains per Day



Sanyo Shinkansen: Transition of Arrival Time (In Hours and Minutes)



SANYO SHINKANSEN

The Sanyo Shinkansen is a high-speed intercity passenger service between Shin-Osaka Station in Osaka and Hakata Station in Fukuoka in northern Kyushu. The line runs through several major cities in western Japan, including Kobe, Okayama, Hiroshima, and Kitakyushu. It has a total operating kilometerage of 644.0 kilometers, and 19 stations, including Shin-Osaka Station. JR-West owns the entirety of the railway facilities related to the existing Sanyo Shinkansen, and with the exception of Shin-Osaka Station (owned by JR Central), operates all of the other 18 stations.

There are four types of trains in operation on the Sanyo Shinkansen: the express trains *Nozomi*, *Hikari Rail Star*, and *Hikari*, and the local train *Kodama*. Of these the fastest is *Nozomi*, which operates at a maximum speed of 300 kilometers per hour, linking Shin-Osaka and Hakata in two hours and 23 minutes.* The majority of the *Nozomi* trains are through-service trains running on the Tokaido Shinkansen tracks operated by JR Central linking Tokyo and Shin-Osaka. This allows passengers to travel across the Tokaido Shinkansen from Tokyo or Nagoya to the major stations along the Sanyo Shinkansen—Okayama, Hiroshima and Hakata—without having to change trains.

*In the case of the fastest service



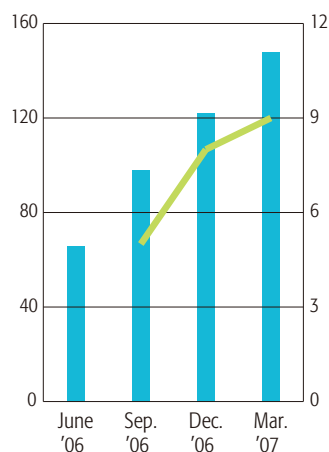
The new N700 Series Shinkansen

Operating revenue from the Sanyo Shinkansen began declining in fiscal 1997 due to the slowdown in the Japanese economy and increasingly fierce competition from competing forms of transport, such as airplanes and highway buses. However, this trend began to reverse with the shift of *Hikari*



Hikari Rail Star

J-WEST Card Membership (End of Month) and Its Usage (Daily Average on Weekday per Month)
(Thousands) (Thousands per day)



■ J-West Card membership (End of month)
— Usage (Daily average on weekday per month)



trains to the faster *Nozomi* in October 2003, and timetable revisions centered on lowering fares for the *Nozomi* trains. Further timetable revisions in March of 2005 and again in 2006 that increased the number of *Nozomi* trains added a further boost, and through fiscal 2007 revenue has risen for four consecutive years.

Ridership on the Sanyo Shinkansen during fiscal 2007 was up 0.9% year on year to 61 million, with total passenger-kilometers up 2.1% to 15,164 million passenger-kilometers. Transportation revenues increased 1.5% (up ¥4.8 billion), to ¥328.6 billion. Both transport volume and revenue for fiscal 2007 rose for the fourth consecutive fiscal year.

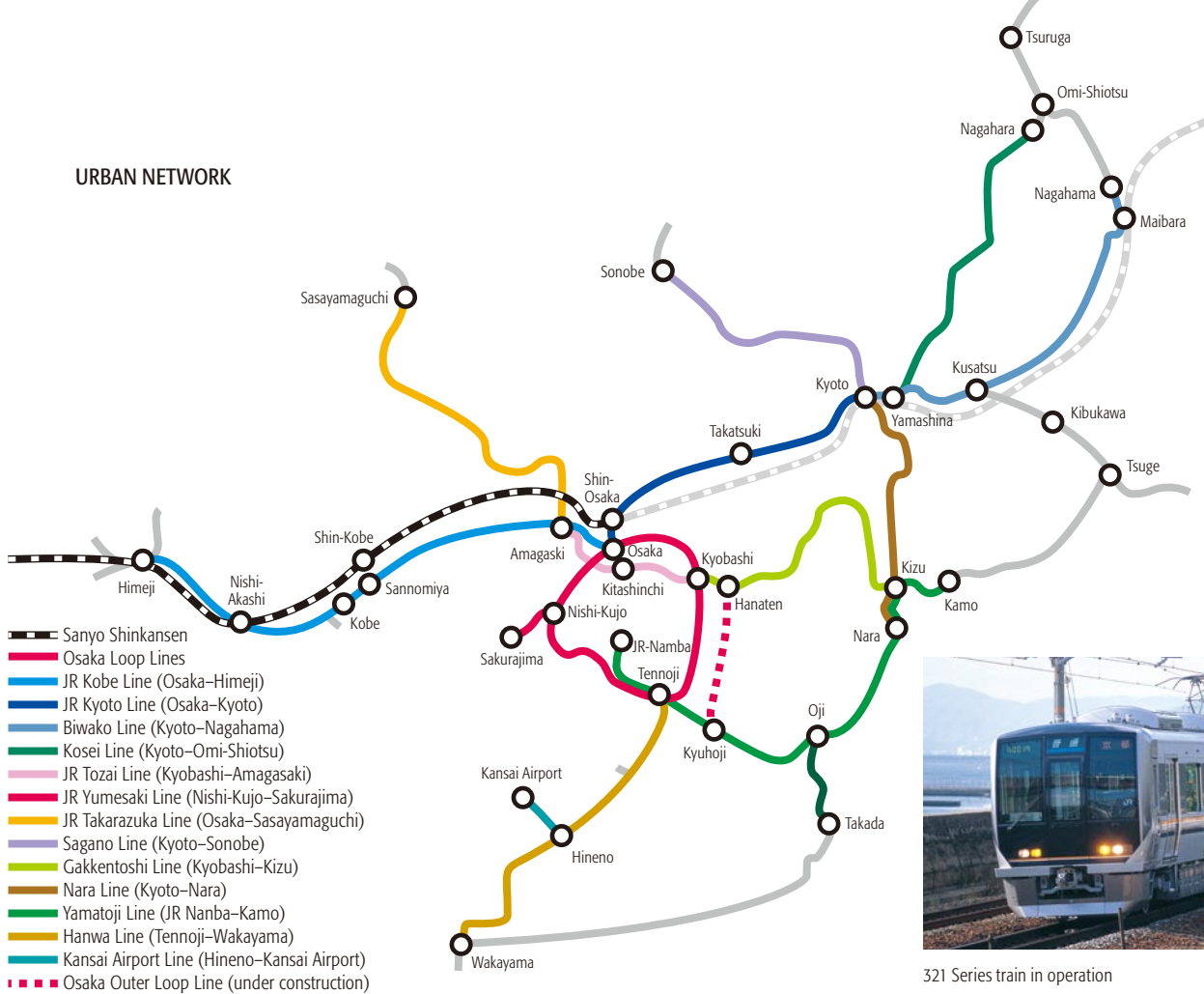
● Review of Fiscal 2007

The opening of the Kobe Airport in February 2006 and the New Kitakyushu Airport in March 2006 significantly increased the number of airline flights in JR-West's competitive area. In response we made efforts to enhance the competitiveness of Shinkansen service with further revisions to timetables in March 2006, an increase in the number of *Nozomi* trains providing direct service from Hakata and Hiroshima to Nagoya and Tokyo, and addition of express service for the *Hikari Rail Star*, running between Hakata and Shin-Osaka.

In terms of marketing, from July 2006 we broadened the scope of the Express Reservation Service, which allows customers to easily reserve or change Shinkansen reservations at any time up to the point of departure using a PC or mobile phone, to the entire Sanyo and Tokaido Shinkansen. We also further promoted use of the Shinkansen service by proactively posting such basic information on the Shinkansen service as number of trains, travel times, and fares. To increase the number of cardholders of the J-WEST Card necessary to use the Express Reservation system, we conducted PR and other campaigns to highlight the privileges of membership. We further worked in cooperation with local governments, travel agents and other JR companies to develop strategies for the DISCOVER WEST and other travel campaigns, and stimulate demand for tourism. We also launched the travel association Club DISCOVER WEST for persons over 50 years of age, in an effort to stimulate demand for travel.

During fiscal 2008, we plan to concentrate on measures to further improve safety, as well as move forward steadily with a variety of initiatives for the future.

URBAN NETWORK



321 Series train in operation

● Initiatives for Fiscal 2008

JR-West implements a timetable revision in July 2007 that includes the new N700 Series Shinkansen, which offers greater speed and comfort, as well as increase the number of *Nozomi* departing from Shinagawa during the peak morning hours and high-speed *Hikari Rail Star* trains, as part of an effort to provide customers with a safe, trustworthy, and high-quality service. To maximize the benefit from the introduction of the N700 Series, we will highlight the convenience of the Express Reservation system and the cost benefits in order to further promote the use of the Shinkansen service. We will continue with the DISCOVER WEST campaign, and through the development of the travel association Club DISCOVER WEST for persons over 50 years of age, pursue initiatives in cooperation with local governments to draw attention to the Kyoto area.

In July 2007, with the aim of creating a unified planning and operational structure for the Shinkansen business, JR-West establishes within the Railway Operations Headquarters the Shinkansen Supervising Department, along with the Shinkansen Management Division, which functions as a branch office for Shinkansen-related sites.

URBAN NETWORK SERVICES

(Kyoto-Osaka-Kobe Area Conventional Lines)

The Urban Network provides passenger service for the densely populated major cities of Kyoto, Osaka, and Kobe, and their surrounding areas. It has an operating route length of 621.7 kilometers (954.0 kilometers including the three branch offices in Kyoto, Osaka, and Kobe), forming a comprehensive network stretching across the entire Kyoto-Osaka-Kobe region.

The Urban Network area includes the portion of the Fuku-chiyama Line between Tsukaguchi and Amagasaki where JR-West caused a terrible accident on April 25, 2005, resulting in a substantial loss of the trust we have built among customers and society. We recognize that redoubling our efforts to prioritize safety, and regaining that trust is of the highest priority.

Ridership on the Urban Network (954.0-km basis) during fiscal 2007 was up 0.9% year on year to 1,443 million passengers, with total passenger-kilometers up 1.9% to 28,801 million passenger-kilometers. Transportation revenues increased 1.6% (up ¥4.8 billion), to ¥302.4 billion.

● Review of Fiscal 2007

In transportation operations, JR-West expanded the coverage area for the traffic control system and made other efforts to enhance safe and reliable transportation services. Work to convert the electric supply on the Hokuriku Line and the Kosei Line from AC to DC was completed in October 2006,



Institute Head



The Safety Research Institute

JR-West established the Safety Research Institute on June 23, 2006, to further strengthen its safety assurance. The institute conducts research as an organization independent of other departments, with its finding reflected in specific measures to enhance safety management or revise procedures at work sites.

- **Safety Management Research Laboratory**

Analyzes and researches management methods and assessment methods to improve railway safety

- **Human Factors Research Laboratory**

Researches means of preventing human error arising from psychological or physiological causes

- **Safety Systems Research Laboratory**

Researches the human-machine interfaces necessary to prevent accidents from the standpoint of human factors

permitting extension of Special Rapid Service to Tsuruga Station. Timetables were also revised in March 2007 to accommodate the opening of the Sakura Shukugawa Station.

● Initiatives for Fiscal 2008

Work on the southern portion of the Osaka Outer Loop Line (between Hanaten and Kyuhoji) is currently underway, with the opening of the planned for the spring of 2008. The completion of this line will link the Yamatoji Line, Gakkentoshi Line and JR Tozai Line through the Osaka Outer Loop Line, and improve access for passengers traveling from Nara to Kitashinchi Station, close to Osaka Station. We plan to renovate Tennoji Station to coincide with the opening of the Osaka Outer Loop Line, improving access to Osaka Station from Wakayama Prefecture and the Kansai International Airport. We are also proceeding with construction of new stations along the JR Kyoto and Kobe lines, with opening planned for the spring of 2008 or later.

● The ICOCA IC Card

Use of the ICOCA non-contact IC card, a service introduced in the Urban Network area in November 2003, has steadily increased, with the number of cards issued reaching

2.91 million within the first three and a half years of the launch of the service. In August 2004, we began offering reciprocal use with the Suica IC card issued by East Japan Railway Company, and in January 2006 reciprocal use with the PiTaPa IC card issued by Surutto Kansai Association, an organization composed of public and private railway operators in the Kansai region. In February 2006, along with the launch of the J-WEST Card we began issuing the SMART ICOCA card, which allows cardholders to charge their IC card without using cash, further promoting its use.

In response to the positive feedback received from Urban Network passengers, we introduce the ICOCA service in the Okayama and Hiroshima areas from September 2007.



ICOCA card

The Railway Safety Education Center

The Railway Safety Education Center was established with the goal of ensuring that each and every employee carefully consider the issue of safety, and reflect this in specific ways in his or her actions.

The center includes illustrations and photographs that highlight the seriousness of the Fukuchiyama Line accident, allowing employees to experience for themselves the responsibility for protecting the truly precious lives of our customers. It also describes the current rules, equipment, and other safety measures introduced as a result of the accident.

We are having all employees attend the center as early as possible, to learn about the Fukuchiyama Line accident and other past serious accidents so as to reflect those lessons in specific actions and practices for safety assurance.



OTHER CONVENTIONAL LINES

JR-West's other conventional lines comprise intercity transport provided by limited express and express trains, regional transport for commuters and students in and around regional hub cities such as Hiroshima and Okayama, and local lines with low transport density. The other conventional lines have an operating route length of 3,425.7 kilometers.

Business conditions for the other conventional lines remain harsh due to the decline in population along the railway lines and other factors. However, as these lines serve a role as feeders for Shinkansen service, and function as part of the overall railway network, we plan to implement a variety of management efforts, placing priority on ensuring safety.

Ridership on the other conventional lines during fiscal 2007 (excluding the three branch offices in Kyoto, Osaka and Kobe) declined 0.7% year on year to 373 million passengers, though total passenger-kilometers were up 0.1% to 9,712 million passenger-kilometers. Transportation revenues decreased 0.2% (down ¥0.3 billion), to ¥134.3 billion.

BUS AND FERRY SERVICES

JR-West's Transportation Operations segment also includes bus and ferry services. In bus services, the Company made efforts aimed at further ensuring safety, including equipping vehicles with safety devices, and enhancing employee training. Also, with competition for highway bus services becoming more intense, we strengthened our marketing capabilities with full-scale operation of the Highway Bus Net, an Internet reservation service. We also began operating the Youth Mega Dream Bus, and took other steps to provide services to respond to the varied needs of customers.

In ferry services, the Company worked to establish safety management systems based on the Marine Safety Management Manual, with the aim of providing safe and reliable transport.



New-style Kiosk stand



Dessert Terrace Store in Osaka Station

Sales of Goods and Food Services

JR-West's retail services mainly target railway passengers, consisting of convenience stores, specialty stores, and other food and beverage establishments located in and around station buildings, as well as the JR Kyoto Isetan department store.

● Review of Fiscal 2007

JR-West continued to move forward with its NexStation Plan to improve the quality of stations, formulated in fiscal 2003. We also opened new-style Kiosk stands and small convenience stores "Daily In," developed original products, and made efforts to stimulate sales at existing stores. Further, we opened the Dessert Terrace, a collection of well-known dessert shops, in Osaka Station, and took other measures to enhance retail operations within stations. For the JR Kyoto Isetan department store we took steps to increase profitability, including a freshening up of the sales floors to reflect the change in the seasons, and further expanding our lineup of unique products.

As a result, operating revenues in the Sales of Goods and Food Services segment rose 2.1% from the previous year, to ¥208.1 billion. Operating income, however, was down 15.2%, to ¥5.0 billion.

● The NexStation Plan to Improve the Quality of Stations

The JR-West Group announced its NexStation Plan in February 2003, with the goal of developing the 150,000 square meters of stations and surrounding areas—the Company's most important assets—over a five-year period from fiscal 2003 through fiscal 2007. The plan would enhance the appeal of stations through the development of commercial facilities, renovations and the introduction of new services. This plan was further expanded in the group medium-term management targets announced in March 2005, to develop 250,000 square meters over the five-year period from fiscal 2005 through fiscal 2009.



Sun Station Terrace Okayama in Okayama Station



JR Kanazawa Station NK Building

Real Estate Business

JR-West's real estate services consist of the management of shopping centers in station buildings and other facilities, operation of large station buildings at terminal stations, development of commercial facilities near station areas and underneath elevated tracks, and real estate sales and leasing operations for residential and urban development focused on railway lines.

In shopping center operations, JR-West has strengthened the Group's tenant leasing functions, and accelerated its efforts to attract preferential tenants. At the same time, we have enhanced the customer drawing power and freshness of our facilities through regular merchandise and tenant changeovers. In real estate sales and leasing, JR-West seeks to effectively utilize its real estate holdings by steadily developing shopping centers in station buildings, as well as developing and selling condominiums on former sites of company housing units and leisure facilities. We are also currently renovating Osaka Station and developing the New North Building, which are planned to open in spring 2011.

● Review of Fiscal 2007

JR-West continued to develop station premises and surrounding areas during the subject fiscal year. The "bridge station building" (a type of station with ticket gates and other station facilities above the tracks) was opened in Okayama Station, along with the SUN STATION TERRACE OKAYAMA, a shopping center facing the walk-through linking the east and west sides of the station. The JR Kanazawa Station NK Building was also opened in front of Kanazawa Station, attracting a large-scale shopping center as a tenant. The Company also developed condominium apartments on land formerly used for housing for Company employees, and made other efforts to effectively utilize assets.

The plan for renovation of Osaka Station and the development of the New North Building is steadily moving forward, with construction begun on the New North Building.

As a result, fiscal 2007 operating revenues for the Real Estate Business segment declined 0.3% from the previous year, to ¥62.7 billion. Operating income, however, increased 3.5%, to ¥21.2 billion.



Hotel Granvia Hiroshima

Other Businesses

JR-West's other businesses consist of the travel agency business operated by Nippon Travel Agency, which became a consolidated subsidiary of JR-West in fiscal 2004, the hotel business centered on the Hotel Granvia Kyoto, advertising agency business, maintenance and engineering services, and other businesses to facilitate the smooth and efficient operation of the mainstay railway business.

● Review of Fiscal 2007

In travel agency operations, JR-West undertook aggressive marketing measures that included enhancing the Red Balloon Centennial product established to mark the 100th anniversary of Nippon Travel Agency, and a strengthening of sales via the Internet. In hotel operations, the Company promoted sales with renovations to its banquet halls and guest rooms, along with various events organized by the banquet and culinary divisions.

As a result, operating revenues in the Other Businesses segment increased 3.4% from the previous fiscal year, to ¥143.4 billion, with operating income climbing 9.2%, to ¥12.5 billion.

Prepared in December 2003, the Osaka Station Renovation and New North Building Development Plan was designed to make Osaka Station, located in Osaka's Kita ("North") Area and JR-West's premier terminal station, a station befitting its status as the gateway to Osaka. The plan would also increase the earnings of the corporate group, and help to invigorate both the Osaka Station area and the entire Kansai region. The main tenets of the plan are a fundamental renovation of the station, enhancements to station concourses and public areas, and development of the New North Building, all of which were intended to allow Osaka Station to provide the comfort and convenience appropriate to a terminal station.

The station renovation and improvement work focused on alleviating overcrowding, providing more convenience for changing trains, and making facilities barrier-free. The plan incorporates substantial revisions to passenger flow



Artist's image of the New North Building



Artist's image of ACTY Osaka after the expansion of floors