

# 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 51 lines with a total of 1,221 stations. Operating route length totals 5,024.0 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 622.0 kilometers (954.3 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 1.5% year on year during fiscal 2008, to ¥861.2 billion. The majority of this revenue is derived from the passenger railway revenue of the parent company JR-West, which rose 2.1% from the previous fiscal year, to ¥781.3 billion. As a result, despite a change in the system for depreciation and greater depreciation expenses stemming from

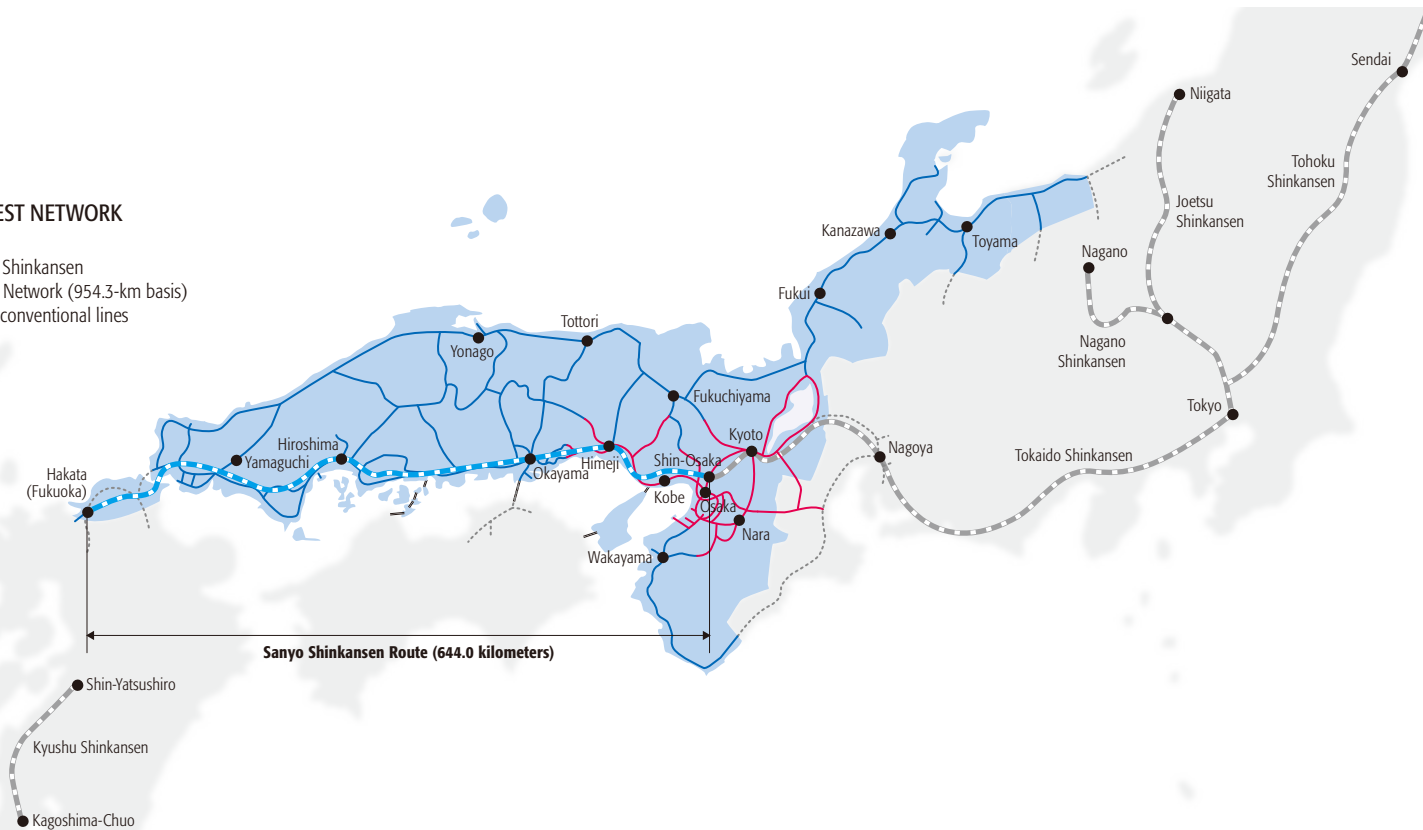
an increase in capital expenditure, operating income for the segment rose 0.2% year on year to ¥97.4 billion.

## 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

### THE JR-WEST NETWORK

- Sanyo Shinkansen
- Urban Network (954.3-km basis)
- Other conventional lines



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 (in the case of the fastest rail service). 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.

Transportation revenue from the Sanyo Shinkansen began declining after fiscal 1997 due to the slowdown in the Japanese economy, and more intense competition from competing transportation services, such as airlines and highway buses. However, usage began to rise following the switchover from *Hikari* to *Nozomi* trains in October 2003, and timetable revisions centered on lower fares for *Nozomi* trains. As a result of further timetable revisions in March 2005, March 2006, and July 2007 to accommodate more *Nozomi* trains, the introduction of the N700 Series and the success of

marketing efforts such as the Express Reservation system, revenue from the Sanyo Shinkansen rose for the fifth consecutive year in fiscal 2008.

#### Fiscal 2008 Measures

In response to more intense competition from airlines over competing routes, in July 2007 JR-West introduced the new N700 Series Shinkansen, offering improved speed, comfort, and energy conservation. In March 2008, we implemented timetable revisions to enhance the competitiveness of Shinkansen services, including hourly operation of an N700 series train between Tokyo and Hakata, and an increase in the number of *Nozomi* trains running between Tokyo and Hiroshima.



Hikari Rail Star



The new N700 Series

The new N700 Series features improved energy efficiency, further enhancing the environmental friendliness of Shinkansen travel, and contributing significantly to global environmental conservation. The N700 Series also received the fiscal 2007 Environment Minister's Prize for Global Warming Prevention Activity.

Sales and marketing initiatives to promote use of the Shinkansen included proactive publication of information on Sanyo Shinkansen timetable revisions, the comfort of the N700 Series, and the increased

number of trains in operation, as well as the convenience and price advantages of the Express Reservation system. We further worked in cooperation with local communities, travel agents, and other JR companies to stimulate demand for tourism, including promotion of the DISCOVER WEST Campaign, and operating the Club DISCOVER WEST travel association for persons over 50 years of age.

#### Initiatives for Fiscal 2009

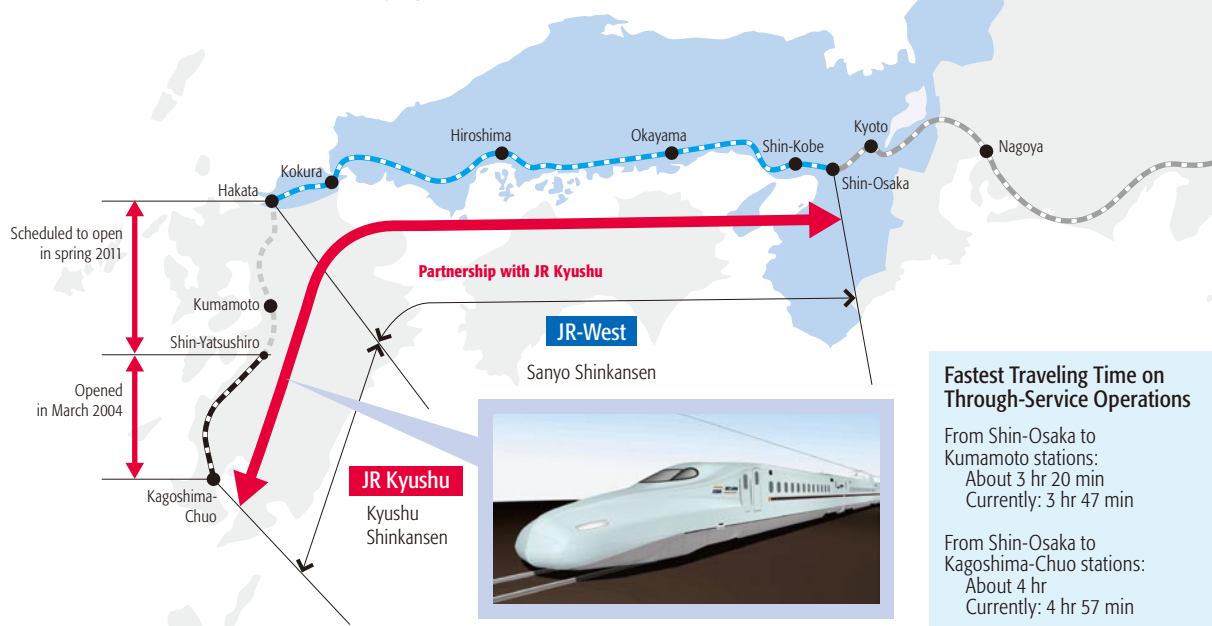
JR-West is working amid a fiercely competitive environment to create

Shinkansen timetables that maximize the benefits from the introduction of the N700 Series, along with other efforts to offer a comfortable and highly reliable transportation service responsive to demand. We are also moving forward with measures to increase use of the Shinkansen, including advertising campaigns promoting the environmentally friendly aspects of Shinkansen service. We are also encouraging the use of the Express Reservation system to further enhance the convenience of sales channels, and expanding the Express Reservation IC card service (EX-IC) service to include the Sanyo Shinkansen from summer 2009.

#### Through-Service Operations with the Kyushu Shinkansen

JR-West is planning to provide through-services between the Sanyo Shinkansen and Kyushu Shinkansen, operated by Kyushu Railway Company (JR Kyushu), following the completion of the extension of the Kyushu Shinkansen scheduled for spring 2011, linking Shin-Osaka and Kagoshima-Chuo stations in four hours. We expect to increase revenue by introducing a new Shinkansen model based on the N700 Series that will provide even higher-quality Shinkansen travel, as well as by working together with JR-Kyushu to develop demand for sightseeing among the wealth of tourist destinations in Kyushu, and stimulate travel from Kyushu to the urban centers of Kyoto and Osaka.

Planned total investment for this project is about ¥100 billion.



## 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 622.0 kilometers (954.3 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 Fukuchiyama 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.

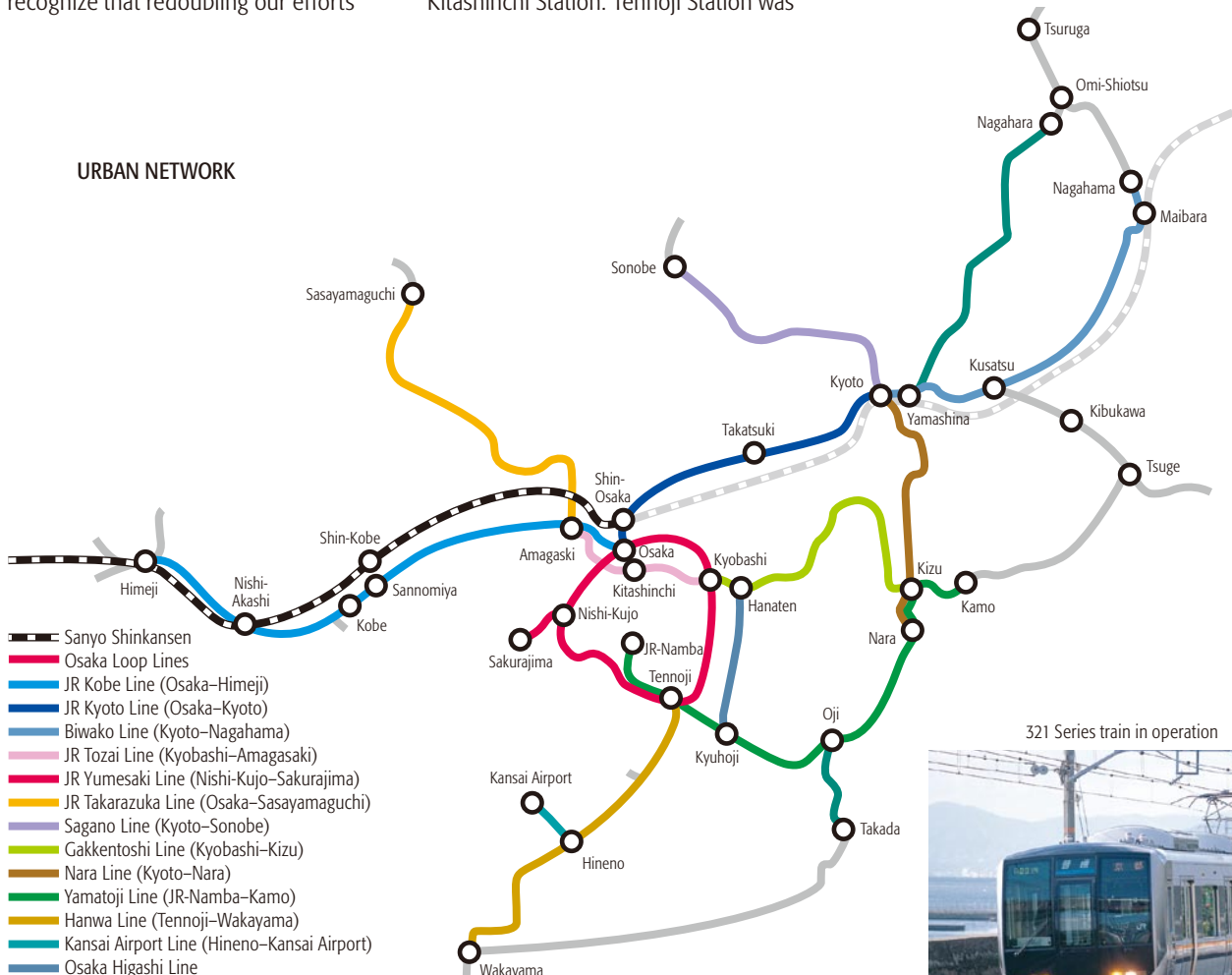
Ridership on the Urban Network (954.3-kilometer basis) during fiscal 2008 was up 0.8% year on year to 1,445 million passengers, with total passenger-kilometers up 0.6% to 28,962 million passenger-kilometers. Transportation revenues increased 0.3% (up ¥0.9 billion), to ¥303.3 billion.

### Fiscal 2008 Measures

Timetable revisions were implemented in March 2008 for the opening a portion of the Osaka Higashi Line between Hanaten and Kyuhoji, providing links to the Yamatoji Line, Gakkentoshi Line and JR Tozai Line to improve access for passengers traveling from Nara to Kitashinchi Station. Tennoji Station was

also renovated to coincide with the opening of the Osaka Higashi Line, improving access to Osaka Station from Wakayama Prefecture and the Kansai International Airport. We also opened three new stations, and made other efforts to further improve convenience. In terms of facilities, we undertook a series of measures to enhance safety, including expansion of the ATS-P system, improving the safety features equipment at railway crossings, and introducing new equipment such as train proximity warning systems, and early-warning seismic activity warning systems. We also installed additional anemometers, and strengthened pillars supporting elevated tracks against earthquakes.

## URBAN NETWORK





### Initiatives for Fiscal 2009

JR-West is focusing its efforts on measures to further enhance safety, and is steadily implementing a range of other initiatives for the future.

In transportation and marketing, we are utilizing the railway network across the Kyoto-Osaka-Kobe metropolitan area to further enhance the convenience of access to the Osaka area and otherwise improve the quality of transportation services. The Railway Operations and Business Development headquarters are also working together with local communities to improve the value of our railway belts through initiatives to develop stations and surrounding areas. Further, JR-West is proactively implementing measures to make stations and trains

more user-friendly and to enhance customer satisfaction, including raising the overall level of service, from ticket windows and other station and train services, introducing special displays at station entrances to provide better information when a transport disorder occurs, and moving forward with the installation of "barrier-free" facilities in conjunction with local governments.

### The ICOCA IC (Smart) 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 3.68 million within the first four 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. We have steadily broadened the area in which the ICOCA card can be used, introducing the service in the Okayama and Hiroshima areas from September 2007, and offering interoperability with Central Japan Railway Company (JR Tokai)'s TOICA card from March 2008.

For the ICOCA e-money service launched in October 2005, we began offering reciprocal use with the Suica IC card issued by East Japan Railway Company, and are working to expand the number of stores in towns and



ICOCA card



SMART ICOCA card

inside stations accepting ICOCA in order to improve the convenience of the service.

### 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.

The operating environment for other conventional lines continues to be difficult due to the declining population of areas served by the

lines. However, considering that these lines play a role as feeders for the Shinkansen service and function as a vital part of the railway network, we are working to provide community-oriented services and undertake other management efforts, while placing priority on ensuring safety.

Ridership on the other conventional lines during fiscal 2008 (excluding the three branch offices in Kyoto, Osaka, and Kobe) increased 0.5% year on year to 374 million passengers, though total passenger-kilometers were down 0.2% to 9,690 million passenger-kilometers. Transportation revenues increased less than ¥0.1 billion year on year, to ¥134.4 billion.

### Bus and Ferry Services

The Transportation Operations segment also includes bus and ferry services. JR-West undertook a number of initiatives aimed at further ensuring safety, including equipping vehicles with safety devices, and bolstering employee training. We began operating bus routes between Kobe and Shirahama, and took other steps to supply services responsive 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.



Diesel car for local lines



Haruka limited train



# 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.

## Fiscal 2008 Measures

JR-West continued its efforts to improve the attractiveness of stations, such as by opening SUN FESTA OKAYAMA in Okayama Station and shin-kobe Entree Marche in Shin-Kobe Station, as well as promoting the opening of new types of Kiosk stands,

such as a "self-service" style. For the JR KYOTO ISETAN department store, we took steps to increase store revenues to coincide with the 10th anniversary of the opening of the Kyoto Station building, including a renewal of the men's clothing floor, and the opening of SUVACO JR KYOTO ISETAN, a new station commercial facility along the north-south passage through Kyoto Station.

As a result, operating revenues in the Sales of Goods and Food Services segment rose 2.2% over the previous fiscal year, to ¥212.8 billion, with operating income up 4.3%, to ¥5.2 billion.



New-style Kiosk stand



SUVACO JR KYOTO ISETAN in Kyoto Station

# 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



JR Kanazawa Station NK Building

# Other Businesses

developing the New North Building, which are planned to open in spring 2011.

## Fiscal 2008 Measures

JR-West continued to develop station premises and surrounding areas, including the opening of the JR Kyoto Station NK Building at Kyoto Station with a large-scale electronics retailer, the JR Kanazawa Station NK Building at Kanazawa Station, and SUN STATION TERRACE FUKUYAMA shopping center at Fukuyama Station. We moved steadily forward with the plan for the Osaka Station Renovation, including the New North Building Development and ACTY Osaka expansion. In addition, in an effort to effectively utilize assets, we continuously developed condominium apartments on Company-owned land, such as former sites of Company housing.

As a result, operating revenues for the Real Estate Business segment rose 22.4% over the previous fiscal year, to ¥76.7 billion, with operating income up 16.2%, to ¥24.6 billion.

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.

## Fiscal 2008 Measures

In travel agency operations, JR-West pursued sales and marketing activities utilizing the New Domestic Travel Information System recently put into operation. We also formulated the Nippon Travel Agency Group Medium-Term Business Plan (Fiscal 2009

through Fiscal 2011), which sets a policy of stable growth in core fields and a shift of management resources to growth fields. In hotel operations, the Company promoted sales with renovations to its guest rooms and dining facilities, as well as hosted various events.

Nevertheless, operating revenues in the Other Businesses segment declined 2.8% over the previous fiscal year, to ¥139.3 billion, and operating income fell 11.8%, to ¥11.0 billion.



J GRAN condominium apartment



Hotel Granvia Hiroshima



# Osaka Station Development Project



Artist's image of Osaka Station

The Osaka Station Renovation and New North Building Development Plan was formulated in December 2003 with the aim of making Osaka Station—JR-West's foremost terminal station located in the heart of Osaka's Kita District—a facility befitting its status as the gateway to Osaka. The plan would also increase the earnings of the corporate group, and help to revitalize both the Osaka Station area and the Kansai region. The three main elements of the plan are a fundamental renovation of the station, enhancement of station concourses and public areas, and development of the New North Building, which together would enhance the

comfort and convenience of Osaka Station, and provide it with the stateliness appropriate to a terminal station.

The focus of the station renovation and improvement is on alleviating overcrowding, providing more convenience for changing trains, and making facilities barrier-free. The plan includes substantial revisions to the passenger flow and station layout, along with improvements that make the station easier to use. It also incorporates elements to create an attractive, symbolic station space, such as the erection of a large dome. To complement the station renovations, we have also included additions to make the station area

itself an excursion destination, such as walkways and public areas in the new building, and over the station.

The New North Building will have 210,000 square meters of floor space, and incorporates a symbolic atrium in its central portion. The anchor tenant will be a department store, and there are plans for a mall of specialty stores, offices, a cinema complex, and other facilities. Station renovation work began in spring 2004, and groundbreaking for the New North Building in fall 2006. The opening of the New North Building, along with the walkways and public areas (the grand opening) is planned for the spring of 2011.



Artist's image of the New North Building



The New North Building under construction

Along with the renovation of Osaka Station and development of the New North Building, JR-West also formulated a plan to remodel the southside station entrance as a new gateway, and provide for a balance and uniform flow with the north side. Work on expansion of the existing south building, ACTY Osaka, began in May 2008. Specific plans include expanding the floor space of the ACTY Osaka building by 35,000 square meters, constructing a connecting concourse linking the north and south sides of the station together with a multi-story public space, along with other measures to make the south side of the station more like a main entrance. The renovation will help link the north and south districts of Osaka Station, and make a substantial contribution to the vitality of the entire Osaka Station area.

JR-West had originally planned for the core tenant of the New North Building to be a department store operated by Mitsukoshi, Ltd. However, we recognized that in order to establish a more attractive commercial facil-

ity as the heart of the Osaka Station north district, and with the support of customers further enhance its drawing power, it would be necessary to make use of all group resources from both West Japan Railway Company, and Isetan Mitsukoshi Holdings Ltd., launched on April 1, 2008. Accordingly, in April 2008 the plan for the main

department store operator in the New North Building was changed to JR-West's consolidated subsidiary, West Japan Railway Isetan Ltd. Since this will generate additional refurbishment and other expenses for the JR-West Group, the total projected cost to the Group for the project has been increased to approximately ¥200 billion.

