

(Translation)

## **JR-West Group's Medium-Term Management Plan 2008-2012**

May 16, 2008

West Japan Railway Company

The West Japan Railway Company Group ("JR-West Group", the "Group" or "we", as the case may be) has formulated a "JR-West Group's Medium-Term Management Plan 2008-2012" (the "Plan") for the fiscal years ending March 31, 2013. The Group will steadily implement the Plan to achieve sustainable growth in the future, while strengthening its bases for safety.

### **Background of the Formulation of the Plan**

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- On April 25, 2005, the Company caused a very grave accident to occur on the Fukuchiyama Line. In consideration of the accident, we have set the building of a "corporate culture of placing top priority on safety" as our management target and exerted our all-out efforts to respond to the victims and restore the confidence of our customers promptly.
  
- Since then, we have steadily implemented our "Safety Enhancement Plan" and achieved progress in various aspects of our software and hardware infrastructures. However, there still remain issues to be addressed to enhance safety, including the "reform of our culture and sense of value".  
In June 2007, in the meantime, a report on the investigation of the accident was publicized by the Aircraft and Railway Accidents Investigation Commission and we have since seriously promoted measures in response to the various remarks stated therein. Seizing the moment, we formulated a "Basic Safety Plan" in April 2008 to seek higher safety levels in combination with our previous measures.
  
- Customers' expectations for "safety", "security" and "services" is escalating and social requirements for businesses, including global environmental issues and compliance with law, are getting severer. Thus, the Group is required to make further efforts to strengthen the confidence of its customers.
  
- The social and economic conditions surrounding the Group have become increasingly

uncertain. The population in Japan, except for some regions, has begun to decrease and crude oil prices are anticipated to remain high for a long period of time. Thus, the circumstances surrounding the Company are expected to become more difficult. In addition, due to the further expansion of the Haneda Airport, the extension of the Kyushu Shinkansen Line to Hakata and the opening of one major project after another in the Osaka area, among other things, the market environment will apparently change drastically.

- Furthermore, from a long-term standpoint, the falling birthrate and the aging population and a dwindling population will assume serious proportions as real issues. On the other hand, in the areas of information and telecommunications, specifically, immense technological advance will be made. In consideration of these long-term environmental changes, it is essential for the Group engaging in the railway operations as its core business to operate business while coming up with a long-term vision.
- Under these circumstances, we believe it necessary to return to the starting point of business of materializing our "Corporate Philosophy", continue our efforts to build "a corporate culture of placing top priority on safety" and "start over again" with the aim of further enhancing safety, restoring the confidence of our customers and achieving sustainable growth in the future through these activities.

### **Cause to Pursue in the Medium and Long Terms**

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In accordance with the "Corporate Philosophy", which shows the cause and the common value we pursue, we will set the "cause to pursue in the medium and long terms" as described below and deploy various efforts during the period of the Plan as the first stage therefor:

- We will strive to form a dynamic group of technologies and expertise and become a company that excels in safety management through never forgetting the railway accident on the Fukuchiyama Line and continuously pursuing greater safety.
- We will strive to provide "only one services" with reliability and satisfaction that may be highly evaluated by our customers, by providing safe and reliable transportation services to our customers, strengthening the relationships with our customers through state-of-art technologies in the fields of information and telecommunications and providing comfortable services in our stations and trains by the Group in a unified manner.

- We, in combination of our railway division and business development division and in collaboration with local communities, will strive to develop comfortable, convenient and functional stations and community renovations in their surrounding premises to enhance the value of our railway belts.
- We will strive to establish a good management foundation based on "human resources" and "technology" and pursue every possibility.
- We will strive to become a corporate group trusted as a company playing social roles by local communities and society through sound business activities.

### **JR West Corporate Philosophy**

1. We, being conscious of our responsibility for protecting the truly precious lives of our customers, and incessantly acting on the basis of safety first, will build a railway that assures our customers of its safety and reliability.
2. We, with a central focus on railway business, will fulfill the expectations of our customers, shareholders, employees and their families by supporting the lifestyles of our customers, and achieving sustainable growth into the future.
3. We, valuing interaction with customers, and considering our business from our customers' perspective, will provide a comfortable service that satisfy our customers.
4. We, together with our Group companies, will consistently improve our service quality by enhancing technology and expertise through daily efforts and practices.
5. We, deepening mutual understanding and respecting each individual, will strive to create a company at which employees find job satisfaction and in which they take pride.
6. We, acting in a sincere and fair manner in compliance with the spirit of legal imperatives, and working to enhance corporate ethics, will seek to be a company trusted by communities and society.

### **Management Targets**

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For the "cause to pursue in the medium and long terms", we will set the management

targets for the period of the Plan as described below. Through our corporate activities to complete the management targets, we will fulfill the expectations of our stakeholders, including customers, shareholders, employees and their families, communities and the society.

- ☐ We will build a corporate system to ensure no accidents to produce casualties among our customers and no serious labor accidents to our employees.
- ☐ Taking to heart the invaluable lesson taught by the railway accident on the Fukuchiyama Line, we will make it a principle to attain higher safety levels and strive to build a brand of safety and reliability by revitalizing our organization with the reform of the mind-set of our employees and our corporate culture serving as the driving force, seeking customer satisfaction, enhancing technologies and expertise and performing our corporate social responsibilities.
- ☐ By making ourselves chosen by customers, we will strive to enhance our corporate value, whereby establishing an upward spiral structure to further enhance safety, improve our services and expand our growth field and achieve sustainable growth as a corporate group.
- ☐ We will build a management vision from a long-term perspective, covering the innovation of our railway systems, among others, and work for the early realization thereof.

### **Building of a Brand of Safety and Reliability**

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By operating business that gives the highest priority to safety based on the renovation of the mind-set of our employees and our corporate culture and the attainment of higher safety levels through carrying out reforms, we will build a "brand of safety and reliability".

#### 1. Response to the Victims of the Accident in All Sincerity

We will continue to exert our company-wide efforts to respond to the victims of the railway accident on the Fukuchiyama Line, which we recognize as one of the most important management issues. We will never forget the accident and take it to heart as an invaluable lesson in our efforts to enhance safety, which is vital to the railway operations, in the future.

#### 2. Commitment to Security through Attainment of Higher Safety Levels

We will seriously promote measures in response to the remarks stated in the investigation report of the Aircraft and Railway Accidents Investigation Commission and also by placing our newly formulated "Basic Safety Plan" in the core of the Medium-Term Management Plan, steadily implement measures to seek and attain higher safety levels.

Serious Response to the Investigation Report of the Aircraft and Railway Accidents Investigation Commission

- Prompt introduction of improvements and measures in response to the remarks, including "proposals" and "opinions"

Steady Implementation of the "Basic Safety Plan"

- Establishment of safety management based on risk assessments
- Enhancement of the effects of education to learn from the accident
- Improvement of technologies to ensure safety, improvement of communications and improvement of the capabilities to solve problems autonomously in the field (field capabilities)
- Unified collaboration with our group companies
- Utilization of the fruits of work of our Safety Research Institute

Steady Promotion of Safety Investment

<Investment in the maintenance and renovation of facilities and equipment>

- Replacement of facilities and equipment, including those of rolling stock, tracks and structures, machinery, electricity, signals and communication

<Individual investments>

- Installation of additional ATS-P systems
- Support of the crew in an emergency (installation of additional EB and TE systems)
- Measures to control excessive speeding on points and crossings and on the down grade (installation of additional ATS systems)
- Installation of equipment to record operational statuses on each driver's control platform
- Strengthening of measures to prevent accidents causing injuries or deaths (installation of additional emergency buttons on the platforms and fences to prevent entries into the tracks)
- Strengthening of measures to prevent accidents at rail crossings (installation of additional crossing signals, crossing bars and obstacle detection systems)
- Measures to prevent accidents during maintenance work on the tracks (installation of additional GPS train proximity warning devices)

3. Commitment to Customer Satisfaction

Based on safe and reliable transportation service, we will implement measures in our software and hardware infrastructures from the perspective of our customers and provide comfortable services that satisfy our customers.

- Provision of safe and reliable quality transportation services
- Improvement of safety facilities on the platforms, barrier-free facilities, waiting rooms and other service facilities and equipment for providing information on train operations in the event of any operational disorder
- Development of more convenient systems for reservations and purchases, including the improvement of our customer centers
- Provision of customer-oriented services and information by means of our J-WEST

## Cards, ICOCA and SMART ICOCA

- Improvement of front-desk services of our employees by making them fully aware of commitment to customer satisfaction that values interaction with customers
- Enhancement of convenience and attractiveness of public transportation in collaboration with other public transportation facilities

## 4. Improvement of Technologies and Expertise

Our railway systems are the accumulation of various technologies, skills and expertise. We will upgrade our technologies and skills, together with our group companies to improve the qualities of our railway transportation services.

- Enhancement of our practical capabilities in full coordination with our group companies
- Formation and development of in-house engineers of core technologies and expertise and the cultivation and employment of professional engineers
- Diversification of employment, procurement of human resources and improvement of our education and other systems, for the purpose of unflinching succession of our skills, technological know-how and expertise
- Active adoption and introduction of widely-used technologies, as well as state-of-art technologies in the fields of information and telecommunications
- Strengthening of cooperation with external research organizations and companies

## 5. Provision of Job Satisfaction and Pride

We will exert our efforts to secure and cultivate human resources and enhance job satisfaction of every employee to make the best of the capabilities of the employees. We will also make serious efforts for cultivating human resources who can think and act for themselves and building a system therefor.

- Cultivation of human resources who can take autonomous action by making use of inventiveness in each workplace and the building of a system therefor

- Improvement of support measures to help our employees, including measures to balance work and life, to enhance job satisfaction and use their capabilities to the fullest
- Development and improvement of work environments and conditions

## 6. Measures for Environmental Protection

We will aggressively implement measures for environmental protection, with the aim of making 75% of our rolling stock energy-saving and reducing the basic unit of energy consumption by 12% from 1995 in the fiscal year ending March 31, 2013. We will also continue energetic efforts on resource saving, with the aim of attaining an 85% rate of recycling trash in the stations and trains (recyclable waste) and at least a 90% rate of recycling railway materials generated by maintenance and repairs. Furthermore, we will promote development of technologies conducive to environmental protection. We will also give publicity of our "earth-conscious railway" to win more customers and contribute to CO<sub>2</sub> reductions in the overall transportation system.

- Promotion of energy-saving and resource-saving activities
- Promotion of development of technologies conducive to environmental protection
- Publicity of railway's superiority in environmental protection and the promotion of the use of public transportation
- Promotion of activities of our individual employees for environmental protection in their imminent environment

## 7. Performance of Corporate Social Responsibilities

To meet the requirements of the society for corporate social responsibilities, we will make it a principle to continue offering good value to the society through sound business activities, and assure strict compliance with law and actively promote social action programs.

- Strict compliance, risk management, appropriate information disclosure and information security



- Further improvement of our internal control functions
- Improvement of our social action programs by transmitting information on our railway culture and engaging in more active community programs and other activities

## **Promotion of Business Strategies for Sustainable Growth**

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We will exert our efforts to brush up existing businesses in our each business segment and make inroads into new fields to achieve sustainable growth as JR-West Group. In the growth field, we will place emphasis on the "transportation services of the Sanyo Shinkansen Line" and the "enhancement of the value of our railway belts in Kyoto-Osaka-Kobe metropolitan area" to enhance our corporate value.

### 1. Sanyo Shinkansen Renaissance

During the period of the Plan, due to the further expansion of the Haneda Airport in the fall of 2010 and the extension of the Kyushu Shinkansen Line to Hakata in the spring of 2011, among others, passenger transportation is expected to change drastically. Seizing the opportunity, we will intensively pour our management resources, strengthen cooperation with Central Japan Railway Company and Kyushu Railway Company and make maximum use of the potential of the Sanyo Shinkansen Line to accelerate its use. Specifically, we will strive to establish a competitive advantage over airliners in 900km/4-hour areas.

- Implementation of measures to improve transportation by our N700 series and mutual through services of the Sanyo Shinkansen Line and the Kyushu Shinkansen Line
- Strengthening of marketing measures by use of our "Express Reservations" service and "EX-IC (Express IC)" service, among others
- Creation of new demand by promoting interregional interchanges upon the extension of the Kyushu Shinkansen Line to Hakata
- Further strengthening of cooperation with other JR Companies

## 2. Enhancement of the Value of our Railway Belts in Kyoto-Osaka-Kobe Area

We will make the most of our railway network in Kyoto-Osaka-Kobe area to further enhance the convenience of access to the Osaka area and improve the qualities of our railway services. Simultaneously, we, in combination of our railway division and business development division and in collaboration with local communities, develop stations and their surrounding premises to enhance the value of our railway belts.

- Improvement of the qualities of our railway services placing priority on selected areas, based on the business environments along our railway lines
- Enhancement of the amenity, convenience and functions of our stations
- Promotion of the project to develop the Osaka station and its periphery
- Expansion of sales of goods and food services and real estate business centered on our major stations
- Promotion of development of the premises surrounding our stations and the premises between our stations

## 3. Changes of Systems for Operating Processes and Management

To enjoy sustainable growth in the future in the advent of a full-fledged depopulating society, we will continuously change the systems for operating processes and management that may allow us to seize any profit-making opportunity to the fullest extent and also make our organization more autonomous and flexible.

In addition, we will extensively encourage inventiveness in the front lines of the field and also focus our efforts on technological development activities to renovate our railway systems.

- Building of a system to allow the field, branches and head office to play their respective proactive rolls while strengthening collaboration with each other
- Enhancement of the convenience and the building of an efficient sales system by utilizing state-of-art technologies in the fields of information and telecommunications

- Promotion of mechanization and laborsaving in full coordination with our group companies
- Promotion of technological development activities to renovate our railway systems
- Promotion of continuous and systematic operational improvements through small group movements and other activities

### **Building of Management Vision from a Long-Term Perspective**

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From a long-term perspective in ten to fifteen years in the future, we will address important strategic issues of management and work for the early realization thereof. We will intensively promote technological development during the period of the Plan, necessary for the realization thereof.

#### 1. Renovation of our Railway Systems

In consideration of changes in the social situations surrounding the railway operations, including future transportation demand, technologies and labor conditions, we are required to build a new railway system and promote modal shift to achieve sustainable growth on a long-term basis. We will make a study on technological renovations to enable us to do so.

- Building of new railway systems with higher safety, reliability and functionality, greater comfort and lower cost, including a new safety system utilizing GPSs and more intelligent railcars
- Strengthening and expansion of technological fields, including capital tie-ups
- Enhancement of safety, convenience and operational efficiencies by building an information network by use of state-of-art technologies
- Enhancement of the environmental performance and energy efficiencies of our railway

#### 2. Efforts in our Local Railway Lines

We recognize the resolution of the issues concerning our local railway lines as one of

the important management issues. As a company existing in harmony with local communities, and in consideration of the situation in which emphasis is placed on the revitalization of regional public transportation, we will consider the resolution of the issues in collaboration with local authorities.

- Stimulation of demand for tourism using our local railway lines along with our Shinkansen Line and conventional limited express trains
- Downsizing of the facilities, equipment and systems of our local railway lines
- Introduction of railcars with higher environmental performance and energy efficiencies
- Provision of transportation services most suitable to local communities (change of transportation modes to buses, dual mode vehicles (DMVs), etc.)

### 3. Planning and Implementation of New Projects with Growth Potential

During the period of the Plan, we will have materialized the enhancement of our transportation services, including the transportation capacity of the Shinkansen Line, and the Osaka station development project. In this situation, to facilitate our sustained growth in the future, we will consider the planning of new projects with growth potential, including the acquisition of outside management resources, in addition to our continued efforts to further reinforce the basis of our existing businesses.

- Further strengthening of our Shinkansen Line (including steady preparations for the opening of the Hokuriku Shinkansen Line to Kanazawa)
- Expansion and qualitative enhancement of measures to increase the value of our railway belts
- Expansion of our business to new areas, including accumulation and strengthening of railway maintenance technologies

### **Financial Strategy and Capital Policy to Enhance Corporate Value**

As a result of the reduction of long-term debt and payables so far, our financial position has become sounder and healthier. We will give greater importance to the strengthening and expansion of our business base by increasing capital expenditure for

safety and for future growth to enhance our corporate value. In addition, in consideration of our current shareholders' equity and long-term debt and payables, we consider it important to maintain and improve capital efficiency and increase return to our shareholders, aiming to achieve 3% of consolidated DOE (dividend on equity) for the fiscal year ending March 31, 2013 on condition that our projects will yield results. Furthermore, to allow management to implement capital policies with agility, we will acquire our own shares flexibly in consideration of our cash flow conditions.

## **Management Indices**

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Among the management indices for the fiscal year ending March 31, 2013, consolidated operating revenues, consolidated EBITDA (earning before interest, taxes, depreciation and amortization), consolidated ROA (return on assets) and consolidated ROE (return on equity) are projected as follows:

Consolidated operating revenues	¥1,430 billion
Consolidated EBITDA*	¥345 billion
* EBITDA = operating income + depreciation expenses	
Consolidated ROA	7%
Consolidated ROE	10%

The total capital expenditures for the fiscal year ending March 31, 2009 to the fiscal year ending March 31, 2013, principally for safety-related capital expenditure, are projected as follows:

Consolidated:	¥980 billion
Non-consolidated:	¥780 billion
(safety-related capital expenditure:	¥430 billion)

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- ◆ Please take notice that these forward-looking statements of operating results in the future are made as of the date hereof and may differ materially from the actual results due to changes in the business environment and other factors.