

Increasing Efforts to Strengthen Position as Leading Transportation Provider in Hokkaido

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Introduction

JR Hokkaido celebrated the 20th anniversary of its establishment on 1 April this year. However, things have been far from plain sailing over this time, which includes Japan's *Lost Decade*, caused by the collapse of the bubble economy in 1991. Hokkaido has not been isolated from these events and, in particular, the bankruptcy of Hokkaido Takushoku Bank, one of the prefecture's main financial institutions, almost devastated the local economy. JR Hokkaido has also faced many difficulties from changes in the operating environment. We look back with deep emotion to think that it has been 20 years since JR Hokkaido was established.

When Japanese National Railways (JNR) was privatized, it was thought that JR Hokkaido would have the toughest time of the seven JR companies established. Conditions in Hokkaido are ill suited to railway operations. In addition to the sparse population density and vast size of the prefecture, more and more of Hokkaido's population and commercial functions are being concentrated in Sapporo. Despite such a testing operating environment, JR Hokkaido celebrated its 20th anniversary this spring and has posted ordinary income every year for the last decade or so.

Main Initiatives in Last 20 Years

Safety and technology transfer

JR Hokkaido, which is a major transport provider in Hokkaido, has taken a range of initiatives based on the principle of putting the customer first at all times with a firm focus on maintaining safety. As a company providing transportation, we must put safety before everything else, so customers can ride our trains with full peace of mind. Notwithstanding this emphasis, a number of serious accidents have occurred on JR Hokkaido lines. In February 1994, high winds derailed and overturned a limited express travelling on the Sekisho Line, injuring 25 passengers. In March 2007, a local train on the Sekihoku Line carrying many high-school students collided with a large trailer at a level crossing, injuring some 50 passengers and seriously injuring the train driver. JR Hokkaido follows a safety code referred to as 'the safety bible' from the JNR era. In October 2006, the company created safety control regulations based on this code as mandated by revisions to the Railway Operation Law. The company has made concerted efforts to implement a broad range of measures to ensure safe operations. We have implemented a code of conduct for employees,

provided guidance to staff, and improved safety equipment, with the head office, branch offices, and rail staff working in unison to achieve the goal. Going forward, we must continue to work tirelessly in this quest.

There is always danger associated with work on or near railway tracks and in April 2005, a track maintenance worker was tragically killed after being hit by a limited express train in a station. It is paramount to take action to prevent



Tunnel portal of Seikan Tunnel heralding new age for Hokkaido

such work accidents by training workers with as much background experience as possible about safety issues and enhance their ability to foresee danger. As a result, in August 2006, we started a companywide initiative called *hiyari hatto* (near miss) to stamp out the causes of accidents by nipping them in the bud.

Railway operations are supported by technical abilities and know-how in a range of fields, including traffic, safety and ticket sales systems, accumulated and handed down over many years. Because the baby-boom generation born just after World War II is about to retire, we are actively holding training and guidance sessions to ensure that veterans' technical know-how is passed on to newer employees.

Looking back at 20-year history of railway operations

In railway operations, JR Hokkaido has continued striving to steadily expand services and enhance customer convenience, based on the safety and technology transfer measures outlined above. In intercity services, we carried out work to increase operation speeds between Sapporo and Nayoro via Asahikawa, Hakodate, and Kushiro. In urban rail transport in the Sapporo metropolitan area, we began passenger services to New Chitose Airport and double-tracked and elevated the Gakuen-Toshi Line. In local train services, we streamlined operations based on passenger usage to enhance efficiency, for example by removing the conductors from local trains, and closing the Shinmei Line in 1995 and running substitute bus services instead. We have also worked in conjunction

with local communities to develop tourism, chiefly through operation of *norokko* (slow sightseeing train) and steam locomotive services.

Looking back, one major event in JR Hokkaido history was the opening of the Seikan Tunnel in March 1988. With the tunnel finally linking Honshu and Hokkaido, *Hokutosei* limited express sleeper services were started between Ueno and Sapporo. The Seikan Tunnel heralded a new era for Hokkaido because it heightened expectations for the Hokkaido Shinkansen. In November 1988, work was completed to elevate tracks at Sapporo Station so that roads and lines are grade separated, and a new commercial facility called Paseo opened under the elevated tracks in July 1989. This marked the start of planning of an integrated development project around the south exit of Sapporo Station near the site of the former railway lines.

The closure of some local branch lines with introduction of replacement bus services started in 1980 as part of JNR's financial reconstruction measures. JR Hokkaido continued some of this work, closing lines targeted for abolition a few years later. As a result, the 4000 km of lines in JR Hokkaido's network immediately after the JNR privatization has now been reduced to 2500 km. The policy of closing the Shinmei Line and running replacement bus services was put forward in 1994 after it had been left out of the first lines scheduled for closure because a parallel road had not been completed at the time. Following negotiations with local authorities, the line closed and replacement bus services started in September 1995, representing a landmark in JR Hokkaido history.



Super White Arrow limited express introduced to cut travel times between Sapporo and Asahikawa



Rapid *Airport* service to New Chitose Airport became model for other ARLs

JR Hokkaido started rapid *Airport* passenger services at 15-minute intervals between Sapporo Station and New Chitose Airport in July 1992 following relocation of the airport. Finances for construction of an underground railway station under the new airport building and an access tunnel were allocated by the national government from the special budget for airport improvement. This airport-railway link (ARL) service is actually JR Hokkaido's most profitable and elements were subsequently incorporated in similar projects at other airports around Japan. The interior design of New Chitose Airport Station was performed jointly with a design team from Danish State Railways (DSB) as a result of a twinning agreement in October 1990. The design received such acclaim that the Danish team was also involved in the interior design for Series 261 limited express cars, as well as design of the new station buildings at Otaru-Chikko and Hakodate stations.

Expansion of development and related operations and management

JR Hokkaido's development and related operations acquired from JNR chiefly comprised management of station buildings, various passenger services in stations and operation of directly managed shops. Subsequently, JR Hokkaido actively began development in other fields, such as property, leisure pursuits, hotels, and distribution, with the aim of diversifying operations around the central pivot of its railway business. Directly managed operations



Super Hokuto limited express started service between Sapporo and Hakodate in March 1994

started being spun off as separate companies from FY1990 to facilitate responsive decision making and clarify management responsibility. We have tried to develop these operations as part of the JR Hokkaido group with the focus on spun-off companies and related corporations acquired from JNR.

In FY2002, in response to the transition to emphasizing consolidated management of corporate groups, JR Hokkaido formulated a medium-term group management plan entitled Scrum Challenge 21 and began full-scale group management. This plan also defined our corporate philosophy and management vision, stipulating 'travel' and 'life' as our business areas. The JR Hokkaido group launched Scrum Challenge 2006 in FY2005 to put a system in place for fulfilling our corporate social responsibility (CSR) in various ways. To achieve this aim, we have clarified CSR objectives and formulated the JR Hokkaido Group Corporate Action Guidelines.

One noteworthy achievement in the course of developing diversified operations over 20 years was the March 2003 opening of the JR Tower in Sapporo Station, the gateway to Hokkaido. This multi-purpose commercial facility featuring a department store, hotel, shops, restaurants, offices and cinema complex has been highly commended, especially by Sapporo residents, and has created a big change in people flows near Sapporo Station. JR Tower will remain a central focus of related operations for JR Hokkaido. As well as substantially enhancing group profitability, it has generated a range of synergies, for example, serving to increase rail and bus traffic volumes in metropolitan Sapporo.

Operating Results for Last 20 Years

Revenue from railway operations, the main income source for JR Hokkaido, peaked at ¥80 billion in FY1996 and then continued falling due to the stagnant Hokkaido economy and intensified competition with other transport modes, despite measures to boost revenue. Although railway revenue has not fallen since FY2004, there has been no recovery. The annual operating loss totalling ¥53.8 billion at the company establishment has been cut by almost 50% in the intervening 20 years thanks to aggressive efforts to cut costs and enhance efficiency, but always with safety as the highest priority. The number of employees decreased from about 13,000 in 1987 to about 8000 in April 2007 as a result of streamlining measures taken in cooperation with the labour unions. This downsizing substantially enhanced the productivity of railway operations.

Income from the Management Stabilization Fund to compensate for operation losses, totalled ¥49.8 billion in FY1987. Despite measures to prop up investments, continuing low interest rates over the long term have reduced the income by about ¥20 billion over the past 20 years, offsetting improvements in operation losses. Nevertheless, thanks to special government measures in relation to fixed assets tax for the past 20 years, JR Hokkaido has remained in the black since FY1998, posting ordinary income every year.

The 2-year Scrum Challenge 2006 plan ended in March 2007 and we expect to easily hit our targets of ¥166 billion in consolidated operating revenue and ¥7 billion in consolidated ordinary income, serving to solidify the group's operational base.



JR Tower focal point of related development business operations

Future Outlook

JR Hokkaido will probably continue to face a tough operating environment. Demand for rail transport in Hokkaido is not expected to increase due to the prefecture's declining population, increasing concentration of people and commercial functions in Sapporo, and intensifying competition with other transport modes. In addition, investment income from the Management Stabilization Fund is expected to decrease further. That said, special measures related to the fixed assets tax, etc., will remain in place until 2012. Therefore, we shall embark upon a new medium-term group management plan covering the 5-year period from FY2007 based on this new framework. We will try even harder to bolster the group operating base and corporate structure and thereby generate profits to permit payment of dividends. The objective is full privatization by IPO and listing on the stock exchange.

In concrete terms, the JR Hokkaido group aims to offer customers peace of mind, satisfaction, and excitement in all its businesses. We will continue to forge ahead with different initiatives while improving customer satisfaction and steadfastly adhering to our commitment to safety. The group will also pay due attention to compliance and risk management issues and strive to fulfill its CSR.

Plans call for a range of measures in railway operations. In intercity services, we will reduce journey times by replacing aging rolling stock with new models and enhancing car parking for passengers. In urban rail services in metropolitan Sapporo, we will enhance the competitiveness by initiatives such as improving customer convenience through introduction of IC cards. We will also work to increase demand by actively tapping new markets, such as travel for tourists visiting Japan and the retiring baby-boom generation. Further reductions in passenger numbers are forecast for local train services and the group is investigating a radical system overhaul, such as using the Dual-Mode Vehicle (DMV) that can run on both railways and roads on routes with less than 500 passengers per day.

In development and related operations, while there are no current projects of the same magnitude as the JR Tower, we will continue working to put the group's assets near Sapporo Station and in other locations to more effective and more advanced use. We will also forge ahead with plans to redevelop areas around other major railway stations in Hokkaido, including Asahikawa, Iwamizawa and Higashi-Muroran.

Construction of the Hokkaido Shinkansen began in May 2005. The group is cooperating with the Japan Railway Construction, Transport and Technology Agency performing the work. We will proceed with infrastructure and logistical preparations needed for the scheduled opening in FY2015, including travel from Shin-Hakodate

Station on regular lines to Sapporo and Hakodate. Furthermore, we will continue to work hand in hand with local authorities and business groups so that the opening of the Hokkaido Shinkansen as far as Shin-Hakodate and subsequent extension to Sapporo are achieved as soon as possible.



Dual-Mode Vehicle for revitalizing local lines

Conclusion

While there will be no letup in our challenging operating environment, JR Hokkaido will redouble its efforts to make a fresh start from the 20th anniversary of the company's establishment. We will implement the measures outlined above in cooperation with the labour unions to fulfill our CSR, gain customers' trust, and become the corporate group of choice in the areas where we operate.

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JR Hokkaido Chronology

1987

- 1 Jul — Opened Gensei-Kaen Station on Senmo Line
Started travel agency business in Japan
- 13 Jul — Closed Horonai Line between Iwamizawa and Ikushunbetsu and between Mikasa and Horonai with start of replacement bus services

1988

- 1 Feb — Closed Matsumae Line between Matsumae and Kikonai with start of replacement bus services
- 13 Mar — Opened Seikan Tunnel and Kaikyo Line (Kikonai to Nakaoguni)
- 25 Apr — Closed Utashinai Line with start of replacement bus services
- 29 Apr — Started C62-3 steam locomotive operation between Otaru and Kutchan
- 23 Jul — Opened Kushiro Shitsugen Station on Senmo Line
- 3 Nov — Completed grade separation on Hakodate Line between Naebo and Kotoni and on Sassho Line between Soen and Hachiken
Introduced Series 721 trains, and Series 400 and 130 railcars

1989

- 10 Feb — Announced Twinkle brand tours in Japan
- 30 Apr — Closed Shibecha Line between Shibecha and Nemuro-Shibetsu and between Nakashibetsu and Attoko with start of replacement bus services
- 1 May — Closed Tenpoku Line between Otoineppu and Minami-Wakkanai and Nayoro Line closed between Nayoro and Engaru, and between Nakayubetsu and Yubetsu with start of replacement bus services
- 4 Jun — Transferred Chihoku Line (Ikeda to Kitami) to third-sector operator

1990

- 1 Jul — Opened Sapporo Beer Teien Station on Chitose Line
Opened Shiriuchi Station on Kaikyo Line
- 1 Sep — Started *Super White Arrow* limited express operation between Sapporo and Asahikawa at max. speed of 130 km/h
Started *Tokachi* limited express operation
- 16 Oct — Signed Twinning agreement with Danish State Railways

1991

- 16 Mar — Started *Hatsukari* limited express operation at max. speed of 140 km/h
- 1 Jul — Opened general travel agency business
Selected Twinkle World as brand name for overseas travel

1992

- 19 Mar — Held *Nonbiri Yuttari* ('Relaxed and Laid Back') Japan Bus Tour to commemorate 5th anniversary of JR Hokkaido establishment
- 1 Apr — Issued Twinkle Club JR Hokkaido card
- 1 Jul — Opened new line between Minami-Chitose and New Chitose Airport
Opened New Chitose Airport Station
Introduced PRC and PGC on Chitose Line and Muroran Line
- 1 Oct — Completed grade separation in Kitami

1993

- 15 Jan — Kushiro-oki Earthquake struck
- 12 Jul — Hokkaido Nansei-oki Earthquake struck
- 27 Sep — Opened JR Hokkaido *Shiki Saikan* in new terminal at Tokyo International Airport (Haneda)

1994

- 1 Mar — Started *Super Hokuto* limited express operation
- 16 May — Closed Kami-Sunagawa Branch Line of Hakodate Line
- 1 Jun — Launched Furano and Biei Campaign
- 4 Oct — Hokkaido Toho-oki Earthquake struck

1995

- 16 Mar — Opened Hoshimi Station on Hakodate Line
Completed double-tracking of Gakuen-Toshi Line between Taihei and Shinoro
Started telephone centre in Sapporo Station
- 1 Apr — Launched *Ichinichi Sampo* 1-day tickets
- 16 Apr — Held *Paris Collection in Sapporo* event at Naebo Works
- 4 Sep — Closed Shinmei Line from Fukagawa to Nayoro with start of replacement bus services
- 3 Nov — Suspended C62-3 steam locomotive services
- 28 Nov — Completed new JR Hokkaido Headquarters building
- 1 Dec — Launched Hakodate Campaign

1996

- 10 Jan — Revised train fares
- 1 Apr — Launched Tohoku Campaign and *Take the J Train Campaign*
- 23 Jun — Completed grade separation of Gakuen-Toshi Line at Shinkawa
- 1 Sep — Launched Tokachi campaign
Opened Midorigaoka Station on Furano Line
- 24 Nov — Completed grade separation of Nemuro Line at Obihiro
Started park and ride schemes at Kushiro and Obihiro stations
- 24 Dec — Started Series 731 EMU commuter trains operation in metropolitan Sapporo

1997

- 1 Mar — Opened JR Hokkaido website
- 22 Mar — Started *Super Ozora* limited express with Twinkle Lady attendants
Introduced Series 201 railcars in metropolitan Sapporo

- 1 Apr — Launched campaign to commemorate 10th anniversary of establishment of JR Hokkaido

- 1 May — Launched Kushiro Campaign
- 1 Oct — Opened new station building at Muroran Station

1998

- 25 Feb — Introduced PRC on Hakodate Line between Otaru and Asahikawa and on Soya Line between Asahikawa and Nagayama
- 1 Mar — Started *Doraemon Undersea Express* operation
- 1 Jul — Started *Norokko* trains (slow sightseeing trains) service
- 10 Jul — Opened All Japan Mine Train Conference in Kushiro
- 21 Nov — Introduced automatic ticket gates at Sapporo and New Chitose Airport stations

1999

- 26 Feb — Completed new station building on bridge over platforms at Otaru-Chikko Station on Hakodate Line
- 1 May — Started *Suzuran* steam locomotive service
- 11 Jun — Started *Poppoya* and *Furano/Biei* norokko service
- 16 Jul — Started *Cassiopeia* limited express sleeper service
- 1 Oct — Opened *APIA* shopping mall under south exit of Sapporo Station

2000

- 8 Jan — Started *Fuyu no Shitsugen* (Winter Marsh) steam locomotive train service
- 11 Mar — Started *Super Soya* limited express service
Opened double-tracked, grade-separated Gakuen-Toshi Line
- 7 Oct — Started *Niseko* steam locomotive service
- 25 Dec — Introduced reserved *U seats* on Series 721 rapid *Airport* trains

2001

- 21 Jan — Held Hokkaido Steam Locomotive Conference at Kawayu Onsen
- 2 Apr — Started train service information service for i-mode mobile phones
- 28 Apr — Started *Hakodate/Onuma* steam locomotive runs on Hakodate Line between Hakodate and Mori
- 16 Jun — Held Fourth All Japan Steam Locomotive Conference
- 7 Jul — *Nemuro* steam locomotive ran between Kushiro and Nemuro on Nemuro Line
- 20 Jul — *Shiranuka* steam locomotive ran between Kushiro and Shiranuka on Nemuro Line

2002

- 5 Feb — Opened new station building at Bibai Station on Hakodate Line
- 16 Mar — Started direct *Super White Arrow* services from Asahikawa to New Chitose Airport via Sapporo
- 1 Apr — Started Scrum Challenge 21
- 27 Apr — Opened Nagareyama Onsen hot spring complex at Nagareyama Onsen Station on Hakodate Line
- 25 May — Completed new station building on bridge over platforms at Teine Station and free passage opened
- 1 Dec — Started *Super Hakucho* and *Hakucho* limited express trains service

2003

- 6 Mar — Opened JR Tower
- 31 May — Opened JR Tower Hotel Nikko Sapporo
- 21 Jun — Opened new Hakodate Station building
- 19 Jul — Started Series 781 *Doraemon Undersea* express train service
- 1 Aug — Started internet seat reservation service
- 26 Sep — 2003 Tokachi-oki Earthquake struck
- 29 Oct — Opened Gokurakuyu hot spring at Yayoi in Sapporo

2004

- 15 Jan — Started special reserved seat booking hotline
- 28 Jan — Announced Dual-Mode Vehicle (DMV)
- 15 Mar — Established Ecology Committee and Financial Information Centre
- 28 Jun — Started DMV long-term running tests on Gakuen-Toshi Line
- 13 Dec — Started DMV winter running-tests on Hidaka Line

2005

- 11 Mar — Established Public Relations Office
- 1 Apr — Started Scrum Challenge 2006
- 1 Jun — Opened Visitors Information Desks
- 9 Sep — Completed addition of windbreak fences on Nemuro Line
- 1 Oct — Merged four commercial subsidiaries around Sapporo Station
- 10 Dec — Opened Genghis Khan BBQ restaurant in Kichijoji, Tokyo

2006

- 26 Jan — Started grade separation on Nemuro Line between Shin-Otanoshike and Shin-Fuji
- 8 Mar — Announced successful development of hybrid train body tilting system
- 18 Mar — Prohibited smoking on all limited express services in Hokkaido
- 1 Jun — Changed name of Technical Development Department to Technology Creation Department
Established DMV Promotion Centre
- 7 Jul — Started work on new multi-purpose Iwamizawa Station building on Hakodate Line
- 27 Aug — Closed *Doraemon Undersea* World at Yoshioka Kaitei Station
- 10 Sep — Stopped *Suzuran* steam locomotive services
- 30 Oct — Completed JR 55 Sapporo

*Based on JR Hokkaido Corporate Handbook and *Kotsu Shimbum*