

20 Years of Working for Brighter Shikoku Future

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Management Planning Department*

Introduction

JR Shikoku was founded in April 1987 with the objective of establishing efficient management of railways in Shikoku and becoming a community-based organization. Although the company is the smallest operator in the group of six JR passenger companies, as well as striving towards full privatization (one of the goals of the Japanese National Railways (JNR) reforms), we have also worked at becoming a vital part of our local community, which is a key aim of our management philosophy. Since our company is deeply rooted in the Shikoku region, we have tried to improve our railway services as the foundation of our business, promote regional tourism and businesses in coordination with local groups, and become more efficient by cutting costs. Despite this hard work, we are still not at a stage where continuous and stable revenue is assured, so we are only halfway to our goal of establishing a business basis for full privatization. However, we do feel that we have achieved a greater presence as a company in the last 20 years to become an integral part of Shikoku's community.



The Seto Ohashi Line opening in April 1988 helped increase transport volumes immediately after the company foundation.

JR Shikoku's Business Environment

Right from the start of the JNR division and privatization, critics predicted that JR Shikoku would immediately face a very tough business environment. Surprisingly, the Japanese economic boom in the late 1980s coupled with the opening of the Seto Ohashi Line in April 1988 helped produce a large increase in transport volumes, which in combination with improvements in transport services and focussed efforts on efficient operations, produced greatly increased operating profits. Unfortunately, the collapse of the 'bubble' economy and ensuing long-term recession had a profound negative effect on our business made worse by fierce competition from trucking companies after the opening of the Honshu-Shikoku bridges, and rapid development of express bus services on the new Shikoku expressway network.

Additionally, Shikoku has Japan's most rapidly aging population and falling birth rate, both of which seem likely to be irreversible future trends and raise serious concerns about the local economy losing its vitality. Such a downturn would have a great effect on JR Shikoku, because we are rooted in the local community.

Despite these difficulties, fares have only been raised once (January 1996) in the last 20 years although income and cost forecasts in 1987 suggested that fares would have to be increased annually for the first 5 years. Our ability to keep fares stable and competitive in the transport market is perhaps one of our most significant achievements.

Railway Business Trends

By establishing ourselves as a community-based company, we developed our railway business in tune with local characteristics and in cooperation with local governments and businesses. As such, we make a great contribution to the local community in both social and economic terms. At a November 1985 meeting of the Shikoku Regional Council of the Supervisory Committee for JNR Reconstruction, strong requests were made to strengthen the inadequate railway infrastructure but even today, the number of electrified and double-tracked lines in Shikoku is much lower than the national average. One

Figure 1 Railway Passenger and Railway Revenue Trends

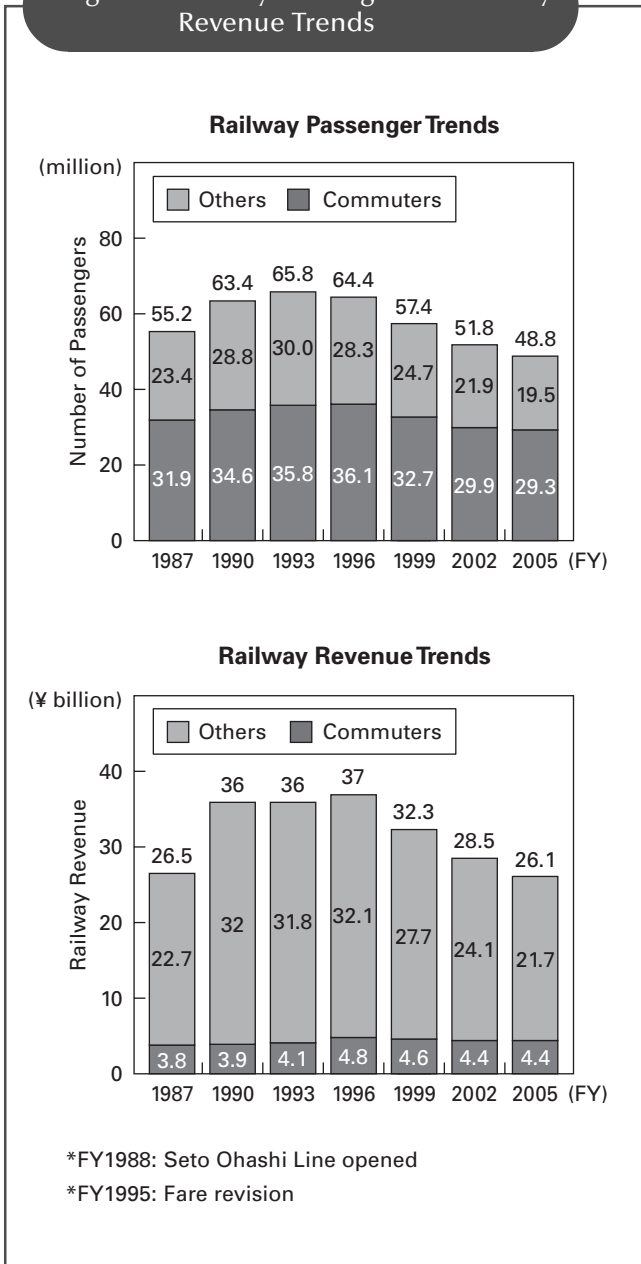
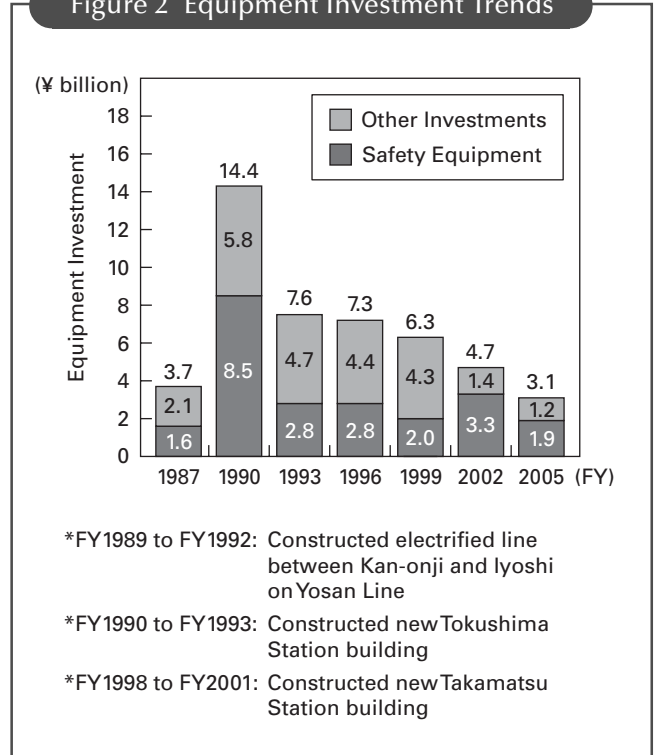


Figure 2 Equipment Investment Trends



The number of limited express services increased from 85 to 188 in 20 years.

reason explaining the long-term decline in our railway business is the fact that while our competitors have more or less completed development of their transport infrastructure, we have not yet built infrastructure able to fully compete with them.

Constructing safe operating systems

Safe operations have been our guiding principle from the first day. In terms of actual infrastructure, this means making continuing investment in equipment to assure safe and stable operations, regardless of total income in any particular fiscal year. We have also enhanced 'softer' structural and training-related measures, such as revising our Safety Code, to heighten safety awareness.

Timetabling for customers and boosting demand by investing in new trains

Our tracks in Shikoku are unique in Japan because they are almost all non-electrified; a small stretch was electrified just before privatization, but even most of the main tracks were single track and non-electrified and there were many sharp curves and steep grades. In this context, and in anticipation of future competition from expressways, our first goal was to shorten times between cities by running faster trains. As part of our drive to improve our infrastructure, we developed actively controlled tilting technology allowing Series 2000 limited express diesel railcars to run faster through curves, and invested in electrifying the Yosan Line.

The 26 March timetable revision was the 27th since our foundation and reflects the greatly increased number of daily services from 629 in 1987 to 1022 in 2006. The number of limited expresses has also been increased from 85 to 188, reaching 1 every hour on main lines. Recently, we have been working hard towards our goal of being our customers' preferred mode of transport by re-timetabling our limited express services to meet the needs of students and commuters.

Providing reassuring and comfortable space, and other services

JR Shikoku is helping provide customers with easy-to-use, barrier-free stations by installing elevators and escalators at elevated stations, wheelchair slopes, multi-purpose toilets, and platform tactile blocks for guiding people with impaired vision. Some of these improvements have been made possible by local-government grants.

From FY2005, we have been renovating stations to make them cleaner, brighter, more user-friendly and easier to navigate, and we were the first JR operator to introduce station numbering. As a customer safety measure, in July 2006, we installed Automated External Defibrillators

(AED) at all our stations.

In terms of structural and training-related measures, since October 2004, some staff have been acquiring 'care-fitter' qualifications—a non-official qualification that trains people to offer professional assistance to elderly or disabled people by helping them to walk or by operating their wheelchairs. In our business, this means helping customers move around stations and get on or off trains. We are expanding the number of these qualified staff at more of our stations.

Travel Business Expansion

To expand and develop non-railway business, we established an independent travel business with city-centre shops in Shikoku and branches in Tokyo and Osaka. Following this development, this travel business was reintegrated back into the railway business to assure more efficient management and increase revenues for the railway business. We are currently marketing the travel business to emphasize use of railways, and are developing travel services that fully exploit our advantages as a railway company. We are working hard to help customers rediscover the benefits of using rail to travel, restoring rail to its former glory.

Figure 3 Comparison of Journey Times Between Major Cities

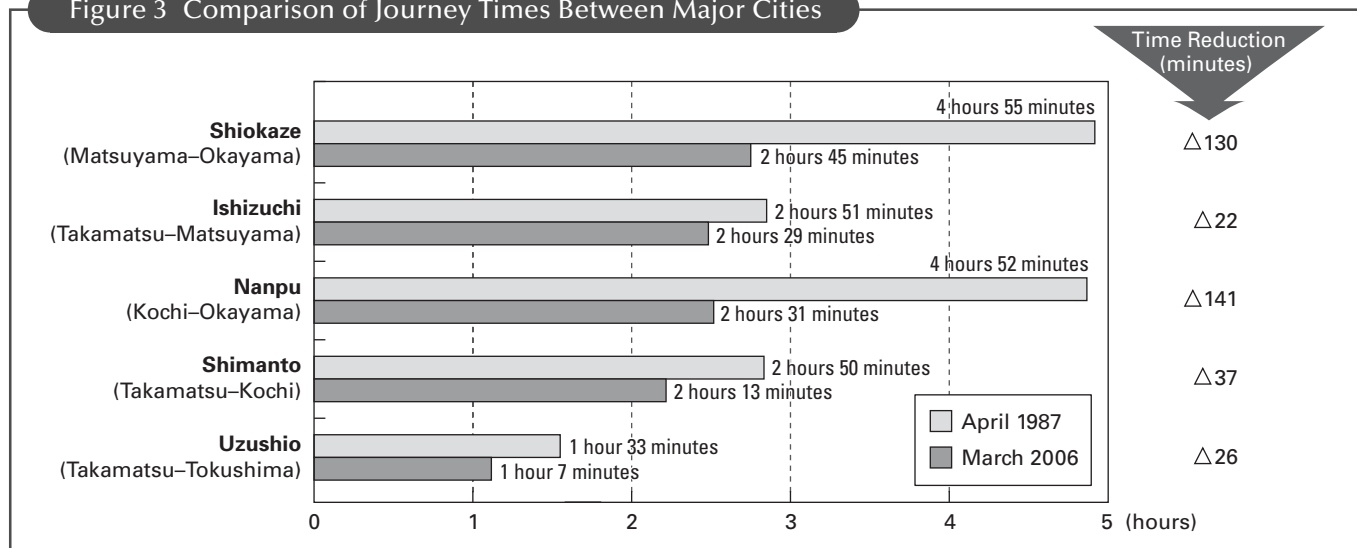


Table 1 Comparison of One-Man Operations

		FY2006	FY1987
Number of trains	Local trains	834	544
	One-man	297	0
	One-man ratio	35.6%	0.0%

		FY2006	FY1987
Train kilometers	Local trains	37,000	29,000
	One-man	12,000	0
	One-man ratio	32.0%	0.0%

Affiliated Businesses

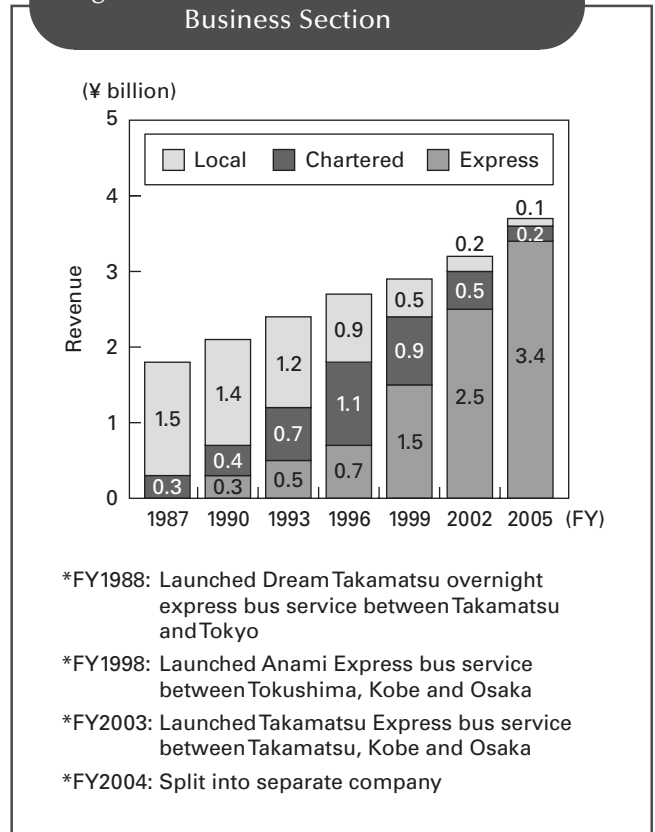
When JR Shikoku was founded, there were no large station complexes with commercial facilities or hotels in our area and nor were there any nearby businesses, such as shops, located under elevated tracks—our affiliated businesses were limited to food and retail shops within station buildings. We realized that if we wanted to strengthen our business foundation, we needed to strengthen our affiliated businesses. We actively developed directly managed shops in station buildings, established commercial facilities under elevated tracks as more tracks were elevated, and built large station complexes, such as Takashima Station, including hotels and other businesses. All in all, these developments have made a large contribution to revitalizing local communities. We have also started a new food business selling soup made from natural Shikoku ingredients, helping promote local farming.

Bus Business

We developed a bus business in anticipation of the new expressway network predicted to follow the opening of the Seto–Ohashi bridges in April 1988. In view of the huge expected impact on the transport system, we decided to establish a bus service to counter the trend of falling passengers and secure higher revenues. The bus system was managed with the railways as an alternative or supplement to trains. At first, we focussed on local bus lines and expanded the operation areas of our chartered bus business. Then we discontinued the local bus services due to falling passenger numbers and decided to move into the express bus business, which offered high profitability and new opportunities after the opening of the Honshu-Shikoku

bridges and the development of the new expressway network. In April 2004, we split the bus business into a separate company to enable faster decision-making and encourage further business expansion through more aggressive strategies and development of new and better services. This business has continued to thrive since becoming independent.

Figure 4 Revenue Trends for Each Bus Business Section



After transforming the bus business into an express bus business, it was split off to form a separate company in April 2004.

Overview of Group Companies

Uniquely among the JR group of companies, at our establishment we had no affiliated businesses, such as station building companies or companies developing commercial facilities under elevated tracks. The only asset in this area inherited from JNR was an investment company that we did not fully control. In the first stage of dividing the company, we separated the engineering facilities and electrical operations that were closely linked to the railway business from JR Shikoku. In the second stage, we spun off our advertising business and food and retail shops that had been managed directly by JR Shikoku.

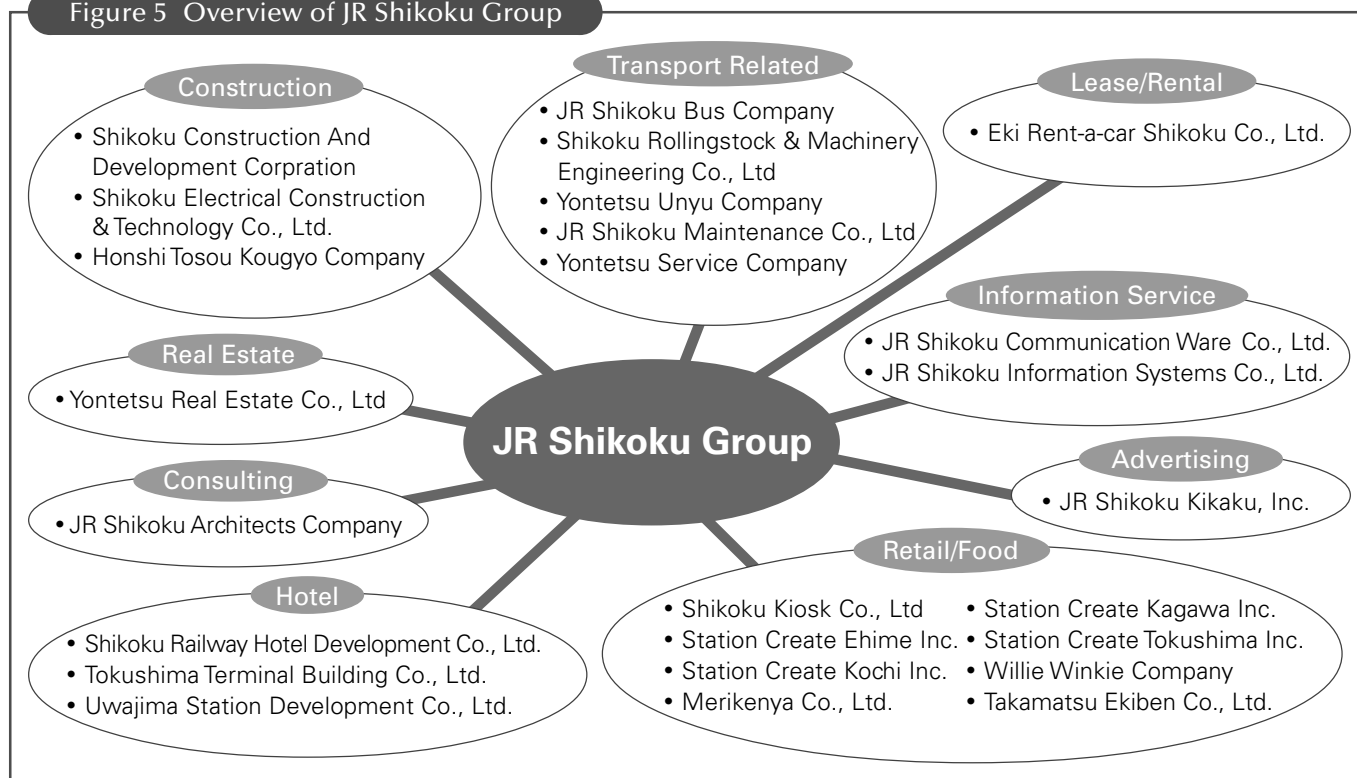
One by one, we started establishing affiliates matching our vision—developing station buildings to enhance station functionality; opening hotels as the focus of wider urban renewal projects; and operating shops in lucrative locations, such as under elevated tracks.

Simultaneously, we have been pursuing businesses in very different fields like starting production and sale of traditional Shikoku Sanuki *udon* noodles. We have also established a consulting company offering services on how to revitalize historical tourist sites and town centres. These companies have been instrumental in disseminating information about Shikoku and promoting its attractions.



ANA Hotel Clement Takamatsu—
main hotel in JR Shikoku group

Figure 5 Overview of JR Shikoku Group



Community Activities

The declining birth rate and aging population in Shikoku are raising concerns that the vitality of the region could disappear due to depopulation. Our response is to meet the challenges by deepening our association with local communities and demonstrating the appeal of Shikoku to the rest of Japan. In April 1993, JR Shikoku and the four prefectural governments established the Shikoku Tourism Promotion Association to share data on tourism policies and information likely to attract people from other regions.

In recent years we have also supported community-based sports, such as the Shikoku Island League for baseball and the J2 League for soccer, both to engender enthusiasm in the community and raise Shikoku's profile.

Future Issues

Our future business environment will continue to be fiercely competitive—challenges include reduced transport demand due to the declining population, which is hitting Shikoku earlier than the rest of Japan; increased car use after expressways are upgraded to four lanes; and expansion of express bus routes. In such a tough business environment, we believe that we must address the following issues.

Securing transport demand

Although our patient efforts over the last few years have delivered some positive results, such as steady growth in commuter journeys and transport between Shikoku and Honshu, conversely we have seen a continuing drop in overall transport volumes on the island. As a countermeasure, we will continue to promote transport areas with growth potential, and will do our utmost to stimulate demand through tourist promotions and by transmitting information about Shikoku, so that everyone in Japan as well as local people knows about the appeal of this wonderful region.

Investing effectively

In terms of infrastructure, our first priority has been to invest in equipment for safe and stable train operations while taking into account the fact that large-scale retirement of employees has led to a fall in revenues and fewer investment funds. As such, we have been taking a systematic approach to investment, by reviewing the amount of equipment actually needed, slimming down equipment by using new technology, and by carefully selecting investment measures that will lead to higher revenues and greater efficiency.

In the future, we expect large investments will be needed for upgrading limited express trains, making safety investments to comply with revisions to ministerial orders regarding technical standards, and making investments

to respond to the rising demand from customers for use of information technology. We must find ways of securing funding for these investments.

Using special government measures

The special government measures that we benefit from (special tax system and Management Stabilisation Fund) have been extended from FY2007 for another 5 years. The special tax measure is time-limited and will have a major impact on our company when it stops. Revenues from Management Stabilisation Fund investments are also forecast to decline in the future, and if the current low interest rate continues, the endowment may not produce the expected earnings.

Dealing with under-used local lines

There has been a marked drop in passengers on under-used local lines due to the shrinking population and growth in bus transport. This has created difficult issues in terms of how to invest effectively, because it would take many years of revenue to replace aging infrastructure on some lines. It would also be very difficult for these lines to recover if hit by a natural disaster, such as a typhoon or heavy flooding.

Conclusion

The last 20 years have not been an easy journey for JR Shikoku and the years ahead are unlikely to be so too. However, we do believe that we have cultivated a relationship of trust with our customers by building a reliable company based on safe and stable transport. We must develop this relationship further in order to be recognized by everyone on Shikoku as being an integral part of the local community.

We are determined to continue making efforts to increase transport volumes on Shikoku as part of our affiliated group by revitalizing the region and promoting tourism to become an even more trusted member of the community and achieve our goal of 'Working for a Brighter Shikoku Future.'

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JR Shikoku Chronology

1987

- 1 Jul — Started domestic travel business
- 2 Oct — Opened electrified section between Sakaide and Tadotsu on Yosan Line
Opened new station building at Utazu Station on Yosan Line
- 29 Oct — Established Management Philosophy and Code of Conduct
- 30 Nov — Selected Seto Ohashi Line as name for line between Okayama and Takamatsu
- 11 Dec — Selected *Shiokaze*, *Nanpu* and *Uzushio* as names for direct limited express trains to Okayama

1988

- 1 Mar — Opened elevated track at Marugame Station on Yosan Line
- 1 Apr — Transferred control of Nakamura Line between Kubokawa and Nakamura to Tosa Kuroshio Railway
- 10 Apr — Opened Seto Ohashi Line, discontinued Uko ferry service, and started one-man train operations
Started first express Seto Ohashi Express Bus (between Takamatsu and Kurashiki)

1989

- 20 Feb — Started using 'Warp' as travel brand name
- 11 Mar — Introduced Series 2000 DMU Tilting Limited Express on Dosan Line
- 1 Aug — Started *Moonlight Kochi* overnight rapid-service train
- 14 Oct — Started overnight express bus service between Takamatsu and Tokyo

1990

- 10 Mar — Introduced Series 1000 DMU trains in Tokushima region
- 30 Oct — Opened elevated track at Imabari Station on Yosan Line
- 3 Nov — Opened Bunkanomori Station on Mugi Line between Nikenya and Jizobashi
- 21 Nov — Opened electrified line between Iyo-hojo and Iyoshi on Yosan Line
Introduced Series 7000 trains
- 14 Dec — Started overnight express bus service between Takamatsu and Nagoya

1991

- 16 Mar — Opened Oura Station between Asanami and Iyo-hojo on Yosan Line
- 1 Jul — Started 'Warp World' foreign travel service
- 1 Nov — Started redesign of station name signs
- 21 Nov — Completed introduction of automated signals and CTC (Centralized Traffic Control) on all lines

1992

- 14 Mar — Introduced Series 1000 DMU trains in Kochi region
- 26 Mar — Started service between Kaifu and Kannoura on Asakaigan Railway and started direct service linked to Mugi Line
- 2 Apr — Discontinued passenger car trains
Finished air-conditioning all trains
- 23 Jul — Opened electrified sections between Kan-onji and Niihama, and Imabari and Iyo-hojo on Yosan Line
- 15 Sep — Opened new station building at Tokushima Station
- 19 Sep — Introduced Series 8000 EMU tilting limited express on Yosan Line

1993

- 18 Mar — Opened fully electrified line between Takamatsu and Iyoshi on Yosan Line
- 24 Apr — Opened Clement Plaza in Tokushima Station building
- 2 Jul — Opened Hotel Clement Tokushima
- 20 Jul — Started selling *Kaiteki* ticket books
- 27 Jul — Opened elevated track at Sako Station on Kotoku Line
- 21 Sep — Completed double tracks between Takamatsu and Tadotsu on Yosan Line

1994

- 1 Jun — Established express and limited express fares for up to 25 km
- 17 Nov — Started selling limited express discount tickets
- 3 Dec — Made all local trains non-smoking

1995

- 5 Apr — Started Train Operation Information Service with toll-free telephone number

1996

- 10 Jan — Revised fares
- 16 Mar — Started *Tsurugisan* limited express service on Tokushima Line
- 26 Apr — Introduced Series 6000 trains
- 24 Nov — Retired *Sanukimaru* pleasure boat

1997

- 26 Feb — Opened elevated track at Sakaide Station on Yosan Line
- 1 May — Opened website
- 20 May — Started Programmed Traffic Control at New Operation Control Center
- 16 Jun — Opened new head office building
- 24 Jun — Started enrolling members for Young Weekend Card
- 27 Jul — Started using *Shimanto Green Line* as nickname for Yodo Line
- 28 Jul — Started *I Love Shimanto* limited express service
Introduced new *torokko* trains
- 1 Oct — Opened Sukumo Line on Tosa Kuroshio Railway
Started extended service for limited express trains
- 18 Nov — Celebrated 100,000,000 passengers on Seto Ohashi Line

1998

- 14 Mar — Introduced Series N2000 *Uzushio* on Kotoku Line
Opened Orange Town Station between Shido and Zoda on Kotoku Line
- 1 Apr — Started park-and-ride service *Kuruma de Train*
- 2 Apr — Opened new station building at Uwajima Station
- 5 Apr — Started *Ai* occasional limited express service
- 6 Apr — Started *Awa Express* bus service
- 10 Apr — Celebrated 10th anniversary of opening of Seto-Ohashi bridges
- 17 Apr — Opened station building on bridge at Shido Station on Kotoku Line
- 10 Jun — Opened Hotel Clement Uwajima
- 11 Jul — Started *Sunrise Seto* sleeper limited express
- 24 Sep — Suffered Dosan Line flood disaster
- 10 Oct — Started sales at Orange Town housing development

1999

- 13 Mar — Started *Muroto* limited express service on Mugi Line
- 1 Jun — Made main 49 stations all non-smoking
- 1 Sep — Started *Island Express Shikoku 2* service

2000

- 1 Apr — Launched *Yume Shikoku* Internet shopping site
- 1 Jul — Started using *Yoshinokawa Blue Line* as nickname for Tokushima Line
- 14 Oct — Started *Anpanman Train* service on Dosan Line
- 21 Nov — Completed renovation of Matsuyama Station

2001

- 3 Mar — Started *Anpanman Train No. 2* service
- 25 Apr — Opened station building on bridge at Gomen Station on Dosan Line
- 13 May — Opened new station building at Takamatsu Station
- 24 May — Opened ANA Hotel Clement Takamatsu
- 30 Jul — Held Shikoku Canadian Global Camp event
- 1 Oct — Started *Anpanman Train* service on Yosan Line
- 19 Oct — Opened branch of Sanuki Udon Shokunin at JR Okayama Station

2002

- 1 Jan — Launched 'Eki Comi' website
- 23 Mar — Started *Rapid Sunport* service in Takamatsu City area
- 1 Jul — Opened Gomen-Nahari Line on Tosa Kuroshio Railway
- 2 Jul — Opened *Shimanto no Yado* eco-friendly hotel
- 25 Aug — Opened first Meriken-ya shop in Tokyo metropolitan area at JR East Ebisu Station
- 6 Oct — Started *Yuyu Anpanman Train* service

2003

- 15 Jan — Started selling special Hanshin Return Ticket Packages
- 8 Apr — Started testing free-gauge trains on Yosan Line
- 14 Jul — Celebrated 150,000,000 passengers on Seto Ohashi Line
- 1 Oct — Started new Series 500 *Marine Liner* service
Started enrolling members for Shikoku Enjoy Club
- 19 Nov — Opened station building on bridge at Anan Station on Mugi Line

2004

- 1 Apr — Established committees on ecology
- 1 Jun — Started selling *Shicook Soup Kukai*
- 13 Oct — Started renovated Series 800 train service
- 1 Nov — Assigned 'care-fitters' to 10 stations in 7 operational areas

2005

- 1 Feb — Started providing train service information on website
- 1 Mar — Introduced ladies seats on *Ishizuchi* limited express
Made all reserved seats on limited express trains non-smoking
- 17 Jul — Started *Shimanto Torokko* service
- 1 Oct — Introduced 'Anpanman Seats' on *Anpanman Trains* on Yosan Line

2006

- 1 Mar — Introduced station numbering
- 25 May — Introduced Series 1500 DMU trains in Tokushima region
- 6 Oct — Started *Anpanman Torokko* service

*Compiled by Kotsu Shimbunsha, based on company directory and *Kotsu Shimbun*