JNR Reform and Full Privatization

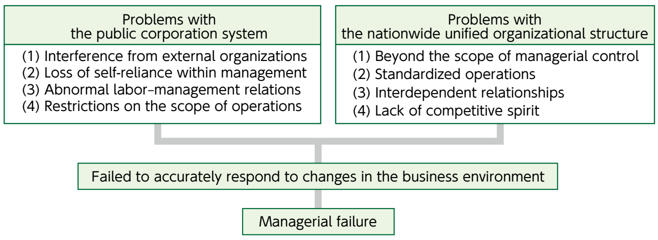
Overview of JNR Reform

■Failure of JNR's management

As the Japanese economy rapidly grew and motorization drastically progressed, the Japanese transportation infrastructure, mainly run by JNR at the time, changed dramatically. However, JNR failed to respond to this drastic change and to reform its management accordingly. For this reason, the company fell into the red for the first time in FY1965, and continued to record a deficit thereafter. In the first half of the 1980s, it was expected that, if the situation continued, sooner or later the company would encounter problems in terms of financing its operations, and there were concerns that the company might experience major difficulties in the management of its business, including its railway operations.

■Causes for the failure of JNR's management

The fundamental causes of managerial failure to cope with the rapidly changing transport structure in Japan were JNR's organizational structure as a public corporation and its management system that covered the entire nation.



■Objectives of JNR Reform (split and privatization of JNR)

Through the JNR Reform, JNR aimed to regenerate the railways by fundamentally reforming its management system itself so that it could fully fulfill its role and responsibility of providing an important means of transportation to meet the daily needs of the people.

■JNR Reform: Its methods and major contents

Changes in business forms

As shown in the next chart, JNR as a large nationwide unified public corporation was split up and privatized by area and by business type.

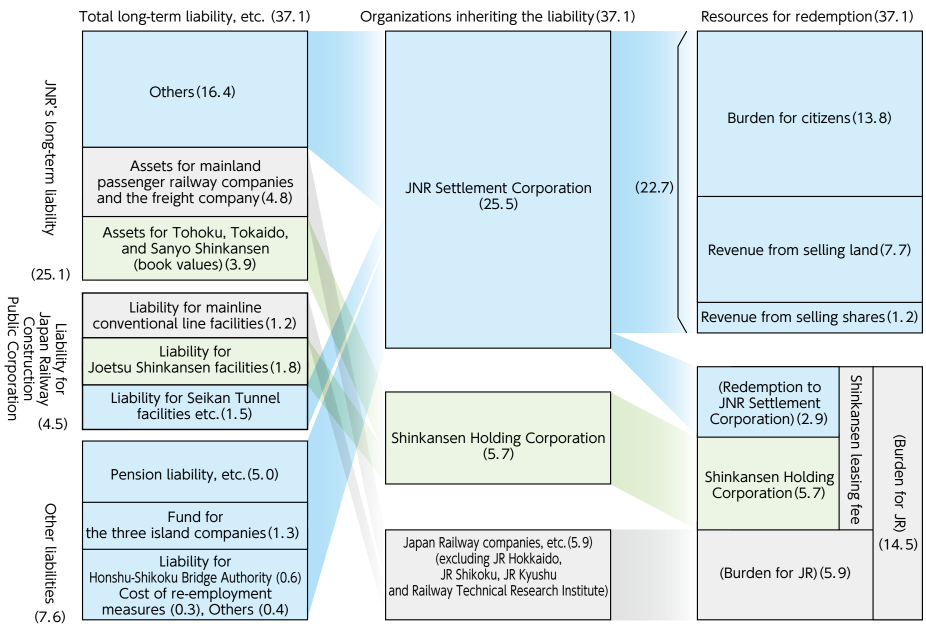
Relationship between JNR and new companies (Japan Railway companies, etc.)

- New companies were established as semi-governmental organizations with 100% capital from JNR and inherited both the designated assets and the liability of JNR. Then, JNR was transformed into the JNR Settlement Corporation (hereinafter called the Settlement Corporation).
- The new companies inherited the minimum assets required for business operations and a limited amount of debt, thereby allowing sustainable business management over the long term. Assets and liabilities, excluding those inherited by the new companies, were transferred to the Settlement Corporation. Assets transferred to the Settlement Corporation were sold one by one to reduce the liability passed to the Settlement Corporation.
- The new companies employed the number of staff required for railway operations plus about 20% extra from the lists prepared by JNR. Those who were not hired by the new companies were temporary employed by the Settlement Corporation for a limited time of 3 years and then recommended for re-employment at companies other than JR.
- As for the Shinkansen lines operated by JNR, due to differences in factors such as construction periods there were discrepancies between their book value and profitability. To correct the discrepancies, it was decided that the Shinkansen Holding Corporation would own Shinkansen railway facilities and that JR East, JR Central, and JR West would pay usage fees depending on their use of Shinkansen facilities. (In October 1991, JR East, JR Central, and JR West purchased Shinkansen facilities to improve the environment for the smooth and appropriate sale of JR shares.)
- For the unprofitable JR Hokkaido, JR Shikoku and JR Kyushu companies, a fund was established to stabilize their operations and it was decided that the operating losses of these companies would be compensated by investment profits from the fund.
- To ensures that the new companies would be self-reliant, the companies strived to sell all of their shares as early as possible to achieve full privatization. At the same time, supervision and regulation by the national government was gradually eased compared to that experienced by JNR and also by other semi-governmental corporations such as Nippon Telegraph and Telephone Corporation (NTT).

Long-term liability

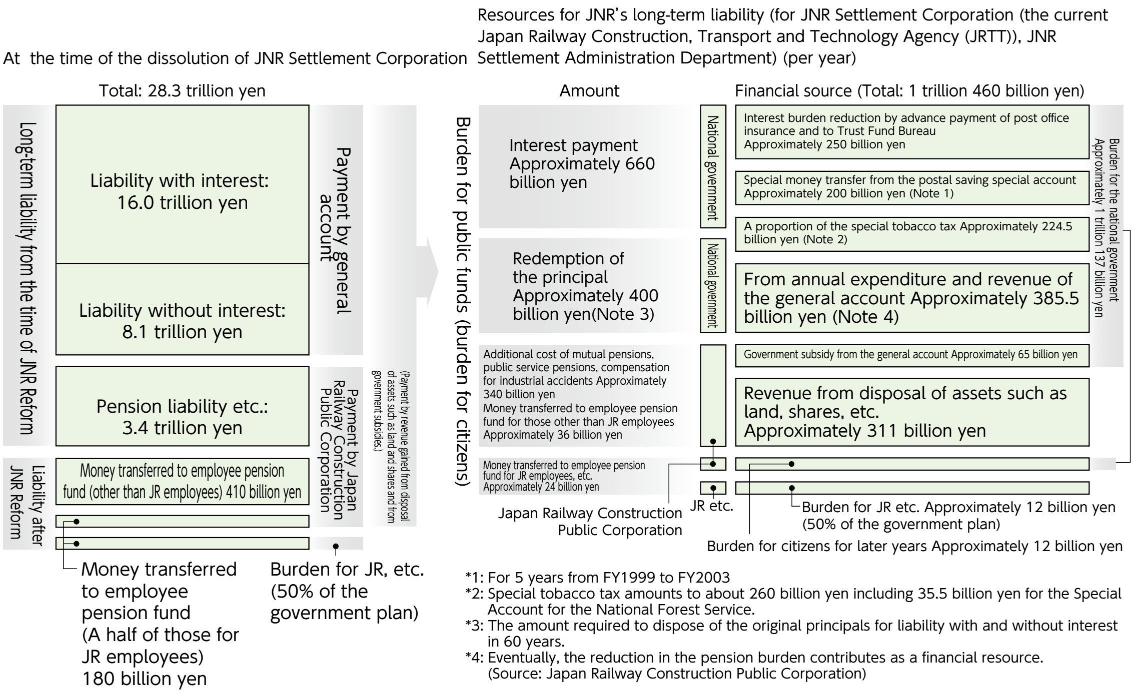
■JNR's long-term liability and settlement (at the time of JNR Reform)

It was decided that the new companies would inherit the minimum assets required, such as land, to continue their operations and, with the premise that the companies would run their operations with maximum efficiency, that they would bear long-term liability to the extent that would allow stable operations for the time being and sound and sustainable operations over the long term.



(Note: Since each amount has been rounded, the total amount of all the items might not be equal to the total amount of the liability.)

■Breakdown of JNR's long-term liability (for JNR Settlement Corporation)



*1: For 5 years from FY1999 to FY2003
*2: Special tobacco tax amounts to about 260 billion yen including 35.5 billion yen for the Special Account for the National Forest Service.
*3: The amount required to dispose of the original principals for liability with and without interest in 60 years.
*4: Eventually, the reduction in the pension burden contributes as a financial resource.
(Source: Japan Railway Construction Public Corporation)

Employment issues of JNR employees

(Unit : Person)

April 1, 1986

Japanese National Railways (JNR) 277,020

April 1, 1987

JR Hokkaido	12,720
JR East	82,470
JR Central	21,420
JR West	51,540
JR Shikoku	4,460
JR Kyushu	14,590
JR Freight	12,010
(Subtotal)	199,190
Shinkansen Holding Corporation	60
Railway Telecommunication Co., Ltd.	570
JR Systems	280
Railway Technical Research Institute	550
Total	200,650

No. of retirees in FY1987

Voluntary retirement (Additional special retirement payment equivalent to 10 months' salary)	39,090
General retirement	6,300
Transfer to government and other public corporations	7,320
(Total)	52,710

JNR Settlement Corporation

Those assigned to the same job category	2,510
Those with re-employment decided	11,250
Leave of absence before retirement	2,280
Those without re-employment decided	7,630
(Total)	23,660

April 1, 1990

Additional employment at JR 2,300

(1) Regional additional employment (87.6)
① JR Hokkaido 280
② JR Kyushu 410

(Total) 690

(2) Wide-area employment by Japan Railway companies, etc.
① 1st phase (87.8) 940
② 2nd phase (89.4) 640
③ 3rd phase (90.4) 30

(Total) 1,610

Employment other than with JR 3,450

Resignation 840

Those requiring assistance in re-employment 1,890

Laid off 1,050

Note: Since the numbers have been rounded, the total numbers might not be equal to the totals of each number.

Full privatization

From the initial time of the JNR Reform, for six JR passenger railway companies (JR Hokkaido, JR East, JR Central, JR West, JR Shikoku and JR Kyushu) and JR Freight, according to the Basic Policy for JNR Reform approved by the Cabinet on October 11, 1985, the policy was to gradually dispose of their shares as soon as the conditions to establish their business foundations were prepared and to privatize the companies as soon as possible.
Based on this policy, three JR companies on the mainland (JR East, JR Central, and JR West) were excluded from the provisions of the Law Concerning Passenger Railway Companies and the Japan Freight Railway Company (JR Companies Act) enacted in December 2001.
Following this exclusion, on June 21, 2002, all the shares of JR East were sold and the company was fully privatized.