

Review of Operations Non-Transportation STATION SPACE UTILIZATION

OVERVIEW

JR East stations—used by roughly 16 million passengers a day—are JR East’s largest management resource. JR East operates a wide range of businesses, including retail outlets and restaurants, to enhance customer convenience and comfort and to raise profitability.

Many of JR East’s stations have high passenger volumes; 88 stations are used by more than 100 thousand passengers a day, including 33 used by more than 200 thousand passengers a day. Given those volumes, there is clearly significant potential for the further development of non-transportation services.

TOPICS

Implementing a *Station Renaissance* Strategy

JR East is aggressively pursuing ways to take full advantage of the potential of stations—its largest management resource—based on the *Station Renaissance* business strategy, which aims to simultaneously make stations more attractive and raise profitability. In that initiative, JR East will seek to reflect the customer’s viewpoint and raise the group’s value. Specifically, JR East intends to reassess existing facilities thoroughly; optimize deployment of businesses for each station; and create space for new businesses.



Station Renaissance

As part of the *Station Renaissance* strategy, JR East developed stores and renewed existing stores to reflect the particular characteristics of respective stations at approximately 220 locations in the three-year period through March 2004, including 73 locations in fiscal 2004. JR East has worked to create stations that generate higher profits by offering pleasant, spacious environments that meet customer needs.

Developing *Dila* Station Shopping Malls

JR East operated shopping malls under the *Dila* trade name at nine stations as of June 2004. In May 2003, JR East opened a *Dila* shopping mall at Asagaya station, which is used by 88 thousand passengers a day. And, in November 2003, JR East unveiled a *Dila* shopping mall at Nishi-Ogikubo station, which is used by 80 thousand passengers a day. *Dila* shopping malls have been favorably received by customers due to the inclusion of JR East’s *NEWDAYS* convenience stores and a variety of unique restaurants.

Both new malls, which opened on the completion of renewal work at the respective stations, are enhancing passenger convenience and contributing to revenues.

Thriving Convenience Store Operations

JR East operates a convenience store network as part of its retailing business in stations. Convenience store operations are an extremely promising business format, with average daily store sales approaching those of major convenience store chains in Japan. In fiscal 2002, JR East integrated and restructured convenience store operations—previously dispersed among several subsidiaries—under the trade name *NEWDAYS*. Those efforts enhanced operational efficiency by increasing centralization of supply-related, logistical, and other systems. And, JR East expects that reorganization will increase the speed of future store network development.



Station Renaissance “Before & After”
at Nishi-Ogikubo station

Note: The number of station users for each station represents twice the number of passengers embarking.



NEWDAYS

Forging Alliances with Companies outside the JR East Group

JR East is pursuing tie-ups with companies outside the group in order to enhance its ability to address diversifying customer needs and to step up the pace of its business development. JR East is facilitating a variety of station store openings by such companies as Ryouhin Keikaku Co., Ltd., and Fast Retailing Co., Ltd.

In fiscal 2004, JR East formed an alliance with Shikoku Railway Company to take advantage of the booming popularity of sanuki udon, a type of Japanese noodle, and opened four noodle restaurants at high-passenger-volume stations in the Tokyo metropolitan area.

OUTLOOK

Developing Omiya, Shinagawa, and Tachikawa Stations

Several projects for the opening of new station concourses on artificial ground constructed above the railway tracks are slated for completion by the end of fiscal 2006. Construction currently under way at Omiya station, a terminal in the northern Tokyo metropolitan area used by 455 thousand passengers a day, is scheduled for completion in spring 2005. JR East aims to finish a concourse at Shinagawa station, a terminal in southern Tokyo used by 567 thousand passengers a day, in autumn 2005. And, plans call for the

opening of a concourse in fiscal 2006 at Tachikawa station in western Tokyo, which is used by 291 thousand passengers a day. Those construction projects aim to enhance the stations' appeal by creating barrier-free environments and easing crowding. At the same time, JR East aims to make the stations highly profitable by creating additional space for businesses.

In September 2003, JR East established wholly owned subsidiary JR East Station Retailing Co., Ltd. To take the fullest advantage of the merits of Omiya, Shinagawa, and Tachikawa stations and other stations, the new company will be responsible for designing and producing areas within stations that combine railway and commercial facilities and for managing commercial facilities.

Upgrading Nishi-Funabashi Station

JR East has also scheduled Nishi-Funabashi station for development, which it expects to complete by spring 2005. Nishi-Funabashi station, a seven-direction hub, is used by 212 thousand passengers a day. JR East plans to expand the station concourse and mitigate crowding by constructing artificial ground above railway tracks.

In addition to the abovementioned stations, JR East has slated development projects for terminal stations in prefectural capital cities and in other stations.



Image of Station Renaissance at Shinagawa station



Image of Station Renaissance at Tachikawa station

Review of Operations Non-Transportation

SHOPPING CENTERS & OFFICE BUILDINGS

OVERVIEW

JR East's stations and surrounding land are assets with the potential to generate high profits. JR East's shopping centers and office buildings businesses offer passengers convenient shopping at stations while enhancing profitability through revenue from commercial tenants. As of March 2004, JR East operated 118 shopping centers and 15 office buildings. In those operations, JR East aims to achieve a tenant mix that reflects customer needs, the nature of the site, and the characteristics of the local market.

TOPICS

Unveiling JR Shinagawa East Building



JR Shinagawa East Building

In March 2004, JR East opened the *JR Shinagawa East Building* at the east exit of Shinagawa station. Used by 567 thousand passengers a day, Shinagawa station is situated at the center of a rapidly expanding new business area.

This new development is a multi-purpose building that includes offices and a shopping center. Each of the building's main floors—5th through 20th story—has 1,700

square meters of functional office space for rent that is ideally suited to the installation of various IT systems. The 2nd through 4th floors comprise the *atré Shinagawa* shopping center, which evokes the atmosphere of a prestigious commercial space through its tenant mix and sophisticated design inspired by "New York" style.

Shinagawa station has excellent transportation links with ready access to airports as well as a new Shinkansen station on the Tokaido Shinkansen line, opened by Central Japan Railway Company in October 2003.

Boasting a 100% Occupancy Rate

Fiscal 2004 saw the completion of a series of large-scale office building projects in downtown Tokyo, leading to an office space over-supply that became known as the "fiscal 2004 problem." Against this backdrop, JR East's 15 office buildings posted strong performances due to the considerable advantage afforded by direct station access. As of April 2004, the overall occupancy rate for those buildings was 100%.

Opening of Lumine Kawagoe

In February 2004, JR East unveiled a new *Lumine* shopping center at Kawagoe station, which is used by 71 thousand passengers a day. JR East has opened 11 shopping centers at stations under its *Lumine* trade name to date. This shopping center was developed by utilizing land freed up by the construction of Kawagoe's elevated station building.

The store's extensive lineup of high-profile products and services attracted 35 thousand customers on the first day of business.

Cutting the Tape for EKIST Shonan Hiratsuka

In December 2003, JR East opened *EKIST Shonan Hiratsuka* at Hiratsuka station, used by 115 thousand passengers a day. This new shopping center was constructed on JR East land that was freed up by the relocation of a warehouse at the station's south exit and provides a comprehensive range of everyday consumer services.

Reorganizing Shopping Center Management Companies

In April 2003, eight subsidiaries were merged into four, and, in April 2004, nine subsidiaries were merged into four. Through those mergers, JR East aims to enhance the competitiveness of shopping center operations by strengthening the companies' marketing capabilities, financial positions, and profitability.



Lumine Kawagoe



A scene in station-based nursery school at Omori station

Note: The number of station users for each station represents twice the number of passengers embarking.

Developing Station-Based Nursery Schools

JR East is developing nursery-school operations with a view to contributing to local communities and to enhancing its station services facilities. Based on evaluations of demand and in collaboration with local governments, JR East leases land or facilities abutting stations to nursery-school operators.

In April 2004, three station-based nursery schools were launched in northern Tokyo. And, as of June 2004 there were 13 nursery schools in total. Parents, particularly those in suburban areas with long commutes to work, have welcomed the convenient siting of those nursery schools next to stations. JR East anticipates that the new nursery schools will generate synergies as customers use other JR East commercial facilities nearby.

Attracting Customers through *Ekipara**

JR East is aggressively leveraging IT to further publicize its shopping centers at stations. For example, *Ekipara* is a portal web site that offers comprehensive information relating to JR East's shopping centers at stations. The web site aims to encourage customers to visit shopping centers at stations by including information on 7,000 shops in more than 100 shopping centers. In addition, *Ekipara* distributes an e-mail magazine and features a tenant shop search function. As of March 2004, the web site had a membership of 23,000. In fiscal 2004, the site received an average of 25,700 page views a day, and on certain days that number exceeded 60,000.

Furthermore, in July 2003 JR East launched *Keitai Ekipara*, a web site accessible by cell phones. As of March 2004, the site had a membership of 30,000.

* <http://www.ekipara.com/>

OUTLOOK

Planning to Develop the Tokyo Station District

Tokyo station is centrally positioned in Tokyo and used by

738 thousand passengers a day. In the area around the station, projects are under way to create city spaces and urban landscapes. In spring 2007, JR East will complete a multipurpose building with 34 floors above ground and 4 basement floors on the north, Nihombashi side of the station that will include office, conference, and hotel zones. The new building will be significantly differentiated from conventional office buildings by a direct link to Tokyo station that will give excellent accessibility and by its designation as a building for the promotion of exchange among companies' R&D organizations, consulting companies, and universities.

On the station's west, Marunouchi side, JR East plans to conserve and restore the historic station building to its original form. On the station's east, Yaesu side, plans call for the construction of twin 200-meter towers. Additionally, JR East will create squares on the east and west sides of the station. That series of construction projects is scheduled for completion in fiscal 2011.

Constructing a Shopping Center at Odawara Station

The construction of a shopping center at Odawara station is in progress as of June 2004. The station connects five lines, including those of other railway companies, and JR East alone accounts for 65 thousand passengers daily. Scheduled to open in summer 2005, the new building will have five upper floors and one basement floor and is being built on the previous site of the ground-level Odawara station concourse, which became obsolete following the construction of a new elevated concourse in March 2004.



Image of a shopping center at Odawara station



Image of the multipurpose building on the Nihombashi side of Tokyo station



Development plans for the Yaesu district at Tokyo station

ADVERTISING AND PUBLICITY

OVERVIEW

JR East's transportation advertising operations mainly focus on station concourses and railcars. In Japan, transportation is a major advertising medium. With respect to advertising revenues, it ranks higher than radio and next after television, newspapers, and magazines. Because JR East conducts its advertising operations focused on stations and lines that are used by large numbers of customers, it has a dominant share of the mainstay Tokyo metropolitan area market—roughly 45% in terms of revenues from transportation advertising.

For example, an 11-car Yamanote line train has space for about 2,000 separate highly visible advertisements. In addition to selling conventional station poster and signboard space, JR East is working to increase revenues by marketing unused station spaces, such as automatic ticket gates and floors.

TOPICS

JR East is aggressively developing new advertising mediums that boost sales for existing mediums and meet customer needs.

Leveraging IT

In April 2002, JR East introduced new railcars with two 15-inch visual displays above each door broadcasting information on the train's progress and advertisement videos, respectively. A very high proportion of passengers view the displays, which have become established as the first full-fledged moving-image medium in railcar advertising.

Advertising on Railcar Bodies

JR East began to sell advertising space on its railcar bodies in February 2002, after the Tokyo Metropolitan Government lifted a ban that had been imposed on such advertising because of aesthetic reasons.

In fiscal 2003, JR East mainly sold railcar body advertising for the Yamanote line, the high-passenger-volume line encircling downtown Tokyo. In fiscal 2004, JR East extended marketing of railcar body advertising in the Tokyo metropolitan area.



Advertising on railcar bodies

HOTEL OPERATIONS

OVERVIEW

Hotels are a powerful vehicle for generating income from real estate holdings and creating synergies with railway and travel agency operations. JR East operates several types of hotels, including city, business, and long-stay hotels. As of June 2004, JR East had a total of approximately 5,000 guest rooms in 40 hotels.

JR East seeks to strengthen the overall operation of its hotels by managing them as a single, integrated chain—*JR East Hotel Chain*—that achieves economies of scale based on the utilization of the JR East network through such initiatives as joint advertising and purchasing. Further, JR East is working to build an efficient management organization and to bolster competitiveness by standardizing the chain's management systems.

TOPICS

Developing Metropolitan Hotels

Metropolitan Hotels are an important part of the *JR East Hotel Chain*. JR East operated 10 of those hotels mainly in the Tokyo



15-inch visual displays



HOTEL METS Mejiro

Note: The number of station users for each station represents twice the number of passengers embarking.

metropolitan area and at major terminal stations in regional cities as of June 2004. The hotels' prime locations nearby stations give them a competitive advantage. In addition, *Metropolitan Hotels* offer a range of sophisticated services that are optimally balanced among accommodation, restaurants, and facilities for receptions.

Improving the Quality of *HOTEL METS*

HOTEL METS are primarily business hotels that offer comfortable, reasonably priced rooms with facilities that are comparable with city hotel accommodation. JR East operated 15 *HOTEL METS*, primarily in the Tokyo metropolitan area, as of June 2004. JR East is steadily working to enhance the quality of *HOTEL METS* by developing know-how based on the ISO 9001 certified quality management system obtained by *HOTEL METS Nagaoka*.

In October 2003, JR East opened the 95-room *HOTEL METS Mejiro*, which is performing well due to its popularity among businesspeople and tourists.

Reorganizing Hotel Management Company

In April 2004, JR East sought to specialize the functions of its subsidiary—Ikebukuro Terminal Building Co., Ltd., by splitting it into a management company for shopping areas and office spaces, and a company, Hotel Metropolitan Co., Ltd., focused on hotel-related operations. JR East hopes that this division will enable swift, efficient management by clarifying responsibilities for respective operations and enhancing the autonomy and maneuverability of each company.

Further, JR East will reorganize its hotels in response to the increasingly intense competition among hotels centered on the Tokyo metropolitan area. In those efforts, Hotel Metropolitan Co., Ltd., will be positioned as the key hotel company of the *JR East Hotel Chain*.

Unveiling *Hotel Dream Gate Maihama*

In February 2004, JR East opened *Hotel Dream Gate Maihama* at Maihama station—situated at the entrance to Tokyo Disney Resort. The new hotel has 80 rooms, largely catering to the needs of families and tourist groups. Due in part to its reasonable prices, almost all of the guest rooms have been occupied since the hotel opened.

Hotel Dream Gate Maihama is the first hotel among the *JR East Hotel Chain* to be built under elevated railway tracks. In the past, such areas were unsuitable for the development of hotels or offices due to the vibration and noise caused by trains passing overhead. However, a new construction technique jointly developed by JR East and Takenaka Corporation has achieved a dramatic reduction of vibration and noise.

OUTLOOK

Constructing *HOTEL METS Akabane*

JR East is constructing the 120-room *HOTEL METS Akabane* at Akabane station, in northern Tokyo, which 170 thousand passengers use daily. The new hotel is slated to open in spring 2005.



Image of *HOTEL METS Akabane*



Hotel Dream Gate Maihama

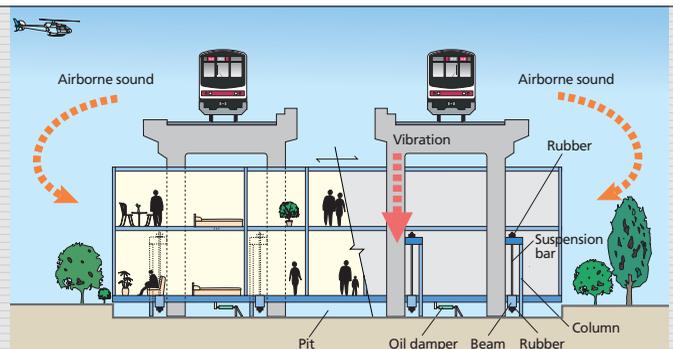


Image of suspended vibration and seismic isolation system