

## 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; 86 stations are used by more than 100 thousand passengers a day, including 32 used by more than 200 thousand passengers a day in fiscal 2005. Given those volumes, there is clearly significant potential for the further development of non-transportation services.

### ▶▶ TOPICS

#### Station Renaissance

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 seeks to reflect the customer’s viewpoint and raise the group’s value. Specifically, JR East is reassessing existing facilities thoroughly; optimizing the deployment of businesses for each station; and creating space for new businesses.

As part of the *Station Renaissance* strategy, JR East has developed stores and renewed existing stores to reflect the particular characteristics of respective stations at approximately 310 locations in the four-year period through March 2005, including 89 locations in fiscal 2005.

#### Ecute Omiya—A Business Model Is Born

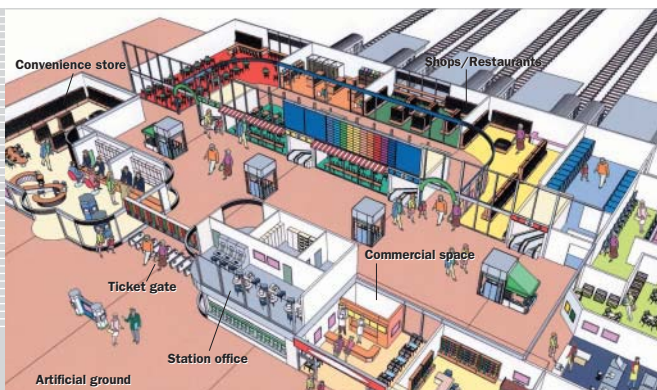
Omiya station is one of Japan’s major terminal stations, used by almost half a million passengers daily. In March 2005, JR East cut the tape on *Ecute\* Omiya*, a commercial space in Omiya station, which was designed based on the concept of a “station-as-one-large-shop.” Improvements to existing floor space and the creation of artificial ground above the station’s south-side platforms have added 5,000 square meters of floor space, of which 2,300 square meters is for stores. JR East expects that *Ecute Omiya*’s 68 shops—all *Suica* electronic money compatible—will generate annual revenues of ¥5.5 billion. As well as being functional and barrier-free, *Ecute Omiya*’s design has decorated the station’s concourse walls and floors to enhance the appeal of the entire station.

*Ecute Omiya* is the maiden project of JR East Station Retailing Co., Ltd., which has built an integrated system for the management of merchandising by commercial facilities, the selection of business partners, sales area management, sales promotions, and station environment plans that include railway facilities. This latest JR East initiative represents a new business paradigm for evolving new, unified spaces inside stations.

\* *Ecute* is an acronym derived from: Eki—Japanese word for station —, Center, Universal, Together and Enjoy.

#### Development of Dila Station Shopping Malls

JR East operated shopping malls under the *Dila* trade name at 11 stations as of June 2005. In March 2005, JR East unveiled its latest *Dila* mall at Nishi-Funabashi station, which is a hub station that has lines running in seven directions and is used by 210 thousand passengers a day. JR East created approximately 2,100 square meters of shop-floor space, which is barrier-free, by constructing artificial ground above



Concept of *Station Renaissance*



A scene at *Ecute Omiya*

the station tracks on the north side of the station. All of the 21 differentiated stores in that area accept *Suica* electronic money. JR East is looking forward to annual sales of roughly ¥3.8 billion.



A scene at *Dila Nishi-Funabashi*

### Station Retailing Operations

*LET'S KIOSK* outlets and *NEWDAYS* convenience stores are the mainstays of JR East's station retailing, which also includes strategically positioned specialist stores offering books, souvenirs, and other goods. JR East is steadily converting larger *LET'S KIOSK* outlets, those with floor areas of more than 15 square meters, into "walk-in" kiosks. The new walk-in format's shelves and large refrigerators stocked with enhanced lineups of food, beverages, and other products are attracting more female customers and generating brisk sales.

Convenience store operations are an extremely promising business format, with average daily store sales approaching those of major convenience store chains in Japan. JR East is striving to step up the efficiency of convenience store operations by further integrating product distribution and other systems. At *NEWDAYS* stores, on average *Suica* electronic money accounts for 7% of purchases and up to 15% at high-usage stores.

### ▶ STATION RENAISSANCE PLANS

#### *Ecute Shinagawa* and *Ecute Tachikawa*

*Ecute Shinagawa* will open for business in October 2005 at Shinagawa station, which is a terminal station in southern Tokyo used by 590 thousand people every day. The project entails the development of 1,600 square meters of shop-floor space, including improvements to the existing concourse. Meanwhile in western Tokyo, plans call for the fiscal 2007 launch of an *Ecute Tachikawa* at Tachikawa station, which is used by 300 thousand people a day. Both of those projects will build concourses on artificial ground above railway tracks to simultaneously enhance the stations' appeal by creating less crowded, barrier-free environments and to realize higher earnings by making new space for business. As with *Ecute Omiya*, JR East Station Retailing is heading the projects.

For regional terminals and stations, JR East has several other ambitious *Station Renaissance* initiatives in the pipeline.



*LET'S KIOSK*



*LET'S KIOSK* walk-in type



Image of *Ecute Shinagawa*

### 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 June 2005, JR East operated 122 shopping centers and 15 office buildings.

#### ▶▶ TOPICS

##### Office Building Development

JR East uses its office buildings to secure steady, long-term earnings from real estate leasing. As of June 2005, JR East operated 105,000 square meters of leasable office space in 15 buildings. Occupancy rates of very close to 100% make those buildings steadfast income source. The flagship *JR Shinagawa East Building*, opened in March 2004, is a perfect example of how JR East exploits direct station access, name recognition, and a reputation for reliability to attract tenants.

##### Station-Based Nursery Schools

JR East is developing nursery school operations to enhance its station services facilities and to contribute to local communities. JR East's basic development strategy is to establish space for nursery schools on land or in buildings that it owns and to recruit specialist nursery school operators as tenants. At present, JR East is focusing efforts on the area along the Saikyo line, where demand for child-minding services has grown due to an influx of young families. In April 2004, three nursery schools were opened, with a further three launched in April 2005. JR East's aim is to add value to the line by making it child-rearing friendly and

sow the seeds of synergies that will underpin long-term, stable revenues from railway operations. As of June 2005, JR East leased premises to 16 station-based nursery schools.

##### Nursing Care Initiative

In April 2000, the Japanese government established a nursing care insurance system that created the social base for the provision of nursing care services by private companies. In response, JR East began nursing care operations to tap expected demand growth in Japan's aging society and to benefit local communities. Initially, those operations were centered on the Sendai area. However, in April 2004 JR East opened its first nursing care facility for the elderly in the Tokyo metropolitan area. The facility is near Omori station, which is used by 180 thousand passengers a day. Comprising 50 rooms and built on the former site of a JR East dormitory, the facility is fully occupied.

##### Expansion of Lumine Omiya 2's Floor Space

After increasing *Lumine Omiya 2's* floor space, JR East timed the renewed shopping center's opening to coincide with *Ecute Omiya's* March 2005 launch. JR East has expanded third floor of *Lumine Omiya 2*, which forms the upper level of *Ecute Omiya*, to create 1,700 square meters of shop-floor space. Aiming to clearly differentiate *Lumine Omiya 2* from *Ecute Omiya*, JR East has invited 29 new tenant stores to the revamped shopping center.



JR Shinagawa East Building



JR Tokyu Meguro Building



A scene in a station-based nursery school



### Opening of Odawara LUSCA

Odawara station is a five-line hub station, including the lines of four other railway companies, used by 60 thousand JR East passengers a day. A shopping complex with five upper floors and one basement floor, *Odawara LUSCA* opened for business in June 2005. The center houses 88 stores and 6,400 square meters of shop-floor space. The center was erected on the old site of Odawara station's ground-level concourse and its third floor links directly to the elevated station concourse constructed in March 2004.



A scene of opening day of *Odawara LUSCA*

## ▶▶ OUTLOOK

### Development Plans for Tokyo Station District

Projects are under way to create city spaces and urban landscapes in the area around Tokyo station, which is used by 740 thousand passengers a day. Such plans to reinvigorate the area around Tokyo station figure large in JR East's development of office buildings. By fully exploiting a site adjoining Tokyo station, JR East will create a state-of-the-art business center with the size and functional office space to cater to all manner of needs. By March 2007, JR East will have completed

a multipurpose building with 35 upper floors and 4 basement floors on the north, Nihombashi side of the station that will include office, conference, and hotel zones. JR East began construction in October 2004, and the finished complex will have a total floor space of approximately 79,000 square meters. An independent JR East initiative, the project has an estimated cost of ¥28.0 billion.

On the station's west, Marunouchi side, JR East plans to conserve and restore the historic station building to its original form and revamp the square that it looks onto. On the station's east, Yaesu side, JR East is collaborating with four companies that own land in the area to develop twin 200-meter towers and a station-front plaza. The lot area is approximately 20,000 square meters and the completed building will have 360,000 square meters of floor space. In September 2004, JR East broke ground for that series of construction projects, which are scheduled for completion in March 2011.

### Construction of Noborito Station Shopping Center

At Noborito station, JR East is constructing a three-storey shopping center slated for opening in autumn 2006. On average, 130 thousand JR East passengers use the station, which stands at the intersection of the JR East's Nanbu line and Odakyu line operated by Odakyu Electric Railway. JR East is using space above the station tracks for the construction of the center. Meanwhile, the local government authority of Kawasaki City is paying for ongoing construction of an elevated station concourse and north-south access walkways.



Images of the multipurpose building on the Nihombashi side of Tokyo station and its lobby



Development plans for the Yaesu district at Tokyo station

## Non-Transportation — Other Services

### 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, ranking higher than radio and next after television, newspapers, and magazines in terms of revenues. Transportation advertising accounted for 4.1%, or ¥238.4 billion, of the ¥5,857.1 billion that Japanese companies spent on advertising in fiscal 2005 (source: Dentsu Inc.).

As a medium, transportation advertising is unique in enabling companies to repeatedly appeal to potential customers as they commute to work or school and go about their everyday business. Further, companies can advertise more efficiently by selecting lines or stations that their target audiences use. On Tokyo's Yamanote line, for example, an 11-car 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

In addition to promoting sales of conventional advertising mediums, JR East is aggressively developing new mediums that meet customer needs.

#### Railcar Body Advertising

JR East began to sell advertising space on its railcar bodies in February 2002. After initially focusing on the high-passenger-volume Yamanote line, which encircles downtown Tokyo, JR East expanded railcar body advertising to other lines in the Tokyo metropolitan area. Also, from September 2003 JR East introduced free-style designs to enable the creation of more dynamic advertisements.

In September 2004, JR East substantially increased the number of trains carrying railcar body advertisements on the Yamanote line. Also, JR East tailored its services to client needs even more accurately by increasing the combinations of train numbers and carrying durations that advertisers can choose from. Thanks to those initiatives, railcar body advertising on the Yamanote line posted a very impressive 239% year-on-year increase in revenues in fiscal 2005.

#### At the Forefront of IT

Rolled out in April 2002, E231 series railcars feature two 15-inch visual displays above each door that offer updates on the train's progress and advertisement videos. A very high proportion of passengers view the displays. Targeting higher advertising sales, JR East replaced the railcars of all 52 Yamanote line trains with E231s as of April 2005.

### 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 2005, JR East had a total of approximately 5,000 guest rooms in 41 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.



Advertising on a railcar body



E231 series railcar's 15-inch visual displays on the Yamanote line



HOTEL METS Akabane

▶▶ TOPICS

**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 metropolitan area and at major terminal stations in regional cities as of June 2005. 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.

**HOTEL METS Chain**

*HOTEL METS* are primarily business hotels that offer comfortable, reasonably priced rooms with facilities that are comparable with city hotel accommodation. As of June 2005, JR East operated 16 *HOTEL METS*, primarily in the Tokyo metropolitan area. Almost all of those hotels are either directly linked with or close to stations.

**Hotel Dream Gate Maihama Tops 20,000 Occupancies**

In December 2004, only 285 days after its launch, *Hotel Dream Gate Maihama* cleared cumulative occupancies of 20,000 rooms. The hotel is situated underneath the elevated railway tracks of Maihama station, used by 130 thousand passengers daily, adjacent to Tokyo Disney Resort. The 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. In August 2004, average room occupancy reached 98%.

*Hotel Dream Gate Maihama* is the first-ever hotel 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.

**Opening of HOTEL METS Akabane**

In May 2005, JR East unveiled the 120-room *HOTEL METS Akabane* at Akabane station, which 170 thousand passengers use daily.

OTHER SERVICES

▶▶ TOPICS

**Launch of Jexer Fitness Club Akabane**

Capitalizing on a site beneath elevated railway tracks on the south side of Akabane station, *Jexer Fitness Club Akabane* will begin operations in July 2005. Boasting 4,700 square meters of floor space, the new facility will be the largest of its kind in the area and the sixth fitness club that JR East has opened under its *Jexer* brand name. The club is only three minutes on foot from Akabane station. Moreover, JR East will enhance accessibility by adding an approximately 100-vehicle parking lot.



Image of Jexer Fitness Club Akabane



Hotel Dream Gate Maihama

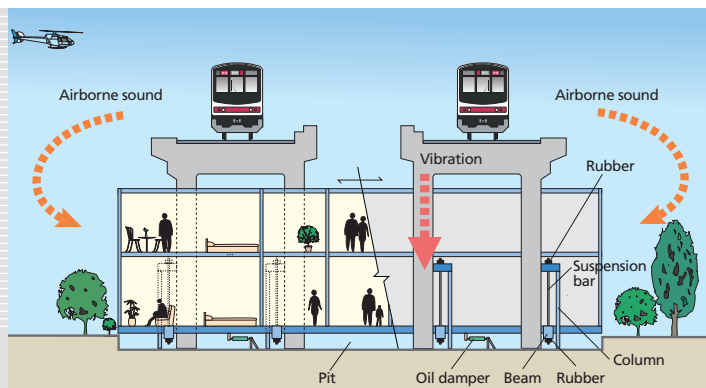


Image of a suspended vibration and seismic isolation system