

Operational and Other Risk Information

The following are issues related to operational and accounting matters that may have a significant bearing on the decisions of investors. Forward-looking statements in the following section are based on the assessments of JR-West as of June 2019. Further, the following is a translation of the business risks included in a document the Company submitted pursuant to Japan's Financial Instruments and Exchange Act.

1 Relating to Safety

If an accident were to occur in the transportation business it could jeopardize customers' lives and result in serious damage to property, and in turn adversely affect the management of the Company.

With its core business railway operations, the Company recognizes that its most important task is to provide high quality, highly reliable, and safe transportation services.

However, on April 25, 2005, an extremely serious accident occurred on the Fukuchiyama Line between Tsukaguchi and Amagasaki stations. Resolving that such an accident would never again occur, the Company formulated a new Corporate Philosophy, which expresses its vision and its sense of values as a company, and a new Safety Charter, which defines its fundamental safety policies. It has since implemented a series of measures to realize this Corporate Philosophy and Safety Charter. In February 2018, the Company formulated the "JR West Group Railway Safety Think-and-Act Plan 2022", aiming to further improve safety levels, and have begun initiatives to prevent serious accidents and work-related injuries and deaths.

The Company is also working to establish a safety management system in accordance with its "Railway Safety Management Manual," created based on the revised Railway Business Act, which came into effect in 2006.

2 Relating to Legal Matters in Railway Operations

1. The Railway Business Law (1986, Law No. 92)

Under the Railway Business Law, railway operators are required to obtain the permission of the Ministry of Land, Infrastructure, Transport and Tourism (hereinafter, "MLIT") for each type of line and railway business operated (Article 3). Railway operators are also required to receive approval from MLIT for the upper limits of passenger fares and specified surcharges. Subject to prior notification, railway operators can then set or change these fares and surcharges within those upper limits (Article 16). Railway operators are also required to give MLIT advance notice of the elimination or suspension of railway operations. In the case of eliminating operations, the notice must be given at least one year in advance (Articles 28 and 28-2).

2. The Law for Partial Amendment of the Law for Passenger Railway Companies and Japan Freight Railway Company (Hereinafter, the "Amended JR Law") (2001, Law No. 61)

The Amended JR Law enacted on December 1, 2001 (hereinafter, the "date of enactment"), excluded JR-East, JR-Central, and

JR-West (the three JR passenger railway companies operating on Japan's main island of Honshu, hereinafter, the "JR passenger railway companies in Honshu") from the application of the provisions of the Law for Passenger Railway Companies and Japan Freight Railway Company (hereinafter, the "JR Law") (1986, Law No. 88). Specifically, the JR passenger railway companies in Honshu are excluded from the scope of all regulations pertaining to approval of the offering for the purchase of shares and others and approval of long-term borrowings, as defined by the JR Law (Article 5), and approval of transfers of important assets (Article 8), among others.

According to the Amended JR Law's supplementary provisions, MLIT, based on the details of the restructuring of Japanese National Railways (JNR) and in order to ensure the convenience of passengers and otherwise, shall issue guidelines relating to items that need to be considered for the time being with respect to the management by the JR passenger railway companies in Honshu and any operators that run all or part of their railway business as a result of assignments, mergers, divisions, or successions on or after the date of enactment, as designated by MLIT (hereinafter, "new companies"). The guidelines' stipulations are outlined in the three points below. Those guidelines were issued on November 7, 2001, and applied on December 1, 2001. MLIT may advise and issue instructions to any new companies to ensure operational management in accordance with those guidelines. Moreover, the Amended JR Law enables MLIT to issue recommendations and directives in the event that its operational management runs counter to the guidelines without any justifiable reason.

The Guidelines' Stipulated Items:

- (a) Items relating to ensuring alliances and cooperation among companies (among new companies or among any new company and Hokkaido Railway Company, Shikoku Railway Company, Kyushu Railway Company, and Japan Freight Railway Company) with respect to the establishment of appropriate passenger fares and surcharges, the unhindered utilization of railway facilities, and other factors relating to railway operations among those companies
- (b) Items relating to the appropriate maintenance of railway routes currently in operation, reflecting trends in transportation demand and other changes in circumstances following the restructuring of JNR and items relating to ensuring the convenience of users through the development of stations and other railway facilities
- (c) Items relating to consideration that new companies should give to the avoidance of actions that inappropriately obstruct business activities or unduly hamper the interests of small and medium-sized companies operating businesses within the operational areas of the new companies that are similar to the businesses of the new companies

Also, regarding all bonds issued by the JR passenger railway companies in Honshu prior to the Amended JR Law's date of

enactment, transitional measures are stipulated, such as the continuance following the date of enactment of the stipulation of general security in Article 4 of the JR Law.

3 Relating to Establishment of and Changes to Fares and Surcharges

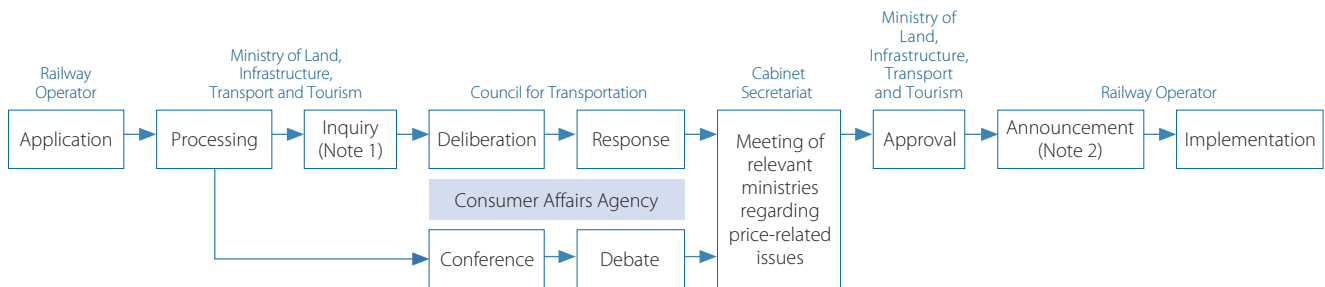
1. System and Procedure for Approval of Fares and Surcharges

The Railway Business Law stipulates that railway operators are required to obtain the approval of MLIT when setting or changing the upper limits of passenger fares and Shinkansen limited express surcharges (hereinafter, "fares and surcharges") (Railway Business Law, Article 16, Item 1).

Subject to prior notification, railway operators can then set or

change fares and surcharges within those upper limits, as well as limited express surcharges on conventional lines and other charges (Railway Business Law, Article 16, Items 3 and 4).

Based on recent examples set by major private sector railway operators, the process of applying and receiving approval to change fares from MLIT is as follows.



Notes: 1. This procedure is pursuant to Article 64, Item 2, of the Railway Operation Act. Further, in accordance with Article 23 of the Act for Establishment of the Ministry of Land, Infrastructure, Transport and Tourism (1999, Law No. 100), a press conference must be held in cases when deliberation by the Council for Transportation is required or when directions are received from the Minister of MLIT.
2. Paragraph 2, Article 3 of the Railway Operation Act stipulates that at least 7 days public notice must be given for any increment in fares or other conditions of transportation. Moreover, in order to improve the convenience of users when reforming national railways, a system is currently in place under which the total fares or other costs associated with customers or cargo traveling between two or more transportation providers can be decided based on contracts between the companies involved. This system generally allows for lower fares for longer travel distances. Furthermore, this system does not interfere with transportation providers' ability to establish their own pricing systems.

2. JR-West's Stance on Fare Revisions

(a) JR-West has not raised fares since its establishment in April 1987, other than to reflect the consumption tax introduction (April 1989) and subsequent revision (April 1997 and April 2014).

Major private sector railway operators apply for fare revisions, if, following a comprehensive management judgment that takes into account the operations of ancillary departments, they anticipate they will record a loss in after-tax net income in its railway operations. In the majority of cases, the revisions are implemented once the above-described procedures have been completed. In the case of the Company, revenues obtained from ancillary departments constitute a small percentage of its total revenues, and based on this it considers the timely implementation of fare revisions to be a necessary measure to secure a fair level of profit.

- (b) The Company strives to promote efficient business management to secure profits and to advance measures toward rationalization. However, the Company considers that the fair level of profit should be at a level that enables it to fund dividend payments to its shareholders, future capital investment, and measures to strengthen its financial structure, on the assumption that it makes such efforts.
- (c) The Company recognizes the need to proactively manage capital expenditures, which have a substantial impact on the cost structure of its railway operations, based upon its clearly defined management responsibility

3. Stance of the Ministry of Land, Infrastructure, Transport and Tourism

With respect to the implementation of fare revisions by JR-West, the position of MLIT is as follows:

- (a) MLIT will approve applications for the revision of the upper limits of fares from railway operators, including JR-West, upon conducting inspections to determine that the fares do not exceed the sum of reasonable costs and fair profits, based on the efficient management of those companies ("total cost") (Railway Business Law, Article 16, Item 2). In addition, a three-year period is stipulated for the calculation of costs.
- (b) Even if the railway operator has non-railway businesses, the calculation of total cost, which comprises reasonable costs and fair profits, including required dividend payments to its shareholders, is based only on the operator's railway operations. Further, railway operators are required to submit their capital expenditure plans for increasing transportation services to ease congestion of commuter services and for other improvements in passenger services. Upon inspections, the capital cost necessary for such enhancements may be approved for the calculation of total cost.
- (c) Total cost is calculated using a "rate base method" that estimates the capital cost (interest payments, dividend payments, and other financial costs) arising from the provision of a fair and appropriate return, based on the opportunity cost concept, to the capital invested in the railway operations. The calculation of total cost is as follows:

Total cost = Operating cost (Note 1) + Operational return
 Operational return = Assets utilized in railway business operations
 (rate base) × Operational return rate

- Assets utilized in railway business operations = Railway business operations fixed assets + Construction in progress + Deferred assets + Working capital (Note 2)
- Operational return rate = Equity ratio (Note 3) × Return rate on equity (Note 4) + Borrowed capital ratio (Note 3) × Return rate on borrowed capital (Note 4)

Notes: 1. With respect to comparable costs among railway operators, in order to promote enhanced management efficiency, a "yardstick formula" is used to encourage indirect competition among respective operators. The results of those comparisons are issued at the end of every business year and form the basis for the calculation of costs.

2. Working capital = Operating costs and certain stores

3. Equity ratio, 30%; Borrowed capital ratio, 70%

4. Return rate on equity is based on the average of yields to subscribers of public and corporate bonds, the overall industrial average return rate on equity, and the dividend yield ratio. Return rate on borrowed capital is based on the average actual rate on loans and other liabilities.

(d) Subject to prior notification to MLIT, railway operators can set or change fares and surcharges or other charges within the upper limits approved. However, MLIT can issue directives requiring changes in fares and surcharges by specifying the date, if the fares and surcharges submitted are deemed to fall within the following categories (Railway Business Law, Article 16, Item 5):

- The setting or change would lead to unjustifiable discrimination in the treatment of certain passengers.
- There is concern that the setting or change would give rise to unfair competition with other railway operators.

4 Relating to Plan for the Development of New Shinkansen Lines

1. Construction Plans for New Shinkansen Lines

The new Shinkansen lines are the five lines indicated in the plan for the Shinkansen line network that was decided pursuant to the 1970 Nationwide Shinkansen Railway Development Law, namely the Hokuriku Shinkansen Line (Tokyo–Osaka), the Hokkaido Shinkansen Line (Aomori–Sapporo), the Tohoku Shinkansen Line (Morioka–Aomori), the Kyushu Shinkansen Line (the Kagoshima route between Fukuoka–Kagoshima), and the Kyushu Shinkansen Line (the Nagasaki route between Fukuoka–Nagasaki).

Of these lines, the Company is the operator of the Joetsu–Osaka segment of the Hokuriku Shinkansen Line. Construction of the five lines had been postponed due to deteriorating management conditions at JNR. However, the development scheme described below was created to solve the financial and other problems after the inauguration of JR companies, and construction has progressed on a sequential basis. Until the present time, operations have commenced on the Hokuriku Shinkansen Line (between Nagano–Kanazawa), the Tohoku Shinkansen Line (between Morioka–Shin-Aomori), the Kyushu Shinkansen Line (between Hakata–Kagoshima-Chuo), and the Hokkaido Shinkansen Line (between Shin-Aomori–Shin-Hakodate-Hokuto). Currently, the construction contractor, Japan Railway Construction, Transport and Technology Agency

(JRJT), is advancing construction on the following sections of the three lines: the Hokuriku Shinkansen Line (between Kanazawa–Tsuruga), the Hokkaido Shinkansen Line (between Shin-Hakodate-Hokuto–Sapporo), and the Kyushu Shinkansen Line (the Nagasaki route between Takeo Onsen–Nagasaki).

Creation of the Development Scheme

- August 1988
(arrangement between the national government and ruling parties) Ruling on the start of construction according to a priority sequence and development standards for five segments of three Shinkansen lines
- December 1990
(arrangement between the national government and ruling parties) Ruling on a management separation for JR companies of the conventional lines running parallel with the new Shinkansen lines
- December 1996
(agreement between the national government and ruling parties) Ruling that the cost burden by JR companies would be usage fees and other charges within the range of their expected benefits
- December 2000
(arrangement between the national government and ruling parties) Ruling on new segments for start of construction, and reviews of development standards and periods
- December 2004
(arrangement between the national government and ruling parties) Ruling on new segments for start of construction, and reviews of development standards and periods
- December 2011
(items confirmed by the national government and ruling parties) Confirmation of future policies regarding the development of Shinkansen lines

Details of the items confirmed by the national government and ruling parties regarding the Hokuriku Shinkansen Line in December 2011

For new segments of track, construction is to begin after necessary approval procedures have been conducted for segments for which profitability and investment effectiveness have been reconfirmed and for which the conditions outlined below have been met and issues (see notes below) have been addressed.

Segment	Conditions to be met before approval / construction	Scheduled completion / start of operation
Between Hakusan car maintenance center–Tsuruga	<ul style="list-style-type: none"> • Approval by JR-West • Approval by municipal governments bordering tracks with regard to separate management of parallel conventional lines 	Over 10 years from start of services between Nagano–Hakusan car maintenance center (end of fiscal 2015)

Notes: Network development west of Tsuruga will be conducted based on the following policies.

- Due to financial limitations, it will be difficult to develop such a network prior to the completion of the three segments currently under way due to financial limitations. However, as the opening of lines extending to Tsuruga will increase connection points to main lines, we are considering the development of a network connecting the Kanto and Kansai regions through Hokuriku.
- Measures to prevent reduced passenger convenience stemming from the need to change trains at Tsuruga will be considered based on the opinions of JR-West and relevant municipal governments.

- January 2015
(arrangement between the national government and ruling parties) Confirmation of future policies regarding the development of Shinkansen lines
Details of the arrangement made by the national government and ruling parties regarding the Hokuriku Shinkansen Line in January 2015
The Hokuriku Shinkansen Line (between Kanazawa–Tsuruga) will aim for completion and opening by the end of fiscal 2022, which is three years ahead of the initial plan of fiscal 2025.

Construction and Opening of the Hokuriku Shinkansen Line within the Company's Area of Operations

- August 1992
Between Isurugi–Kanazawa (24 km): Construction commenced as a Shinkansen Railway Standard New Line (Super Express)
- April 2001
Between Joetsu–Toyama (110 km): Construction commenced at full standard (Prior to this, in September 1993 construction had commenced on the segment between Itoigawa–Kurobe–Unazukionsen as a Shinkansen Railway Standard New Line [Super Express], and at this point in time was changed to full standard.)
- April 2005
Between Toyama–Kanazawa (59 km): Construction commenced at full standard (Prior to this, in August 1992 construction had commenced on the segment between Isurugi–Kanazawa as a Shinkansen Railway Standard New Line [Super Express], and at this point in time was changed to full standard.) Fukui Station segment: Construction commenced
- April 2006
Hakusan car maintenance center: Construction commenced
- June 2012
Hakusan car maintenance center–Tsuruga segment (114 km): Construction commenced
- March 2015
Nagano–Kanazawa segment opened

2. Cost Burden of the Development of New Shinkansen Lines

Regarding the construction cost for the development of new Shinkansen lines, based on the agreement in December 1996 between the national government and the ruling parties, in 1997 the Nationwide Shinkansen Railway Development Law and related laws were revised to stipulate that “the national government, local governments, and JR passenger railway companies would assume the cost of new Shinkansen lines,” and that “the cost burden by JR passenger railway companies which mainly operate on new Shinkansen lines shall be paid out of their usage fees and other charges, with the upper limit to be determined by the range of expected benefits.”

Also, those subsidies from the JRTT, of which part of its financial resource is provided by JR-East, JR-Central, and JR-West as payments for the purchase of existing Shinkansen lines, shall be

considered to be part of the cost burden borne by the national government.

According to Article 6 of the Law on the Japan Railway Construction, Transport and Technology Agency, the loan fees paid by Shinkansen line operators, the JR companies, to the JRTT comprise a fixed amount calculated on the basis of the income obtained by operators for the use of those Shinkansen lines after they commence operations (a fixed amount) plus an amount for taxes paid by JRTT in relation to the borrowing of railway properties and JRTT's management expenses. The fixed portion of the loan fees for the Joetsu Myoko–Kanazawa section of the Hokuriku Shinkansen Line is calculated by JRTT at ¥8.0 billion per year. The Company has determined that this amount is reasonable, taking into consideration the extent of JR-West's benefits from the opening of this Shinkansen line. Accordingly, the Company entered into an agreement with JRTT and received approval for this amount of loan fees from the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) in March 2015.

For segments planned to be opened in the future, loan fees will be determined in the same manner, based on agreements between JR-West and JRTT.

3. The Company's Stance on the Hokuriku Shinkansen Line

Based on the items confirmed by the national government and ruling parties in December 2011, MLIT confirmed the intentions to the Company regarding agreement for commencement of construction of the segment between the Hakusan car maintenance center and Tsuruga and our plans to introduce gauge change trains (GCTs) on track segments and conduct direct services between Shinkansen and conventional lines in the future.

As the establishment of Shinkansen lines should create significant reductions in travel time, we feel it would be most beneficial to start services on all lines running to Osaka at an early stage. However, for the time being, we have informed MLIT that as of April 2012 an agreement for commencement of construction of the segment between the Hakusan car maintenance center and Tsuruga has been reached and that there were also no objections to the plan to operate GCTs. This decision was reached in consideration of the uniform travel time reductions expected despite only extending lines to Tsuruga, which connects the Kansai and Chukyo regions with Hokuriku, and the increased convenience achieved by eliminating the need to change trains at Tsuruga through the use of GCTs. Furthermore, in introducing GCTs, we realized that it will be of the utmost importance to take steps to ensure the safety, durability, and maintainability of the trains, and also develop measures to address snow.

Thereafter, in August 2018, the Kyushu Shinkansen (Western Kyushu Route) Review Committee of the ruling party project team for promoting construction of new Shinkansen lines reported that GCTs will not be introduced for the Kyushu Shinkansen (Western Kyushu Route). Based on this, MLIT reported its belief that the introduction of GCTs on the Hokuriku Shinkansen will not be possible. Prior to issuing the report, MLIT asked to confirm the

intent of JR-West, the main operator of the Hokuriku Shinkansen, with regard to the introduction of GCTs on the Hokuriku Shinkansen. We responded by saying it is not possible to introduce GCTs on the Hokuriku Shinkansen because the introduction will not be in time for the slated opening of the Kanazawa-Tsuruga section at the end of fiscal 2023 and we cannot decide to invest in GCTs for provisional and short-term use until the opening of the line up to Shin-Osaka.

On the other hand, MLIT approved the construction plan for the Hokuriku Shinkansen between Kanazawa and Tsuruga in October 2017 (part 2). Since receiving approval, work has begun on construction of platforms to facilitate more convenient transfers between the Shinkansen and conventional railways. As a company that is heading this project, we will make efforts to utilize these platforms to enable smooth transfers.

In the government and ruling party arrangement of January 2015, it was decided that the Hokuriku Shinkansen between Kanazawa and Tsuruga will aim for completion and opening by the end of fiscal 2023, three years ahead of the original plan for completion and opening of fiscal 2026. We are now moving forward steadily with the preparations for opening the Kanazawa-Tsuruga section by the end of fiscal 2023 ending March 2023.

Regarding the route westward from Tsuruga, based on the conclusions of a ruling party project team for promoting construction of new Shinkansen lines in March 2017, a detailed survey and procedures for the environmental impact assessment are being conducted on the Obama-Kyoto route (Tsuruga Station-Obama vicinity (Higashi Obama)-Kyoto Station-Kyotanabe vicinity (Matsui Yamate)-Shin-Osaka Station), and we will continue to pay careful attention to the contents.

Even if segments to undergo construction are extended with the aim of starting services on all lines, the Company considers it essential that the previous fundamental principles should be protected, namely that "the burden of the Company shall be within the limit of expected benefits" and that "there is clear separation between the management of JR-West's conventional lines and the new Shinkansen line segments that are running parallel."

5 Relating to Changing Population Dynamics, such as the Declining Birthrate and Aging Population

According to "Population Projections for Japan (birth rate medium variant and death rate medium variant estimates)," published by the National Institute of Population and Social Security Research in April 2017, Japan's total population of 127.09 million people in 2015 was set to enter a long-standing depopulation process, and by 2053 was projected to fall below 100.00 million people, to 99.24 million people. The working-age population (15 to 64) peaked in 1995 at 87.26 million people, and subsequently entered a depopulation phase. By 2015, it had fallen to 77.28 million people, and by 2029 it is forecast to decrease to 69.50 million

people. In contrast, the old-age population (65 and over), which was 33.86 million people in 2015, is projected to increase to 36.99 million people by 2029.

The JR-West Group's main area of operations is western Japan, where it operates businesses that include railway, retail, real estate, and hotel operations. Depopulation and the declining birthrate and aging population trends are forecast to continue in this region. If the depopulation, declining birthrate, and aging population processes take place as projected, in the long term, due to a decrease in the number of passengers and customers at the Group's facilities and stores, this may have an effect on the Group's business results. This may also impact the Group's ability to secure the human resources that support its business operations.

6 Relating to Competition

1. Railway Operations

The railway operations of the JR-West Group compete with the operations of other railway companies, airline companies, and alternative modes of transportation such as buses or automobiles. In addition, its performance is affected by conditions in the Japanese economy, particularly economic trends in its main area of operations, western Japan. As a result, competition trends and economic conditions in the future may have an effect on the Group's financial condition and results of operations.

In particular, the Company faces extremely severe competition from airline companies stemming from the improved convenience of flying due to factors such as the increased number of flights and lower airfares.

As for the Shinkansen, the Company has been moving ahead with allocating trains based on customer traffic situation, upgrading rolling stock for Nozomi trains to the latest model, and providing fully online reservation options, such as "Smart-EX" and the "e5489" services. In terms of the Kansai Urban Area Railway Network, the Company faces competition with other railway operators and modes of travel. To address this issue, we increased the number of special rapid service trains during peak times on weekends and holidays and introducing the latest rolling stock on the Hanwa and Hagoromo lines, etc., promoting use through improved comfort and convenience. Furthermore, we are striving to encourage use for tourism purposes, including rolling out various promotional campaigns through collaboration with local communities, operating the TWILIGHT EXPRESS MIZUKAZE, setting and promoting sales of products for capturing inbound demand, and developing a system for accommodating this demand. In addition, the Company has been heightening the convenience for railway passengers by continuing to install barrier-free facilities, including elevators and escalators. Moving forward, we will enhance the competitiveness of the Shinkansen through flexible pricing and special perks for frequent users. In addition, we will promote the use of IC cards by improving their convenience through means such as ICOCA points.

2. Non-Railway Operations

The JR-West Group carries out non-railway operations, principally retail business, real estate business, and other businesses (including hotel business). Non-railway operations are affected by conditions in the Japanese economy, particularly economic trends in the Group's main area of operations, western Japan. Therefore, economic conditions in the future may have an effect on the Group's financial condition and results of operations.

In addition, its non-railway operations are faced with an increasingly severe competitive environment: in retail business, due to the opening of retail stores by competitors in areas surrounding its shops; in real estate, due to the entry of new competitors and the upgrade of competitors' commercial facilities in surrounding areas; and in other businesses, due to increased competition with existing and new competitors in hotel operations, such as the openings of foreign-affiliated luxury hotels or accommodation-oriented hotels by Japanese companies. These factors may have an effect on the Group's revenues.

However, as the Group mainly develops its operations in stations and the areas surrounding them, it can be considered to possess competitive advantages in terms of advantageous locations.

The Group aims to improve the value of its railway belts and the local community through providing high-quality goods and services that meet the expectations of both passengers and those active in the vicinity of railways, as well as through the creation and cultivation of local businesses. In doing so, it aims to expand the visitor population and the resident population.

7 Relating to Long-Term Debt and Payables

On its establishment in 1987 and based on the Japanese National Railways Reform Law (1986, Law No. 87), the Company inherited ¥1,015.8 billion of long-term debt from JNR. Further, on October 1, 1991, based on the Law Relating to the Transfer of Shinkansen Line Railway Facilities (1991, Law No. 45), the Company purchased the Sanyo Shinkansen Line railway facilities (excluding rolling stock) at the cost of ¥974.1 billion from the Shinkansen Holding Corporation. Through contracts with the Shinkansen Holding Corporation, of the transfer value, ¥859.1 billion is to be paid over 25.5 years and ¥114.9 billion over 60 years by half-yearly installment payments of equal amounts of principal and interest to the Railway Development Fund (presently, the Japan Railway Construction, Transport and Technology Agency), and the unpaid balance is to be recorded as long-term payables to the acquisition of railway properties. Of the transfer value, the repayment of ¥859.1 billion was completed in January 2017.

Consolidated long-term debt at March 31, 2019, stood at ¥1,064 billion (including the current portion thereof), or 3.1% higher than the previous fiscal year. Interest payments for the fiscal years ended March 31, 2017, 2018, and 2019, were ¥23.3 billion, ¥20.9 billion, and ¥20.0 billion, respectively.

The Group will continue to pay close attention to its levels of long-term debt, payables, and interest payments in order to

maintain management stability. However, a reduction in free cash flow due to unforeseen circumstances could affect the JR-West Group's financial condition and results of operations.

8 Relating to Computer Systems

Computer systems play a vital role in the JR-West Group's operations, and they are utilized not only in its railway operations and for sales of reserved seats, but also in many other areas throughout the Group's operations. Accordingly, if a problem should occur with these computer systems through a human error, a natural disaster, a power failure, a computer virus, or other reasons, it may have an impact on the Group's ability to carry out operations in the area where the problem occurred.

Further, if personal or other information should leak outside the Group because of a computer virus infection or an erroneous operation of computer systems, it may cause stakeholders to lose trust in the Group, which in turn may have an effect on the Group's financial condition and results of operations.

The Group constantly strives to prevent computer system-related problems or accidents from occurring through regular system inspections, measures to improve system functionality, and employee training. It has also been working to minimize the impact on operations should a problem or accident occur, including the development of a rapid first motion system. Furthermore, in response to its increased dependence on IT, the Company has strengthened and revised the facilities and infrastructure used to maintain the stable operation of its computer systems and is systematically instituting natural disaster countermeasures.

9 Relating to Natural Disasters

It is possible that the JR-West Group's operations or transportation network infrastructure will suffer considerable damage due to a natural disaster, such as an earthquake, typhoon, landslide, or flood, or due to a terrorist attack. For example, the Hanshin-Awaji (Kobe) Earthquake that occurred in January 1995 caused substantial damage to the railway network, particularly to the Sanyo Shinkansen Line and Tokaido Main Line.

The Company is working hard in terms of disaster preparedness and disaster reduction measures to minimize damages caused by serious natural disasters in the future that will impact its business. Specifically, the Company has rolled out earthquake early detection and warning systems for across all Shinkansen and earthquake emergency news flash systems that also include conventional lines. The Company is steadily carrying out earthquake resistance reinforcement work on its elevated tracks and station buildings, bridges, and support pillars to prepare for an earthquake in the Nankai Trough, which is expected to occur in the future. The Company is also making efforts to facilitate speedy evacuations in case of a tsunami, which include practical drills, publication of the Tsunami Evacuation Guidance Manual, and installation of evacuation route signage. Furthermore, based on the derailment of the Shinkansen during

the Mid-Niigata Prefecture Earthquake in October 2004, the Shinkansen Derailment Countermeasures Committee was set up by the government to review earthquake countermeasures for the Shinkansen and promote the development of related technologies. In response, in December 2015 we completed installation of derailment prevention guards on the Sanyo Shinkansen between Shin-Osaka and Himeji stations, and are moving forward with installation along the segment between Himeji and Hakata.

Meanwhile, in recent years there has been a sharp increase in damages from torrential rainfall that occurs locally over a short period of time. Therefore, in March 2015 partial revisions were made to regulatory values and rainfall indicators in our operating regulations during rainfall on conventional lines in consideration of the changes in rainfall types in recent years and past damages caused by rainfall.

The Company is also developing other measures to prevent, to the greatest possible extent, serious damage to the Group's operations due to occurrences such as heavy rainfall and landslides.

As another measure in response to natural disasters and other events, the Company has established a commitment line with financial institutions that enables it to raise capital according to predetermined conditions even if an earthquake should occur. Moreover, it has also acquired damage insurance inclusive of earthquake insurance for its main railway facilities. However, these countermeasures may be unable to entirely compensate for all the damage incurred due to an earthquake or other natural disaster.

Further, in addition to such direct damages caused by natural disasters as those mentioned above, there is the possibility that a major natural disaster could cause electricity shortages or other such issues, which may subsequently affect the Group's railway and other operations.

10 Relating to an Infectious Disease Outbreak and Epidemic

If a long-term infectious disease epidemic should occur in western Japan, such as Severe Acute Respiratory Syndrome (SARS), which saw an outbreak in 2003, or the extremely dangerous swine influenza virus, it is feared that this would have impacts such as limiting economic activities and causing passengers to refrain from taking trips. There is a danger that such an epidemic—if it entails the infection of a significant portion of the Company's workforce—may temporarily cause the JR-West Group to be unable to continue its operations, particularly its railway operations. Such a situation may have an impact on the Group's results of operations.

The Group is taking necessary measures to provide appropriate levels of transportation during an outbreak of pandemic influenza, while working closely with government-affiliated institutions and local governments, in accordance with the Act on Special Measures for Preparedness

and Response against Pandemic Influenza and New Infectious Disease enacted in April 2013.

11 Relating to Compliance

The Company, in conducting its business activities, is subject to the Companies Act of Japan, the Financial Instruments and Exchange Law, the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade, the Act on the Protection of Personal Information, and other generally applicable laws and ordinances, as well as the Railway Business Law and other laws and ordinances applicable to the relevant business category and the supervision of the relevant regulatory authorities according to the types of business. If the Company contravenes such statutory regulations or is subject to investigations by such regulatory authorities or in some situations, to any sanction, the public's trust of the JR-West Group may be undermined and, moreover, costs may be incurred to take measures to address the situation. Such a situation may have an impact on the Group's results of operations.

In September 2009, with regard to a grave issue concerning compliance that had arisen in the investigation of the Fukuchiyama Line accident by the Aircraft and Railway Accidents Investigation Commission, the Company was ordered by MLIT to conduct fact-finding inquiries, implement remediation measures, including preventive measures based on the results of such inquiries, and make a report thereof.

In November 2009, the Company submitted to MLIT the results of the fact-finding inquiries and remediation measures, including preventive measures, obtained from both the Special Committee on Compliance—a body comprising third-party experts—and its own internal team reporting to the President. The Company has also implemented measures to prevent a recurrence of similar problems and to strengthen its compliance system. Specifically, the Company has established the Corporate Ethics & Risk Management Department to integrate its functions to promote compliance and the Corporate Ethics Committee to promote good corporate ethics. The Company has also established the Ethics Office and the Public Interest Information Office to offer advice and to act as contact points regarding compliance issues. In addition, a third-party consultation office has been established for the use of JR-West Group officers and employees who wish to discuss compliance-related matters. The Company is also taking active steps to improve corporate ethics education for employees. In December 2010, the Company submitted a report to MLIT detailing the status of implementation of these and other remediation measures. Furthermore, in February 2012 the Corporate Ethics Committee compiled a report based on the discussions conducted and the subsequent advice received to date. We aim to incorporate the proposals made in this report into our compliance initiatives.

Also, with the diversification of risks, JR-West strengthened its risk management structure with the establishment of a Risk Management Committee in April 2017, in order to provide the president and other persons in positions of responsibility with a

proper understanding of the risks that have a critical impact on corporate group management, as well as to establish a risk management style of unified risk management and efforts to mitigate such risks.

12 Relating to the Fukuchiyama Line Accident

On April 25, 2005, an extremely serious accident occurred on the Fukuchiyama Line between Tsukaguchi and Amagasaki stations in which 106 passengers lost their lives and more than 500 were injured.

The Company will further increase its efforts to earnestly listen to the opinions of the victims of the accident.

The Company will continue to make compensation payments and other payments relating to the accident. At the present point in time, it is difficult to make a rational estimate of what the total amount of these payments will be.