

Operational and Other Risk Information

The following are issues related to operational and accounting matters that managers recognize as presenting risk of potentially significant impacts on the status of the financial positions, operating results, and cash flow of consolidated companies.

Forward-looking statements in the following section are based on the assessments of JR-West as of June 2022.

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 we 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. We will steadily implement the safety measures even during the COVID-19 pandemic.

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 (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 Railway Companies and Japan Freight Railway Company Law (Amended JR Law) (2001, Law No. 61) enacted on December 1, 2001, excluded the three JR passenger railway companies in Honshu, specifically JR-East, JR-Central, and JR-West, from the application of the provisions of the Law for

Passenger Railway Companies and the Japan Freight Railway Company (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 borrowing, 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, 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 (hereinafter, "new companies") as designated by MLIT. 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 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.

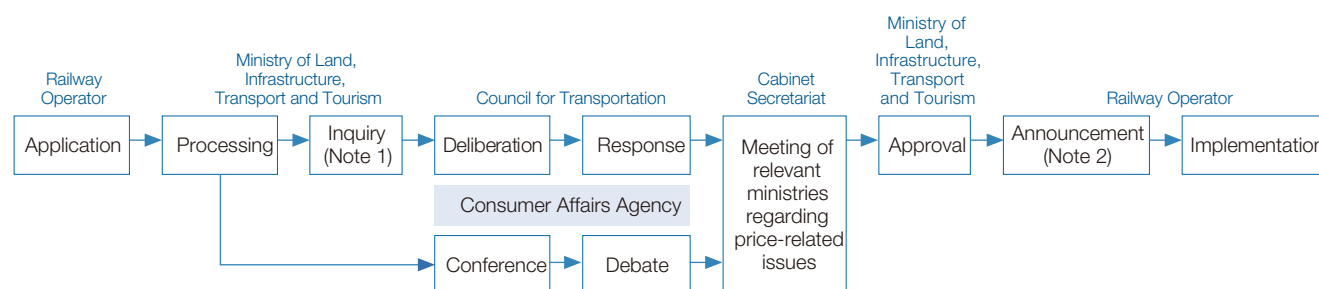
3 Relating to Establishment of and Changes to Fares and Surcharges

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 Stance on Fare Revisions

(a) JR-West has not raised fares since its establishment in April 1987 other than to reflect the consumption tax (April 1989) and subsequent revisions (April 1997, April 2014, and October 2019).

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:

$$\text{Total cost} = \text{Operating cost (Note 1)} + \text{Operational return}$$

- 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.

Trend of Rail Fares and Fee System

Social conditions surrounding railways have been changing dramatically due to factors such as changes in lifestyle brought about by the pandemic and responses to the development and dissemination of digital technologies. In view of that, the Ministry of Land, Infrastructure, Transport and Tourism established the Subcommittee on Rail Fares and Fee System under the Railway Panel, Land Transport Committee, Council for Transport Policy in February 2022 and is presently discussing how the rail fares and fee system should be in the near future.

If any changes are made to the current rail fares or fee system, the Company's business performance may get impacted.

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 Nishi Kyushu 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 (JRTT), 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)

- 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 2023, which is three years ahead of the initial plan of fiscal 2026.

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 it 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 it 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 JRJT, 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 JRJT 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 JRJT in relation to the borrowing of railway properties and JRJT's management expenses.

The fixed portion of the loan fees for the Joetsu Myoko–Kanazawa section of the Hokuriku Shinkansen Line is calculated by JRJT 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 JRJT 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 JRJT.

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 the 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 believe 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 to develop measures for snow and other conditions.

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 will be 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. However, although construction of railway and transport systems was moving ahead, in December 2020 the Ministry of Land, Infrastructure, Transport and Tourism reported that due to a delay of approximately a year, the planned three-year advance in schedule had been moved back to two years, and in March 2021 a change in the implementation plan for construction was approved. We are now moving forward steadily with the preparations for opening the Kanazawa-Tsuruga section by the new goal of the end of fiscal 2024.

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, 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 of management of parallel conventional lines and the new Shinkansen line segments.”

5 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, ¥859.1 billion of the transfer value 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. The repayment of ¥859.1 billion was completed in January 2017.

In the fiscal year ended March 31, 2022, efforts were made to secure a solid level of funding early in light of the severe economic

conditions brought on by the pandemic, as in case of the previous fiscal year. As a result, consolidated long-term debt as of March 31, 2022, stood at ¥1,724.8 billion (including the current portion thereof), or 10.6% higher than the previous fiscal year, with interest payments of ¥21.4 billion. (Interest payments for the fiscal years ended March 31, 2020 and 2021, were ¥19.4 billion and ¥20.4 billion, respectively.)

The Group will continue to pay close attention to its levels of long-term debt and interest payments in order to maintain business stability. However, unforeseen circumstances could affect the JR-West Group's financial condition and results of operations in future.

6 Relating to the Economic Situation

The Group's financial status is affected by economic conditions in the Japanese economy, particularly the conditions in its main business area of western Japan, and future economic conditions, including the impact of the pandemic, may affect the Group's financial position and operating results.

Global business and politics have caused a decrease in the number of inbound tourists to Japan, which could affect the JR-West Group's operating results.

In addition, procurement difficulties or higher prices for certain materials due to business conditions, bankruptcies of business partners, or other developments could also affect the Group's operating results.

7 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. The depopulation, 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. The Group may also face difficulties securing the human resources that support its business operations, along with higher labor costs.

8 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 and automobiles.

In particular, the Company is in a competitive relationship with airline companies in terms of frequency of operation and pricing strategies, etc., even while facing the declining demand stemming from the pandemic.

As for the Shinkansen, the Company has altered schedules for Nozomi trains to increase time spent in the Tokyo metropolitan area, allocated trains based on customer traffic usage, upgrading rolling stock to the more comfortable N700S model, and providing fully online reservation options, such as “EX service” and the “e5489” services. In the Kansai urban area where we compete against other companies, including other railway operators, we are promoting use of our services by expanding our railway network and adding new comfort and convenience through measures such as introducing new rolling stock to the Haruka Limited Express and increasing the number of trains on the JR Yumesaki line during morning commuting hours.

We are also encouraging use for tourism purposes by collaborating with local communities in various promotional campaigns, operating the TWILIGHT EXPRESS MIZUKAZE and WEST EXPRESS GINGA, creating and promoting sales of products aimed at inbound demand, and improving reception systems. In addition, the Company has been enhancing the convenience for railway passengers by installing elevators, escalators, and other barrier-free facilities.

Moving forward, we will enhance the competitiveness of the Shinkansen through flexible pricing and special perks for frequent users. We will also promote usage by increasing the convenience of IC cards, such as by offering 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 the hotel business).

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 foreign-affiliated luxury hotels or accommodation-oriented hotels opened 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 regional value 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, related population, and resident population.

9 Relating to Innovation and Technical Innovation

The JR-West Group engages in retail, real estate, hotels, and other businesses centering on its railways, but the emergence of new technologies and new methods of providing services and value could have an impact on the profitability of its businesses in the medium and long term.

For example, a sharing economy, self-driving cars, and other new technologies and modes of transportation could significantly change transportation services. In addition, the pandemic has increased the use of technologies for teleworking, and the arrival of new services catering to new lifestyles and customer preferences could impact the earnings of the Group.

The Group is also aiming to integrate new innovations to its businesses to provide services that meet the expectations of customers in the new era.

10 Relating to Computer Systems

The JR-West Group utilizes a variety of computer systems through its operations, including those related to train operations, those used for sale of reserved seats, and systems associated with transport revenue. They also play a key role at other companies with which the Group has close relationships, and at Railway Information Systems, Co., Ltd., a company entrusted with calculation of revenue settlements between different railway companies. Accordingly, if a problem should occur with these computer systems due to 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 the computer system generates a problem due to a human error, natural disaster, power outage, or cyberattack, business operations may be seriously affected. Should personal or other information managed on the computer system leak, it may result in a decline in the credibility of the JR-West Group to impact 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, information security measures, system functionality enhancements, 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 action 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.

11 Relating to the Environment

The JR-West Group recognizes “protection of the global environment” as an important management topic. The Group is seeking to make its rolling stock and other railway equipment even more energy efficient; promoting the 3Rs of reduce, reuse, and recycle for its recyclable waste and products; and reducing the impact of its business activities on nature and ecosystems. In addition to these efforts, we are also examining our operations from a long-term perspective for preventing global warming (conserving energy), contributing to creating a recycling-oriented society (conserving resources), and coexisting with nature and local communities.

Meanwhile, the SDGs, Paris Agreement, Glasgow Climate Pact, etc. have led to major changes in our business conditions, and we expect that the social demand for improvement of the global environment will grow even greater. The accelerated shift to carbon-free and recycling-oriented society could require investment to develop environmental services or to upgrade existing facilities, and such additional measures could raise our costs.

In particular, we disclose information of risks and opportunities related to climate change in accordance with the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD). For example, we present the results of analysis of risk of increased renewable energy power generation promotion surcharge resulting from the review of the power supply configuration in Japan, risk of increased tax burden due to the introduction of carbon tax, and risk of increased damage caused by increased frequencies of typhoons and floods, as well as opportunities such as increased usage due to reappraised environmental superiority of railway and diffusion of MaaS.

Furthermore, the JR-West Group formulated the “JR-West Group Zero Carbon 2050” long-term environmental goal with the intent of contributing to the realization of a carbon-free society. Accordingly, we will work towards reducing CO₂ emissions* for the entire Group to achieve “effective zero” in 2050, and we are aiming to attain the intermediate target of 46% reduction in CO₂ emissions* (from the level in fiscal 2014) in fiscal 2031. To achieve the goal, we are working mainly in the following three areas: (1) promotion of railway environmental innovations based on new technologies, (2) further promotion of energy conservation, and (3) contribution to the realization of carbon-free society in collaboration with local communities.

* Scope 1 and scope 2 emissions

As members of society, the JR-West Group enhances the sustainability of society, which forms the very foundation for our business activities, through global environment protection efforts, thus continually fulfilling the mission of the social infrastructure company while supporting the livelihoods of customers in order to contribute to the realization of the future that we envision.

12 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. 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 across all Shinkansen, as well as 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 we 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.

13 Relating to Major Criminal Acts and Terrorism

A major criminal act, terrorist activity, or armed attack that damages the Group’s facilities could impact our business. The Group implements various preventive measures, including strengthened security monitoring for suspicious objects or individuals, crime prevention training, and installation of protective equipment.

14 Relating to an Infectious Disease Outbreak and Epidemic

The pandemic that broke out in 2020 has spread widely and continuously across Japan and overseas, not to mention the western part of Japan, compelling restrictions on economic activities through laws and requesting self-imposed constraints on behaviors. Since they deter customers from going out of their homes, the Company's business performance is adversely impacted.

JR-West is a designated public institution under the Act on Special Measures for Preparedness and Response against Pandemic Influenza and New Infectious Disease enacted in April 2013, and we created the West Japan Railway Company Business Plan for Pandemic Influenza Countermeasures as part of the national effort to control the spread of Pandemic Influenza. The Business Plan calls for working closely with government agencies and local governments to ensure the safety of our customers and employees and, as part of the social infrastructure, to make every effort to continue providing railway transportation while providing a sense of safety to customers through during the pandemic.

15 Relating to Compliance

The JR-West Group considers compliance as more than following laws and regulations but as the standard expected by society, and we work sincerely to fulfill those expectations and to earn the trust in our businesses.

The Company's business activities are 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. In addition, our businesses are overseen by the regulatory authorities for each type of business. Violation of a legal regulation or other transgression could lead to an investigation by a regulating authority, which could result in disciplinary action, which could undermine the public's trust of the JR-West Group and lead to costs for measures to address the situation. Such a situation could impact the Group's business results.

In September 2009, with regard to a grave issue concerning compliance that had arisen in the investigation of the derailment accident on the Fukuchiyama Line 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 intend to incorporate the proposals made in this report into our compliance initiatives.

JR-West established the Risk Management Committee in April 2017 to strengthen its risk management structure for addressing the increasingly diversified risk and risks other than those inherent in our business operations. The committee promotes a risk management style of centralized risk management and mitigation and provides the president and others in positions of responsibility with a proper understanding of critical risks that could substantially impact corporate group management. The committee seeks to accurately assess risk related to compliance, natural disasters, criminal acts, terrorism, and other areas and to reduce their potential impact by designating the important risks for the Group to pay particular attention to in each fiscal year.

In June of 2021 we established the Corporate Governance Headquarters, integrating some of the functions of the Corporate Ethics & Risk Management Department and the General Affairs Department, with the goal of improving and enhancing governance throughout the Group while strengthening Group management.

16 Relating to Human Rights

In recent years, the corporate business environment has changed significantly with the promotion of the SDGs and the Guiding Principles on Business and Human Rights, and the Government of Japan established the "National Action Plan on Business and Human Rights" in October 2020. As a result, the corporate responsibility to respect human rights is becoming increasingly important. As changes in social attitudes are changing awareness of human rights significantly and human rights issues around the world are becoming more diversified and complex, there is a possibility that additional expenses may incur for implementing additional countermeasures such as establishment and promotion of systems and initiatives for preventing human rights violations.

A Group business activity violating human rights would reduce social trust in the Group, which could impact customers' usage of our businesses and our ability to secure human resources.

The Group is implementing measures to ensure the protection of human rights, which is a fundamental part of our management. The JR-West Group Basic Policy on Human Rights adopted in April 2019 is the basis for our Human Rights Risk Management at our work sites and Human Rights Due Diligence throughout the Group. Through these policies, we seek to provide products and services that all customers can use with comfort and peace of mind and to provide working conditions for employees to work in comfort and confidence.

17 Relating to the derailment accident on the Fukuchiyama Line

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.