

Special roundtable

## Expectations and challenges for corporate governance and growth of the JR-West Group as seen by Audit and Supervisory Committee members

In 2022, in the midst of the COVID-19 pandemic, as part of our management reform, we transitioned to a company with an audit and supervisory committee in order to facilitate swift decision-making and stronger corporate governance.

The Audit and Supervisory Committee members have a wide range of roles, including auditing the performance of duties by directors and participating in deliberations and resolutions at board meetings as directors.

On this occasion, at Wester-X Base, a new office serving as the base for the JR-West Group's digital strategy, four directors who serve as Audit and Supervisory Committee members—Maki Ogura, Makiko Tada, Emiko Hazama, and Kenryo Goto—held a wide-ranging discussion on the current situation and challenges of the Board of Directors and Audit and Supervisory Committee, as well as on the future outlook for the JR-West Group.



Outside director;  
Audit and Supervisory  
Committee member  
**Kenryo Goto**

Outside director;  
Audit and Supervisory  
Committee member (full-time);  
Audit and Supervisory  
Committee chairman  
**Maki Ogura**

Outside director;  
Audit and Supervisory  
Committee member  
**Emiko Hazama**  
(moderator)

Director;  
Audit and Supervisory  
Committee member (full-time)  
**Makiko Tada**

### Getting started: Self-introductions

**Hazama (moderator):** This is the first time that JR-West's integrated report has featured a roundtable discussion of directors who specialize in audits. I hope to have a frank discussion on the Group's corporate governance and future challenges from the perspective of members of the Audit and Supervisory Committee. First, I'd like to ask Mr. Ogura, who is the chairman of the Audit and Supervisory Committee, to introduce himself.

**Ogura:** I serve as an independent, outside, full-time Audit and Supervisory Committee member. I worked for the Japanese National Railways for five years before joining JR-West in April 1987 and then leaving in February 1988. After leaving JR-West, I worked as a lawyer while holding a position in the Ministry of Justice, after which I served as a judge from 2007 to 2020. Following this long legal background, I was appointed as an

auditor of JR-West in 2020 and as an Audit and Supervisory Committee member in 2022.

**Hazama:** Thank you. Mr. Goto, you took office around the same time that JR-West transitioned to a company with an audit and supervisory committee, didn't you?

**Goto:** I worked for about 40 years as a certified public accountant at an auditing firm, where I was engaged in accounting audits. There were things I enjoyed and things that were painful. I learned a lot but also encountered a lot of things that infuriated me. The experiences that have stuck with me most are those where things did not go well. For example, there was a company that had decided to invest hundreds of billions of yen but ran out of funds and ended up being acquired. This made me realize the difficulties and limitations of working as a certified public accountant. I want to draw from these experiences to help JR-West achieve balanced management while remaining financially sound.

**Hazama:** Ms. Tada, would you like to go next?

**Tada:** I joined JR-West in 1989, so this year marks my 37th year here. I was hired to work on railway construction technology, and, after the Great Hanshin-Awaji Earthquake, I became involved in launching various internet-based services. Following that, I worked in the Customer Satisfaction Department and served as branch manager for three years. From there, I returned to the Head Office and served as general manager of the Regional Revitalization Division before becoming an Audit and Supervisory Committee member. This is my third year in this role. I have been with JR-West for a long time, so I would like to leverage that strength in sharing information with a variety of people.

**Hazama:** I worked for a private company for nearly 30 years. After that, I worked in the government for about eight years, and now I'm at a university. Even though I've changed affiliations, I've consistently been involved in urban development and public policy, focusing on how to help enrich people's lives. Although JR-West is a private company, I want to contribute by reflecting the significance of our existence to society through addressing social issues while creating economic value.

### Changes and results of management reform, impressions of the Board of Directors

**Hazama:** Next, I'd like to ask Mr. Ogura to talk about the changes and results of the management reforms, as well as his impressions of the Board of Directors.

**Ogura:** JR-West's transition in 2022 to a company with an audit and supervisory committee has resulted in a significant delegation of decision-making authority regarding business execution from the Board of Directors to individual executive directors. Individual decision-making at board meetings has thus become more limited, allowing the Board to focus more on discussions about medium- to long-term business challenges. This is where the management reform has produced change, both institutionally and in the content of discussions, and I feel that the company's outside directors are speaking up more actively.

JR-West has also shifted from a management model that places emphasis on decision-making to a monitoring model that shifts the focus to oversight and supervisory functions. As a director and as an Audit and Supervisory Committee member, it has become more important to understand the status of business execution, and the Audit and Supervisory Committee, with its two full-time members, is now focusing more on gathering information. Even more than when I was an auditor, I believe it is important to ascertain information and avoid being reactive.

**Goto:** Regarding my impression of the Board of Directors, I had previously considered JR-West to be conservative in nature, due to the industry it is in. Also, I took office during the pandemic, when the company was in a difficult financial situation, but my impression of the employees was that they



were young and very active.

There are a few things about the Board of Directors I'd like to talk about. JR-West has established matters for consultation alongside matters for resolution and matters to be reported. For example, with regard to the medium-term management plan, opinions cannot be expressed until the contents have been solidified; thus, we have a system in place that allows for discussions in several sessions starting from the stage prior to the plan being decided. In addition, although this is outside of the Board of Directors meetings, there are also off-site meetings held between the executive side and the outside directors. In one vision-related meeting, we engaged in opinion exchange at a stage prior to decisions being made about revision of the company's direction.

Many resolved issues take several years to produce results, so it can be easy to move on to the next matter once a resolution has been passed, but JR-West regularly monitors issue resolution progress. Furthermore, full-time Audit and Supervisory Committee members attend important executive meetings, and information, including notes taken at those meetings, is shared with the members. This is useful when attending Board of Directors and Audit and Supervisory Committee meetings. These all show a proactive and sincere response.

**Hazama:** As an outside director, I appreciate the fact that there are forums where, from the consideration stage, we can discuss issues and points of contention that need to be overcome through matters for consultation and off-site meetings, rather than simply being presented with, and receiving explanations of, conclusions and results. As someone who has observed JR-West for quite a long time from the inside, what do you think, Ms. Tada?

**Tada:** I have been attending Board of Directors meetings regularly since I became an Audit and Supervisory Committee member. In the past, there were many resolutions, but now there is a considerable amount of time set aside to discuss business challenges and other matters. As a result, the board meetings are characterized by free and frank discussion, with each director, including the outside directors, asking questions about things they have noticed. Given this, I feel that board meetings are not pre-established and are functioning satisfactorily.

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**Governance issues and our role as Audit and Supervisory Committee members**

**Hazama:** You've pointed out positive aspects, such as of JR-West's Board of Directors, but what do you think about governance issues, including the structure of the Board, its effectiveness, and the role we play in these areas?

**Ogura:** Board meetings tend to have an "outside versus inside" structure. Of course, this is unavoidable, as most matters that are brought up as proposals at board meetings are those that have been thoroughly discussed by the executive team. However, I think that having inside directors also take part in discussions outside the scope of their responsibilities, or what could be called "healthy airspace incursions," would help further stimulate these meetings.

**Goto:** What Mr. Ogura said may be particularly applicable to the matters for consultation that involve discussion of medium- to long-term business challenges.

**Tada:** I think "healthy airspace incursions" is an easy-to-understand analogy. It would be good to have more discussions that go beyond departmental boundaries. Executives have their own responsibilities and scope of authority, so it may be difficult for them to intervene in matters outside of that. However, as someone who comes from JR-West, I think there are many things that can be done, regardless of your own work responsibilities, such as asking questions about things that were overlooked in the executive discussions, or conversely, sharing information. This is also a challenge for me personally.

**Hazama:** After serving as an auditor, I became an Audit and Supervisory Committee member. What I realized anew was that, in addition to stronger collaboration with the internal audit department, the amount of information provided by the executive side has increased, such as explanations from finance and human resources departments. After all, you can't make the right decisions without information, so it's great to have information from internal audits and other inside matters shared with you. It's also important to visit workplaces and group companies for audits and to meet employees face-to-face to hear their opinions. This is because you sometimes notice things that you can't get from paper-based

information alone. After taking all these steps, I feel very grateful to then be able to participate in meetings of the Board of Directors and Audit and Supervisory Committee. Mr. Goto, what do you think about visiting workplaces for audits?

**Goto:** Some subsidiaries are vertically connected, while others are horizontally connected. This is not a bad thing, but it's inevitable in the industry. It's quite difficult to unify all of these with a single message, but Our Purpose embodies and promotes the same spirit throughout the entire Group.

However, it's also true that some people, even after reading Our Purpose, say, "It's hard to understand how it relates to my current company or my current job." I think the fact that people are so honest about this is a sign of a good corporate culture.

**Hazama:** Creating a company culture of openness has always been an important focus. I think that by speaking up when you don't understand something or when something is difficult, things will improve.

**Emphasizing risk management while also addressing social issues and creating economic value**

**Hazama:** Risk management is important for both offensive and defensive governance, but it's especially important for Audit and Supervisory Committee members to think about how to prevent risks in advance, rather than waiting until something has happened. Japanese companies are often said to have weak risk management. The Audit and Supervisory Committee has created a new system to address risk management. Mr. Ogura, what are your thoughts on the current state of risk management at JR-West?

**Ogura:** As a lawyer and judge, my life's work has been to create systems for determining why incidents occur, how to prevent them, and how to provide relief to victims, such as amending laws and improving their implementation. Meanwhile, risk management in a company is about preventing anticipated risks. However, unexpected things can happen. Based on experience, we need to prevent these from happening, and that is why we create and operate a cycle of identifying, analyzing,



and responding to risks.

**Goto:** JR-West is a pro when it comes to the railway business. We anticipate possible crises and have established response procedures and departments to deal with them. The challenge is whether we can apply these methods to other businesses and management.

**Tada:** We have a long history of risk management in the railway industry. Our group companies, which handle other businesses are also accumulating knowledge in areas such as food safety and equipment safety. Regarding applications to other businesses, for example, our new Wesmo! payment service may seem like a spectacular new venture, but it requires daily, painstaking checks. One of the people in charge said that, "We can apply the same approach we use in railway risk management to other businesses, so we're trying to create a system that incorporates that." It would be great if we could apply the same approach to sincerely protecting safety and security that we do in the railway business to new businesses like this.

**Hazama:** As Mr. Goto pointed out, I think there are some group companies that are having difficulty applying the risk management that has been developed over the years in the railway business. The Audit and Supervisory Committee is currently focusing on group auditing and is providing training and discussion opportunities.

**Goto:** The individual group companies should not operate in isolation; we need to share information, provide education, and offer consultation on concerns as a whole. The Audit and Supervisory Committee plays a part in this, and I believe that it must work together with staff to keep an eye on the entire Group.

**Hazama:** The Audit and Supervisory Committee has increased its staff and strengthened responsiveness. The Group has also established a whistleblowing system, which is essential for risk management, and has made repeated improvements, such as setting up a hotline that allows reports to be made directly to full-time Audit and Supervisory Committee members depending on the content of the report.

**Tada:** As an Audit and Supervisory Committee member originally from within the company, I believe it is important that people feel they are in a position where they can comfortably speak up about their concerns or things they notice. It's difficult to complain to your boss, but it's easier to do so through a hotline. I also want to contribute to making improvements by acting as a liaison between the executive team and outside directors.

**Hazama:** Mr. Goto, what are your thoughts on proactive governance and risk management, including financial aspects?

**Goto:** JR-West's finances have returned to the state they were in before the pandemic, and it is now in a position to capitalize on its financial leverage. However, low profitability is a concern and seen as negative by the market and investors. It goes without saying that wasteful investments are unacceptable and that efforts to improve are necessary, but as Ms. Hazama mentioned earlier, our company is expected to address social issues. It is inevitable that active efforts to solve social issues will



have some drawbacks that make profitability difficult, and the company should not be evaluated solely on economic value. It is important to balance economic value with social value, which I believe will lead to an offense-focused approach. As an outside director, this is something I will need to keep an eye on.

**Hazama:** The technology that the Group has built not only contributes to economic value but also aims to address social issues, and, building on this, to foster business creation. In that sense, if JR-West can create economic value while addressing social issues, it will be closer in line with Our Purpose.

Changing the subject, let me ask you about diversity. People tend to think of railway companies as being male-dominated, with clearly delineated job roles. Specialization is of course important, but diversity in the sense of bringing different perspectives with various backgrounds is also important. Ms. Tada, how do you assess diversity within the Group?

**Tada:** Many women are active in the field, including many railway support staff. The next challenge is how to cultivate decision-making executives, leaders, and managers. Utilizing diversity as an offense-focused measure can create new value amidst a diversity of existing values and can also identify risks that would go unnoticed in a highly homogenous organization; hence, diversity initiatives are important from the perspective of offense-focused governance as well.

**Ogura:** From the perspective of diversity, the company is increasingly hiring outside talent. Going forward, it may need to consider inviting outside talent to executive director and executive officer positions as well.

**Hazama:** Half of market participants, that is, customers who select products and services, are women, and, in some categories, they are more than half. It is necessary to make decisions and move forward with diverse values that transcend gender and generation, particularly in the life design field, in which the Group aims to strengthen itself.

**Expectations and challenges in pursuing the medium-term plan**

**Hazama:** This year is the final year of the 2025 medium-term plan. There is currently a mountain of challenges to deal with,

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including population decline, low birthrates, and an aging society. Going forward, the Group will be pursuing discussions aimed at formulating the next medium-term plan. From the perspective of an Audit and Supervisory Committee member, tell us your expectations and what challenges you think JR-West will face.

**Goto:** I have high hopes for the new Wesmo! business. It's a business that will see exponential growth as the number of users increases. However, as this is the first venture into the funds transfer industry, there are risks involved. I hope JR-West will fully pursue its ambitions in this business but, before that, will properly put in place a security system to ensure users feel safe.

**Hazama:** The Audit and Supervisory Committee will closely monitor new businesses, such as the Wesmo! funds transfer service, among the list of audit items. Today, we are holding this discussion at the Wester-X Business Division office. Ms. Tada, you have experience in digital initiatives. What do you think?

**Tada:** The key is how to create true synergy. We've created an environment where everyone can freely and openly connect information using IT. By sharing not only the details of our business but also our goals, it would be great if all employees could overcome barriers and create new value. To achieve this, diversity is important, and we should aim to build psychologically safe teams for the next generation.

**Hazama:** JR-West has a range of software and systems for things like railway timetable adjustments, schedule creation, and service-related work in the customer satisfaction departments. It would be great if these could be used effectively to demonstrate Group synergy.

**Ogura:** We will discuss with a sense of urgency what the Group's strengths are in the current economic situation with a shrinking population. We will also consider the next medium-term plan and long-term vision.

**Tada:** I want to further develop JR-West's strengths in its ties with local communities. The people who live there know best what's good about their community, so I want us to work together to increase the potential of those communities.

**Hazama:** JR-West works with local governments and businesses to help create urban landscapes and to develop important infrastructure. I think its strength is being able to create things that will be used by future generations. It's a

time-consuming job, but being involved in work that spans long-time horizons is both a joy and of great value.

**Tada:** Even if you don't see results during your tenure, the projects you've worked on will continue. Or you may be working on something pioneered by someone else and nearing completion. I think we're all working hard to live in harmony with the local community.

**To conclude: Resolutions as an Audit and Supervisory Committee member for further growth of the JR-West Group**

**Hazama:** In order for the Group to continue to grow and provide social and economic value to stakeholders, it is essential that all group employees use Our Purpose as a compass and work toward realizing the Group's long-term vision and medium-term plan. So, to conclude, tell us your resolutions as an Audit and Supervisory Committee member for further growth of the Group.

**Ogura:** While various mechanisms are important, it is only by sharing information and exchanging opinions with all levels that we can provide opinions and suggestions based on facts. In that sense, I am keenly aware that we need full-time Audit and Supervisory Committee members, even though this is not legally required, and I intend to fulfill my duties while always keeping in mind the role and significance of full-time positions.

**Tada:** I also work full-time, and one of the significances of my position is that, because I am in the company, I can be consulted about things that would otherwise be difficult to say. I also want to provide the Audit and Supervisory Committee with the information they need for conducting audits and making judgments by properly communicating the company's internal situation.

**Goto:** Our Audit and Supervisory Committee members are very active, not only at the Head Office but also at branch offices and subsidiaries, attending important meetings and so on, but they also provide thorough oversight. At present, the effectiveness of the Audit and Supervisory Committee is ensured, but there are some aspects where it is unclear whether it will function in an emergency, making it difficult to evaluate. Although we have a solid audit system in place in normal times, I feel that we need to be aware that its true value may be tested in an emergency.

**Hazama:** The JR-West Group's mission is to enrich everyone's lives by providing a variety of services in addition to safe and secure transportation. Earlier, we mentioned the importance of diverse human resources, and in order to fulfill our mission, I hope that the JR-West Group can first be a corporate group where each and every employee can thrive. At the same time, today's roundtable discussion has reminded me once again of the importance of regularly obtaining a variety of information, including from the field, and acting accordingly as an Audit and Supervisory Committee member. Thank you for your time today.

**Group risk management** (Company-wide risk management system)

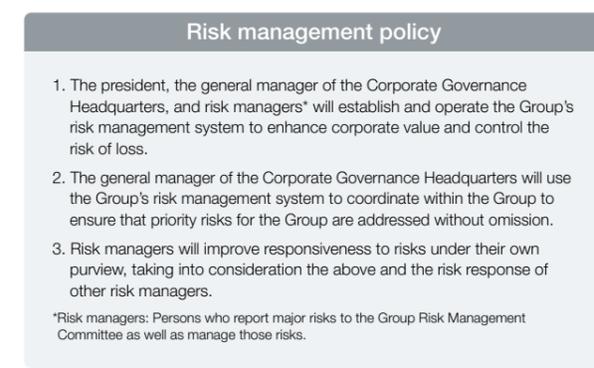
**JR-West Group's approach to risk management**

With the aim of promoting sound group management and continuing to take on the challenge of creating new value in the medium to long term, we have positioned risks that could hinder the realization of our Long-Term Vision and the achievement of our Medium-Term Management Plan as important risks for the Group, and have established a company-wide risk management system to monitor the management status of these risks.

Of the risks identified and selected by each in-house company, group company, and department within JR-West (corporate), the Group Risk Management Committee meets twice a year to compile and list the important risks that must be addressed from a management perspective. It confirms and discusses these risks, taking into account lessons learned from risk events that have occurred both inside and outside the JR-West Group.

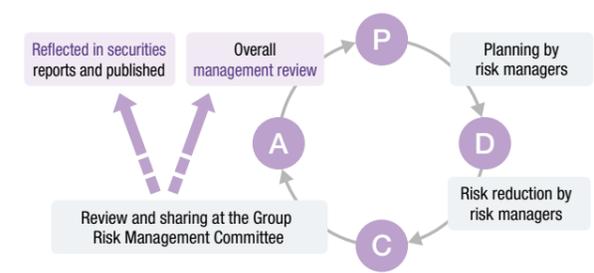
When identifying and selecting major business environment-related risks, we seek insight into what society will be like in the future and review and verify the direction of the strategies we need to adopt from a backcasting perspective.

Additionally, we have established individual, specialized committees to engage in more concrete and efficient discussion on such risks as railway safety, climate change, and human rights.



**Company-wide risk management PDCA cycle**

Risk managers plan ways to control and reduce major risks in the businesses and operations under their respective purviews. The Group Risk Management Committee creates a list of the "accumulated" major risks reported by risk managers and the "bird's-eye view" corporate strategy risks presented by the general manager of the Corporate Strategy Headquarters. This allows for centralized management of offensive and defensive risks. In addition to reflecting the Committee's discussions in securities reports, we also disseminate Group risk management reviews and policies within the company as "management reviews" to make improvements through the PDCA cycle.



**List of business risks and other operational risks published in securities reports**

Based on the standards required by the Cabinet Office Order on Disclosure of Corporate Affairs, the "Business Risks and Other Operational Risks" section of the securities report describes the likelihood and timing of risks manifesting, the impact of risks on business, and measures used to address risks.

**Business risks and other operational risks**

1. Ensuring safety	7. Occurrence of serious crimes, terrorism, etc.
2. Occurrence of natural disasters and other disasters	8. Infectious disease outbreaks and epidemics
3. Dramatic changes in the business environment	9. Compliance
4. Securing human resources	10. Specific legal regulations (railway business, Shinkansen development)
5. Securing supply chains	
6. Information security and management	

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