

The Law Concerning Passenger Railway Companies and the Japan Freight Railway Company

[Law No. 88 of December 4, 1986]

Amendment: Amended by Law No. 50 and 65 of 1990 and No. 63 of 1993]

(Purposes and businesses of the company)

Article 1

1. Hokkaido Railway Company , East Japan Passenger Company, Central Japan Railway Company , West Japan Railway Company , Shikoku Railway Company and Kyushu Railway Company (hereinafter referred to as the “Passenger Companies”) shall be a stock companies whose purpose shall be to engage in the passenger railway business and other businesses incidental thereto.

2. Japan Freight Railway Company (hereinafter referred to as the “Freight Company”) shall be a limited company whose purpose shall be to engage in the freight railway business and other businesses incidental thereto.

3. The Passenger Company and the Freight Company (hereinafter referred to as the “Company”) shall respectively engage in the businesses referred to in Paragraph 1 or the

preceding paragraph and may engage in the passenger car transportation business or other businesses subject to approval by the Minister of Land, Infrastructure and Transport, in which case the Minister of Land, Infrastructure and Transport must approve it unless the appropriate and sound management of the business under Paragraph 1 or the preceding paragraph is considered to be jeopardized thereby.

(Restriction on use of a trade name)

Article 2 Nobody other than the Company is allowed to use the words of Hokkaido Railway Company , East Japan Railway Company, Central Japan Railway Company , West Japan Railway Company, Shikoku Railway Company and Kyushu Railway Company or Japan Freight Railway Company in its trade name.

Article 3 Deleted (Law No. 63 of June 1995)

(General mortgage)

Article 4

1. The bondholders of the Company are entitled to receive compensation for their credit in preference to other creditors out of the property of the Company.
2. The order of the lien under the preceding paragraph shall be immediately following

the general lien under the provisions of the Civil Code (Law No. 89, 1896).

(New shares, bonds and borrowings)

Article 5

1. The Companies shall obtain the approval of the Minister of Transport when it intends to issue new stocks and bonds, or taking out loans with a repayment period of more than one year.
2. The provision of the preceding paragraph are not applicable to a case where the Company issues replacement bond set forth in the applicable Cabinet Order and bear new liabilities.

Delegation: Relevant “Cabinet Order” of Paragraph 2 = Article 1 of the Cabinet Order for enforcement of this Law

Penal Provisions: Matters related to Paragraph 1 = Article 20, Item 2 of this Law

(Resolution of appointments of a representative directors)

Article 6 A resolution of appointment or dismissal of a representative directors and corporate auditors shall become effective upon the granting of approval of the Minister of Land, Infrastructure and Transport.

(Annual Business plan)

Article 7 The Company shall, before the start of each business year, establish annual business plans set forth in the applicable ordinance of the Ministry of Land, Infrastructure and Transport. The permission shall also be required when the company intends to modify the same.

(Transfer, etc. of important property)

Article 8 The Company shall obtain the approval of the Minister of Land, Infrastructure and Transport if it intends to transfer important property set forth in the applicable ordinance of the Ministry of Land, Infrastructure and Transport or submit it as collateral.

Delegation: “Ministry of Transport Ordinance” = Article 20, Item 4 of this Law

Penal provisions: Article 20, Item 4 of this Law

(Changes of the articles of incorporation)

Article 9 Changes in the articles of incorporation of the Company, appropriation of the retained earnings or disposition of losses, resolution of merger, split or liquidation of the Company shall become effective upon the granting of approval by the Minister of Land, Infrastructure and Transport.

(Consideration for small and medium-sized enterprises)

Article 10 The Company shall, in consideration of the impact of its business operation on the economic activities in that region, ensure carefully that the Company will not unreasonably hamper the business operations of small and medium-sized enterprises engaged in the same field of business in the region or unreasonably disturb their business profit.

(Financial statements)

Article 11 The Company shall submit its balance sheets, income statement and business report for the business year then ended to the Minister of Transportation within three months after the end of each business year,.

(Management Stabilization Fund for Hokkaido Passenger Railway Co., Ltd., etc.)

Article 12

1. Hokkaido Railway Company, Shikoku Railway Company and Kyushu Railway Company (hereinafter referred to as the “Hokkaido Railway Companies”) shall manage the fund equal to the amount of credit which they acquired in the provision of Article 7, Paragraph 1 of the Supplementary Provisions as Management Stabilization Fund (hereinafter referred to as the “Fund”) and appropriate the profit of its investment to the cost required for its business operations.

2. Hokkaido Railway Companies shall keep separate accounts for the Fund independent from other accounts in accordance as set forth in the applicable ordinance of the Ministry of Land, Infrastructure and Transport.

3. The Fund shall not be used, provided, that the fund may be used in a case where the net assets of the company shall have diminished to less than the sum of capital stock, legal reserves and the total of the Fund, and the approval of the Minister of Land, Infrastructure and Transport has been obtained in advance.

4. If the Funds has been used in the proviso of the preceding paragraph and the net assets of the Company have exceeded the sum of the capital stock, reserves and the Funds, an amount equal to the portion by which the said sum exceeds the sum shall be added to the Fund till the balance of the Fund reaches the amount referred to in Paragraph 1.

5. Hokkaido Railway Companies shall invest the Fund in safe and profitable instruments.

6. Other than the matters determined in each of the preceding paragraphs, the matters necessary for management of the Fund shall be determined by a Ministry of Land, Infrastructure and Transport.

(Supervision)

Article 13

1. The Company shall be subject to supervision by the Minister of Transport in accordance with the provisions of this Law.
2. The Minister of Transport shall, when considered especially necessary for enforcement of this Law, give a supervisory order to the Company for its business operations.

(Reporting and inspection)

Article 14

1. The Minister of Transport shall, if considered especially necessary for enforcement of this Law, require the Company to submit a report on its business, or otherwise, have its staff enter the business establishment of the Company such as branches, offices and other establishments, and inspect the books, documents, and other articles.
2. A member of the staff who performs the inspection by entering the premises of the Company under the provisions of the preceding Paragraph shall carry evidence of his identity and present the same to the people concerned.
3. The right of inspection by entering the premises of the Company under the provision of the preceding Paragraph shall not be interpreted as being for the purpose of criminal investigation.

Penal Provisions: Matters related to Paragraph 1 = Article 19 of this Law

(Consultation with the Minister of Finance)

Article 15 The Minister of Transport shall, in giving approval under Article 5, Paragraph 1 (except the matters related to issuance of new stocks), Article 7, 8 or 9 (except those relating to a resolution for change of the articles of incorporation), or giving an acknowledgment under the proviso of Article 12, Paragraph 3, consult with the Minister of Finance.

(Penal provisions)

Article 16

1. Any director, auditor or staff of the Company who has received, demanded or been promised a bribe in connection with his/her office capacity shall be liable to penal servitude of not exceeding three years. If he/she has committed a wrong action or has not taken reasonable action as a result, he/she shall be liable to penal servitude not exceeding five years.

2. Any bribe received by the criminal shall be confiscated. If the whole or part of it cannot be confiscated, an amount of money corresponding to the value of such portion shall be confiscated.

Article 17

1. Any person who has given, offered or promised to give a bribe referred to in the preceding paragraph shall be liable to penal servitude not exceeding three years or a fine not exceeding one million yen.

2. If a person who has committed the crime referred to in the preceding paragraph surrenders himself/herself to the authorities, the penalty may be reduced or exempted.

Article 18 The crime under Article 16, Paragraph 1 shall follow the case falling under Article 4 of the Criminal Act (Law No. 45 of 1907).

Article 19 Any director, auditor or a member of the staff of the Company who refuses to submit a report under the provision of Article 14 Paragraph 1, or who has submitted a false report, or refused, jeopardized or otherwise challenged the inspection under the provision of the same paragraph shall be liable to a fine not exceeding 200,000 yen.

Article 20 Any director or auditor of the Company who falls under any of the following items shall be liable to a minor fine not exceeding 200,000 yen for his/her illegal action:

- 1) If he/she has conducted business in violation of the provision of Article 1, Paragraph 3
- 2) If he/she has issued new shares or bonds or otherwise borrowed funds in violation of

the provision of Article 5, Paragraph 1

3) If he/she has not obtained approval for a business plan in violation of the provisions of Article 7

4) If he/she has transferred or otherwise submitted as collateral, property in violation of the provisions of Article 8

5) If he/she has not submitted the balance sheet, income statement or business report in violation of the provisions of Article 18 or otherwise submitted the same with false descriptions

6) If he/she has liquidated the Fund in violation of the provision of Article 121, Paragraph 3

7) If he/she has not followed an order given under the provision of Article 13, Paragraph 2

Article 21 Any person who violated the provision of Article 2 shall be liable to a minor fine not exceeding 50,000 yen. "

This article --- Partially amended [Law No. 63 of June 1993]

Supplementary Provisions

(Date of enforcement)

Article 1 This law shall become effective as from the date of promulgation.

(Organizing members)

Article 2

1. The Minister of Transport shall appoint organizing members for each Company and have them perform the role of promoters.

2. The organizing members may, in addition to those determined by the Japanese National Railways Restructuring Law (Law No. 87 of 1986; hereinafter called the “Restructuring Law”), may conduct those businesses which would allow the business to be started smoothly in the initial period of its incorporation.

(Preparation of articles of incorporation)

Article 3 The organizing members shall draw up articles of incorporation and obtain approval thereof from the Minister of Transport.

(Stocks to be issued at the time of incorporation of the Company)

Article 4

1. The matters relating to the stocks issued at the time of incorporation of the Company and the items listed in each of Article 168-2 of the Commercial Code (Law No. 48 of 1899) must be determined in the articles of incorporation.

2. With respect to the stocks issued at the time of incorporation of the Company, the Company may not appropriate an amount exceeding one half of the issued amount to the account of capital stock irrespective of the provision of the main text of Article 284-2, Paragraph 2 of the Commercial Code. In this case, the word “This Law” in the Paragraph 1 of the said article shall read as “This Law or the Law Concerning Passenger Railway Companies and the Japan Freight Railway Company”.

Paragraph 1 = Partially amended (Law No. 63 of June 1993)

(Underwriting of stocks)

Article 5 The total number stocks issued by the Company at the time of incorporation shall be underwritten by the Japanese National Railways, hence the organizing members shall allocate these stocks to the Japanese National Railways.

(Contributions in kind)

Article 6 The Japanese National Railways shall, at the time of incorporation of the Company, contribute its property to the Company as determined in the succession plan

specified in Article 21 of the Restructuring Law (hereinafter called the “Succession Plan”).

(Special measures at the time of incorporation of Hokkaido Passenger Railway Company, etc.)

Article 7

1. The Japanese National Railways shall, at the time of enforcement of the provision of Paragraph 2 of the Supplementary Provisions of the Restructuring Law, assume liability for debts in an amount determined by the Minister of Transport as a fund required for allocation to the Fund in favor of Hokkaido Passenger Railway Company, etc.

2. The Japanese National Railway shall, in addition to the action specified in the preceding paragraph, at the time of enforcement of the provision of Paragraph 2 of the Supplementary Provisions of the Restructuring Law, assume liability for debts in an amount determined by the Minister of Transport as the fund necessary for management of the ferryboat business on the route connecting Honshu and Hokkaido for fiscal 1987 in favor of the Passenger Company which will take over the said ferryboat business from the Japanese National Railways designated as such by the Minister of Transport under the provisions of Article 9 of the JNR Restructuring Law.

3. Redemption of the liability for a debt taken over under the provisions of the preceding two Paragraphs, payment of interest on the same, and other matters necessary in

connection with assumption of liability for debts shall be determined by a Cabinet Order.

4. In determining the amount under the provision of Paragraph 1 or 2, the Minister of Transport shall consult with the Minister of Finance.

Delegation: The “determined” in Paragraph 1 = The amount to be determined by the Minister of Transport as specified in Article 7, Paragraph 1 of the Supplementary Provisions of the Law Concerning Passenger Railway Companies and the Japan Freight Railway Company

The “determined” in Paragraph 2 = An amount to be determined by the Minister of Transport under Article 7, Paragraph 2 of the Supplementary Provisions of the Law Concerning Passenger Railway Companies and the Japan Freight Railway Company

The “Cabinet Order” of Paragraph 3 = Enforcement Order for this Law Article 2

(Timing of a call to an inaugural general meeting)

Article 8 With respect to application of the provision of Article 180, Paragraph 1 of the Commercial Code concerning incorporation of a company, the text “the payment and delivery of investment in kind under the provision of Article 180, Paragraph 1 of the Commercial Code” shall be understood as “allocation of stocks under the provision of Article 5 of the Supplementary Provisions of the Law Concerning Passenger Railway Companies and the Japan Freight Railway Company, etc.”

(Completion of incorporation of the company)

Article 9 The delivery of contribution to be made by the Japanese National Railways under the provision of Article 6 of the Supplementary Provisions shall be made at the time of enforcement of the provision of Paragraph 2 of the Supplementary Provisions of the Restructuring Law, whereby the Company shall come into existence irrespective of the provision of Article 57 of the Commercial Code.

(Registration of incorporation)

Article 10 The Company shall register its incorporation without delay following completion of incorporation irrespective of the provision of Article 188, Paragraph 1 of the Commercial Code.

(Exemption of application of provisions of the Commercial Code)

Article 11 The provisions of Articles 167, 168, Paragraph 2, Article 181 and Article 185 shall not apply to the incorporation of the Company.

(Transitional measures for the business)

Article 12

1. The business which the Japanese National Railways is actually conducting as of the time of enforcement of the provision of Paragraph 2 of the Supplementary Provisions of the

Restructuring Law (limited only to the business taken over by Passenger Companies under the Succession Plan) but not falling under the business referred to in Article 1, Paragraph 1 shall be deemed the business for which the relevant Passenger Company obtained approval under Paragraph 3 of the said article at the time of its incorporation.

2. The provisions of the preceding paragraph shall apply mutatis mutandis to the Japan Freight Company, in which case, the phrase “Article 1 Paragraph 1” in the said paragraph shall read “Article 1 Paragraph 2”.

(Transitional measures for the trade name)

Article 13 The provision of Article 2 shall not apply for the six-month period following the enforcement of this Law to those who are actually using the words “Hokkaido Passenger Railway Company Limited”, “East Japan Passenger Railway Company Limited”, “Tokai Passenger Railway Company Limited”, “West Japan Passenger Railway Company Limited”, “Shikoku Passenger Railway Company Limited”, “Kyushu Passenger Railway Company Limited” or “Japan Freight Railway Company Limited” in their trade name.

Article 14 Deleted (Law No. 63 of June 1993).

(Transitional measures for Business Planning)

Article 15 For the purpose of the business plan for the business year during which the

Company is to be established, the phrase “before start of each business year” in Article 7 shall read as “without delay after incorporation of the Company”.

(Temporary measures for liability guarantee for the bonds)

Article 16

1. The government may, irrespective of the provisions of Article 3 of the Law Concerning Restrictions on Financial Assistance by the Government to Corporations (Law No. 224 of 1946), for the limited period of five years from incorporation of the Company (excluding Hokkaido Passenger Railway Company, etc.; the same hereinafter for this article and the next), may execute a guarantee contract for the liability for the bonds that may be issued by the Company within the amount approved by the Diet.

2. In a case where the Government enters into a guarantee contract for the liability for the bonds issued by the Company, the amount of bonds to be issued under the said guarantee contract for each fiscal year shall not exceed an amount equal to the amount of redemption during the relevant business year of the liability for the railway bonds taken over by the Company under the provisions of Article 22 of the Restructuring Law for which the guarantee contract by the Government is outstanding.

3. The term of the guarantee contract available from the Government under the provision of Paragraph 1 shall not exceed ten years.

(Provisional measures concerning underwriting of the bonds by the fund of the Trust Fund Bureau, etc.)

Article 17

1. The bonds issued by the Company supplied by the Government ' s guarantee contract for the liability of the Company for the bonds under the provision of Paragraph 1 of the preceding Article (hereinafter called the "Government Guaranteed Bonds") may be underwritten, irrespective of the provisions of Article 7 Paragraph 1 of the Trust Fund Bureau Fund Law (Law No. 100 of 1951, hereinafter called the "Fund Law"), by the funds of the Trust Fund Bureau (meaning the funds of the Trust Fund Bureau specified in Article 6, Paragraph 1 of the Fund Law) as equivalent to the bonds specified in Item 7 of the said Paragraph.

2. The Government Guaranteed Bonds may be underwritten also, irrespective of the provisions of Article 3, Paragraph 1 of the Law Concerning Investment of Reserves of Postal Life Insurance (Law No. 210 of 1952), by the reserves of the special account of the postal life insurance (hereinafter called the "Reserves" as equivalent to the bonds specified by Item 9 of the said Paragraph.

3. With respect to the investment by the fund of the Trust Fund Bureau that may be invested in the Government Guaranteed Bonds under the provision of Paragraph 1, or a

portion of fund of the Trust Fund Bureau originated from the reserve to be invested in the Government Guaranteed Bonds under the provision of the preceding paragraph of the Law Concerning the Special Measures for Long-term Investment of Reserves of Postal Life Insurance (Law No. 7 of 1973), the issuer of the relevant Government Guaranteed Bonds shall be deemed as a corporation specified in Article 7, Paragraph 1 of the Funding Law.

Paragraphs 2/3: Partially amended [Law No. 50 of June 1990]

(Delegation to a Cabinet Ordinance)

Article 18 In addition to the matters determined under Article 2 through the preceding article of the Supplementary Provisions, those matters required for incorporation of the Company shall be determined by a Cabinet Order.

Supplementary Provisions [Law No. 50 Extract of June 29, 1990]

(Date of enforcement)

Article 1 This Law shall come into force as from April 1, 1991.

[Law No. 65 of June 29, 1991, Extract]

(Transitional measures for application of penal provisions)

Article 42 Application of penal provisions to an act committed before enforcement of this Law and an act committed after enforcement of this Law which falls in a case where the former treatment should apply in accordance with the provision of Article 3 and the provisions of Article 12 of the Supplementary Provisions (including a case of mutatis mutandis application under Article 10) of the Law for Partial Amendment to the Commercial Code, etc. (Law No. 64 of 1990) shall follow the former examples.

Supplementary Provisions [Law No. 65 of June 29, 1990]

This Law shall come into effect as from the date of enforcement (April 1, 1991) of the Law for Partial Amendment to Commercial Code, etc. (Law No. 64 of June 1990).

[Law No. 63 of June 14, 1993, Extract]

(Transitional measures for application of penal provisions)

Article 44 Application of penal provisions to an act committed before enforcement of this Law shall follow the former examples.

Supplementary Provisions [Law No. 63 of June 14, 1993]

This Law shall come into effect as of the date of enforcement of the Law for Partial Amendment to the Commercial Code, etc. (October 1, 1993).