

Semi-Annual Investor Meeting for the Fiscal Year Ending March 31, 2018: Major Questions and Answers

(Tokaido Shinkansen Passenger Volume]

- Q. Please confirm the Company's views on Tokaido Shinkansen passenger volume in the second half of the fiscal year. What is the reason for projecting the passenger volume to be the same as that of the last fiscal year despite the fact that passenger volume for October, as of yesterday, has been strong at a rate of 102%?
- A. Looking at the results of the first half of the year, passenger volume posted another record high for the fourth consecutive year since the FY2013. Since passenger volume is already at a considerably high level, we observe that it will be difficult to raise it even further. The recent status of transportation has been strong and the number of reservations for the coming one month is above that of a year earlier. However, since we do not have anything to project on any further into the future, we forecast that passenger volume of the second half of the fiscal year will be the same as that of the last fiscal year. As announced, we plan to operate extra trains adopting the "10 Nozomi Timetable" (operating up to 10 Nozomi services in both directions per hour) , and plan to provide transportation capacity above the level of the year before during the winter season, including the period of winter holidays. This is in the hopes of welcoming even more customers and consequently achieving growth in the results of our transportation business. It is our basic recognition that Tokaido Shinkansen passenger volume reflects the economic trends of Japan, and we hope that the economy will continue to expand moderately.

(After "10 Nozomi Timetable")

- Q. Ever since the introduction of "10 Nozomi Timetable" (operating up to 10 Nozomi services in both directions per hour), Tokaido Shinkansen passenger volume has been on the rise. It appears that there is still room for more use of the "10 Nozomi Timetable." Is there anything you can tell us about the move toward the introduction of "11 Nozomi Timetable" from a medium- and long-term perspective?
- A. We cannot say anything specific at the present time, but with the timetable revisions scheduled in the spring of 2020, the old Series 700 rolling stock will be replaced with the latest N700A rolling stock. As a result, all rolling stock on the Tokaido Shinkansen will be consistent with the type of rolling stock that can travel at a speed of 285 km/h. This means that there will be no slow-moving trains that travel at a speed of 270 km/h, which gives us a greater degree of freedom in setting the timetable. In order to achieve the "11 Nozomi Timetable," we will need to not only put in place consistency in rolling stock, but also pursue technological development and capital investment. Since these efforts must stand on the major premise of preexisting demand, we would like to make judgments by taking factors into account comprehensively.

(Express Reservation/smartEX)

- Q. What estimations does the Company have on the effects of introducing Express Reservation in terms of revenue growth and cost reduction? What is the level of expectation from smartEX?
- A. We introduced both Express Reservation and smartEX with the primary intention to increase the convenience of customers, rather than to attain direct growth in revenue. If as a result of introducing these services more customers choose to use the Shinkansen for convenience, we would be very thankful. In terms of cost reduction effects, while the amount of sales commissions to pay other firms increases as passenger volume rises, the introduction of Express Reservation has led the percentage of direct sales by our Company to rise. Therefore, according to our analysis, Express Reservation contributes to suppressing increases in sales commissions to a certain degree.

(Chuo Shinkansen Project)

- Q. Under the initial plan for the Chuo Shinkansen Project released at the beginning of the year, capital investment of this fiscal year was 159 billion yen. What is the progress in the first half of the fiscal year?
- A. We posted 30.1 billion yen in the financial results for the first half of the year. Since many of the construction activities under the Chuo Shinkansen Project will be accounted for in the second half of the fiscal year, we expect that capital investment will amount to nearly 159 billion yen for the full year.

(Chuo Shinkansen Project)

- Q. When do you plan to apply for approval of the construction implementation plan on rolling stock and station facilities?
- A. The specific timing and the number of submissions for the plan on rolling stock and station facilities will be determined at a later date. Regarding rolling stock, we will set a schedule for test runs prior to live operation, and we need to take into account the production capacity of the rolling stock manufacturer, among other factors. Since we must obtain approval before placing orders with the manufacturer, we will submit an application before then. We plan to examine various conditions in a similar manner also for station facilities before submitting the application. If the construction work associated with our construction implementation plans, (part 1) and (part 2), moves forward smoothly, we believe the application timing will naturally become apparent.

(Chuo Shinkansen Project)

- Q. It was reported in the media that Mitsubishi Heavy Industries exited from the manufacturing of mass-production vehicles. Isn't it likely that a loss of a competitive environment would have an adverse effect on cost reduction?
- A. Since there is no agreement on mass-production vehicles between us and Mitsubishi Heavy Industries, the term "exit" is not appropriate. There is no impact at all at this moment. This is a matter to pursue going forward and we also have no particular concern about cost reduction going forward.

(Chuo Shinkansen Project)

- Q. As a cost for improving Superconducting Maglev Technology, the Company was projecting roughly 11 billion yen for this fiscal year, up 4 billion yen from a year earlier. What is the progress to date? Please also tell us how you feel about the technical development cost related to Superconducting Maglev in the next fiscal year and beyond.
- A. While we have completed technological development necessary for the commercial line, we are continuing to pursue various development activities associated with Superconducting Maglev Technology that lead to improvements and cost reduction. Progress has been steady thus far this fiscal year. While we cannot give specific projections for the next fiscal year and beyond because cost will depend on the content of technological development, we plan on pursuing what we feel are necessary technological development activities. We believe that these activities are extremely meaningful in that technological development leads to reducing the total construction cost for the Chuo Shinkansen.

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