November 4, 2020

Central Japan Railway Company

Main Q&A of the Semi-Annual Investor Meeting for FY2021.3

(Moving up the last train service)

Q. Please tell us your thoughts on moving up the departure time for the last train service.

A. At this moment, we do not intend to revise our timetable to move up the departure time for the last train service. We are aware that other railway operators are considering doing so for conventional lines in order to expand the hours available for night-time maintenance work. However, unlike the Tokyo metropolitan area or Kansai area, our last train services on conventional lines are already set at a relatively early time, while also ensuring connection with the last Shinkansen services.

For example, at Nagoya station, the last Shinkansen service from Tokyo (Hikari 669) arrives at 11:49 p.m., and the last train services of the Tokaido Line, Chuo Line, and Kansai Lines are set so that they connect with the Shinkansen. With regard to the Kansai Line, the last train leaves Nagoya station at 11:57 p.m. On the Tokaido and Chuo Lines, because there is a relatively large volume of late night users, the last train services leave at 0:20 a.m., but on the Tokaido Line (Tokyo bound), freight trains continue to run immediately after the last passenger service until about 3:00 a.m. As it is not possible to conduct maintenance work during that time, there is no point in moving up the last train service.

(Train capacity going forward)

Q. Please tell us your thoughts on train capacity going forward.

A. Although we assume transportation revenues to return to 80% of FY2019.3 levels by June 2021, should there be any deviation from this assumption, we will be able to respond by adjusting the amount of extra train services. Even if revenues recovered to 100% of FY2019.3 levels, we can fully absorb the increase by utilizing the “12 Nozomi Timetable,” and if, on the contrary, they fall short of expectations, we can respond by cancelling the operation of extra train services and switch to the regular schedule, as we did this summer. Although we think that, based on the current recovery in passenger volume, it will be necessary to run a certain number of extra trains from the perspective of preventing the spread of infections in trains, we will continue to provide appropriate train capacity flexibly according to the situation. Furthermore, with regard to the regular timetable, the revision that we carried out in March 2020 has enabled us to run 12 Nozomi services per hour, and we intend to further improve upon this going forward. For example, we will continue to consider such improvements as reducing the travel time between Tokyo and Shin-Osaka and improving users’ convenience at early morning and late night times. Concerning the next timetable revision, we are currently coordinating with the relevant companies, and I think the specifics can be announced by the JR Group around December.

(Launch plan of N700S)

Q. Are you thinking of reviewing the N700S launch plan?

A. Currently, we intend to launch the N700S rolling stock as per the previously announced plan. The launch of N700S is not a measure to increase the number of trainsets on hand, but is a measure to replace the N700 series rolling stock that has become aged and reached its replacement timing. Therefore, we intend to continue proceeding with the plan at a certain pace. With regard to capital expenditure, including that for the Chuo Shinkansen, our basic policy is to carry out necessary investments while reflecting the business situation of the time.

(Status of the Chuo Shinkansen Project)

Q. Regarding the Chuo Shinkansen Project, when do you plan to apply for approval to revise the Construction Implementation Plan?

A. Firstly, we intend to sincerely explain at the Expert Conference established by the Ministry of Land, Infrastructure, Transport and Tourism to relieve the concerns of the local residents at the Oi River basin about water resources. The chairperson of the Expert Conference issued a comment at the meeting on October 27, and although we are hopeful that this will lead to greater understanding, we cannot comment specifically about revision to the Construction Implementation Plan until we have a clearer outlook for the Shizuoka section.

(Thoughts on dividends for the current fiscal year)

Q. Please tell us the reason why you decided to decrease dividends for the current fiscal year by ¥20 per share on an annual basis.

A. With regard to dividends for the current fiscal year, we decided to pay annual dividends of ¥130 per share, ¥65 per share for both interim and year-end dividends. The last time our annual dividends were around ¥130 per share was five or six years ago, when revenues were around 90% of FY2019.3. As I mentioned earlier, although we assumed transportation revenues to recover to about 80% of FY2019.3 levels by June 2021 in our forecast, the dividend amount reflects our hope that revenues will actually recover to around 90% of FY2019.3 levels.

With regard to dividends, our basic policy is to continue stable dividends, while taking into account the business environment and results of each period to decide the specific dividend amount. I hope you will understand that the dividend amount is the result of a comprehensive examination of these factors.

(Status of the Chuo Shinkansen Project)

Q. Is the Shizuoka section of the construction site in the Southern Alps tunnel the only section of the Chuo Shinkansen Project that is seeing a delay in construction? Is it correct to think that because you were not able to begin preparation of the construction yard within the month of June, the opening of the Chuo Shinkansen will be delayed for the amount of time it takes from June in the Shizuoka section?

A. Construction at Shinagawa and Nagoya Stations, where construction work is the most difficult, is seeing steady progress. With regard to land acquisition around Nagoya station, which we thought would also be difficult, we have managed to acquire more than 90% in terms of the number of contracts. Furthermore at the North Shinagawa Emergency Access, we are assembling a shield machine and proceeding steadily toward the drilling of tunnels in urban areas. As such, in sections other than Shizuoka, we are seeing steady progress in construction, albeit the tight schedule and some difficulties we are facing.

As for your question about whether the opening will be delayed from 2027 for the amount of delay in the Shizuoka section, since we cannot foresee the progress of the construction process in the Shizuoka section, I can only say at this moment that we acknowledge that meeting our 2027 target for opening is in a difficult situation.

(Large-scale renovation work for the Tokaido Shinkansen)

Q. Have you also revised your plan for the large-scale renovation work for the Tokaido Shinkansen?

A. We have postponed some parts of the renovation plan, as part of our cost reduction efforts of the current fiscal year. The large-scale renovation work is being conducted from the perspective of preventive maintenance and we believe that it is possible to revise the construction schedule without compromising safe and reliable transportation.

(Cost reduction)

Q. Of the ¥68 billion expected cost reduction in the current fiscal year, how much reduction have you achieved in the first half? Please also tell us roughly how much of the cost reduction is postponement to the next fiscal year.

A. Of the ¥68 billion that we announced as the cost reduction across the entire Group, we have already achieved a reduction of ¥27 billion in total, which is broken down into ¥16 billion at JR Central and ¥8 billion in operating expenses and ¥3 billion in capital expenditure at group companies.

I cannot say what the exact amount is that is postponement to the next fiscal year, but I can say that the majority of the cost reduction that we are planning is temporary, such as changes to construction schedule that will not compromise safe and reliable transportation. Each year, we record around ¥800 billion as operating expenses on a non-consolidated basis, of which we plan to reduce around 5%, approximately ¥40 billion, during the current fiscal year.

Q. Of the ¥68 billion cost reduction plan, how much of it is permanent cost reductions, excluding one-off reductions such as the postponement of maintenance and revision of advertising costs? Is there room for additional reductions in and after FY2022.3?

A. As I mentioned earlier, the majority of the cost reduction that we are planning for this year is temporary. Toward fundamental cost reduction in the future, we intend to carry out long-term cost reductions even more thoroughly by leveraging ICT technologies, such as by saving labor in rolling stock inspection and maintenance using on-board data analyses.

(Sales promotion of travel packages)

Q. In relation to the offering of "Zurashi Travel," do you have any intention to strengthen cooperation with online travel agencies, in addition to the conventional JR Tokai Tours and major travel agencies, from the perspective of implementing flexible promotion of tourism?

A. Sales at JR Tokai Tours were hard hit by the impact of COVID-19 in the first half of this fiscal year but have been recovering recently due in part to the "Go To Campaign". We will strive to secure revenues by providing travel packages, initially at JR Tokai Tours, that tap into the tourism resources within our service area, mainly Kyoto.

(Measures to boost demand)

Q. You expect demand to recover to around 60% of previous levels toward next March, but what are your expectations toward the recovery of business demand at that time? Furthermore, you intend to focus on boosting tourism demand through "Zurashi Travel," etc., but is it not necessary to carry out a structural review of your sales strategies, such as further reviewing your pricing policy for EX members or improving product competitiveness through dynamic pricing?

A. We acknowledge that how we can recover business demand is a key issue going forward. Currently, passenger volume on weekdays is roughly 40–45% of the previous year's level and around 50% on weekends / holidays due in part to the effect of the "Go To Travel Campaign". From what we hear from various companies, the reason that companies are refraining from business trips is not only to prevent infections but also to reduce costs, in view of their financial conditions. Therefore, a recovery in demand going forward will also be dependent on the recovery of the economy as a whole. As for JR Central, we believe that making efforts to revitalize customers' mobility through measures to stimulate demand such as the proposal of "Zurashi Travel" will lead to economic recovery and have a positive impact on the recovery of companies' demand for business trips.

As for dynamic pricing, we intend to consider the use of EX services in tourism, etc. We have been providing cheaper products for trains operating in the less busy times of the day, such as discounts for early booking using the EX service, and intend to further our consideration of such services going forward.