

Main Q&A of the Year-End Investor Meeting for FY2021.3

(Future trends in demand)

Q. What are your thoughts on demand trends for the Shinkansen in the next fiscal year and beyond?

A. It is difficult to accurately predict future demand trends because there are many uncertain factors. However, we expect that the number of passengers will recover as vaccination progresses and restrictions on human contact and travel are eased. As such, we have assumed that the level will return to 80% of the FY2018 level in the second half of this fiscal year. Beyond that, it's unclear how the situation will progress, but while it is possible that web conferencing will partially replace business trips, there is also the aspect that companies are taking applying these tools as a temporary measure. Until now, the Tokaido Shinkansen has achieved enormous growth, especially since October 2003, when we opened Shinagawa Station and shifted to a "Nozomi" centered timetable. When comparing FY2002 to pre-COVID FY2018, Japan's GDP growth was 15%, while Tokaido Shinkansen's transportation revenues increased 37% and passenger volume increased 42%. This shows that if we provide convenient and high-quality service, people value working face-to-face and people want to travel and visit places. Understanding that the demand for the Tokaido Shinkansen has such potential for growth, we considered the extent to which we will be affected by some of the changes in life and work styles remaining even after COVID-19. As a result, we have assumed 80% of the FY2018 level in the second half of this fiscal year, and beyond that, I believe that we will see continued gradual recovery. We do not have a breakdown of the contributions of each initiative that I explained today, but the fact that before the COVID pandemic we had been able to increase transportation volume can be attributed to various

efforts, such as increasing the number of “Nozomi” trains and improving EX services. Therefore, looking ahead, we aim to increase future revenues by providing attractive products through the deployment of Mobility as a Service using EX reservation system, or “EX-MaaS.”

Q. Within your assumption that demand will recover in the future, what are your thoughts on the outlook for business and tourism?

A. We do have breakdown estimates of demand, but as for the current situation, we have confirmed that business demand accounts for about 60% of the total, and the remainder is tourism demand and passengers traveling for various events, which are difficult to divide into the two categories. This situation has not changed significantly in recent years. Going forward, what we are trying to address with a sense of urgency is the recovery of business demand. The pandemic led to the popularization of new ways of working using new technologies, and it is expected that some of them will take root in the future, but companies are still going through trial and error. In the situation where mobility is severely restricted due to the declaration of a state of emergency, web conferencing has been adopted, but when such restrictions have been lifted, many companies again returned to face-to-face meetings. For this reason, it is difficult to determine what kind of lifestyle people will adopt once the vaccination process is underway and the situation is under control. We hope to recover business demand by providing more convenient services. As for tourism demand, the pandemic subsided for brief period between October and November last year, and demand recovered rapidly with the support of the “Go To Travel Campaign.” Given that, I think that at least domestic tourism will return at a rather early stage once there is no concern about the COVID-19 infection. After that, I believe that once the concern of COVID-19 subsides worldwide, foreign visitors to Japan will return a little later.

(Construction costs of the Chuo Shinkansen Project)

Q. Regarding the Chuo Shinkansen Project, you have recently announced that the total construction costs will increase by ¥1.5 trillion, but is there a possibility that it will rise further in the future? Also, what are the assumptions for the estimation, such as whether inflation is factored in?

A. The possibility of unexpected circumstances occurring in the future cannot be denied. However, we conducted a close examination of the outlook for the construction costs, reflecting factors that are considered reasonable and the amount is ¥7.04 trillion, as presented today. The construction costs of the Chuo Shinkansen will be funded mainly by operating cash flow, based on the assumption that transportation revenues will recover in the future. As for the shortfall, the actual decision on how much to borrow will be based on a combination of how far the operating cash flow has recovered at that point and how far the construction work has progressed. This verification confirms whether management will remain sound in the future with such a big project, even with the rapid deterioration of the business environment caused by the influence of COVID-19. Although we began to anticipate an increase in construction costs of certain construction sites, we proceeded with the understanding that the overall excess amount was small and given our strong performance before COVID, we would not have any concerns about securing construction funds even after the increase in construction costs. However, with the business condition becoming severe with the pandemic, we decided to conduct a close examination to see how much the construction cost would increase. As a result, it became clear that the total construction costs will exceed the level that requires timely disclosure, so we disclosed as such. The increase in construction costs is due to factors such as our decision to further enhance earthquake countermeasures as a railroad operator based on new insight obtained through testing and analysis. However, even with this increase in construction costs, if revenues recover at a pace that we can realistically expect, we will be able to proceed with the construction work without any major delays, while maintaining sound management and stable dividends, by adding about ¥1

trillion in new financing to the projected operating cash flow. This is what we have explained to you this time, but we will be flexible as we see if things go as planned.

Concerning the specific items that have been factored into the total construction costs at this time, for some of the mountain tunnels, additional costs based on geology and field conditions are included as part of the increased factors. For the Southern Alps Tunnel, we had already anticipated in the original plan various cost measures to deal with difficult construction, including measures to reduce the amount of water inflow into tunnel. In the Shizuoka construction area of the Southern Alps Tunnel, in addition to building a waterway tunnel to pump water inflow into tunnel back into the Oi River, which will prevent the negative environmental impact of the project, the pump-up equipment, which was originally planned to be installed until the connection of the pilot tunnel but was decided to remain after the opening of the pilot tunnel in order to respond to Shizuoka Prefecture's request for the return of all water inflow into tunnel to the Oi River, has been included in the original construction costs, and so is not a factor in the increase. On the other hand, new cost burdens associated with the construction of the prefectural road tunnel, the improvement of the forest road (Higashimata line) for construction work and increased costs due to negotiations with the landowner are included as part of the increased factors. These increased costs are categorized as "Securing utilization sites of excavated soil," as explained in the third item, as they are related to the construction and improvement of roads for construction work. In addition, taking earlier discussions at the expert committee meeting set up by the Ministry of Land, Infrastructure, Transport and Tourism and the specialist meeting in Shizuoka Prefecture into consideration, costs required for additional necessary surveys are included as part of the increased factors. Also, in response to the ground collapse incident in Chofu City that occurred near the construction site of the Tokyo Outer Ring Road, which is under construction by East Nippon Expressway Company, we have included additional costs that can be assumed at this time.

Concerning future inflation, we assumed that personnel expenses and non-

personnel expenses will increase by a cumulative 5% over 20 years. The construction costs of the Chuo Shinkansen also reflect the increase in price and labor costs up to now, and then it is reflected not by applying a uniform multiple to all items, but by the accumulation of labor and material costs that are carefully examined in each construction contract.

(Funding)

Q. When will you decide on additional funding for the Chuo Shinkansen Project? Also, what is the remaining balance of the FILP (fiscal investment and loan program) loan?

A. For the time being, the construction work will be carried out using the FILP loan. In the meantime, our business will recover and give us the ability to generate operating cash flow again, so we will use this to fund the construction after the FILP loan is spent. After that, we will procure new funds for the portion that cannot be covered by the operating cash flow of each fiscal year, but the specific timing of procurement will be determined by the progress of construction. As it will be difficult to finance the entire amount in one year, we will have to look several years ahead and make a plan to raise necessary funds and decide when to do so, taking the market conditions and our management capabilities at that time into account. What we have shown in this verification is that, as a framework for securing the ¥7.04 trillion needed for construction, we will be able to secure funds by adding about ¥1 trillion in new financing. Further details of when and how we will actually procure the funds have yet to be determined.

As of the end of the fiscal year under review, the remaining balance of the FILP loan was about ¥2 trillion, meaning we have used about ¥1 trillion to date.

Q. It is my understanding that concerning the ¥1 trillion of additional financing necessary to cover the increase of total construction costs of the Chuo Shinkansen Project, in principle you assume this to be financed by debt. What is your view on the optimal debt-to-equity ratio in the mid to long term? Did you

not consider raising capital? Plus, I would like to know if there are any indicators that measure the level of debt that is acceptable.

- A. We are not planning to raise additional capital at this time. As mentioned in the previous answer, we have not yet decided on the details of financing, but we intend to raise the new funds by borrowing. Realistically, the timing of when we procure funds will depend on the progress of the construction, and we will use the most appropriate method at some time in the future. What we disclosed today is that upon conducting a close examination of how much the increase in construction costs would be, the amount exceeded the level that requires timely disclosure. Also, we confirmed that even considering the increase in construction costs, we are able to proceed with the project while maintaining sound management and stable dividends. In addition, we were also concerned about whether securing construction funds would be a constraint on the speed we would be able to proceed with construction, but we have confirmed that we will be able to secure the necessary funds to complete the project by borrowing ¥1 trillion in additional financing. Furthermore, considering our management capabilities, we have determined that there is no problem with an increase in borrowings of ¥1 trillion. Other than this, there are no further details that we can provide now.

(Plan of the Chuo Shinkansen Project)

- Q. Do you believe that the return on investment of the Chuo Shinkansen Project on a stand-alone basis has decreased as a result of increase in total construction costs? For example, is it possible to review the ticket prices for the Chuo Shinkansen in order to maintain the return on investment in response to the increase in construction costs?
- A. The Chuo Shinkansen Project is being carried out with the aim of avoiding future risks by creating a dual system and using Superconducting Maglev Technology to greatly enhance the role of the Tokaido Shinkansen, which plays a major role in Japan's main artery transportation between Tokyo, Nagoya and Osaka. In terms of funding, we will mainly use operating cash flow and borrow to cover the

shortfall, and we plan to complete the project while maintaining sound management and stable dividends throughout the duration of construction. This project is not structured in a way where we take on a large debt during construction and then pay off the debt through revenues after opening of business. Instead, we intend to carry out the plan while maintaining stable management at all times. Although ticket prices for the Chuo Shinkansen have yet to be determined, because this project will have an overwhelming effect of shortening travel time, we would like to create a fare/charge structure that is appropriate for it. When the appropriate time comes to decide on a specific ticket price structure, we will make an announcement.

(Cost reduction)

- Q. What is the breakdown of the cost reduction plan for FY2021 for the first half and second half? In addition, you plan to reduce non-consolidated expenses by ¥30 billion, but what is the reduction compared to?
- A. As a cost reduction plan for FY2021, we plan to reduce our full-year non-consolidated expenses by ¥30 billion, but we do not have a breakdown separately for the first and second halves of the year. As to your question about what the reduction is compared to, for example, we reduced our non-consolidated expenses by ¥63 billion in FY2020, but the ¥30 billion for FY2021 will not be in addition to this. The ¥30 billion of reduction planned for FY2021 is compared to the expense level had we not made such reduction efforts.
- Q. As an initiative for Reform of Business Operations, you have explained that you will reduce fixed cost on a non-consolidated basis by about ¥80 billion, but how does this differ from the cost reduction plan for the current fiscal year? Also, what is the timeline in which the reduction effects of the Reform of Business Operations initiative will appear?
- A. The ¥30 billion cost reduction plan for the current fiscal year and the ¥80 billion in cost reduction for the Reform of Business Operations initiative are different.

The Reform of Business Operations initiative aims to construct a work system that allows us to work at a lower cost on a regular basis. We aim to improve efficiency by developing necessary technology, investing in equipment, and changing maintenance methods using ICT. It will take some time for these effects to emerge. Initially, the impact on expenses will not be significant, but as time goes by, the impact will become larger. On the other hand, the cost reduction plan for the current fiscal year aims to improve our financial condition this year by temporarily curbing expenditure, such as advertising expenses, considering the current severe business environment.

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