

Main Q&A of the Semi-Annual Investor Meeting for FY2022.3

(Recent trends and future demand outlook)

Q. According to the revised performance forecast, November was set as the start of the recovery. Is the recovery from November coming into sight?

A. In the revised forecast, the start of recovery is set for November, two months later than the previous forecast. First, let me state the current situation. Since the beginning of October, the use of our mainstay Tokaido Shinkansen line has been increasing week by week. Recently, the passenger volume at the Tokyo gate has exceeded 50% of the FY2018 level. The number of reservations for the Tokaido Shinkansen up to one month ahead has also been increasing. Recently, however, the EX service (Express Reservation/Smart EX), an online reservation and ticketless boarding service, has become widespread and an increasing number of people are making reservations at the last minute, so the number of reservations has tended to be slightly lower than the actual figure. In addition, due to the effect of COVID-19, people tend to prefer unreserved seats. Lastly, there is uncertainty about the possibility of a sixth wave of COVID-19 in the future. However, if vaccination continues to progress, it will prevent the disease from becoming severe even if infections spread, and the pace of recovery may be accelerated as people who have been refraining from traveling become able to travel back to their hometowns or elsewhere during the year-end and New Year holidays. Taking such things into consideration, with regard to the pace of recovery, the revised forecast assumes that transportation revenues will increase month by month from the current situation and will reach approximately 80% of the FY2018 level toward the fourth quarter.

Q. You said that there is a gap in the pace of demand recovery between business and tourism, but what exactly does that mean?

A. For business and sightseeing, I'm sure you can imagine that majority of people use trains for sightseeing on weekends and business on weekdays. Recently, the passenger volume at the Tokyo gate of the Tokaido Shinkansen is sometimes in the 40% range compared to FY2018 on weekdays, but it often exceeds 50% on weekends and holidays. As for business use, there are people who still continue to use web conferencing and telecommuting, and I hear that companies with factories are cautious about business trips because they have to stop operations if someone in a factory becomes infected. Due to these factors, I think that business use will lag behind sightseeing in recovery. I think we will take measures to warm up the tourism mindset as the first step while devising measures.

Q. Please tell me about the current occupancy rate for hotels and the reservation status.

A. Our hotel business is centered on the Nagoya Marriott Associa Hotel and the Nagoya JR Gate Tower Hotel. The most recent occupancy rate, which is for September, was 42% for Marriott and 55% for the Gate Tower Hotel. Now that the state of emergency has been lifted, I think this trend will change. Also, qualitatively speaking, after the lifting of the state of emergency at the end of September, the number of reservations and inquiries for accommodation and banquets has increased. At the Nagoya Marriott Associa Hotel, daily bookings have now doubled since September.

(Shinkansen fare system)

Q. Are you considering expanding the range of seasonal changes in Shinkansen fares? JR East has announced an increase in Green Car fares, and I would like to hear your thoughts on such a pure fare increase.

A. The limited express fares for reserved seats on the Tokaido Shinkansen are currently fluctuating according to off seasons and busy seasons. As for fares, the basic policy is to take effective measures at each company by taking the trends of users/customers into account, so I don't think we will apply the exact same system as JR East. In the past, JR East lowered Green Car fares in an effort to promote usage, resulting in lower prices than the common Green Car fares for trains operated across JR companies. I

understand that from spring 2022 onwards the fares will be raised to about the same level as the common Green Car fares that are currently applied to the Tokaido Shinkansen in the Company and the Sanyo Shinkansen in JR West. We are also studying the fare system, and I think it would be appropriate to identify the day with the highest peak among the busy seasons to level demand, considering Golden Week transportation, year-end and New Year transportation, transportation for foliage viewing in the fall, and so forth, and also looking at the arrangement of the days of the week. I think that the current fluctuation range is insufficient for peak shifts.

(Chuo Shinkansen Project)

Q. According to media reports, it seems that Shizuoka Prefecture has taken a hardline stance on the Shizuoka section of the Chuo Shinkansen's Southern Alps Tunnel, and discussions are not bringing the sides closer. Can you see where you can find a compromise?

A. I understand that the concern of the people of the Oi River basin is that the water of the Oi River may decrease. The Expert Conference on the Linear Chuo Shinkansen Shizuoka Section, which is organized by the Ministry of Land, Infrastructure, Transport and Tourism, announced its policy to finalize an interim report at its next meeting. I believe it is important to respond sincerely based on that report. Meanwhile, in September of this year, the president of the Company exchanged opinions with the city and town mayors of the Oi River basin. We believe it is important to explain the situation carefully to local residents who are concerned, and get the understanding of them through such efforts. We will continue our efforts to this end and address the matter sincerely.

Q. As the construction of the Chuo Shinkansen progresses, have any unexpected problems happened in terms of safety, cost, and the construction period?

A. First of all, regarding the fall of rocks from the tunnel face that occurred yesterday in the Seto Tunnel construction in Nakatsugawa City, Gifu Prefecture, I would like to offer my condolences to the worker who died and also would like to express my sympathy to the worker who was injured in the accident. The police will conduct an on-site investigation, which we will fully cooperate with, and we will conduct our

own investigation into the cause and take thorough measures. We do not expect this to have a significant impact on the construction period or costs. In April this year, we announced that the total construction costs between Shinagawa and Nagoya is expected to increase by approximately ¥1.5 trillion from the initial estimate. Although we have lowered our performance forecast for the current fiscal year, we do not believe that this will have a significant impact on the results of our April trial calculation regarding the total construction costs. As for the construction period, the work schedule is generally tight, and although there are difficulties in each section, we are energetically proceeding with the project. On the other hand, there is no prospect of starting tunnel excavation work for the Shizuoka section of the Southern Alps Tunnel, and it is not possible to say clearly how long it will be delayed at this point. As for the future, we plan to apply for approval to change the Construction Implementation Plan when we can determine the new opening time while coordinating with the Ministry of Land, Infrastructure, Transport and Tourism.

Q. I would like to know the policy of capital investment for the Chuo Shinkansen after the next fiscal year.

A. For the next fiscal year and beyond, we are not yet at the stage where we can provide specific amount of capital investment. We will plan the necessary capital investment considering the progress of construction.

Q. I would like to know the balance of funds using the Fiscal Investment and Loan Program.

A. It is an item called Money held in trust for the Chuo Shinkansen construction on the balance sheet. As of the end of September this year, we had a balance of ¥1,948.1 billion and have used approximately ¥1,050 billion to date.

(Cost reduction)

Q. On the issue of cost reduction, you explained that it is to postpone non-urgent projects.

Please tell us about any progress your company has made in cost reduction that is expected to have a lasting effect.

A. Our current cost reduction initiatives are primarily temporary ones, such as postponing non-urgent projects to the extent that safe and reliable transportation is not hindered, and reducing advertising expenses. In the medium to long term, as explained in the spring of this year, we are promoting "Reforms of Business Operations" and over the next 10 to 15 years we aim to reduce fixed costs on a non-consolidated basis by approximately ¥80 billion. This is not the type of effort that can produce results quickly in a short period of time, and we are currently working on ways to reduce costs. Capital investment and technological development are also required to materialize such ways. For these reasons, it will take some time for our efforts to produce substantial results.

(Financial results figures)

Q. I would like to know the details of the revision of ordinary income and loss and net income and loss in the performance forecast of non-consolidated results, focusing on the concept of extraordinary income and loss and tax effect accounting.

A. Our concept of tax effect accounting has not changed.

In addition to a loss on valuation of NIPPON SHARYO, LTD. shares as an extraordinary loss, a loss due to deterioration in business performance of affiliated companies was also recorded.