

Long-Term Loan Using the Fiscal Investment and Loan Program (FILP)

1 Implementation of Long-Term Loan Using the Fiscal Investment and Loan Program (FILP)

In November 2016, JR Central applied for a long-term loan using the Fiscal Investment and Loan Program (hereinafter, "FILP Loan") for 3 trillion yen (plan) to Japan Railway Construction, Transport and Technology Agency ("JRTT"). We proceeded to borrow funds sequentially thereafter and secured financing for a planned total of 3 trillion yen in July 2017. Securing long-term, fixed- and low-interest rate financing using FILP, by taking advantage of the low-interest rate environment at the time of draw-down, will enable us to mitigate management risk and start the construction work for the section between Nagoya and Osaka right after the operation

of the section between Shinagawa and Nagoya stations. We will actively promote construction efforts for the Chuo Shinkansen in an aim to moving up live operation of the entire line by up to 8 years.

The Chuo Shinkansen Project is pursued based on the premise that JR Central, as a private corporation, covers full cost of construction, while securing management autonomy in investment and seeing that sound management and stable dividends are strictly maintained until the construction work is fully completed. The FILP Loan poses no change to this premise.

2 Advantage of the FILP Loan

The advantage we gain from the FILP loan lies in mitigating three management risks, which are interest-rate increase risk, financing risk, and redemption risk. Specifically, since we can secure long-term, fixed- and low-interest rate funds, we are able to mitigate the risk of interest rates rising in the future and fix interest payments at a low level for a long period of time.

Under the original plan, the construction cost for the route between Shinagawa and Nagoya was approximately 5.5 trillion yen, of which roughly 3 trillion yen was expected to require new financing. By securing

the amount through the FILP Loan, we have the funds needed until live operation in Nagoya without being considerably impacted by future economic conditions and interest rate fluctuations, and reduce financing risk.

Furthermore, since the FILP Loan matures after the construction period of the Chuo Shinkansen, during which time a large amount of funds is needed, we are able to build up cash from operating activities to provide for the redemption of liabilities, thereby also mitigating redemption risk.

3 FILP Loan scheme

Under the FILP Loan scheme, long-term, fixed- and low-interest rate funds are loaned from the state FILP funds to Japan Railway Construction, Transport and Technology Agency (JRTT), the FILP agency. Then JR Central borrows the funds from JRTT under the same interest rate and terms. [Diagram 1](#)

With a plan to secure FILP-based financing for a total of 3 trillion yen, JR Central borrowed 1.5 trillion yen in FY2016 and subsequently borrowed the remaining 1.5 trillion yen in FY2017. Funds procured will be applied only to costs associated with the construction of the Chuo Shinkansen and not for any other use or investment.

In the material submitted to the Transport Policy Council of the Ministry of Land, Infrastructure, Transport and Tourism in 2010, we indicated in our outlook that a period of 8 years after live operation in Nagoya will be set to recover management strength. After reducing long-term debt by a certain amount, construction on the route between Nagoya and Osaka will be initiated while seeing that sound management and stable dividends are strictly maintained, and ensuring that the balance of long-term debt does not exceed 5 trillion yen throughout the project period until live operation of the entire line. By utilizing this FILP Loan, we are able to reduce this period for restoring management strength and promote construction efforts in an aim to moving up live operation of the entire line by up to 8 years. [Diagram 2](#)

As for the terms of the FILP Loan, the interest rate is the FILP loan interest rate of the borrowing date, which is fixed throughout the entire period. The repayment method is equal principal payment over a period of roughly 10 years after deferring the payment of principal for about 30 years, and we will repay the loan over a period of roughly 10 years after the live operation in Osaka when management is stabilized. The funds procured from the FILP Loan will be applied only for the cost of construction of the Chuo Shinkansen. We ensure the transparency of funds by setting a trust aimed at segment-based management.

Since the FILP Loan amounts to a large sum of 3 trillion yen in two years, we borrowed the funds in five lots. [Diagram 3](#)

Diagram 1 FILP Loan scheme

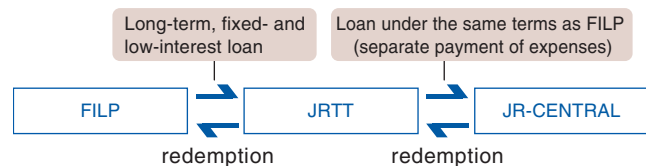


Diagram 2 Illustrated plan of moving up live operation

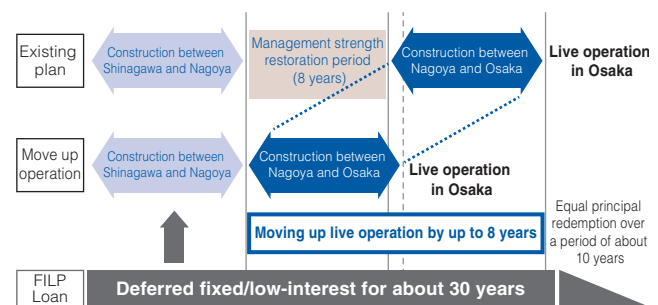


Diagram 3 Primary terms of financing

	1st	2nd	3rd	4th	5th
Amount borrowed	500 billion yen	500 billion yen	500 billion yen	750 billion yen	750 billion yen
Interest Rate	0.6%	0.8%	0.9%	0.9%	1.0%
	Fixed throughout entire period				
Borrowing Date	November 29, 2016	January 16, 2017	March 10, 2017	May 17, 2017	July 12, 2017
Maturity Date	November 29, 2055	January 16, 2056	March 10, 2056	November 17, 2055	January 12, 2056
Repayment Method	Deferred until May 2046	Deferred until July 2046	Deferred until September 2046	Deferred until May 2046	Deferred until July 2046
	Thereafter, equal principal repayment				
Security	Unsecured				