

Japan Railway Construction, Transport and Technology Agency
(Incorporated Administrative Agency) (Maritime Affairs Account)

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1. Summary of operations implemented using FILP funds

The purpose of the operation to jointly build ships under the Maritime Affairs Account of Japan Railway Construction, Transport and Technology Agency is to promote building of ships that meet the policy requirements, such as promoting the greening of coastal shipping, making physical distribution efficient, promoting regional development, strengthening business foundations, and implementing measures to secure the employment of ship crew members.

By building ships jointly with shipping companies, JRTT provides long-term, low-interest-rate financial assistance. In addition, it provides technical assistance concerning shipbuilding, maintenance and repair.

2. Amount of lending under FILP

(Unit: billion yen)

| | |
|-------------|-------------------------------------------------------------------|
| FY2023 FILP | Estimated outstanding amount of FILP lending at the end of FY2022 |
| 22.2 | 150.8 |

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

| Category | FY2022 | FY2023 | Fluctuation |
|-----------------------------------------------------------|-------------|------------|-------------|
| 1. Government expenditure (subsidies, etc.) | - | - | - |
| 2. Government revenue (payments to the government, etc.)* | - | - | - |
| 3. Opportunity cost of capital investments, etc. | -3.3 | 0.9 | +4.2 |
| Total (1+2+3=policy cost(A)) | -3.3 | 0.9 | +4.2 |
| Analysis period (years) | 18 years | 18 years | - |

(2) Breakdown of policy cost by the time of the provision of funds (Unit: billion yen)

| Category | FY2022 | FY2023 | Fluctuation |
|-------------------------------------------------------------------------------------------------------|--------|--------|-------------|
| (A) Policy cost (previously cited) | -3.3 | 0.9 | +4.2 |
| 1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period | 4.3 | 11.6 | +7.3 |
| 2) Policy cost expected to be newly accrued during the analysis period | -7.6 | -10.7 | -3.1 |
| Government expenditure (subsidies, etc.) | - | - | - |
| Government revenue (payments to the government, etc.)* | - | - | - |
| Opportunity cost of surplus, etc. | -7.6 | -10.7 | -3.1 |
| Opportunity cost of capital investments, etc. | - | - | - |

(5) Sensitivity analysis (cases where assumptions change)

(Unit: billion yen)

| (A) Policy cost (previously cited) | Case of assumed interest rate + 1% | Fluctuation | 1. Government expenditure (subsidies, etc.) | | |
|------------------------------------|------------------------------------|-------------|-----------------------------------------------------------|--------------------------------------------------|------|
| | | | 2. Government revenue (payments to the government, etc.)* | 3. Opportunity cost of capital investments, etc. | |
| 0.9 | 5.9 | +5.0 | - | - | +5.0 |

| (A) Policy cost (previously cited) | Case of a 1% increase in loan write-offs | Fluctuation | 1. Government expenditure (subsidies, etc.) | | |
|------------------------------------|------------------------------------------|-------------|-----------------------------------------------------------|--------------------------------------------------|------|
| | | | 2. Government revenue (payments to the government, etc.)* | 3. Opportunity cost of capital investments, etc. | |
| 0.9 | 0.9 | +0.0 | - | - | +0.0 |

(Note) Components in each column may not add up to the total because of rounding.

* Government revenue (payments to the government, etc.) is booked as a negative amount. Example: -10 b. yen for 10 b. yen in payments to government, etc.

(3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

| Policy cost | Simple comparison (before adjustment) | FY2022 | FY2023 | Simple fluctuation |
|----------------------------------------------------------------------------------------------------------------|---------------------------------------|-----------------------------------------|--------------------------------------------------------------------------------------------------------|--------------------|
| | | Past year comparison (after adjustment) | 1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2023 analysis) | -3.3 |
| 2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2022) | -2.8 | | -3.1 | -0.4 |

[Real fluctuation factor analysis]

○Factors behind policy cost increase

- Increase in cost due to administrative expense rise (+1.1 billion yen)
- Increase in cost due to a change in assumptions for FY2022 and 2023 ships (+0.2 billion yen)

○Factors behind policy cost decrease

- Decrease in cost due to an interest rate gap for FY2023 ships (-1.0 billion yen)
- Decrease in cost due to an increase in reversals of allowances for doubtful accounts (-0.1 billion yen)
- Others (Revision in FY2021 ship estimate, etc.) (-0.6 billion yen)

(4) Breakdown of policy cost by causative factor (Unit: billion yen)

| (A) Policy cost in FY2023 (previously cited) | 0.9 |
|----------------------------------------------|------|
| 1) Prepayments | - |
| 2) Loan losses | -0.2 |
| 3) Others (including profit spread) | 1.1 |

4. Outline of estimation and project prospect employed in the analysis

- 1) All projects covered by the Maritime Affairs Account are subject to the estimation.
- 2) Under the project plan, 36.0 billion yen for FY2022 and 29.9 billion yen for FY2023 will be spent over three years (at a ratio of 3 to 6 to 1), and fiscal loan funds equivalent to 70% of the project size (cost of acquiring ships) will be borrowed.
- 3) As for ships financed in FY2022 and FY2023, the sharing period was set at 13 years for passenger boats and at 15 years for freighters. Depreciation will be conducted according to the sharing period through the fixed-amount method (residual value at 10%).
- 4) The analysis period is the 18 years to FY2040 when all ships financed in FY2023, in addition to existing shared ship assets, are scheduled to be retrieved.
- 5) The shared interest rate, which is calculated based on the portion of the vessel usage fee that corresponds to interest, is an interest rate calculated by adding the prescribed spread to the interest rate on fiscal loan funds and by making interest rate deductions according to policy requirements.

5. Reasons for granting of subsidies, mechanism and underlying laws

To perform the operations prescribed by the Japan Railway Construction, Transport and Technology Agency (Incorporated Administrative Agency) Act, JRJT receives capital investments from the Special Account for the Fiscal Loan and Investment Program and the General Account as necessary.

(Underlying laws and regulations)

[Provisions on capital]

“Japan Railway Construction, Transport and Technology Agency (Incorporated Administrative Agency) Act”

Article 6: The stated capital of the Agency shall be the total amount of the contributions considered to have been made by the government pursuant to the provisions of Article 2, paragraph (4), and Article 3, paragraphs (4) and (5) of the Supplementary Provisions, and the contributions considered to have been made by the Development Bank of Japan prior to its dissolution under Article 15, paragraph (1) of the Supplementary Provisions of the Development Bank of Japan Act (Act No. 85 of 2007) (hereinafter referred to as the “Old Development Bank of Japan”) pursuant to the provisions of Article 3, paragraph (4) of the Supplementary Provisions.

2. The government may grant the Agency additional funding if deemed to be necessary within the scope provided for in the budget.
3. In the event that the Agency receives funds from the government as provided for in the foregoing paragraph, it shall increase its capital by that amount.

[Provisions on payments to the Government]

“Japan Railway Construction, Transport and Technology Agency (Incorporated Administrative Agency) Act”

Article 18: The Agency may apply funds approved by the Minister of Land, Infrastructure, Transport and Tourism equivalent to the amount of reserves (if such exist) provided for in Article 44, Paragraph 1, of the Act for development implemented as provided for in Article 44, Paragraph 1 or 2, relevant to the final project year of the medium-term target period) provided for in Article 29, Paragraph 2, Item 1, of the Act (“medium-term target period” in this and the following paragraph) in Grant Account, to the financing of operations provided for in Article 13 (including transfers provided for in the foregoing article, Paragraph 3, and supplementary provisions, Article 3, Paragraph 11) based on the stipulations of the approved medium-term plan of Article 30, Paragraph 1, of the Act (the plan subsequent to revision in the event that revision has been authorized as provided for in the latter section of the Paragraph 1) for the medium-term target period subsequent to said medium-term target period.

2. (Omitted)
3. The Agency shall pay the remaining balance (if such exists) to the National Treasury derived by deducting the amount approved as provided for in the preceding two paragraphs from an amount equivalent to reserves as provided for in Paragraph 1.
4. In regard to the application of the proviso of Article 44, Paragraph 1, of the Act in the account relating to operations described in Paragraph 1, Items 1 to 3, of the foregoing article, the text “in the event of allocation to uses of Paragraph 3 as provided for in the same paragraph” in said paragraph shall read “in the event of the payment to the National Treasury of an amount calculated as stipulated by government ordinance or allocation to uses of Paragraph 3 as provided for in the same paragraph.”
5. The stipulations of Paragraphs 1 and 3 shall apply correspondingly to the accounts of the foregoing paragraph. In such event, “Article 44, Paragraph 1, of the Act” shall read “Article 44, Paragraph 1, of the Act upon revision as provided for in Paragraph 4.”
6. In addition to the stipulations of the foregoing paragraphs, items required for payment procedures for payments and the disposal of other reserves shall be stipulated by government ordinance.

“Act on General Rules for Incorporated Administrative Agencies”

Article 44: For each business year, when profits have accrued as a result of the calculation of profits and losses, an Incorporated Administrative Agency must offset any losses carried forward from the preceding business year, and if there is a remainder, it must record the amount of the remainder as reserve funds; provided, however, that this does not apply if it appropriates the amount of the remainder for the use referred to in Paragraph 3 pursuant to the provisions of the paragraph.

2. For each business year, an Incorporated Administrative Agency must, when losses have occurred as a result of the calculation of profits and losses, record the losses by reducing the amount of the reserve funds under the provisions of the preceding paragraph, and if there is still a shortfall, it must dispose of the amount of the shortfall as a loss carried forward.
3. When there is a remainder provided for in Paragraph 1, an Agency Managed under the Medium-term Objectives and a National Research and Development Agency may appropriate all or a part of the amount of the remainder for the use of a surplus referred to in Article 30, Paragraph 2, item (vii) for a Medium-term Plan (meaning a Medium-term Plan referred to in Article 30, Paragraph 1 as authorized under same paragraph (or a revised plan if the agency obtains authorization for revision under the provisions of the second sentence of same paragraph); the same applies hereinafter) or the use of a surplus referred to in Article 35-5, Paragraph 2, item (vii) for a Medium to Long-term Plan (meaning a Medium to Long-term Plan referred to in Article 35-5, Paragraph 1 as authorized under the paragraph (or a revised plan if the agency obtains authorization for revision under the provisions of the second sentence of the paragraph); the same applies hereinafter), by obtaining the approval of the competent minister.
4. The disposal of reserve funds under the provisions of Paragraph 1 is specified by the relevant Individual Act.

6. Special remarks

- 1) The Corporation for Advanced Transport and Technology was integrated with the Japan Railway Construction Public Corporation on October 1, 2003, and subsequently reestablished as the Japan Railway Construction, Transport and Technology Agency (Incorporated Administrative Agency) based on the Reorganization and Rationalization Plan for Special Public Corporations.
- 2) Based on the “Guidelines for Review of the Japan Railway Construction, Transport and Technology Agency’s Marine Vessel Account toward Activation of Domestic Shipping” (established on December 20, 2004, by the Ministry of Land, Infrastructure, Transport and Tourism and JRJT), JRJT is making efforts such as preventing the occurrence of accounts due and strengthening debt management and debt collection measures.
- 3) In light of the “Basic Policy on Reform of the Incorporated Administrative Agencies” (Cabinet decision on December 24, 2013), JRJT is attempting to reduce losses carried forward by formulating a plan for reducing such losses during the medium target period.

(Reference) Outcome and social and economic benefits of operations

1) Track records of joint building of ships

| | |
|-------------------------------------------------------|---------------------|
| • Cumulative value of ships built in FY1959 to FY2021 | 1,890.6 billion yen |
| • Outstanding value in FY2021 | 194.1 billion yen |
| • The planned project value in FY2022 | 36.0 billion yen |
| • The planned project value in FY2023 | 29.9 billion yen |

2) Main policy purposes and social and economic benefits

Policy inducements through financial and technical assistance

- Promoting building of super eco-ships that contributes to the greening of coastal shipping, LNG fuel ships, ships with reduced CO2 emissions, and ships capable of preventing maritime pollution
- Promoting building of modal shift ships which contribute to efficiency improvement of physical distribution
- Maintaining and securing remote island ship services that contribute to regional development, promoting barrier-free measures for domestic and foreign passenger boats, and promoting building of domestic cruise ships
- Promoting the use of ship management companies that contributes to the strengthening of business foundations
- Promoting the employment of young crew members and building of ships with an improved working environment that contribute to measures to secure ship crew members
- Promoting the construction of ships certified for the plan for introducing specific ships

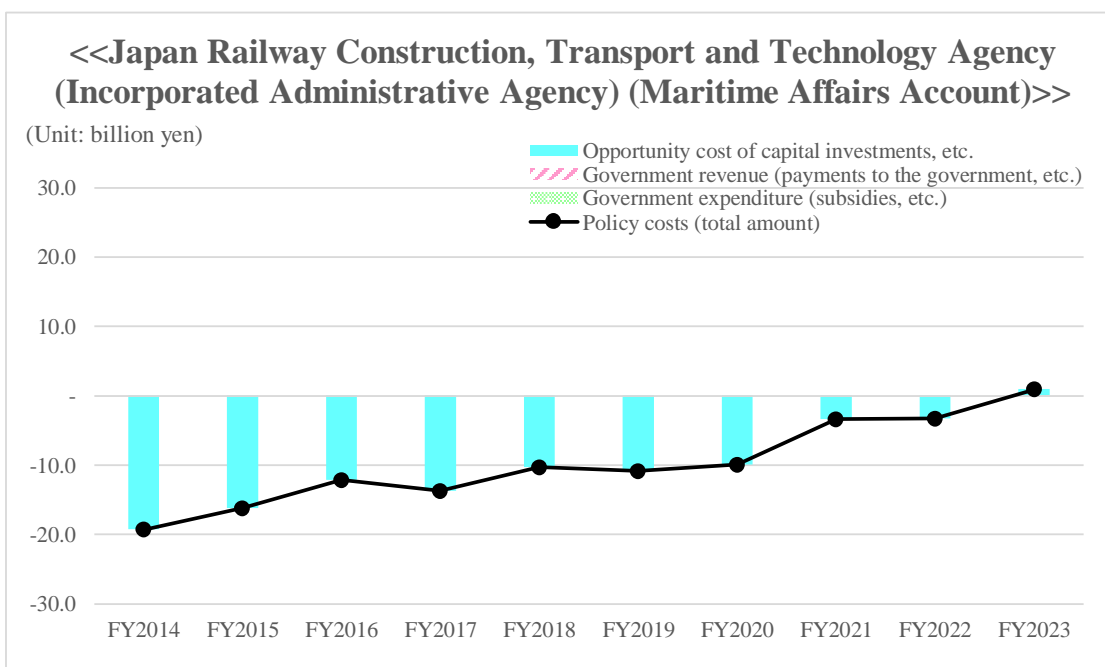
3) Qualitative benefits

The economic spillover effects of building ships valued at 39.1 billion yen, of which 29.9 billion yen is to be shouldered by JR TT under the FY2023 project plan

| | |
|---------------------------------------------------------------|-------------------|
| • Social discount factor: 4% | 98.3 billion yen |
| • Discount factor is the same as policy cost analysis result: | 101.4 billion yen |

Overview of policy cost analysis results

[Changes in policy costs]



Note: Policy costs for each fiscal year differ in assumptions including interest rates applied to estimates.

(Unit: billion yen)

| | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 |
|-------------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Policy costs (total amount) | -19.3 | -16.2 | -12.2 | -13.7 | -10.3 | -10.9 | -9.9 | -3.4 | -3.3 | 0.9 |
| Government expenditure (subsidies, etc.) | - | - | - | - | - | - | - | - | - | - |
| Government revenue (payments to the government, etc.) | - | - | - | - | - | - | - | - | - | - |
| Opportunity cost of capital investments, etc. | -19.3 | -16.2 | -12.2 | -13.7 | -10.3 | -10.9 | -9.9 | -3.4 | -3.3 | 0.9 |

[Explanation of policy cost trends]

- Retained loss is booked at the beginning of the analysis period due to the fact that large reserves are booked on balance sheets due to changes in accounting procedures in accordance with JRJT becoming an incorporated administrative agency. As the retained loss at the beginning of the analysis period declined over the course of the analysis period due to the booking of gross profits, the policy cost became negative.
- As for the trend in recent years, since FY2015, the negative margin of the policy cost has been narrowing due to the shrinkage of the margin of decrease in retained losses during the analysis period as a result of a decrease in reversals of reserves during period caused by a decline in reserves at the beginning of the period and a decline in revenues associated with the narrowing of the spread after interest rate reduction.
- The results of the policy cost analysis in FY2022 showed an increase of 0.1 billion from FY2021 in the policy cost to minus 3.3 billion yen. This is attributable to the refinement of the prospect of the reduced interest rate, etc. according to the actual situation by partially changing the assumptions.

[FILP agency's self-assessment of policy cost analysis results (FY2023)]

- In the policy cost analysis for FY2023, policy cost increased 4.2 billion yen from the analysis in the previous fiscal year, to 900 million yen. The reason behind the increase in policy cost was an increase in opportunity cost of capital investments, etc. due to a fall in discount rate. As retained losses are expected to continue falling during the analysis period, following from the analysis in the previous fiscal year, financial soundness is assured.
- The results of the sensitivity analysis (case of assumed interest rate + 1%) showed an increase of 5.0 billion yen in the policy cost compared with the basic case. This is attributable to an increase in opportunity cost of capital investments, etc. due to a decline in the discount factor. Therefore, the impact on the actual financial conditions is minimal.
- The results of the sensitivity analysis (case of a 1% increase in loan write-offs) showed a miniscule increase in the policy cost compared with the basic case, and therefore, the impact on financial conditions is minimal.

(Reference) Financial Statements

Balance Sheet

(Unit: million yen)

| Item | End of FY2021 (Result) | End of FY2022 (Estimated) | End of FY2023 (Planned) | Item | End of FY2021 (Result) | End of FY2022 (Estimated) | End of FY2023 (Planned) |
|-------------------------------------------|---------------------------|------------------------------|----------------------------|--------------------------------------------------------------------------------------------|---------------------------|------------------------------|----------------------------|
| (Assets) | | | | (Liabilities and net assets) | | | |
| Current assets | 14,750 | 9,982 | 9,026 | Current liabilities | 24,162 | 25,700 | 23,672 |
| Cash and bank deposits | 8,776 | 3,699 | 3,717 | Current portion of Japan Railway Construction, Transport and Technology Agency bonds | - | 2,000 | - |
| Notes receivable | 407 | 398 | 392 | Current portion of long-term borrowings | 23,523 | 22,869 | 22,837 |
| Electronically recorded monetary claims | - | 111 | 110 | Accrued payments | 85 | 178 | 121 |
| Vessel accounts due | 5,636 | 5,818 | 4,825 | Accrued expenses | 87 | 81 | 151 |
| Allowance for doubtful accounts | -70 | -44 | -18 | Deposit notes | 407 | 398 | 392 |
| Other current assets | 0 | - | - | Deposit of electronically recorded monetary claims | - | 111 | 110 |
| Fixed assets | 205,312 | 213,655 | 219,336 | Provisions | | | |
| Tangible fixed assets | 205,288 | 213,637 | 219,323 | Provision for bonuses | 53 | 55 | 55 |
| Buildings | 1 | 1 | 1 | Other current liabilities | 6 | 6 | 6 |
| Shared vessels | 194,070 | 196,831 | 201,738 | Fixed liabilities | 153,702 | 155,204 | 161,581 |
| Tools furniture and fixtures | 8 | 7 | 5 | Contra-accounts for assets | | | |
| Construction in progress | 11,209 | 16,799 | 17,580 | Contra-accounts for assets funded by subsidies | 0 | 0 | 0 |
| Intangible fixed assets | 19 | 13 | 8 | Japan Railway Construction Transport and Technology Agency bonds | 2,000 | - | - |
| Copyright | 0 | 0 | 0 | Long-term borrowings | 150,943 | 154,474 | 160,837 |
| Software | 18 | 12 | 7 | Provisions | 759 | 729 | 743 |
| Telephone subscription right | 0 | 0 | 0 | Provision for retirement benefits | 605 | 577 | 599 |
| Investment and other assets | 5 | 4 | 4 | Provision for loss on termination of vessel sharing contract | 154 | 153 | 144 |
| Bankruptcy or rehabilitation claims, etc. | 273 | 269 | 265 | (Total liabilities) | 177,865 | 180,903 | 185,252 |
| Allowance for doubtful accounts | -269 | -265 | -260 | Capital | | | |
| | | | | Government investment | 63,567 | 63,567 | 63,567 |
| | | | | Capital surplus | - | - | - |
| | | | | Capital surplus | 301 | 301 | 301 |
| | | | | Other accumulated administrative costs | | | |
| | | | | Amount equivalent to accumulated net gains or losses on sale or disposal | -301 | -301 | -301 |
| | | | | Deficit carried forward | | | |
| | | | | Unappropriated loss for the current year | -21,370 | -20,833 | -20,457 |
| | | | | (Of this, gross profit) | 1,650 | 537 | 376 |
| | | | | | | | |
| | | | | (Total net assets) | 42,197 | 42,734 | 43,110 |
| Total assets | 220,062 | 223,637 | 228,362 | Total liabilities and net assets | 220,062 | 223,637 | 228,362 |

Note: Components may not add up to the total because of rounding.

Income Statement

(Unit: million yen)

| Item | FY2021 (Result) | FY2022 (Estimated) | FY2023 (Planned) |
|-----------------------------------------------------------------------------|--------------------|-----------------------|---------------------|
| Ordinary income | 26,051 | 26,054 | 25,608 |
| Revenue from vessel usage fees | 25,571 | 25,726 | 25,157 |
| Reversal of allowance for doubtful accounts | 74 | 30 | 31 |
| Reversal of provision for loss on termination of vessel sharing contract | 174 | 1 | 9 |
| Reversal of contra-accounts for assets funded by subsidies | 0 | 0 | 0 |
| Financial revenues | 0 | 0 | 0 |
| Miscellaneous income | 233 | 296 | 412 |
| Ordinary expenses | 24,805 | 25,606 | 25,232 |
| Maritime operation expenses | 23,559 | 24,132 | 23,525 |
| General and administrative expenses | 886 | 1,102 | 1,117 |
| Finance expenses | 360 | 372 | 590 |
| Temporary profit | 499 | 89 | - |
| Gain on sales of fixed assets | 411 | 89 | - |
| Penalty and other revenues | 87 | - | - |
| Temporary losses | 95 | - | - |
| Loss on disposal of fixed assets | 0 | - | - |
| Impairment loss | 95 | - | - |
| Net profit | 1,650 | 537 | 376 |
| Gross profit | 1,650 | 537 | 376 |

Note: Components may not add up to the total because of rounding.