(Translation)

May 16, 2025

Kyushu Railway Company

Main Questions and Answers from the Financial Results Web Conference, FY2025.3

Q. In the previous medium-term business plan, the Company had already achieved its targets for equity ratio and ROE. Why did the Company set the share repurchase amount at ¥10 billion? Also, what was the rationale for adopting this method?

A. This repurchase was conducted as part of a comprehensive review of the previous medium-term business plan. Our cash flow exceeded the initial projection by more than ¥10 billion, but executing a large-scale repurchase all at once would not have aligned with our intended approach of conducting flexible buybacks. In addition, it could have caused significant share price fluctuations and impacted our cost of capital. Even under the current medium-term business plan, we will continue to consider flexible share repurchases as an option, depending on our capital efficiency and cash flow situation. Also, we understand that this method has become more common in recent years. In this case, we chose it as a method that allowed us to acquire shares in a single transaction, which we judged to be aligned with the intent of the repurchase.

Q. The forecast shows an increase in railway revenue of about ¥16 billion this fiscal year, which appears to align with the expected impact of the fare revision. What factors are expected to increase revenue? Also, costs are likely to rise in the coming years due to inflation and wage increases. How do you think about a risk that the railway business will fall into profit decline?

A. Regarding revenue, we estimate that advance purchases made in March ahead of the fare revision contributed about ¥600 million. This created a rebound effect; with April commuter pass sales falling sharply. For the current fiscal year, we intend to offset this decline through sales initiatives and growth in inbound revenue, and we have factored those efforts—along with baseline demand growth—into our earnings forecast. In the previous year, passenger volume on the Kyushu Shinkansen was at about 97% of FY2018 levels in terms of ridership, but only about 90% in terms of passenger-kilometers, reflecting a decline in long-distance demand, particularly toward Kagoshima. We plan to collaborate with Kagoshima Prefecture and other stakeholders to boost usage. On the other hand, sales of the JR-KYUSHU RAIL PASS—especially the All Kyushu and Southern Kyushu versions—have been rising, suggesting a gradual recovery. We expect to drive further revenue growth by attracting more long-distance travelers. Looking beyond this fiscal year, repair and depreciation costs are expected to continue rising. The fare revision was partly intended to support investments such as the replacement of aging rolling stock and facilities. In that sense, increasing revenue will remain critical to maintaining profitability, and we recognize the need to grow revenue aggressively to avoid a decline in earnings.

Q. In the real estate leasing business, while revenue is projected to increase this fiscal year, profit is expected to remain flat. Could you explain why? Also, while station buildings are expected to benefit from stronger performance-based rents, are there offsetting factors such as rent income losses due to property sales?

A. One factor behind the flat profit forecast is a decline in rental income due to property sales. In addition, some station buildings will temporarily close due to safety upgrades or renovations associated with aging infrastructure, which will also weigh on revenue. While JR Hakata City continues to drive strong customer traffic, we do not expect significant profit growth across the segment this fiscal year.

Q. For the real estate sales business, I think the sales environment is booming. Do you expect revenue growth to continue because of the condominium pipeline secured for the next few years?

A. Our preparation of new properties is progressing steadily, and we expect condominium sales to remain firm. The MJR has achieved a certain level of recognition within Kyushu, and we believe our brand strength is solid in both preparation and sales.

Q. What is the current trend in inbound demand outside of railways—for example, in hotels and station buildings? Also, while the forecast assumes a 10% increase in inbound railway revenue this fiscal year, how do you expect inbound revenue outside of railways?

A. Among non-railway businesses, hotels are performing particularly well. Inbound ratios are around 90% at our hotels in Tokyo and Kyoto, around 70% in Fukuoka, and about 50–60% in Kumamoto—all of which are contributing to higher ADR. On the other hand, in areas like Kagoshima and Miyazaki, ADR and occupancy rates are not yet particularly strong. Our focus this fiscal year will be on raising occupancy in those regions, while also capturing growth in inbound demand and further increasing ADR in places like Tokyo and so on.

Q. Under the previous medium-term business plan, the Company executive all ¥90 billion in previously undecided growth investments. Have you secured a path toward the ¥230 billion in growth investments outlined in the current medium-term business plan? Is there potential for further increasing growth investment going forward?

A. Under the current medium-term business plan, we still have ¥90 billion in projects yet to be finalized, and we will move forward with identifying specific uses for that amount. While this is a high bar, we succeeded in fully executing a similarly sized portion in the previous plan, so we believe we can do so again. As for future upside, the Company still has borrowing capacity, so if strong opportunities arise—such as in real estate or M&A—we are prepared to increase our growth investments. Conversely, in the absence of compelling projects, we also recognize shareholder returns as a valid alternative use of capital.

Q. Railway business expenses seem to be realistic estimates. Meanwhile, revenue appears to jump in the current fiscal year due to the fare revision, and then growth slows in the following two years. Given the recent revision to JR-KYUSHU RAIL PASS pricing and remaining room for Shinkansen recovery, is it fair to assume the medium-term business plan targets represent a minimum baseline, with upside potential depending on execution?

A. While repair costs can generally be estimated, we are actively pursuing initiatives and investments to reduce long-term maintenance needs. As our infrastructure continues to age, we are also mindful of gradually rising costs, and we intend to introduce new technologies and reduce future costs to enhance the sustainability of railway operations. On the revenue side, we do believe there is room for further growth. In addition to sensitivity to exchange rates and tariffs, inbound travel demand remains a key driver. We also want to increase usage among long-distance travelers, although we are aware of concerns such as declining ridership on certain limited express routes—for example, those serving the Oita area. Overall, our goal is to increase both unit prices and ridership volume, but for now, our forecasts reflect the figures we have disclosed.

Q. What is your stance on shifting Shinkansen limited express surcharges from a regulatory approval system to a notification-based framework? This would seem to offer greater revenue flexibility. Also, other JR companies have addressed this in their briefing materials. Could JR Kyushu share updates on your discussions or lobbying activities in this area?

A. Currently, Shinkansen limited express surcharges are subject to government approval, but we believe railway operators should be granted a certain degree of pricing discretion. Compared to the airline industry, there is little flexibility in how we set fares across low-, medium-, and high-demand periods. We would like to work with other JR operators to advocate for reform with the national government.

<A Cautionary Note>

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