

(Translation)

May 13, 2020

Kyushu Railway Company

Main Questions and Answers from the FY 2020/3 Financial Results Presentation (Teleconference)

- Q. Looking at cost reductions in the railway business, to what extent can personnel costs be reduced as a result of the suspension of train operation due COVID 19? Also, what is the Company's approach to maintenance costs?
- A. We have implemented temporary leave measures from this month, and we have started working to control personnel costs. In addition, in regard to maintenance costs, we are suspending the operation of certain trains, but there are trains that are still running and it is difficult to limit maintenance costs related to safety. It might be possible to achieve reductions of approximately 10% through cost control and postponement measures.
- Q. To what extent are costs being reduced in the Real Estate and Hotels Segment?
- A. In the hotel business, seven hotels have been closed, and temporary leaves have been implemented. We are working to reduced fixed costs, including the control of personnel expenses through the use of employment adjustment subsidies. In addition, in the leasing business, percentage rent is declining due to lower tenant sales. We are also offering tenants reduced rent payments and delaying payment timing. On the other hand, the reduction in expenses is limited to a portion of utilities and sales promotion expenses.
- Q. With the exception of Fukuoka Prefecture, the state of emergency in Kyushu is expected to be lifted shortly. How will the Company address the recovery in demand?
- A. For the Shinkansen and conventional line limited express trains, we think that a recovery in revenues will be difficult without improvement in the circumstances in Fukuoka. Also, considering the acceptance of teleworking, we will need to implement initiatives while focusing on changes in mobility needs. On the other hand, in regard to the operation of station buildings, we are already planning to restart the operation of the Nagasaki and Kagoshima station buildings. Moving forward, we will judge the circumstances while tracking regional trends.

Q. To what extent will the Company hold back on the growth investment of ¥210.0 billion called for in the medium-term management plan?

A. For the Miyazaki and Kumamoto station buildings, it is possible that the construction period will be affected by the influence of COVID 19, but we will proceed with construction patiently. We will invest without holding back on this station building investment and safety investment. On the other hand, we will consider initiatives for other investment, including postponement. We have already established a goal of several tens of billions of yen in reductions.

Q. What effect has COVID 19 had on discussions regarding regional transportation? With consideration for changes in the social structure, could this become an opportunity to accelerate regional transportation initiatives?

A. For MaaS-related initiatives, given that people are now less mobile, it has become more difficult to implement the planned verification testing according to schedule. On the other hand, it could be the case that the best approach to public transportation will once again be taken up for consideration. We have strengthened our cooperation with Nishi-Nippon Railroad Co., Ltd., and we will consider variety of initiatives going forward. For the post-COVID 19 period, we will examine a range of possibilities.

Q. If stable improvement of the influence of COVID 19 is confirmed, then the Company will consider reevaluating its business and financial strategies. Is it possible that there will be changes to the medium-term management plan or the return policy?

A. First, we need to consider the effect that COVID 19 will have on the balance sheet. When we reach the point at which we can anticipate normal business conditions, we will be able to release our future business and financial strategies. However, at this point we cannot forecast the future course of business conditions, and our first issue is to prioritize quickly raising a substantial amount of funds.

Q. In regard to the Company's approach regarding an appropriate equity ratio, will there be any changes due to COVID 19?

A. There will be no change to our approach that a balance between debt and equity is important. Up to this point, our policy has been to utilize leverage through growth investment using debt. However, it is not clear what condition our balance sheet will be in at the point when the influence of COVID 19 is resolved. Accordingly, at this point it is difficult to comment on an appropriate equity ratio.

Q. In regard to shareholder proposals regarding enhanced disclosure in the real estate business, the Company's opinions about the joint management of the station building business and the railway business could be considered reasonable. On the other hand, other than station building properties, is the Company considering the disclosure of information regarding assets that could be sold, or disclosure for specific assets, such as offices or commercial facilities?

A. For real estate, we have worked to reflect the opinions received from shareholders and investors by enhancing disclosure. For example, we are disclosing information for subsegments, such as rental, sales, and hotel operations. In addition, for these financial results, we are disclosing revenues, profits, and EBITDA for each subsegment. Moving forward, we will continue working to enhance disclosure as we receive a variety of opinions.