(Translation)

August 5, 2020

Kyushu Railway Company

Main Questions and Answers from the Financial Results Teleconference, First Quarter, FY2021/3

Q. In regard to cost reductions, would you discuss the amount of reductions anticipated for the year, the details of reduction measures, and the status of progress at this point?

A. On a non-consolidated basis, through measures to reduce personnel costs, maintenance expenses, operational expenses, etc., we are now aiming to reduce expenses by an amount that is ¥10.0 billion more than we initially anticipated. In regard to the status of progress in the first quarter, it is about 20%. Maintenance expenses generally increase in the third and fourth quarters, and accordingly the amount of the reductions should also increase in the third and fourth quarters.

Q. In the real estate lease business, is the Company also implementing station building tenant support measures in July and thereafter?

A. Station building tenant support measures were implemented up to July. However, while there are some tenants for which sales are recovering, there are also industries that continue to face challenging circumstances. Accordingly, going forward we will likely implement measures as needed on an individual basis.

Q. In regard to extraordinary losses, other than the provision for loss on disaster related to restoration of the Hitahikosan Line, has the Company recorded expenses related to the heavy rains in July 2020? Also, in regard to the problem of unacceptable condominium construction, is there a possibility that an extraordinary loss will be recorded?

A. We recorded an extraordinary loss due to the decision to use BRT for the restoration of the Hitahikosan Line, and we recorded railway facility removal expenses. On the other hand, in regard to the damage from the heavy rains in July 2020, it is difficult to rationally estimate the amount of the damage, so it has not been recorded.

In addition, in regard to unacceptable condominium construction, there are two aspects for the Group: the sales companies and the construction companies. First, we are included among the three sales companies, and our investment percentage is 33%. Also, KYUTETSU CORPORATION, a Group company, is one of the three construction companies. Our investment percentage is 30%. However, one of the three construction companies has already gone out of business, and it is possible that the investment percentage will become about one-third of the total. Currently, we are holding discussions with the residents regarding countermeasures, such as rebuilding, improving the foundation, etc., and consultations are necessary in regard to the expense burden. Going forward, we will record extraordinary losses as necessary.

Q. In the real estate lease business, trends in offices and rental apartments are firm, but is it possible there will be cause for concern going forward? Also, in the hotel business, will the Company consider measures such as converting to the use of serviced apartments?

A. It is possible that teleworking has not progressed as far in Kyushu as it has in Tokyo, and the status of leasing at the offices in Miyazaki and Kumamoto that we are planning to open, has not reached the point where we are concerned. On the other hand, the hotel business continues to face challenging conditions. We need to work to reduce fixed costs, and to consider measures to expand revenues, such as addressing teleworking, converting to serviced apartments, etc.

Q. I would like to confirm the Company's approach to fund-raising.

A. In regard to fund-raising, our policy has been to raise large amounts at an early stage. In addition, with a focus on the lengthening of the influence of the COVID 19 infection, we are conducting fund-raising over a long time frame. Looking at bonds, in addition to 3-year bonds, we also issued 10-year and 20-year bonds. On the other hand, we are not currently utilizing commitment lines or commercial paper as a short-term measure, but we are prepared to use them in unexpected circumstances.

Q. In regard to the future business portfolio reevaluation, do you have anything specific in mind?

A. To date, we have worked to expand our operations based on drawing customers to stations. However, the decline in mobility is having a major effect on our businesses overall. In particular, in regard to the hotel business and the hydrofoil ferry business, where we do not have a forecast for the restart of operations, we need to consider measures to address these issues. From last fiscal year, we have taken such steps as the sale of the leasing and installment financing businesses and the hospital business, as well as the sale of a portion of our holdings of the shares of JR Kyushu Drug Eleven Co., Ltd.. However, targeting future growth, we are now holding discussions, including outside directors, including in regard to the addition of new businesses to our portfolio.

Q. How does the Company view the revenue-lowering effect of natural disasters, such as the heavy rains in July 2020? Also, based on the status of profitability by train line, it can be confirmed that the damaged lines are unprofitable. What discussions will be held in regard to restoration methods?

A. The damaged line that has had the largest effect on revenues is the Kyudai Main Line, and we are still unable to operate the Yufuin no Mori “Design & Story” train. Moving forward, we plan to operate the Yufuin no Mori train up to Bungo-Mori station, and to use buses as a substitute up to Yufuin. However, usage is declining due to the influence of the COVID 19 infection, and accordingly at this point the influence on revenues is not large.

On the other hand, on the Hisatsu Line, which was significantly damaged, two bridges were washed away, and accordingly the restoration of the railway will require a comparatively large-scale initiative. First, we will need to consider restoration methods.