(Translation)

November 6, 2020

Kyushu Railway Company

Main Questions and Answers from the Financial Results Web Conference, Second Quarter, FY2021/3

Q. Would you discuss the current status of progress in regard to cost reductions targeted in the forecast for FY2021/3?

A. We have achieved approximately 60% of our targeted cost reductions of ¥14.0 billion on a non-consolidated basis, achieving approximately 50% of our targeted cost reductions for personnel expenses, approximately 50% for maintenance costs, and approximately 60% for non-personnel expenses. This rate of progress is in line with our expectations. Group companies are also advancing cost reduction initiatives centered on the Hotel Business and we believe we can achieve the targeted amount.

Q. Is there room for cost reductions in the Railway Business over the medium to long term?

A. Although we have worked to reduce costs through such efforts as revising schedules and increasing the number of unmanned stations by introducing Smart Support Stations, the high ratio of fixed costs in the Railway Business remains unchanged. From this month, we have revised operational plans for certain conventional-line limited-express trains. However, as it is important to set operational plans in accordance with demand, we will examine revising schedules so that we can respond flexibly, for example, by increasing the number of trains if demand returns.

At the same time, fundamental revision is necessary and we will establish a project team regarding digital transformation (DX). During FY2021/3, we will determine some operations to be solved through DX and other operations to be discontinued. Further cost reductions will require even more drastic initiatives.

Q. What are your expectations for medium- to long-term railway demand, given the impact of work-style reforms such as the proliferation of teleworking?

A. We are not pessimistic given that commuter and short distance revenues are recovering at a good pace and teleworking is less prevalent in Kyushu than in Tokyo. However, as conditions in intercity transportation, which accounts for a high proportion of our revenue, continue to be challenging and there is a high degree of uncertainty about how medium and long-distance revenues will change going forward, we will continue to examine schedule revisions in light of the possibility that demand may not return to its previous level.

Q. We have seen a shift in activity from city centers to the suburbs due to the influence of COVID-19 infection. City-building development is planned for Nagasaki and Kagoshima after Miyazaki and Kumamoto, but will it be necessary to make adjustments to the details of these development projects?

A. We believe a flexible response taking into account COVID-19 conditions is necessary in regard to development going forward. For example, the decline in tenant sales at the Nagasaki Station building was minor in comparison with Hakata, so it is not the case that conditions at commercial facilities are uniformly bad. On the other hand, we recognize that the hotel business is a highly volatile one and we must examine the situation while monitoring conditions going forward.

Q. Are you considering fare revisions in the Railway Business?

A. As we are giving priority to initiatives for increasing revenue, we are not considering fare revisions. That said, we intend to consider fare revisions if conditions change. For example, if the current institutional design changes.

Q. You have stated that there is limited room for the use of debt. What are your financial strategies going forward, including the diversification of fundraising?

A. In FY2021/3, we are striving to secure cash reserves. We have raised funds of ¥140.0 billion and established a new commitment line of ¥120.0 billion. Consequently, we believe there is reduced room for using debt for future growth investments. One measure to increase the room in the future is private REIT formation. We intend to consider the use of a cyclical model for growth investment in which we would incorporate external funds while rotating that cycle. Although it is difficult to envision balance sheet targets under current conditions, we will consider such targets going forward, once conditions settle down. In that context, we intend to consider private REIT size and other features.

Q. What type of assets do you expect to include in private REITs?

A. We have just started to consider private REITs. From our perspective, we may include properties where it would be better to maintain a relationship, but we will carry out specific considerations going forward.

Q. Based on the recent bond market, even if the Company's rating dropped one or two levels, fundraising costs would not change significantly and there would still be room for the use of debt. What is your approach to financial discipline?

A. Ratings are one indicator and we do not believe that a drop of one level would significantly change our fundraising costs. However, as there has been a significant decline in operating cash flow in FY2021/3 and there remains a high degree of uncertainty for the future, we cannot simply increase debt. We believe that financial discipline is important and, going forward, as conditions settle down, we may leverage our borrowing capacity to achieve growth.

Q. Amid concerns that the Company's financial position will worsen, are you examining equity-based fundraising through such means as the issuance of subordinated bonds?

A. No, we are not examining such fundraising.

Q. Concerning dividends, we understand you have intended to maintain a full-year dividend payment of ¥93.0 per share based on your existing shareholder return policy. However, based on your current business performance, do you plan on changing this approach?

A. Since announcing our performance forecasts and dividend forecasts on September 24, 2020, we have been performing at a level that is within the scope of our expectations. If another wave of COVID-19 infections occurs going forward and we find ourselves in a situation similar to that of April and May, then we will have to reexamine this approach. However, at this time, we have no intention of changing our current approach.