(Translation)

February 10, 2022

Kyushu Railway Company

Main Questions and Answers from the Financial Results Web Conference, Third Quarter, FY2022/3

Q. In the current revision of the performance forecasts, there is no change to the forecast for railway transportation revenues, but it seems that current usage is somewhat weak. Is it the case that the Company decided that it was not necessary to revise the performance forecast because usage exceeded expectations in the third quarter? Or, is it the case that the performance forecast was not changed for the time being because it is difficult to predict the future circumstances?

A. In the railway business, in the third quarter factors included the lifting of the state of emergency, etc., and non-commuter revenues exceeded expectations. However, usage circumstances in the fourth quarter remain challenging due to the re-spread of the infection. Going forward, accompanying such factors as the implementation of infection prevention and other priority measures, we expect demand to remain sluggish, and we decided not to change the forecast for railway transportation revenues.

Q. In regard to the performance forecast revisions, would you describe the factors for increased profit in the construction segment and the real estate leasing business? Is it the case that the Company revised a somewhat conservative forecast?

A. In the construction segment, we revised the performance forecasts with consideration for recent orders, the status of construction work, etc.

In the real estate leasing business, station building tenant sales in the third quarter were firm, and in addition we anticipate firm conditions in station buildings, offices, and rental apartments, even in midst of the current sluggish mobility demand. On that basis, we decided to revise the performance forecasts.

Q. Station building tenant sales seem to be linked with railway usage. With the expectation for station building tenant sales in the fourth quarter at approximately 90%, what are the factors that account for the strength of this forecast versus the railway business?

A. In regard to station buildings, with consideration for such factors as strength in the third quarter, we anticipate a certain degree of strength. Note that this also takes into consideration a somewhat weaker correlation between station building tenant sales and railway short-distance revenues resulting from such factors as an increase in customers coming to stores by automobile.

Q. Operating income in the real estate sales business was revised upward to ¥3.6 billion. Is this a result of the sales of properties to the private REIT?

A. There was a certain degree of influence from the firm conditions with sales of condominiums in the Fukuoka area. However, this is mostly attributable to sales of properties to the private REIT.

Q. It seems that the sale of approximately ¥20.0 billion of properties to the private REIT will generate about ¥3.0 billion to ¥4.0 billion in profit. Was a low book value for these properties a factor in this? Also, in the current circumstances, with lower capitalization rates and rising interest rates, how will the Company advance cyclical investment?

A. This will depend in part on market conditions, but considering the timing of the acquisitions of these properties, we expect most of our holdings of rental apartments and offices will generate a profit if sold. In regard to future cyclical investment, we will consider property sales with a focus on capital efficiency, and taking into consideration market conditions and the scale of capital investment. In addition, we recognize that it will also be necessary to consider a balance between single-period gain on sales and subsequent fee income.

Q. In regard to the sale of properties to the private REIT, would you describe the process for selecting the properties to be sold?

A. The types of assets that are available for sale to the private REIT are rental apartments, offices, hotels, logistics facilities, etc. For this round of sales, looking at logistics facilities, there are no properties eligible for sale. Hotels have also been excluded from sales due to the current structural reforms and to high volatility. Moreover, facilities that are integrated with stations, such as station buildings, have also been excluded. Therefore, the majority of commercial facilities have been excluded. Based on these considerations, we selected rental apartments and offices, where conditions are relatively stable, even in the COVID-19 pandemic. Of these, we gave consideration to the balance of our asset portfolio by area in the categories of outside Kyushu and inside Kyushu.

Q. In regard to the sale of properties to the private REIT, would you describe the Company's deliberations regarding whether these transactions will be included at the operating income level or the extraordinary gain level?

A. We will continue to sell properties going forward, and accordingly this could be considered one of our regular businesses. As a result, following discussions with the accounting firm, we decided to include them at the operating income level.

Q. In regard to the sale of properties to the private REIT, in the next year and thereafter, do you anticipate sales on a scale with this sale of ¥20.0 billion?

A. We are not thinking that property sales on the scale of this sale—¥20.0 billion—will continue in the next year and thereafter. However, we intend to implement a certain degree of sales while considering such factors as our asset portfolio and the allocation of the funds from the sales to growth investment.

Q. In regard to the sale of properties to the private REIT, does the Company have an expectation regarding the total amount going forward, and if so, what period of time is that based on?

A. At this point, we do not have any particular expectation in regard to those matters. The private

REIT is aiming for stable growth. We anticipate that the REIT will work for external growth through acquisition of assets on its own, while realizing internal growth through the acquisition of assets from the Company, which is the sponsor.

Q. What influence will the sale of properties to the private REIT have on future non-consolidated leasing revenues?

A. I cannot provide detailed figures, but you should estimate the influence based on typical private REIT returns for transactions on the scale of this property sale.

Q. In the next year and thereafter, bonuses and revenue-linked expenses are expected to rise if there is a recovery in railway business revenues. How will this be offset?

A. In regard to the railway business, we will set a target level of profit, and we will be strongly determined to achieve this profit, even if revenues fluctuate somewhat. A key point in the next year and thereafter will be the extent to which we can implement further reductions in addition to the ¥14.0 billion in fixed cost reductions. On the other hand, from the perspective of human capital, we recognize that the continuation of bonus reductions is an issue.

Q. For the next year and thereafter, what issues are being discussed within the Company?

A. In regard to the railway business, we are discussing further reductions on top of the ¥14.0 billion in fixed cost reductions, medium to long term targets for railway business expenses, the scale of necessary capital investment, etc.

In the hotel business, cost reductions have advanced to the point where we can achieve break even with occupancy rates of approximately 60%. However, this is a business with a high degree of volatility. We are discussing the strengthening of competitiveness for existing hotels while considering measures for the point when revenues recover.

In addition, we are discussing the extent to which we can increase revenues/profits centered on the real estate business, such as the Nagasaki Station area development and the Kagoshima-Chuo Station west entrance development. In addition, we are discussing how we can introduce new businesses. For details, please wait for the announcement of the new medium-term business plan, which is scheduled for March 23.

＜A Cautionary Note＞

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