(Translation)

February 8, 2023

Kyushu Railway Company

Main Questions and Answers from the Financial Results Web Conference, Third Quarter, FY2023/3

Q. How would you assess progress on the profit front relative to your initial projections through the third quarter? I would also appreciate a follow-up on the impact of the rise in electricity costs on energy costs on a non-consolidated basis and on real estate leasing.

A. First-half performance was firm. In the third quarter, revenue was affected by the introduction of a government nationwide travel support program, the easing of protection measures, and other factors. As a result, revenue, including railway transportation revenues, progressed generally in line with expectations, but the timing of some expenses was off. We expect to record some costs in the fourth quarter, but we will continue to control costs as necessary while keeping a close eye on the revenue situation. Our full-year forecast had assumed some increase in energy costs, but the rise has been greater than expected.

Q. The hotel business was profitable in the third quarter. Please confirm whether the status of recovery differed domestically, overseas, and in different areas.

A. In the third quarter, the introduction of a government nationwide travel support program, the easing of protection measures, and other factors helped to improve the occupancy rate to around 74% and ADR to around ¥16,000, which seems to be in line with the nationwide trend. More people are coming from overseas, and more are visiting Kyushu. In terms of domestic demand, events are gradually resuming regionally, as well, and business travelers are beginning to move. As a result, performance steadily recovered from the second quarter to the third quarter in all areas.

Q. The presentation materials indicate that railway transportation revenues and hotels are likely to be weaker than expected in the fourth quarter, how should this be viewed? How are the preliminary figures for January?

A. We believe that a surge in demand due to the government nationwide travel support program led to favorable results in December. This may have led to a decline in usage in January, when revenues are typically low. We will need to analyze revenue trends taking both December and January into account. The outlook remains uncertain, particularly in the railway and hotel businesses. In February and March, we expect to see a gradual movement of customers as we enter the travel season and amid the talk of COVID-19 being lowered to category five.

Q. You have used some of the ¥90 billion in growth investment that had been undetermined under the medium-term business plan to acquire a property near Hakata Station. How should we view developments going forward? I understand that leasing revenues can be expected for the time being, but I would like to know if there is any potential for integrated development with the surrounding area, for example, or if there is a possibility of increasing the value of the property, if you have any such future prospects.

A. In Hakata, restrictions are being eased by the city of Fukuoka under the name of Hakata Connected, and this area is undergoing redevelopment alongside Tenjin. For the time being, we intend to secure leasing revenues for the properties we have acquired, and at the same time, we will work to increase rents. There are no plans for redevelopment at this time, but we will consider the situation flexibly as Hakata Connected progresses.

Q. I believe there is potential for high-unit-price products, such as the Seven Stars in Kyushu and Lexus tours that cost more than ¥2 million, and for revisions in rail pass prices. I would like to know more about your efforts to raise unit prices.

A. In December, the number of rail passes sold was around 60% of the FY2019/3 level. Revising unit prices has enabled revenue to recover to around 80%. We have raised unit prices on Seven Stars in Kyushu, which is resuming operations following renovation. We will continue to pursue initiatives such as these to enhance unit prices and services.

＜A Cautionary Note＞

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