(Translation)

May 13, 2024

Kyushu Railway Company

Main Questions and Answers from the Financial Results Conference, FY2024/3

Q. Why is your assumption for non-commuter revenues in FY2025/3 about 98% of FY19.3?

A. For FY2024/3 as a whole, the number of non-commuter passengers was only around 94% of pre-pandemic levels, while most recently the percentage was close to 100%. Although this may be somewhat conservative, based on the assumption that the level of non-commuter passengers will be about the same as in the 2H of FY2024/3, we have assumed non-commuter revenues of around 98%, considering the impact of web conferencing and other factors. We hope to stimulate tourism demand, to raise the level further, above 98%.

Q. When looking at improving efficiency in the railway business, it seems that you could promote an asset-light model or increase per-customer rates. Which strategy do you have in mind?

A. During the pandemic, we worked to boost unit rates such as conventional line express charges and reserved seat fares for D&S trains, which were able to be revised through notifications. We have also raised the price of JR KYUSHU RAIL PASS significantly, and we are doing what we can to pass on costs. We are now prioritizing efforts to revise fares.

Q. In the railway business, you are forecasting operating income of ¥15.1 billion for FY2025/3. But after taking into account impairments, Shinkansen usage fees, and other items, would it be accurate to assume that income will be negative on a real basis? Also, what are your thoughts on the appropriate level of profit margin? Also, is it your understanding that free cash flow is negative only for the railway business?

A. Our current-year target for the railway business is ¥15.1 billion, which includes the impact of impairments, but we recognize that it will be difficult to generate profit before impairments. We have not set any appropriate profit level. Also, we recognize that free cash flow is deficit for the railway business.

Q. You forecast lower maintenance costs in FY2025/3, reflecting a jump in FY2024/3, but what does the situation look like further in the future?

A. In 2H of FY2024/3, we performed considerable maintenance, which have been restrained during the pandemic. At present, costs for FY2025/3 are slightly below that of average years, but from FY2026/3 we expect maintenance costs to be around ¥30.0 billion.

Q. With regard to fare revisions, I am curious about when this will contribute to the revenue.

A. At the moment, we are proceeding with calculations of revenue and costs based on the cost-of-income calculation procedures as revised this April. We will begin preparing our application for approval as soon as the trial calculation is completed. Also we are preparing our systems as far ahead of time as possible.

Q. Regarding fare revisions, to what extent will they reflect impaired assets belonging to the railway business, disaster-damage losses, and prepaid Kyushu Shinkansen rental fees?

A. Although we do not provide specific figures, for your reference the materials indicate the revision points of the procedures; we recognize each of these are recorded as cost. In response to the revised procedures, we are taking a positive view toward fare revisions, and we are in the process of preparing estimates.

Q. What are your thoughts on profit increases and decreases in the real estate leasing and hotel businesses? In FY2024/3, you incurred opening expenses. Is it correct to assume that the main reason for the increase is that these costs will fall?

A. In the hotel business, our opening expenses for Nagasaki Marriott Hotel and URESHINO YADOYA and others were around ¥1.5 billion. The absence of these costs will boost income. Even after improving compensation for hotel employees, we expect income to increase by ¥1.7 billion. Meanwhile, in the real estate leasing business, we will see a drop-off in opening expenses for the JR Nagasaki Station Building, as well as maintenance costs for various station buildings, etc. At the same time, the real estate leasing business should see topline growth in at station buildings and other facilities, so we expect profit to rise by around ¥1.4 billion.

Q. With regard to inbound results, you expect the hotel business to maintain ADR at the 2H of FY2024/3 level; do you anticipate any additional upside? What is your current-year forecast for inbound results, including in the railway business? In addition, I would like to know the current status and prospects for non-railway inbound business, such as the contribution from duty-free stores in station buildings.

A. The number of visitors from the Chinese mainland has not returned to pre-pandemic levels, but operations at Fukuoka Airport are nearly at capacity. At the moment, we do not anticipate any major increase in inbound customer numbers in the railway business. That said, in the hotel business the number of inbound customers is increasing. The rate of inbound guests is particularly high at hotels in Tokyo and Fukuoka. For this reason, we will need continue monitoring ADR. We anticipate an increase indirectly in rental income from duty-free stores.

Q. With regard to the progress of growth investments, the ¥90 billion investment limits were initially undetermined in the current medium-term management plan, but in the material, there is a statement that about 80% of the limits has been confirmed. Would you please indicate yields as well as the potential of growth investment, such as synergies with the railway business or their room for redevelopment.

A. One point is that the logistics business will be stimulated by the automotive and semiconductor related industries and we believe it will contribute to the future of Kyushu. Another factor is the investment for the utilization of new technologies in the railway business. For instance, we are looking at updating the signaling system, which might help lower maintenance costs and reduce personnel requirements.

Q. What exactly do you envision for your third pillar of business? I would also like to know about sales and profits in the logistics facility leasing business for the previous fiscal year and your future targets.

A. The logistics facility leasing business is our new asset in the real estate leasing business. We have also been engaging in M&A activity in construction and business services in the BtoB and BtoG categories. These are small in scale, but we work to make them future pillars of business, and we intend to continue in this vein. Although the Company does not disclose information related to individual logistics facilities, we believe that they will contribute to profits in the future.

Q. You will maintain dividend of ¥93.0 per share which was indicated in the shareholder return policy of current medium-term management plan. You mentioned that share buybacks could be an option, but what is your thinking after FY2025/3?

A. Our projected dividend payout ratio for FY2025/3 is almost 35%. If profits grow further, we might buy back our own shares or increase the dividend, depending on circumstances. The shareholder return policy after FY2025/3 is one of our major issues, and we intend to present the Company’s stance in the next medium-term business plan.

Q. In response to the point about conducting share buybacks if circumstances warrant, the current medium-term business plan calls for an equity ratio of 40%, from the viewpoint of maintaining an optimal capital structure. Do you still believe that around 40% provides the optimal capital structure going forward to 2030? Might you consider share buybacks if the ratio exceeds 40%?

A. Under the current medium-term business plan, the Company's target equity ratio was 40% because of the need to maintain a certain level of financial soundness amid the pandemic. We will consider the optimal capital adequacy ratio for FY2026/3 and beyond as part of the next medium-term business plan.

＜A Cautionary Note＞

* Please note that this document is a brief summary prepared at the discretion of the Company rather than a verbatim transcript of the questions posed and answers given on the day of the presentation. Furthermore, the statements in this document are judgments made by JR Kyushu based on information and projections available as well as assumptions at the time of the presentation’s preparation. Please be advised that actual operating results could greatly differ from the statements in this document due to the economic situation both inside and outside Kyushu and Japan as a whole, real estate market conditions, the progress of our projects, changes in laws and regulations, and a wide range of other risk factors.