

(Translation)

August 9, 2024  
Kyushu Railway Company

Main Questions and Answers from the Financial Results Web Conference  
First Quarter, FY2025/3

Q. In your assessment of first quarter results, hotel performance appears to have been relatively solid. Were overall results in line with expectations?

A. Yes, first quarter results were generally in line with our expectations. Hotel occupancy rates were as anticipated, and ADR was also solid, outpacing our expectations. In railway transportation revenues, commuter revenues were stronger than expected, while non-commuter revenues were slightly below expectations. As a result, overall performance was essentially in line with our forecasts. Our full-year forecast is for 97.6% of pre-pandemic levels, and currently we are at 97.6%. Costs are also essentially in line with plans.

Q. I have the impression that year-on-year growth in personnel expenses on a non-consolidated basis is high. Is it in line with spending plans?

A. Personnel expenses were up year on year, and the impression may be that of a rapid rise. However, this is in line with our expectations, due to the impact of revisions to the personnel and wage system.

Q. Commuter revenues were forecast at 93%, but were actually stronger, at 95.6%. Do you notice any discrepancy compared to recent trends?

A. You are correct that commuter revenues were slightly more favorable than we had expected. We do not see this as a significant deviation from our plans, but we will continue to analyze the situation.

Q. As growth in non-commuter shinkansen revenues is modest, but my impression is that unit prices are rising. Is demand from domestic passengers weak? Also, why have passenger numbers on the Kyushu Shinkansen not returned to pre-pandemic levels? Am I correct in understanding that inbound sales are contributing to the rise in unit prices?

A. Tourism demand has generally recovered. However, business use is begin affected by entrenched new lifestyle preferences, which is why we are not seeing a recovery for the Shinkansen overall. We also think the decline in non-commuter Shinkansen passenger-kilometers is partly due to changes in the shareholder benefit program we implemented last year. We do not perceive the growth of non-commuter Shinkansen passenger-kilometers to be weaker than that of conventional lines.

Q. Other companies have reported that demand for domestic leisure activities has settled down. Have there been any changes in domestic leisure customer trends in Kyushu?

A. We have not noticed any particular changes.

Q. With regard to inbound revenue in the railway business, I understand that there was no major change from the fourth quarter of the previous fiscal year, but what is the relationship with the number of ticket sales, etc.? Now that the impact of higher prices for the JR-KYUSHU RAIL PASS has run its course, there was no further room for increases? As the percentage of travelers from China increases, do you anticipate an upside for revenue?

A. Despite the price increase, we have not seen a decrease in the number of JR-KYUSHU RAIL PASS tickets sold, so the higher revenue reflects increased sales. The fluctuation from the fourth quarter of the previous fiscal year was due in part to seasonal factors; we do not find this odd.

Q. I understand the impact of inbound tourism on railway. What is the impact of inbound tourism on commercial facilities and other aspects of the real estate business?

A. Inbound tourism is having a major impact at station buildings and other commercial facilities. Although this does not constitute a major percentage of overall revenue, we are seeing an uptrend in tourism, notably from South Korea and other parts of Asia.

- Q. Looking at logistics facility development, construction of the Kanda-machi property is scheduled to be complete at the end of fiscal 2025. Did you make the acquisition in anticipation of increased demand from the automotive industry?
- A. Demand in Kyushu for logistics facilities is growing. Demand is expected to remain solid and vacancy rates low in the area around the Kyushu Expressway, which has interchanges near the facility, and around the Fukuoka Urban Expressway. The business of logistics properties is unaffected by the movement of people, and we are steadily making progress on acquiring properties.
- Q. At this point, performance in the hotel business appears to be favorable. Do you see any potential risks, other than a decline in ADR?
- A. At the moment, we are not concerned about a decline in ADR. We expect performance to remain solid.
- Q. What uses are you considering for the railyard site?
- A. The size of the site is considerable, and it is located within metro Kitakyushu. We cannot say anything specific at the moment, but we will consider this properly going forward.
- Q. With respect to revisions of rail fares and charges, what is the difference between the rate of increase and the percentage revision? Also, you have some price increases and reduced discounts in the railway business. Do you see any room for more of this in the future?
- A. The percentage revision is merely a number used for calculation in accordance with the cost-of-income calculation procedures. The rate of increase was estimated by taking the deviation rate into account. We have been revising prices to the extent possible on a notification basis for some time. Although we have implemented all possible measures, we will continue to consider this in the future.
- Q. With regard to deviations on revisions of rail fares and charges, what are your assumptions in relation to the impact of express buses? Also, when do you think the next revisions might occur in the future?
- A. You are correct that express buses are having some impact, but we also expect the impact of personal vehicles to be substantial because personal vehicles are widely used in Kyushu. Furthermore, we expect to be affected by regular local buses and other railroad operators. We do not believe that revisions to rail fares and charges should be frequent. Assuming we receive approval, we will consider whether to do make another application in the future, while making safety investments and service improvements.
- Q. Regarding the revision in rail fares and charges, press materials indicate that the revised revenue/cost ratio is around 90%. Is there any room for further improvement in the long term?
- A. The revenue/cost ratio we have indicated was merely used for calculation in accordance with the cost-of-income calculation procedures. This is different from figures on an accounting basis. We will continue with efforts to improve income and expenses in the railway business, such as through the Future Railway Project mentioned during today's presentation.
- Q. You have made an application to revise rail fares and charges, and I am curious about the positive impact on profit. Also, you indicate a capital investment plan as a future initiative; from a long-term perspective, will the increased revenues be allocated to safety investments and the like?
- A. We anticipate a ¥16.9 billion positive impact on revenues. If our application is approved, the impact would first be felt next fiscal year, so we intend to review the potential impact on higher profits at some point in the future. Safety and other investments are on our long-term menu of future initiatives.
- Q. If the revision of rail fares and charges is approved, I assume you will develop a medium-term management plan that includes the impact of higher revenues, but what is the current status of considerations in this regard? Even though I think that cash has no color, due to the nature of the revision, will it be difficult to allocate the increased cash flow to growth investment and returns?
- A. As we are still at the application stage, any considerations of how we might use cash that results from the revision are topics for the future. We will take into account the status of growth investments and other factors in the next fiscal year and beyond. While we believe cash flow from the railway business and the Company as a whole is improving, this revision is intended to improve the sustainability of the railway

business and cash flow will be allocated toward investments in safety, service improvement and human resources, or in new technologies to improve productivity. For a secondary effect from the perspective of consolidated basis, improved financial soundness should also boost our borrowing capacity. We will continue to consider our cash allocations, keeping in mind the need to improve capital efficiency.

Q. You submitted the application prior to the announcement of standard costs in this August. Did you determine that the content of the application would not change after the announcement, as compared to beforehand?

A. Following the April revision of the cost-of-income calculation procedures, we proceeded with our estimates based on standard costs updated every year. We submitted the application as soon as it was ready, independent of the timing of the announcement of standard costs.

Q. The cost-of-income calculation procedures were revised in April. Has the Ministry of Land, Infrastructure, Transport and Tourism's perspective and stance changed?

A. We are positive toward the revision of the cost-of-income calculation procedures, which reflect the opinions we have expressed in past interviews. As first priorities, after receiving approval the Company intends to promote investment in safety, services, and people.

#### <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.