

(Translation)

November 11, 2024  
Kyushu Railway Company

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

- Q. Please outline the impact of natural disasters in the second quarter on the Transportation Segment. What is your forecast for the second half of the fiscal year?
- A. In the second quarter, performance was sluggish in August, including inbound performance, due to the impact of the earthquake, the epicenter of which was Hyuga-nada. Performance also weakened slightly in the southern Kyushu area, including for domestic passengers. We expect the financial impact of the disasters to be approximately ¥500 million. Meanwhile, commuter pass sales were slightly stronger than expected, due in part to the impact of the monthly lag. As for the second half of the fiscal year, revenues in October and November have been slightly higher than expected, partly because of the impact of JAPAN GAMES, which was held in Saga Prefecture, so I believe that the Transportation Segment can recover going forward.
- Q. Please discuss the impact on the railway of the opening of Nagasaki Stadium City?
- A. Nagasaki Stadium City opened in October. Considering the examples of J. League and B. League at facilities around Tosu Station and Saga Station, we estimate that between 10% and 20% of spectators use the railway, and we expect the same for Nagasaki. J. League and B. League fixtures also have a positive impact on souvenir shops in Nagasaki Station building as some spectators visit from far away. We are keen to promote initiatives that will be beneficial with each other.
- Q. The yen was stronger in the second quarter than it was in the first. Was there any impact?
- A. At present, we have not noticed any significant impact in particular. We are told that inbound performance is strong at Fukuoka Airport. There may be an impact in the event of significant fluctuations in exchange rates in the future.
- Q. The application for the revision of rail fares has been approved, apparently. While revenues are projected to increase, will any costs increase more than initially projected?
- A. The application has not been approved yet. The Transportation Council published its report a few days ago. As we explained at the time of the application, factors including the outlook for price increases going forward, rising personnel expenses for securing employees, and sudden natural disasters, such as typhoons and torrential rains, are matters for concern.

Q. Please outline your forecast for the second half of the fiscal year and beyond with regard hotel ADR? Given that inbound tourism from China is in a recovery trend and the Nagasaki Marriot Hotel has opened, is there any scope to increase ADR? Or, taking into account the recent weakness of the yen, does the current ADR level represent its limit and do you anticipate the decline risks going forward?

A. The materials we provided included an outline of our ADR plan at the beginning of the fiscal year. We anticipate that it will remain as it had been up to the second quarter. Inbound guests account for 90% or more of guests at hotels in Tokyo and between 60% and 70% of guests at hotels in Fukuoka, which is driving the increase in ADR. At the same time, there have been some reports that domestic guests are not able to stay in hotels, so I believe that achieving a significant increase in ADR would be difficult. While there is scope for an increase in Fukuoka, inbound performance is weakening in Kagoshima and Miyazaki, so we expect the current level to continue as it is, on average.

Q. Demand arising from events in Fukuoka is brisk, but you believe that a further increase in ADR is difficult. Is there any scope for raising ADR in parts of Kyushu other than Fukuoka?

A. As you are aware, it is possible to raise ADR when events are on. However, looking at year-round ADR, we believe that achieving a significant increase would be difficult. There are some area and seasonal variations. For example, Miyazaki sees strong demand every February when it hosts the camps of professional baseball teams and J. League teams, which also coincides with the entrance exam season, so an increase in ADR is possible. However, we will seek to control ADR appropriately while monitoring demand in surrounding areas given that we may see an outflow to other facilities if ADR becomes too high.

Q. With regard to unrealized gains from real estate, will there be any changes to your stance on the continued ownership of properties?

A. Station buildings are highly integrated with our railway business, and as such, we plan to continue holding these properties. Meanwhile, for rental apartments and other properties, we will maintain our stance of examining the sale of these properties on a rotating basis while monitoring market conditions.

Q. There are the major development pipelines, such as the project utilizing the space above the tracks at Hakata Station, but is it possible that the soaring construction costs could have a negative impact on business profits? It may be possible to pass on these cost increases to fare prices, but we would appreciate your comments from an investment efficiency point of view.

A. Although construction costs have been rising in Kyushu as well, in the case of condominiums for example, we have been able to pass on these higher costs to condominium sale prices and secure profits while taking certain contingency costs into account. We will closely monitor the situation regarding our long-term, large-scale projects, such as the project utilizing the space

above the tracks at Hakata Station and the redevelopment of the former site of the Kyushu University Hakozaki Campus.

- Q. Regarding the Hitahikosan Line BRT Hikoboshi Line, could you comment on the progress of discussions about other railway lines? Also, do you feel that visits by local governments are becoming more commonplace?
- A. The Hitahikosan BRT Hikoboshi Line has been visited by local governments of not only Kyushu but throughout Japan and assessed highly. Meanwhile, we will engage in discussions on other local lines based on the characteristics of each railway line. Discussions are ongoing on the Ibusuki Makurazaki Line (Ibusuki Station to Makurazaki Station) in a voluntary council without an exit strategy in place. We are discussing the steps that must be taken going forward. We also share views on other local lines with local governments on a daily basis.
- Q. The Hitahikosan Line BRT Line offers benefits not only as a mode of transport but also as a tourist attraction. When discussing the shift from railways to buses, do you have any new ideas on how to utilize this line as a means of local transportation and attracting passengers from urban areas?
- A. First, the daily use is fundamental. In the Hitahikosan Line BRT Line, bus stops have been set up in front of hospitals and shopping centers to increase its daily use. Moreover, the cherry blossom trees and sake breweries along the line attract passengers from distant areas. We will strive to increase the use of this line as both a means of transportation and a tourist attraction.
- Q. The population of Kumamoto Prefecture is increasing due to the arrival of Taiwan Semiconductor Manufacturing Company (TSMC). Are there any real estate development plans?
- A. The use of Haramizu Station, currently the nearest station to TSMC, has increased approximately 1.5-fold. A number of detached housing is being built nearby and this will likely be the case with condominiums as well going forward. We intend to engage in real estate development by working together with the surrounding municipalities, such as Kikuyo Town, and identifying the areas in which we can proceed with development plans.
- Q. Please share your thoughts on solutions for the congestion of the Hohi Main Line as well as the Kumamoto Airport Access Railway Project.
- A. The areas around Suizenji Station are where we get the highest congestion along the Hohi Main Line. We increased the number of trains in service this spring and are discussing the possibility of further increases, particularly for the morning rush hours. As for the Kumamoto Airport Access Railway Project, we are currently in discussions with Kumamoto Prefecture.

- Q. What is management's priority for the next few years? What are the issues under discussion, including your approach to shareholder returns?
- A. While I cannot go into specific details at this time, we are discussing a variety of matters, such as revising fares to increase revenues and our cash allocation policy. An issue concerning our railway business is enhancing the sustainability of railways. As for urban development, in addition to areas nearby TSMC along the Hohi Main Line, we will consider city-building initiatives based on comprehensive collaboration agreements with Kasuya Town and Sasaguri Town in the suburbs of Fukuoka City over the long term. We believe in the importance of focusing on both long-term and short-term developments and recognize that the planting seeds for the future is important.
- Q. In light of the safety issues at JR Kyushu Jet Ferry Inc., do you acknowledge that there were issues pertaining to the governance structure of Group companies? There have also been incidents at subsidiaries in the past and it is thought that such incidents are more likely to occur in deficit businesses. Is there a possibility that the form of governance at Group companies could change, including the overhaul governance and other systems in the future?
- A. We apologize for the concerns caused by the issues at JR Kyushu Jet Ferry. Currently, we hold meetings with the presidents of all Group companies at least twice a year, and we also provide opportunities for individual communication. However, in light of recent concerns, we believe it is essential to once again reinforce the importance of safety. Therefore, we will review the safety rules at each company and ensure adherence to them. Moreover, while we dispatch non-executive directors and corporate auditors from JR Kyushu to Group companies, we will further reinforce this initiative moving forward. The JR Kyushu Group places the utmost priority on safety, and as such, we will pursue efforts to reassess safety on a Groupwide basis. Furthermore, every year, each Group company, including JR Kyushu Jet Ferry, determines its policies for the upcoming year after holding deliberations with us. We believe that the awareness of safety at JR Kyushu Jet Ferry was poor. Looking ahead, we will ensure that all employees prioritize safety above all else and will conduct training so that employees can make decisions with safety as the first priority.

<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.