

March 19, 2025

Main Questions and Answers Related to the Presentation of the
“JR Kyushu Group Medium-Term Business Plan 2025–2027”

<Part 1: Presentation of the JR Kyushu Group Medium-Term Business Plan 2025–2027
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- Q It is important that all employees fully understand and internalize the management philosophy. Ensuring its widespread adoption is the first step in human capital management and a key mission of the management team. How do you plan to achieve this?
- A The current medium-term management plan focused on returning to the growth trajectory before the COVID-19 pandemic. For this plan, we have reexamined our philosophy in light of our new phase. To coincide with the announcement on March 11, we gathered employees at the department manager level and above, frontline managers, and presidents of Group companies to share our commitment to the new management philosophy. In addition, we provided employees with video messages and archived recordings. Moving forward, we will continue holding discussions with frontline teams, including opinion exchange sessions. We have also distributed a brand book detailing the background of the management philosophy to all JR Kyushu Group employees. We intend to use this as a tool to facilitate its adoption.
- Q Regarding the streamlining of facilities under the Future Railway Project, which railway lines will see implementation by FY2031.3? Please provide details on the expected timeline, investment amount, and any challenges to realization.
- A The Future Railway Project is progressing toward the FY2031.3 goal of improving profitability by ¥14.0 billion. Initiatives include a significant reduction in signal equipment and streamlining facilities in sections where train frequency has decreased. For wireless train controls, government approval is required to ensure safety, and discussions are ongoing with experts and relevant stakeholders. If implemented, this would reduce maintenance and renewal costs associated with cables. At this stage, we cannot provide specific investment figures, but we believe the concept can be applied to local lines. We intend to actively take on the challenge of introducing such new technologies.
- Q What are the external and internal factors driving inbound revenue growth in each

segment? Additionally, do you have plans to strengthen initiatives targeting inbound tourists, such as hotels and retail sales at station buildings?

A We are taking steps such as establishing a rail pass counter at Fukuoka Airport's international terminal to help alleviate congestion at Hakata Station and promote rail pass usage. Although the impact of the airport's runway expansion remains uncertain, we are working to increase rail pass utilization and promote other ticket sales. Additionally, we have seen a rise in visitors from Europe and North America, a trend that was not as prevalent before the COVID-19 pandemic. Moving forward, we aim to attract more inbound tourists through collaborations with airlines, regional partnerships, and by providing more information about station buildings and other facilities.

Q Regarding the expansion of customer touchpoints, what are your targets for increasing membership and cross-selling utilization? Additionally, how do you plan to enhance profitability through Group-wide collaboration? Similar to industry peers, we would like to see more concrete synergies between business segments. Also, regarding the non-financial KPIs related to customer satisfaction surveys, I would like to see you consider expanding the scope beyond rail services to include the entire Group.

A One of our KPIs for expanding customer touchpoints is the number of JR Kyushu Web members. While some users are inactive, we currently have approximately 4 million registered members. We have established a dedicated department with the goal of doubling membership by 2030. Leveraging the Group's diverse businesses, we aim to increase opportunities to deliver value to customers. Previously, our KPI primarily focused on service rankings related to customer interactions, but we have now shifted to a customer satisfaction survey that evaluates overall rail services. We will continue working on further improvements moving forward.

Q You mentioned expanding into businesses that are not reliant on flows of people, such as through M&A. What fields or business areas are you considering?

A Currently, we are focusing on logistics facilities, and we will continue to explore opportunities in the BtoB and BtoG sectors. While it is not yet established as a third core pillar, we are advancing initiatives in the construction segment, including the establishment of an intermediate holding company. While our M&A strategy is not limited to businesses unrelated to flows of people, we are also considering expansion into new fields.

Q Strengthening resilience and related strategic investments were identified as unresolved challenges in the current medium-term management plan. How do you plan to address this in the new plan? Also, what is your vision for a business portfolio that enhances resilience?

A While we have not yet established a new core pillar independent of flows of people, we aim to further develop logistics facilities. It is difficult to provide a detailed breakdown of the business portfolio at this stage. However, we believe that increasing the share of logistics facilities within our real estate assets to around 10–20% and promoting rotational businesses will contribute to strengthening resilience.

Q Are your governance measures based on your current structure as a company with an audit and supervisory committee? Have you considered transitioning to a company with a nominating committee, etc.?

A We sincerely apologize for the concerns and inconvenience caused by the JR Kyushu Jet Ferry issue. It is fundamental for each Group company to operate independently. Moreover, we also recognize the need to strengthen governance across the entire Group. We have previously conducted visits and interviews with Group companies through outside directors to stay informed about various matters, and we believe we have a good understanding of the situation. However, we will continue to review and refine our approach as needed. As for the organizational structure, we remain flexible and open to consideration. However, at this time, we believe that the current company with an audit and supervisory committee structure is the most suitable.

Q Of the ¥230 billion investment in growth, my understanding is that the majority is allocated to real estate. How will the recent rise in construction costs affect the project utilizing the space above the tracks at Hakata Station? Also, with the project scheduled for completion at the end of 2028, will there be any temporary suspensions of leases for other tenants due to construction during the next medium-term management plan period, resulting in a loss of revenue?

A Track-switching work and other preparatory construction are currently progressing, and we are still in the process of finalizing the detailed plans. We intend to optimize the asset balance while considering the project's completion timeline. Additionally, construction work above the tracks will not affect existing business operations.

Q Your industry peers maintain equity ratios of around 30%, and some real estate companies have even lower ratios. Why did you choose around 40% as your target?

A We have presented both the projected equity ratio for FY2025.3 and our outlook for FY2028.3, but we do not intend to maintain it rigidly at 40%. Instead, we will take a flexible approach, utilizing strategic investment frameworks as needed. We believe that an equity ratio of 35% and D/EBITDA in the 5 times range are acceptable, and we aim to operate our business with greater agility. For example, if we come across a promising M&A opportunity, we will consider making an investment. If no such opportunities arise, we will make appropriate decisions such as share repurchases.

Q Regarding the optimal balance sheet, how do you balance financial stability and flexibility in emergency, considering factors such as rising interest rates and potential disaster-related expenditures?

A We recognize that we have a certain level of financial flexibility, including borrowing capacity, while maintaining overall financial soundness. In the current medium-term management plan, we positioned the equity ratio as a strict discipline to uphold. However, this time, we have presented it as a guideline rather than a fixed requirement, meaning we do not feel bound to maintain the 40% figure.

Q Your approach to balance sheet management, including reviews of your business, is commendable. However, given the differences in cost of capital and inherent risks across segments such as railways, real estate, and hotels, capital efficiency is likely to vary as well. If you are committed to cost of capital-conscious management, wouldn't it be necessary to conduct and disclose a more detailed analysis beyond just the operating income margin?

A We have stated our intention to maintain the current level of ROE while also working to reduce our cost of capital. Using CAPM, we estimate our cost of capital at around 5%–6%; using the inverse of PER, it is approximately 7%–8%. As the result of receiving feedback through communication with the market, we recognize the level as being in the range of mid-5% to mid-7%. Although our PER level tends to be lower compared to other JR companies, we believe our strengths lie in the speed of recovery from the COVID-19 pandemic and the flexibility of fare revisions in terms of price elasticity and agility. Given these factors, we consider our PER level to be reasonable and comparable to our peers. Through

communications such as discussions and meetings, we will strive for reducing our cost of capital and maximizing the corporate value.

Q You mentioned maintaining the current level of ROE. Are you targeting around 9%–10%? As profits increase, capital will also grow, meaning that if profit growth weakens, ROE may decline. What is your reasoning for considering approximately 9%–10% an appropriate level?

A While we face downward pressures such as increasing depreciation expenses and rising labor costs, we aim to maintain a figure of around 9%, which is our estimated level for the end of this fiscal year. Although we considered providing a specific numerical target, we believe that the key focus should be on concrete initiatives and spread management. With this in mind, we will work to maintain the current level while also striving to reduce our cost of capital.

Q Regarding operating revenue and operating income by segment, while increased revenue from the railway business will likely translate directly into profits to some extent, there are also safety-related expenses to consider. With cost reductions expected under the Future Railway Project, how do you project future expenses?

A We anticipate approximately ¥16.0 billion in additional revenue from fare revisions. However, our expected profit levels have been set in accordance with the figures disclosed. As stated in the purpose of the fare revisions, we plan to allocate funds for maintenance and repairs as our infrastructure continues to age, ensuring the long-term sustainability of railway operations. Of the additional ¥16.0 billion in revenue, around 20% is earmarked for labor and maintenance expenses. Additionally, depreciation expenses are expected to increase by approximately ¥1.0 billion to ¥2.0 billion annually. We have also factored in some level of cost inflation for power and operational expenses. Ultimately, the contribution of the ¥16 billion fare revisions to profits will be limited, while the remainder will be allocated to expenses necessary for ensuring the sustainability of railway operations. These costs are expected to rise from 2025 to 2027.

Q Regarding the increase in profits for the Real Estate and Hotels Segment, what portion can be attributed to projects that are already visible at this point? Also, while you explained the increase in expenses for the Transportation Segment, does that mean that if revenue exceeds expectations, the additional amount will directly contribute to profit growth?

A For the Real Estate and Hotels Segment, it is difficult to break down contributions by medium-term management plan period. However, of the ¥230.0 billion investment in growth, ¥65.0 billion is allocated to investments that will contribute to profits during the period of the new medium-term management plan, with expected returns at a level comparable to market standards. Regarding railway transportation revenues, we initially projected ¥147.7 billion for this fiscal year. In addition, we anticipate a ¥900 million increase from advance ticket purchases due to the fare revisions. Given the current strong performance, we expect an additional upside of over ¥3.0 billion. The ¥166.0 billion stated in the fare revision application incorporates both the aforementioned revenue upside and additional earnings from operational efforts, which together form the basis of the current plan. While achieving this level will not be easy, it is the target we aim for. As for expenses, we have factored in all essential elements, but we will continue to assess factors such as inflation and labor costs on an annual basis.

Q The wording of your shareholder return policy is “35% *or more*.” My understanding is that the overall framework has not changed. Could you explain the discussions within the Company, the reasoning behind this approach, and the intent behind “or more?”

A In our approach to shareholder returns, we have removed the lower limit and changed the wording from “guideline” to “or more.” At first glance, the numerical target is unchanged, but we consider this a step toward strengthening shareholder returns by one or two steps. In terms of dividends, we aim to increase payouts in line with profit growth. Removing the lower limit does not indicate an intention to reduce dividends. By using the term “or more,” we are expressing our commitment to strengthening shareholder returns. Our policy is to meet shareholder expectations by maintaining strong returns, so we hope this provides reassurance. Additionally, we will also consider the flexible repurchase of treasury shares.

Q Given the equity ratio of around 40% and the plan to maintain ROE at its current level, I assume that the scale of share repurchases will not be particularly large. Would it be correct to assume that repurchases would be implemented if investment in growth falls short of expectations?

A We have intentionally taken a more assertive stance in our wording regarding treasury share repurchases. We now see ourselves in a phase where we will seriously consider the specific timing of implementation. The management team is

committed to capital efficiency. After the conclusion of the current medium-term management plan, we will review the past three years and assess the feasibility, timing, and scale of potential repurchases, with capital efficiency in mind.

<Part 2: Exchange of Opinions with Outside Directors (Takashi Tanaka and Hiroko Ozawa, Directors) >

Q From the perspective of the outside directors, what discussions took place in formulating the medium-term management plan, and how do you evaluate it?

A (Tanaka) The discussions began with the formulation of the new management philosophy, followed by materiality and the details of the medium-term management plan. All of these topics were deliberated at Board of Directors meetings. As outside directors, we were also involved in the creation process and recognize that the plan was developed through extensive discussions incorporating various opinions. We fully support the finalized plan.

(Ozawa) I believe the plan is not just a formality but is rather convincing framework. However, it is still just a framework, and there are areas that require further development, such as concrete measures for city building. These aspects will need to be discussed further at the Board of Directors meetings.

Q The management philosophy and materiality seem to be more internally focused rather than targeted at the capital markets. Specifically, what aspects of materiality reflect JR Kyushu's unique identity?

A (Tanaka) Our distinctiveness lies in our origins in the railway business and our deep connection to the Kyushu region. By incorporating elements of mobility services and regional contributions into our philosophy, we hope to enhance employee motivation.

(Ozawa) The railway business only functions because people live and work in the communities it serves. Considering this, I believe our focus on city-building is a defining characteristic of JR Kyushu. Additionally, our approach to mobility services and urban development includes unique elements such as the D&S trains, which enhance the travel experience. The integration of our brand and value-added services into these initiatives is what makes JR Kyushu distinctive.

Q The current medium-term management plan identifies the creation of new business pillars as an ongoing challenge. While the management philosophy emphasizes "challenge," how do you, as outside directors, support employees' challenges and the management team in fostering a culture of challenge within the traditionally conservative railway industry? Also, have there been any concrete achievements over the past year as a result of such support?

A (Tanaka) In the current medium-term management plan, it was noted that the

creation of a third business pillar remains insufficient. However, regarding the “challenge” aspect in “Our Conduct” of the management philosophy, we do not yet have a clear image of what that third pillar will be; this is something we need to continue developing. Given Japan’s declining population, if we do nothing, the railway business’s top-line revenue will inevitably shrink. In this context, initiatives like the Future Railway Project, which aim to enhance both cost control and convenience through digital and IT solutions, should be a priority. Additionally, from the perspective of human capital management, I have provided various recommendations to the executive team regarding improvements in employee compensation and benefits.

(Ozawa) The current composition of the outside directors is well-balanced, with members who have management experience in different industries, each bringing their own expertise. While we serve as necessary checks and balances, we also actively encourage initiatives. Regarding non-financial KPIs, we have introduced three new KPIs related to human resource strategy. Compared to other companies that set targets for the percentage of female managers, our approach may seem unusual since we do not have a specific numerical goal. We discussed this with the head of HR, noting that while there are many females, not only directors, but also managers on the executive side and presidents of group companies. While gender diversity at the corporate level is guaranteed, the overall number of women in the workforce is relatively low, which naturally results in a lower percentage of female managers. To address this, we have set a goal of increasing the proportion of female new hires, as a foundation for future improvements. As outside directors, we have engaged in extensive discussions on this matter and want to emphasize that the Company is actively working to promote female employees who are already making significant contributions.

Q What sort of discussions do you anticipate in governance-related opinion exchange sessions that focus on outside directors? Additionally, beyond the existing Board of Directors framework, what further governance measures are necessary to enhance corporate value?

A (Tanaka) These discussion sessions are still at the planning stage, and we will determine the specifics as we hold them. The primary motivation for establishing these sessions was the issues related to JR Kyushu Jet Ferry. Given this starting point, discussions will likely focus on strengthening compliance across all Group companies, incorporating insights from audits and reports.

(Ozawa) The JR Kyushu Jet Ferry issue is a very serious matter. As outside directors, we provided strong feedback on the issue. Additionally, we have engaged in discussions with the Audit and Supervisory Committee members, reflecting on whether there were more proactive measures we could have taken. Within this framework, we are working on establishing monitoring mechanisms and governance rules. One aspect worth highlighting is the Company's swift response to the issue. Typically, companies wait for the conclusions of a third-party committee before taking action, but JR Kyushu has already begun implementing countermeasures. For instance, the Company promptly worked to strengthen the internal whistleblowing system. Since joining the board, I have observed a strong emphasis on safety within JR Kyushu, which made this issue all the more shocking. The challenge of managing businesses across different industries has become even clearer. Similar concerns were raised in our discussions with the outside directors and Audit and Supervisory Committee members. Beyond simply implementing a risk detection system, it is crucial to instill a corporate culture that prioritizes safety across Group companies in different industries. Preventing the emergence of risks in the first place should be a key focus, and these governance discussions will serve as a platform for advancing that goal.

<A Cautionary Note>

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