(Translation)

November 10, 2023

Kyushu Railway Company

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

Q. Please describe the Company's first-half performance compared with your plans, and your forecast for the second half.

A. Looking back on the first half of the year, which was the turnaround point of the three-year medium-term business plan, the progress has been generally favorable. First, revenues were nearly in line with our plans. Looking at performance by segment, in the Transportation Segment, railway business revenues were essentially in line with our expectations. Performance in the Real Estate and Hotels Segment was favorable, due to an increase in accommodation demand. Progress was steady in the Retail and Restaurant Segment, as well, buoyed by a recovery in foot traffic. Progress in the Construction Segment and the Business Services Segment was slightly slower than expected, but we believe a second half recovery is possible. Operating income has been favorable overall, although notably, energy costs in the Transportation Segment did not rise as much as we had expected. Also, there was a time lag on some maintenance costs and other expenses.

Looking toward the second half, in the railway business, the recovery in non-commuter revenues is slightly slower than expected. Our forecast is for annual non-commuter revenues to reach 95% of FY19.3 levels, but we have not yet reached that stage. With regard to expenses, we now expect energy costs to be lower than originally planned, but we think maintenance cost will by slightly above our earlier expectations, as we perform maintenance that was delayed due to emergency restraints, improve the workplace environment, and take other actions. We anticipate opening expenses in the Real Estate and Hotels Segment. For instance, in the hotel business we forecast opening expenses could reach as much as ¥2.0 billion. Although progress has been delayed in the Construction Segment and the Business Services Segment, we hope to reach our forecast targets. For these reasons, we have left our forecast unchanged.

Q. Please explain the reasons for the weaker-than-expected recovery in non-commuter revenues in the railway business and the outlook for the future.

A. Considering that recovery on conventional lines is slower than for the Shinkansen, we think the movement of people in regional areas is sluggish. On the other hand, although slightly weaker than anticipated, non-commuter revenues are showing signs of recovery, and we plan to stimulate demand through campaigns such as the upcoming Fukuoka–Oita Destination Campaign, aimed at promoting railway usage.

Q. In the hotel business, ADR is rising, and it seems unlikely to decline going forward. What are your views on the business environment? Also, do you see the current level of occupancy rates as the limit?

A. ADR is progressing better than expected, but we believe this is due to the fact that THE BLOSSOM series, which is new since COVID-19, is now driving ADR. We believe there is room for ADR to rise. Occupancy rates, on the other hand, are already at a high level, especially in Hibiya, and we expect to maintain this level.

Q. In the Retail and Restaurant Segment, income nearly doubled from Q1 to Q2. Was this because of changes in the business mix or price increases?

A. The business content has not changed. Rather, footfall has recovered. Performance at convenience stores and restaurants has rebounded further since the Japanese government downgraded COVID-19 to a category 5 infectious disease.

Q. In the final year of the medium-term business plan, which is next fiscal year, you are targeting operating income of ¥57.0 billion. That number is a considerable jump up from the forecast for this fiscal year. How certain are you that you will achieve it?

A. We always knew that the income target of ¥57.0 billion was going to be challenging, but our assessment now at the midpoint of the medium-term business plan is that we are making good progress. We believe it is possible to reach our target next year, given the positive effects of opening the Nishi-Kyushu Shinkansen and the New Nagasaki Station Building, which are generally progressing smoothly.

Q. How are earnings on the Hitahikosan Line BRT compared to the time when a railway operated on that route? Will it be profitable?

A. When the railway was operational, we were losing ¥0.26 billion per year. We have invested in the conversion to BRT, and we expect the balance to improve as depreciation progresses. That said, returning to profitability will be difficult. We hope to develop this into a new model for regional transportation.

Q. Regarding the Nishi-Kyushu Shinkansen, the governor of Saga Prefecture has mentioned the airport route, and it is being reported in various media. What is your stance on this?

A. We have not heard any of the content of this directly. As to the route, we have been saying that we believe the most convenient route for the residents of Saga Prefecture and the citizens of Saga is the one that passes through Saga Station.

Q. On the fare system, if the cost-of-income calculation procedures are revised this fiscal year, at what point after that do you expect fares to rise?

A. The national government is discussing a revision to the fare system, which is positive. Cost-of-income calculation procedures are to be revised this fiscal year, and we are monitoring the situation closely. Since we have impaired assets in the railway business, it will be easier to revise freight rates if depreciation is included in our costs. We will be discussing this issue internally, but for now we are keeping a close eye on the direction of the system review.

Q. In Kyushu, TSMC and other semiconductor-related companies is booming. How do you think this will affect your company's performance?

A. We expect an increase in the use of the Kyushu Shinkansen and Hohi Main Line due to the growing population along the line and the growing demand for travel from Fukuoka to the area. We also think there are also opportunities for development along the line, to we are taking a positive view.

Q. How is progress on your cyclical investment in the real estate business as part of an effort to improve return on capital? Also, it seems you may need to replace some fixed assets that have low investment efficiency. What are your thoughts on this?

A. We are moving forward with cyclical investment. This fiscal year, we plan to sell properties worth around ¥10.0 billion. In the first half, we sold one property to a third party, and we plan more property sales in the second half. We are seeing steady progress, including from the growth of a private REIT. When replacing fixed assets, we will consider cases individually, looking at the purpose of holding each assets, its yield and other factors.

Q. With regard to raising PER, as your company is local to Kyushu, it seems that the needs of individual investors outside of Kyushu are low. What measures are in place to attract individual investors outside of Kyushu?

A. We provide explanations for individual investors outside Kyushu, but we have no specific measures in place to attract individual investors outside Kyushu. Thank you for raising this topic. We will take it into consideration.

Q. With respect to improving PER, I believe you have been reviewing your business portfolio with respect to unprofitable businesses, but what about fostering new businesses? I wonder if you have any thoughts on how expanding revenues from businesses that are not dependent on the flow of people or if generating earnings from intangible assets rather real estate might reduce business volatility and lower the cost of capital.

A. As part of our new business cultivation, this year FUJIBAMBI joined the Group through an M&A deal. We made this acquisition in anticipation of growth in demand for souvenirs as the flow of people recovers. We are also cultivating businesses through a new business proposal system. Recently, employee proposals have resulted in the launch of a project to restore old houses and a shared office business. As a business that does not depend on the flow of people, we have just launched a logistics real estate business, which is progressing well. As another non-asset business, we have entered the outsourced property management business, handling a commercial facility in Tenjin. In addition to lowering the cost of capital through these various projects, we will work to enhance the quality and quantity of our dialogue with the capital market and disclose not only our financial value but also our non-financial value in an easy-to-understand manner.

＜A Cautionary Note＞

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