

(Translation)

February 7, 2025

Kyushu Railway Company

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

- Q. Inbound revenue for the railway business decreased by approximately ¥100 million compared to the same period last year. Considering the price increase of JR-KYUSHU RAIL PASS, this decrease seems unexpected. Could you please explain the background for this?
- A. While inbound revenue as a whole has decreased, our main product, JR-KYUSHU RAIL PASS, has been performing well. Therefore, we consider the overall trend of inbound revenue to be favorable.
- Q. While the overall number of inbound visitors to Kyushu should be increasing, the inbound revenue for the railway business has stopped growing since the second quarter. Are there any structural factors, such as visitors to Kyushu using cars instead of trains, or are there any short-term reasons contributing to this? If there are structural factors, please provide strategies to encourage inbound visitors to use trains. Additionally, I believe inbound visitors also have a great impact on station building tenants and hotels. Will the next medium-term business plan accelerate efforts in that area? Please provide a comprehensive explanation of the inbound strategy.
- A. We anticipate overall growth in inbound visitors. While there may still be inbound visitors who prefer to use cars or buses now, we must encourage visitors to use trains. For example, the D&S train “YUFUIN NO MORI” is popular among Korean customers, but we need to devise strategies to attract more inbound customers like this. Additionally, we believe that there is still room to increase unit rates. In line with the revision of rail fares in April, we will also revise the price of JR-KYUSHU RAIL PASS. Including the hotel business etc., we will also focus on increasing the number of customers and raising per-customer rates.
- Q. The second runway at Fukuoka Airport will be available from March 20, and the Expo will begin in April. How should we interpret the impact of these events? While I understand that Fukuoka Airport primarily operates international flights and that doubling the runway capacity may not result in a sudden increase in passengers, I anticipate that inbound traffic from Asia will grow. As for the Expo, it could be a positive factor as it attracts people to Western Japan, including Kyushu. However, there is also a possibility that it may draw people away to the Kansai region, resulting in a negative impact on the Kyushu region.
- A. Regarding the second runway, it is expected to lead to an approximately 10% increase in international passengers, which should generally be seen as a tailwind. Therefore, it is important

for us to properly attract and serve these customers. As for the Expo, we are still unclear on some aspects, but we believe it is necessary to implement measures that can attract visitors from Kansai to Kyushu.

Q. Station building tenant sales were reported to be strong, but it seems that growth has slowed compared to the previous quarter. Why is station building tenant sales slowing? Are there any factors, such as having to overcome a higher hurdle from the previous year?

A. Generally, these sales, which are mainly centered around Hakata, have been strong, and this trend has continued since January. We do not see any significant slowdown. Rather, the performance is steady.

Q. I would like to know the background behind the increase in ADR for the hotel business, which rose above ¥26,000 in the third quarter, after having previously remained at around ¥22,000 this fiscal year. I would also like to know if we can expect ADR to remain at the same level in the future.

A. ADR for hotels is being driven by inbound customers. Hotels in Tokyo and Fukuoka have a high proportion of inbound guests, with approximately 90% and 70%, respectively, of their customers being inbound. THE BLOSSOM brand, a slightly higher-grade accommodation-focused facility, is popular among inbound customers and has contributed to the increase in ADR. Looking at the current reservation status, we expect the ADR level to be sustained, so we generally expect this trend to continue into the future.

Q. With regard to the next medium-term business plan, which is scheduled for announcement on March 11, as CFO what sort of things do you intend to present? Please provide as much explanation as you can.

A. We introduced the current medium-term business plan under the banner of returning to a growth trajectory. Looking at the numbers through the third quarter, we believe we have largely met that goal.

Under the current plan, we have positioned the period of the next medium-term business plan as a phase for achieving sustainable growth. We intend to show how we will draw up our strategy, taking into account the various changes underway in our operating environment, such as inflation, wage increases, etc. In terms of business strategy, we will show how we will use the cash generated from the revision of rail fares, how we will promote the real estate business, and what our third pillar of business will be. We have been working on a complex community development project, and we will present our business strategy on how we will develop this project.

Now 2030 long-term vision calls for us to achieve operating income of ¥70 billion. In this respect, one key point will be the extent to which we can define our figures for the final year of

the next medium-term business plan. If we add the increase in revenue from the revision of rail fares to the ¥57 billion target of the current medium-term business plan, the total would exceed ¥70 billion, but we do not believe the situation is as simple as this. As for the increased revenues from the revision of rail fares, it is important to determine the extent to which they will be used for safety investments and repairs, which should be the highest priority, service improvements, and allowances for price hikes, especially on wage-related issues, which are urgent, as well as for investments in people. We cannot guarantee the sustainability of our railroads unless these factors are accounted for. Growth investments should also be made with an eye toward the next medium-term business plan and the next period after that one. During the period of the next medium-term business plan, we intend to plant seeds for the future while recording profits. In this context, we believe that rotational business is one key point. In any case, the focus will be on to what extent we can bring forward the target of ¥70 billion by 2030.

We also believe we need to present the concept of shareholder returns. Even during COVID-19, we maintained a lower limit of ¥93 and set a guideline of 35% for a dividend payout ratio. We intend to maintain stable dividends. We would also like to consider the acquisition of treasury stock, taking a more realistic view of the situation. We intend to present this sort of shareholder return policy in our next medium-term business plan. These are our directions at present.

- Q. I would like to confirm the impact of the jet ferry situation on your PL. Does the figure of ¥700 million refer to the nine-month period, to the third quarter only or to the entire fiscal year?
- A. This is the cumulative impact for the first nine months. The full-year impact will be a little larger, but please understand that this is not a large amount from a consolidated perspective.
- Q. With regard to the jet ferry company, you have explained the impact on operating income, but have there been any extraordinary losses associated with the withdrawal from the business so far? If there is anything you can tell us, we would like to hear your assumptions for the future.
- A. As for extraordinary losses, the impact on our financial results is expected to be limited as the hull has already been written down.
- Q. I expect there will some retirements of the hull, but will personnel be transferred internally?
- A. As for the employees of the jet ferry company, they will be treated properly, such as basically transferred within the group.
- Q. You had some updates to the explanation on governance and compliance with respect to the jet ferry issue, but will there be any impact on the management structure and the like under the next medium-term business plan?
- A. As for the jet ferry situation, we experienced a similar event the previous year and felt that our checks and governance were not good enough. I feel deeply that it is important to apply

governance differently to companies that have had problems or experienced various business changes than for companies that are operating smoothly. Reflecting on our situation to date, we intend to present enhanced governance measures for the next fiscal year and beyond in the next medium-term business plan.

<A Cautionary Note>

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