November 21, 2016
KYUSHU RAILWAY COMPANY

Main Questions and Answers from the FY 2017/3 Second Quarter Financial Results Presentation

Q. Could you please comment on the basic items in the full-year forecast?

A. We are carefully observing business trends in regard to the impact of the 2016 Kumamoto earthquakes. While revenues from railway transportation are steadily recovering, inbound tourism from certain countries and regions remains stagnant. As such, we will maintain a sharp focus on business trends. In addition, the "Kyushu Recovery Discount," which has been extremely beneficial for the Company, will come to an end this December. We will closely monitor the extent of the discount's impact going forward.

Q. In the Medium-Term Business Plan, you are planning for capital investments totaling ¥190.0 billion. Is there a possibility that this amount will increase?

A. We have acquired two new properties this fiscal year for which we did not plan on during the formulation of our Medium-Term Business Plan. While monitoring trends in the real estate market, we would like to actively acquire properties based on our acquisition evaluation criteria. We have stated that we will allocate ¥80.0 billion to growth investments. However, as we have been steadily acquiring new properties, we will take on even more challenges in the real estate market going forward.

Q. Compared to the first half, how is the Company viewing the impact of the 2016 Kumamoto earthquakes in the second half?

A. We expect revenues from railway transportation to recover to levels on par with the previous fiscal year within six months to a year. We are therefore closely monitoring revenue levels each month. Revenues from railway transportation declined approximately ¥3.6 billion in the first half, which was due primarily to the impact of the quakes. We will focus our attention on trends in revenues throughout the second half. At our consolidated subsidiaries, the impact of the quakes was felt at stores and hotels primarily in Kumamoto. Throughout the first half, we have been gradually reopening stores and hotels that closed after the quakes. In terms of costs, we have already recorded a "loss on disaster" totaling ¥1.2 billion as well as a "provision for loss on disaster" of ¥7.6 billion. However, as the extent of recovery in certain areas remains unclear, there is a possibility that these amounts will fluctuate.

Q. You have listed the sinkhole accident that occurred in the city of Fukuoka as a significant subsequent event. What kind of risks should we be concerned about from this accident and how does the Company intend to participate in the recovery effort?

A. The financial impact from this accident is unclear at this time. However, the Company's consolidated subsidiary Sanki Construction has been participating in the joint venture that is in charge of the Fukuoka subway construction work, which was linked to the accident. In regard to the specific impact of this accident, we will enact an appropriate response as soon as we receive more information.

Q. From the perspective of the Company's financial targets, you currently enjoy a strong financial structure. However, what do you consider to be an appropriate leverage level for the debt-to-equity ratio, which the Company views as a standard going forward? Also, could you elaborate on the time frame for accomplishing your financial targets as well as what steps you will take to do so?

A. If you take a look at the balance sheet, we still enjoy solid net assets despite the collapse of our stable management foundation. This is thanks to the abundant amount of capital reserves that were established at the time of Japan Railway's founding. The debt-to-equity ratio in the previous fiscal year was approximately 0.3. Since the debt-to-equity ratio will not rise suddenly, we believe we should consider using other indicators as profits accumulate going forward. We will examine the use of the debt-to-EBTIDA ratio as an indicator, given the fact that we have positioned EBITDA as a KPI. At the same time, we will work to leverage our debt in an appropriate manner.

Q. We understand that, as stable dividends are part of your dividend policy, there will not be a dividend reduction in the upcoming fiscal years. With a target consolidated payout ratio of 30%, would the Company consider not raising dividends in the event that depreciation costs accumulate and profits do not rise? Or, in such an event, would the Company consider balancing dividend payments with EBITDA, which it plans to increase going forward?

A. During the three-year period of the Medium-Term Business Plan, our policy is to steadily carry out dividend payments with a target consolidated payout ratio of 30%. While we are certainly impacted negatively by the accumulation of depreciation costs in our railway business, we will work to increase revenues and reduce costs in order to steadily maintain operating income under these circumstances.