

August 16, 2017  
Kyushu Railway Company

**Main Questions and Answers from the Financial Results Teleconference, First Quarter, FY2018/3**

**Q. Railway transportation revenues for the first quarter of FY2018/3 were up ¥4.1 billion compared with the same period of the previous fiscal year. Is this result due solely to the dissipating impacts of the 2016 Kumamoto earthquakes?**

A. In our full-year forecast for FY2018/3, we expected railway transportation revenues to be up nearly ¥3.0 billion due to the dissipating impacts of the Kumamoto earthquakes. Given the fact that the recovery from said impacts began in July 2016, we believe that this development was largely responsible for the first quarter results.

While it is difficult to pinpoint factors other than the dissipation of the impacts of the earthquakes that contributed to this increase, it is our belief that we benefited from the solid ridership that resulted from favorable weather during the rainy season and the three-day holiday that occurred over Golden Week.

**Q. Could you please tell us the specific damages the Company suffered due to the heavy rain that occurred in northern Kyushu?**

A. At the moment, we have identified approximately 110 cases where damages occurred, including on the Kyudai Main Line (bridge leaks, disconnected signal cables, etc.) and the Hitahikosan Line (bridge deformations, track leaks, damaged railway crossing facilities, etc.), among other lines (fallen trees, sediment runoff, etc.).

**Q. Could you please comment on the impacts the heavy rain had on the Company's business performance? Railway transportation revenues for medium- to long-distance travel were below those of the same period in the previous fiscal year (according to the preliminary report issued in July). Is that a result of the heavy rain?**

A. At the present time, we are unable to comment on expenses that we will incur as we are still investigating the extent of damages and examining repair methods. In our opinion, the heavy rain in northern Kyushu was, to some extent, a factor that caused lower railway transportation revenues for medium- to long-distance travel (according to the preliminary report issued in July). However, we believe that an even bigger contributing factor to the decrease was the slowing down of the boost to revenue provided by the dissipating impacts of the 2016 Kumamoto earthquakes.

**Q. Could you please explain the factors that contributed to the increases in operating revenues and operating income for the real estate lease business in the Real Estate Segment?**

A. The full-year contributions of the JRJP Hakata Building, which opened in April 2016, and the rise in rent revenues that followed the start of move-ins for new apartment rentals were the primary factors behind these increases.

**Q. How did the hotel business perform in the first quarter?**

A. Overall, occupancy rates in the hotel business increased compared with the same period of the previous fiscal year, with hotel room rates remaining at around the same level. In addition, the JR Kyushu Hotel Blossom Naha opened as scheduled in June.

**Q. What kind of growth investments did the Company make during the first quarter?**

A. Growth investments during the first quarter included the acquisition of apartment rentals in Tokyo, the acquisition of land in the Tenjin area of Fukuoka City, and the opening of a hotel in Naha, Okinawa.

**Q. What was the Company's aim in acquiring Caterpillar Kyushu Ltd.?**

A. Caterpillar Kyushu Ltd. is a company that engages in the sale and rental of construction machinery. Through this acquisition, we believe that we can generate synergies by utilizing Caterpillar Kyushu's machinery for construction work in which we are involved as well as by expanding the rental business, which leverages our finance subsidiaries, and strengthening collaboration with Caterpillar Kyushu in the fields of railway vehicle and machinery manufacturing and maintenance.

**Q. I understand that the Company is currently in discussions on acquiring the shares of an agricultural subsidiary of Caterpillar Kyushu. Could you tell us your intention behind this potential acquisition and what kind of synergies you expect to generate through this subsidiary?**

A. The JR Kyushu Group manages an agriculture business, and if we were to acquire shares in Caterpillar Kyushu's agricultural subsidiary Aisai Farm Co., Ltd., we would work to generate synergies within that business and with other existing businesses and pursue business expansion.

**Q. Is the acquisition of Caterpillar Kyushu's shares included in the growth investments laid out in the JR Kyushu Group Medium-Term Business Plan 2016–2018?**

A. M&A is not included in the capital expenditures (which include ¥80.0 billion in growth investments) stated in the JR Kyushu Group Medium-Term Business Plan 2016–2018.