

December 20, 2018  
Kyushu Railway Company

**Main Questions and Answers from the Financial Results Presentation,  
Second Quarter, FY2019/3**

Q. The investigation report issued by the Third-Party Committee cited a desire to avoid conflict as one of the reasons behind the illegal activities by JR Kyushu Housing Company. Is there any chance that changes will be made to the standard human resource practices of the JR Kyushu Group as a whole, as opposed to just at JR Kyushu Housing?

A. We recognize a need to revise our human resource systems to address the lack of communication between employees identified in the investigation report. Given the difficulties faced in specialized fields as a result of the diversification of our business portfolio, it is vital that we make greater efforts to optimally position employees, through long-term seconding and other means. The reinforcement of corporate governance is a task that will need to be addressed under the next medium-term business plan, and we hope to present solutions to the human resource issues we face, including those at subsidiaries, in the next medium-term business plan.

Q. Building railway infrastructure is stated as one of the causes of cash outflows that will be considered in the formulation of the next medium-term management. Will investments for this purpose exceed the prior level of ¥25.0 billion to ¥30.0 billion a year?

A. We have suffered the impacts of major natural disasters nearly every year since the Company was listed on the stock exchange. Nevertheless, we have succeeded in reducing the damages from disasters through various countermeasures. We intend to continue investing ¥25.0 billion to ¥30.0 billion a year in safety, maintenance, and upgrades going forward. When accounting for the investments that will need to be made to replace aged rolling stock, it is entirely possible that investments may exceed the level of ¥25.0 billion to ¥30.0 billion in the future.

Q. What type of discussions are taking place in the Company with regard to the next medium-term business plan?

A. The first priority for the next medium-term business plan will be to present solutions to the issues that remain unresolved. In addition, we are charting the course our organization will be taking leading up to 2030. There are those initiatives we are currently engaged in that will need to be continued and evolved as well as new initiatives to be identified through backcasting from 2030. The next medium-term business plan will be formed out of the overlap between such initiatives. As for specific management indicators, we are examining indicators based on input received through investor relations activities conducted in Japan and overseas as well as through other venues on matters including the appropriateness of the current indicators.

Q. What have the levels of return on investment and the internal rate of return on growth investments been over the past three years? Real estate prices are currently soaring. What is the chance of hurdle rates and other investment decision criteria being changed going forward and what risks do you project on this front?

A. We do not disclose the hurdle rates used for investment decisions. However, we can say that Company properties taking advantage of our railway assets have high yield while the development projects acquired from cities tend to have low yield. Kyushu will be the main target of growth investments under the next medium-term business plan. We currently have development pipelines in Kumamoto and Miyazaki, and we anticipate that the yield on these projects will be relatively high. Regardless of these matters, investment decisions will be based on internal investment criteria, and we intend to reduce weighted average cost of capital going forward by utilizing surplus financial leverage.

Q. How much of the revenues of non-railway segments is attributable to inbound demand? Also, could you please offer details on how the Company's alliance with Alibaba Group Holding Limited is developing?

A. In the station building business, the overall ratio of revenues attributable to inbound demand is relatively low, although these revenues are a bit high in Hakata. As for the hotel business, there is some disparity in the ratios of such revenues by region, and there are some areas, Shinjuku, for example, with high ratios. The overall ratio for the hotel business is around 20%. Our alliance with the Alibaba Group, meanwhile, entails the sale of JR Kyushu travel products through the Alibaba Group's Fliggy travel website to cater to the rise in free independent travelers from China. Growth in inbound customers from China is the highest among other countries, followed by Taiwan. JR Kyushu's business is influenced, to some degree, by inbound demand, but we are not dependent on this demand.