(Translation)

November 7, 2019
Kyushu Railway Company

Main Questions and Answers from the Financial Results Presentation, Second Quarter, FY2020/3

Q. In the Real Estate and Hotels segment, second-quarter operating income was down ¥3.0 billion year-on-year. Could you please provide a breakdown of this decrease that excludes the impacts of the change in reportable segment classifications and expenses associated with hotel openings? Also, what is your outlook for this segment in the fiscal year ending March 31, 2021?

A. The change in the reportable segment classifications had the effect of reducing operating income by ¥2.7 billion in the second quarter and the expenses associated with the opening of two hotels (Hibiya and Hakata) was a few hundred million yen. If these extraordinary factors were excluded, it would have been a year-on-year increase of a few hundred million yen in operating income. We opened hotels in Hibiya and Hakata in the fiscal year ending March 31, 2020. In addition, JR Kyushu is planning the opening of a station building in Miyazaki Prefecture in the fiscal year ending March 31, 2021. Thus, expenses will be recorded with regard to this building as well as the opening of other new development projects. Nevertheless, we are projecting a slight year-on-year increase in income in the fiscal year ending March 31, 2021.

Q. The Company has defined its intention to set a minimum dividend per share of ¥93 up until the fiscal year ending March 31, 2022. Did you consider the possibility of adopting dividend on equity as an indicator or will this possibility be considered in the future?

A. The minimum dividend per share of ¥93 was set for the purpose of providing additional comfort to shareholders and investors. We have examined a range of possibilities for dividend measures since the time of the establishment of the Medium-Term Business Plan. Our conversations with various investors, including those overseas, led us to believe that setting a minimum level of dividend would be effective method of gaining investor understanding. This revised shareholder return policy will be applied for the remaining two and a half years of the current Medium-Term Business Plan. However, we will not rule out the possibility of adopting dividend on equity in the future.

Q. I understand that JR Kyushu intends to conduct share buybacks opportunistically. Specifically, what would be the criteria for conducting additional share buybacks? Other companies often base the decisions to conduct share buybacks on stock price declines. What is the Company’s policy with this regard?

A. We cannot deny that there are issues with our capital structure, but at the same time, we need to consider that our profitability in the railway business is low. Thus, there is a need to maintain a solid financial soundness. We intend to take a flexible approach toward share buybacks based on comprehensive evaluations of many factors including business performance outlook and stock price.

(Translation)

Q. After the announcement of consolidated financial results for the three-month period ended June 30, 2019, it was stated that the Company hopes to put forth financial strategies that will be enacted leading up to 2030. Is the revised shareholder return policy announced today is the one that will be employed up to 2030, or will another policy be announced by the end of the fiscal year ending March 31, 2020?

A. There is a need to consider changes in capital efficiency from a medium- to long-term perspective, and balance sheet targets must be defined as one set of guidelines for this purpose. We intend to examine whether our targets for 2030 will be purely qualitative or whether quantitative targets will be included.

Q. With regard to the financial strategies being formulated, what sort of debt-to-equity ratio targets and timeframes are you envisioning?

A. Our forecast for the debt-to-equity ratio on March 31, 2020, is around 0.2 times. We therefore feel that it will be difficult to raise this ratio in the short term. The change in shareholder return policy and our share buyback approach are part of a strategy targeting capital efficiency. We recognize the need to raise the debt-to-equity ratio, and this matter is being discussed at meetings of the Board of Directors. We intend to examine possible timeframes and targets going forward.

Q. With regard to capital efficiency, the Medium-Term Business Plan contained a reference figure of 8% for return on equity. Is it safe to assume that the Board of Directors is discussing return on equity as a key performance indicator?

A. That assumption is correct. Please understand though that management is not content with profit declines. One method of raising return on equity is to lower equity. However, we believe that the undeniable purpose of the indicator of return on equity is to guide efforts to increase returns. For this reason, the focus of discussions by the Board of Directors is increasing returns.

Q. What type of discussions are taking place within the Company in relation to the course of action JR Kyushu should take to address underperforming railway lines given that it is a private-sector company?

A. In terms of the amount of funds we devote to underperforming railway lines, we took steps to curb spending two years ago by revising timetables to decrease the number of trains in operation on these lines. However, there is also a need to ensure safety on these lines. Our future course of action will be as described in the Medium-Term Business Plan: not limiting ourselves to the railway business but rather branching out to provide mobility services. Even if we face challenges in the railway business, it is crucial to maintain a transportation network of a certain scale as a company supporting infrastructure. It was this thinking that prompted our decision to conclude a business alliance agreement with DAIICHI KOUTSU SANGYO Co., Ltd., in May 2019, followed up by a similar agreement with Nishi-Nippon Railroad Co., Ltd., in October.