

(Translation)

November 11, 2019  
Kyushu Railway Company

### **Main Questions and Answers from the Dialog with Outside Director**

Date: Wednesday, November 6, 2019

Participant: Shinji Asatsuma, Outside Director, JR Kyushu

Q1: You attended the results presentation. What was your frank impression? Also, what are your thoughts regarding your contribution as an outside director to the Company's awareness of the problems it faces?

A1: The people attending the presentation had a good understanding of the issues faced by the Company, and they asked rigorous questions. To begin with, increasing return is a primary factor, and a financial strategy aligned with that objective is necessary. From a financial perspective, the key questions are what the Company can do, and will it be able to continue to meet requirements. I think that perhaps both the business strategy and the financial strategy have not been functioning in a fully effective manner. Increasing financial efficiency is not a special service for shareholders. Company leaders themselves must think about how to increase efficiency. I believe that my role is to support those initiatives.

Q2. In regard to increasing return, efficiency in the real estate business outside of Kyushu seems likely to decline. What types of M&A might be effective in this regard?

A2. M&A initiatives are one means of increasing return, but at this point I do not see any opportunities for effective M&A. The current executive team has a strong sense that the future for the railway business is not bright, and they are convinced that something needs to be done. Personally, rather than a one-off M&A transaction, I think that there is a need for large-scale M&A initiatives that will make the segment successful.

Q3: Please discuss your approach to supporting or opposing investments.

A3: My fundamental approach is to support investment projects that will make the segment successful. Regionally, the Kyushu area offers synergies with our other businesses, and I will not oppose projects that generate synergies, but we must consider whether to hold those projects or to sell them. In terms of the time frame, I will support projects that can be successful over the long term and will oppose those that cannot.

(Translation)

Q4: Under the 2030 Long-Term Vision, the Company is working to contribute to the sustainable development of Kyushu through city-building initiatives. However, the Company seems to be actively investing in Tokyo and areas outside Kyushu. Looking ahead to 2030, what is your personal opinion regarding whether it will be best to work for shareholders by taking advantage of opportunities that provide returns, or to focus on Kyushu even though the returns are lower?

A4. Personally, I think that the Company should focus on the Kyushu region. Outside of Kyushu, investment in non-hotel real estate projects will not be better than hotels, and overseas as well non-hotel investments are not attractive. At meetings of the Board of Directors, we have discussed if there is a need for another focus area, in addition to the existing railway business and real estate business, in order to increase the population in Kyushu. Of course there are the fields of clothing, food, and shelter, and if jobs are not created the population will not increase. I think it will be necessary for JR Kyushu to be enthusiastic about taking a leadership role in these initiatives.

Q5: In regard to the cost of capital, what is your view of management methods such as ROIC? Also, have there been effective discussions about actually utilizing ROIC in revising the business portfolio and implementing quantitative management?

A5: I think there has been a change toward explanations reflecting awareness of the cost of capital and ROIC, but I think that the Company still needs to do more in this area. However, discussions now generally reflect an awareness of the cost of capital.

Q6. At meetings of the Board of Directors, is there an awareness of the level of cost of capital that is being demanded from the Company? In regard to the Company's acquisition of its own shares, is the Board discussing the correspondence between current cash allocation and the cost of capital?

A6. I think that awareness of the cost of capital has spread to a certain extent. I believe that there is a certain degree of understanding about the correspondence between cost of capital and own-share acquisitions. However, I think that there is a limited understanding about reducing the cost of capital in order to increase cash flow, as a responsibility of Company executives. From a long-term perspective, I think that the Company needs to incorporate a variety of outside views, including from consultants, even at meetings of the outside directors.