(Translation)

May 14, 2021

Kyushu Railway Company

Main Questions and Answers from the FY 2021/3 Financial Results Web Conference

Q. To what extent have the changes in accounting policies and the impairment loss recorded in the FY2021/3 influenced the forecasts for FY2022/3?

A. Looking at the changes in accounting policies, the application of the revenue recognition accounting standard will basically not have an effect on operating income. However, depreciation for FY2022/3 will be ¥3.1 billion less than the initial estimate due to the change in the depreciation method for railway business fixed assets ((1) change from declining-balance method to straight-line method, (2) for rolling stock, change to useful life in line with usage condition). Also, in regard to impairment loss, we recorded an impairment loss on THE BLOSSOM HIBIYA, but due to the long amortization period, the effect on depreciation in FY2022/3 will be several hundred million yen. In addition, we also recorded impairment losses on several facilities in the Retail and Restaurant segment, but the effect on profits will be insignificant.

Q. In regard to railway business cost structure reform, other than measures listed in the materials, is the Company considering measures that will strengthen structural reform?

A. The presentation materials include the direction of representative measures, and we are also considering other measures, such as reevaluation of back office departments or detailed initiatives. First of all, it will be important to achieve ¥14.0 billion in fixed-cost reductions, and we would like the results of these efforts to be considered, whether or not they are included in the presentation materials.

Q. During the period of the next Medium-Term Business Plan, railway business expenses will be reduced by ¥14.0 billion. What are the expectations for revenues in the railway business, and do you expect profitability in the railway business to recover to the level before COVID-19?

A. We believe that railway transportation revenues in the railway business will not recover to the level before COVID-19. Even if these revenues do not recover, from the viewpoint of business continuity, we will advance cost reductions through a strengthened BPR strategy to facilitate the generation of profits. On that basis, we will start to improve profitability.

Q. In regard to the Group's advancing into the logistics facility leasing business, the project that was announced today will involve the acquisition of an external property. Does the Group own any properties that are suitable for the logistics facility leasing business?

A. Looking at Group-owned properties in areas surrounding stations, most of them have already been developed for condominiums, parking lots, etc. For the logistics facility leasing business, access to trunk roads is important, and the Group does not own any properties that meet that requirement. Accordingly, we will acquire external properties.

Q. In regard to new businesses that do not depend on the flow of people, what level of contribution to future profits are you anticipating?

A. Working with Sagawa Express, we have conducted repeated verification testing and commercialized the cargo transport business using the Kyushu Shinkansen. In the near future, the contribution to profits will not be very large, and moving forward we will face the issue of securing cargo business on a long-term, stable basis. However, we recognize the importance of businesses that do not depend on the flow of people, such as the Construction Segment, where we have worked to secure orders for work that does not depend on the railway business. Currently, the contribution to profits from railways, station buildings, etc., is more than 90%. However, in the future we will work to increase the share of profit contributed by new businesses that do not depend on the flow of people, including the logistics business. Our objectives those businesses will be announced in the next Medium-Term Business Plan.

Q. Up to this point, the Company has transferred a portion of its holdings of shares of JR Kyushu

Drug Eleven and transferred the leasing and installment financing businesses. Is the revision of the business portfolio now on hold for the time being? Also, with the business model being changed, what is the Company's approach to fields in which there are capital tie-ups and business alliances?

A. We have no intention of pausing revisions of our business portfolio. In FY2021/3, we withdrew from the restaurant operations that we were developing in Shanghai, China. This type of business reevaluation will be discussed as needed in meetings of the Board of Directors. On the other hand, these activities are not limited sales and withdrawals. We are considering how we can add businesses that do not depend on the flow of people, and one of those is the logistics facility leasing business. Caterpillar Kyushu, which we acquired in 2017, and Manbo, which we acquired in 2019, are recording growth. In adding these types of new businesses, we will also use specialized regional funds, and we will advance collaboration with other companies when necessary.

Q. In regard to private REITs, what are the Company's thoughts regarding the timing of contribution to earnings and the properties that will be considered? Do you intend to acquire properties that are compatible with the Group's existing businesses and aim for synergies resulting from population increases?

A. In April 2021, we established JR Kyushu Asset Management, and we are moving ahead with preparations for the acquisition of permits and licenses. At this point, we have not clearly decided on any properties that we will include, but station buildings are core properties for our Group, and we will likely include office buildings and condominium buildings. In addition, the timing of the acquisition of permits and licenses is also a factor, and at this point we cannot clearly state the timing of contribution to earnings. However, we expect it to be around the end of this fiscal year or the beginning of next fiscal year. We are also considering the inclusion of the type of external properties that you mentioned, and in regard to future growth, we will provide further notice after the acquisition of permits and licenses.

Q. With many railway companies reducing dividends in FY2021/3, the Company's ability to maintain its initial plan of an annual dividend of ¥93 per share is noteworthy. Going forward, the plan in FY2022/3 is to maintain annual dividends of ¥93 per share. Please discuss the thinking behind the Company's decision on this issue. Also, the Company has indicated that it anticipates a recovery in results during the period of the next Medium-Term Business Plan. Would it be correct to say that there will be no change to the policy of placing importance on shareholder return?

A. We changed our shareholder return policy in November 2019, and through FY2022/3, our plan is to aim for a consolidated dividend payout ratio of 35%, with a minimum dividend per share of ¥93.0. That policy applies to dividends in FY2021/3 and FY2022/3. Shareholder return is one of our most important management tasks, and there will be no change to our policy of placing importance on shareholder return. Moving forward, we will step up consideration of the detailed return policy (including the dividend payout ratio, etc.) during the period of the next Medium-Term Business Plan. We recognize that these considerations need to be discussed along with our capital structure over the medium to long term, and we will disclose the progress of those discussions in the future.

Q. It will likely be difficult to raise railway fares, but other JR companies are reevaluating their fare structures. In this setting, is the Company conducting discussions regarding the introduction of flexible fare systems?

A. COVID-19 will also be a factor, and we would like the current fare system to be made more flexible. However, time will be required for the revision of a national government system, and we will work in cooperation with other companies going forward. In regard to the setting of fares by time period, in our area the congestion rate during peak hours is not as high as those of other companies. With consideration for the initial costs required to make this type of change, we are not in favor of this type of fare setting.

＜A Cautionary Note＞

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