Message from the CFO

Chief Financial Officer
Toshihiro Mori

Responding to Upheavals in the Business Environment and Implementing Financial Strategies that Support Our Business Strategies

My Role as CFO

Until we became a listed company four years ago, in addition to the fact that the Japan Railway Construction, Transport and Technology Agency owned 100% of our shares, JR Kyushu had a management stabilization fund of ¥387.7 billion and the cash flow created by operating the fund enabled us to run our business operations with a low debt burden. We were also able to utilize that cash as capital investment funds, making it possible to operate our businesses with a priority on business strategies. After we became a listed company, discussions were held within the company about the nature of financial strategies that support business strategies. As a result, with the aim of defining financial strategies that can support our future growth, the role of the CFO was clarified and it was decided to implement business and financial strategies in tandem.

Message from the CFO

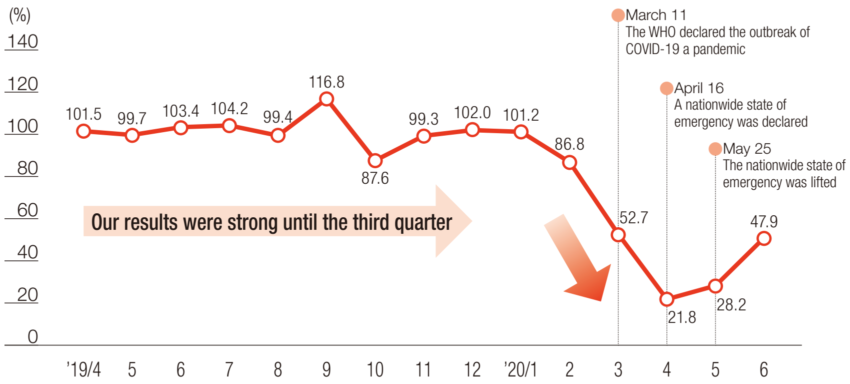
Our Performance in the Fiscal Year Ended March 2020

Our railway business and related businesses performed extremely well up until the third quarter of this fiscal year. Railway transportation revenue, in particular, was moving at its best pace ever. However, due to the COVID-19 pandemic from February onwards, we ultimately incurred a decrease in revenue and profits. Our railway business slumped to around 20% year-on-year, and even though it recovered after the state of emergency was lifted in June, it still hovers at around 50%. Railway business characteristically has difficulty generating profits when sales drop since it is a business with high fixed costs. As for our related businesses, the Hakata station building, for example, was in June still only posting sales of around 60% as compared to the previous year. Station buildings also contain retail stores and restaurants, so they and other group companies are facing very challenging situations. The pandemic has reminded us anew of the interconnectedness of the JR Kyushu Group's various businesses. The JR Kyushu Group has two key businesses: our railway and station buildings. There was a favorable cycle where the number of railway passengers increased when the number of station building customers increased, but that suddenly went into reverse and formed a vicious cycle. I had already thought that we needed to reevaluate our business portfolio in accordance with the changing environment, but this has really brought home how tough things are for businesses without a certain amount of diversity.

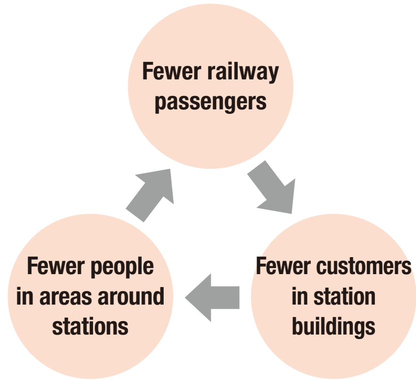
We are still suffering the effects of the pandemic and I have postponed the announcement of our performance forecast. For the foreseeable future I will be focusing on how to secure cash reserves, and how to weather these adverse conditions.

The Recent Business Situation

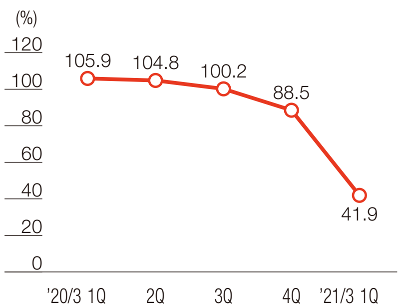
Monthly Transitions in Transportation Service Revenue (Year-on-Year)



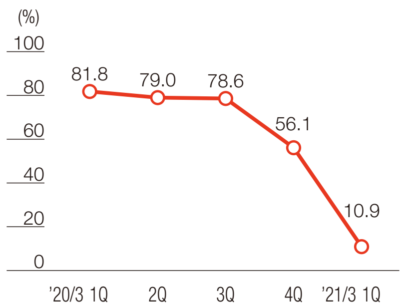
Reversal of the Favorable Cycle Under Which an Increase in Railway Passengers Drives Our Businesses in Areas Surrounding Stations



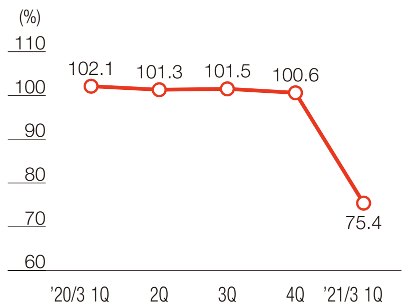
Transitions in Station Building Tenant Sales (Year-on-Year)



Transitions in Hotel Occupancy Rates



Retail and Restaurant Segment Operating Revenues (Year-on-Year)



Message from the CFO

Financial Strategies for the COVID-19 Pandemic

With regard to our financial strategies going forward, it had been posited within the company that 2030 would be a turning point, and matters such as how to balance our debt and equity were also being discussed by the board of directors. However, our discussions have now shifted their focus to how to boost our liquidity at hand in the current COVID-19 pandemic. We must, of course, not be dependent on borrowing, but I intend to handle the current situation flexibly. In addition, I recognize the need to have a moderate reserve of funds, as has been highlighted by the current pandemic. We had not imagined that railway revenue would drop so much, and this is the first time that we have experienced such a situation. However, I think that it is thanks to the fact that we had secured a certain amount of capital that we are able to carry out our business stably even in the current circumstances.

The first message that I gave with regard to our financial strategies for the pandemic was that we will protect our employees' jobs, including those at our group companies. I made it very clear to our employees that although things are unlikely to return to the way they were—and even if they do it will take a number of years—we will protect their jobs. Accordingly, based on the assumption that this challenging situation will continue, I worked out policies to secure cash reserves. To be specific, I directed the relevant departments and group companies to cut costs and also rein in or postpone investment, and maintained close communication between group companies when dealing with matters such as the utilization of assistance from the state and local governments.

Our investment policy going forward also needs to be reviewed. Investment in railway safety will certainly be carried out as and when necessary. It is essential to deal with any partial deterioration of facilities and the effects of natural disasters. However, we will discuss steps that include asset replacement in the case of our real estate business, for example, which has ownership and management businesses. We are currently working on postponing and curbing investment, with the exception of ongoing projects such as railway safety investment and existing station building investment. Going forward I expect to move ahead with deliberations that include a review of the Medium-Term Business Plan.

Reevaluating Our Business Portfolio, and Business Sales and Takeovers

I believe that we must sort out what our business resources are and what our strengths are. In addition, we will continue to consider the reevaluation of our business portfolio by the withdrawal from, or transfer of, businesses that lack a competitive edge. Based on that stance, we have sold off a number of businesses since the last fiscal year. In our lease business, it is hard to see any fiscal merit with low interest rates continuing. Although we did discuss expanding it into new sectors, positing a move into such fields as aircraft, medical care and overseas business, we recognized that there was a limit to the extent we could expand our lease business on our own, and it was decided to sell it off.

With regard to the transfer of JR Kyushu Hospital, in addition to the fact that it would be hard for us to improve income and expenditure given that we have no expertise in hospital management, the role of the hospital as an employee benefit had declined since the time of its establishment. With that said, it is located in an area with an aging population, so we took the impact on the local community into account and decided to transfer the hospital to a medical corporation so that it can remain in operation.

Message from the CFO

It was decided to sell Drug Eleven due to the difference between its profit structure and those of the major drugstore chains, a difference that was expected to widen even further. However, since Drug Eleven is a key tenant in station buildings and other JR Kyushu Group properties, the sale took the form of a partial transfer of shares.

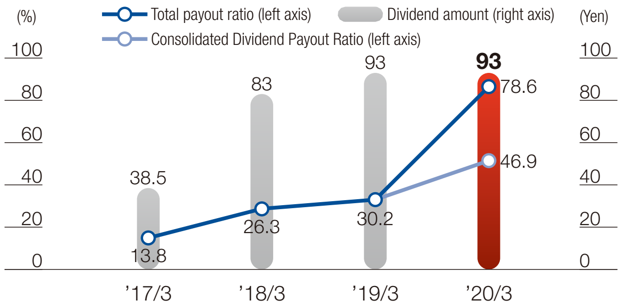
Manbou, a processed marine product company in Karatsu, Saga, became a subsidiary company in December 2019. Manbou produces squid siu mai dumplings, which are ranked as one of the most popular souvenirs of Saga Prefecture, and we want to preserve this brand. This will set a precedent as an example of a case where we have been able to leverage JR Kyushu Group outlets and supply the resource of a network that links people up. Going forward, I intend to discuss further M&As like this to preserve Kyushu brand products.

Our experience of the COVID-19 pandemic reminds me anew of the significance of engaging in projects that are not closely connected to our existing businesses, something that is also meaningful from the perspective of diversifying risks. Up until now I had simply regarded strong affinities in business cycles as synergy but, as I mentioned earlier, I feel that we need to reconsider what exactly are the strengths and resources of the JR Kyushu Group. Going forward, I intend to review business management that leverages the group's brands and networks, and can be expected to generate synergy.

Shareholder Return Policy and Dividends

We recognize the return of profits to shareholders to be an important component of our business, and we place importance on the provision of stable shareholder returns over the long term. We have built up dividends because we have traditionally invested heavily and steadily generated profits. A total payout ratio of 35% or more was announced in the Medium-Term Business Plan, and I have decided to once again set a minimum dividend per share of ¥93.0 to demonstrate that we pay dividends reliably even in situations where income and profits have decreased. We have also acquired treasury stock in order to enhance shareholder returns and capital efficiency. Since business performance trends are extremely unclear at present due to the impact of the current COVID-19 pandemic, dividends for the next fiscal period, including interim dividends, have yet to be decided.

Dividends per Share/Consolidated Dividend Payout Ratio/ Total Payout Ratio



Communication with Shareholders and Investors

I place great importance on communication with our stakeholders, and in particular with our shareholders and investors. The briefings on quarterly financial results for the second and fourth quarters are held in Tokyo. As CFO, I handle the second quarterly briefing, and the president handles the fourth quarterly briefing jointly with me. We also held a discussion with an outside director at the second quarterly financial briefing in the fiscal year ended March 2020. I heard that we are the first railway company to do that. In addition, we hold one-on-one meetings in North America, Europe, and Asia once a year. I always think that neither I nor the company must ever be complacent when it comes to the disclosure of information. When listening to the diverse opinions of our various stakeholders, I am often reminded that we need to provide clear and precise explanations about subjects such as our business structure, for example. I feed the stakeholders’ opinions and pointers back to the company, for example in reports to the board of directors, and going forward, I intend to continue to make conscious efforts to make good use of stakeholder feedback in our management activities.