(Translation)

March 25, 2019
Kyushu Railway Company

Main Questions and Answers from the Presentation for JR Kyushu Group Medium-Term Business Plan 2019-2021

Q. What is the 2030 vision for the Company's future, and how has the 2030 vision been reflected in the medium-term business plan? Also, would you explain the reasons why the Company did not decide on specific numbers for 2030?

A. The 2030 Vision reflects our deliberations about the Group's direction, centered on the railway business. Our discussions about the demographics in 2030, future progress in technology, etc., also drew on the knowledge of people outside the Company. We will utilize this period to consider a range of issues, including how we will establish future mobility services, and how we will handle MaaS-related issues, such as verification testing, collaboration with other companies, etc. We will also need to continue to implement city-building initiatives within Kyushu. Over the next three years, we will conduct continuous city-building initiatives in Kumamoto and Miyazaki, followed by Hakata Station, where we will work to realize the plan for utilizing the space above the tracks. We do not yet have specific figures, but the plan reflects our ideas about where we should start.

Q. For the KPI (key performance indicator), what was the reason for the switch from EBITDA (earnings before interest, taxes, depreciation and amortization) to operating income?

A. At the time of the IPO, we used EBITDA for cash generating capability. However, the situation has changed, and operating income will be in a declining trend due to higher depreciation, etc. We want to move beyond these circumstances, and accordingly we selected operating income for our target management indicators. During the period of the medium-term business plan, we will work steadily toward the objective of a cumulative total of operating cash flow of ¥220.0 billion.

Q. The Company has said that increases in earning power and productivity in the Transportation Segment will have the effect of increasing profit by ¥3.0 billion. To that end, what effect resulted from measures that were implemented under the previous business plan? And under this plan, what type of measures will support the expectation of a ¥3.0 billion increase?

A. Revenues from railway transportation have risen by nearly ¥10.0 billion over the past six years, and we believe that we can achieve the target of ¥154.0 billion in the final year. Although we are also facing a labor shortage, we will strive to achieve reductions in personnel costs over the next three years through measures to increase efficiency, etc. In addition, we will strive to reduce maintenance expenses over the medium to long term. To that end, we will introduce new technologies to increase efficiency, such as rolling stock using new technologies like DENCHA, continuous monitoring systems, etc.

Q. The Company has announced ¥210.0 billion in growth investment. Are there additional projects other than those listed? Also, how much of a contribution to profits will be made during this plan and the next plan?

A. We are considering growth investment projects other than those that are listed, but at this point we cannot provide detailed information about them. The Miyazaki Station west entrance development will open during the middle stage of the plan, and the development in the area around Kumamoto Station will open in the late stage of the plan. However, most of the results of the projects will be seen under the next plan. This plan also includes investment amounts for development at Nagasaki Station and Kagoshima Station, as well as for utilizing the space above the tracks at Hakata Station, etc. However, the results will be seen under the next plan.

Q. In regard to the Company's approach to M&A, considering the acquisition of Caterpillar Kyushu, etc., would you discuss the synergies realized to date, the Company's policy going forward, and thoughts regarding the hurdle rate?

A. Moving forward, we will consider the acquisition of businesses that will be able to contribute to our utilization of new technologies or to our city-building initiatives. We will aggressively implement retail and restaurant businesses in station buildings as well as businesses that can leverage the JR Kyushu brand to generate sales and profits. The hurdle rate will reflect consideration for WACC (weighted average cost of capital), etc., but I cannot provide specific details.

Q. The Company has said that own-stock acquisitions will be made in line with circumstances, but with debt used to fund higher capital expenditures, there does not seem to be leeway for own-stock acquisitions. In what circumstances will own-stock acquisitions be considered?

A. We will take into account circumstances such as the stock price level and profit level. In regard to the stock price, I can say that as the president, I am always aware of the stock price. Also, if profit exceeds the expected level, etc., then we consider the use of those resources for shareholder return through own-stock acquisitions.

Q. The Company has stated that, if growth investment exceeds operating cash flow, then an appropriate level of debt will be utilized. For example, what level of debt-equity ratio does the Company think would be appropriate in that regard?

A. We started as a company with substantial capital at the time of our complete privatization, and as a result we do not necessarily consider the debt-equity ratio to be a suitable indicator. As a reference indicator, our standard for the debt-EBITDA ratio is two to three times. We will also consider the maintenance of our corporate bond rating and future cash flow generation capacity as we utilize debt.

Q. Is it the Company's intention to raise the debt-equity ratio over the long-term, while reducing WACC? Also, in regard to the balance between capital and interest-bearing debt, will the Company prioritize the current rating (acquisition of AA- from R&I)?

A. Looking at the composition of our balance sheet, there is leeway for the utilization of debt, and we will make use of debt while maintaining financial discipline. We have recently issued corporate bonds, and we believe that this will have the effect of limiting growth in WACC.

Q. The target for ROE is 8% or more. What were the anticipated circumstances that led to the establishment of 8% as the lower limit? Over the period of the plan, does the Company expect assets to increase and capital efficiency to decline temporarily?

A. In regard to the level of ROE wanted by the market, we recognize that an ROE of 8% is the minimum. During the period of this plan, with the elimination of special tax treatment and an increase in depreciation, operating income will decline temporarily. Accordingly, we will work to initially maintain ROE at 8% and then to increase it over the medium to long term. In regard to asset efficiency, it is not our intention to reduce efficiency for no reason. We will continue working as we move forward, including real estate replacement.