



FY21.3 Financial Results Overview, Third Quarter

February 9, 2021

KYUSHU RAILWAY COMPANY



KYUSHU RAILWAY COMPANY



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I THIRD QUARTER FINANCIAL RESULTS OVERVIEW AND FULL-YEAR FORECASTS



KYUSHU RAILWAY COMPANY

Consolidated Financial Highlights for the Nine-Month Period Ended December 31, 2020



Operating revenue

Substantial decline in revenue due to such factors as the decrease in railway transportation revenues resulting from the influence of the spread of the COVID-19 infection [¥(59.6) billion] and the influence of JR Kyushu Drug Eleven Co., Ltd. becoming an equity-method affiliate [¥(26.6) billion].

Operating income

Despite efforts to reduce costs, large decline in profits results from significant decrease in revenues.

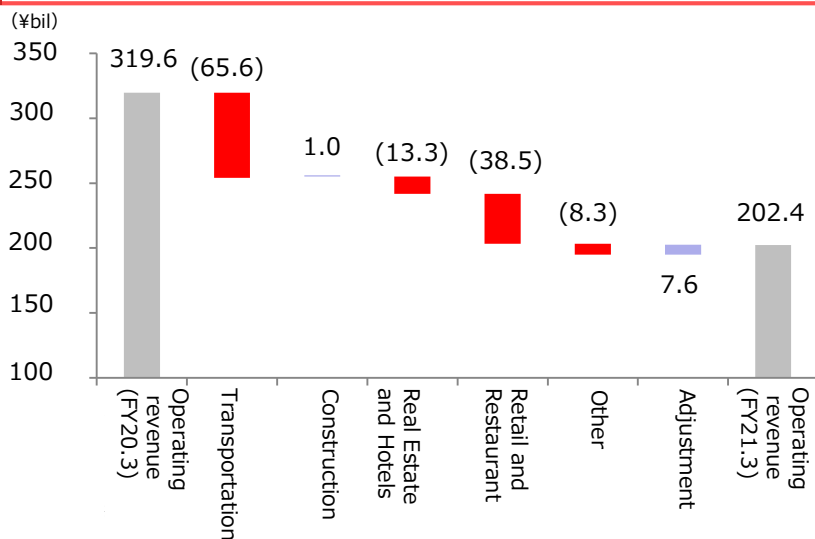
Extraordinary gains and losses

Recorded gain on sale of JR Kyushu Drug Eleven Co., Ltd. shares (+¥9.1 billion), provision for loss on disaster [¥(2.1) billion] related to the restoration of the Hitahikosan Line, and disaster-damage losses [¥(3.5) billion] due to heavy rains in July 2020.

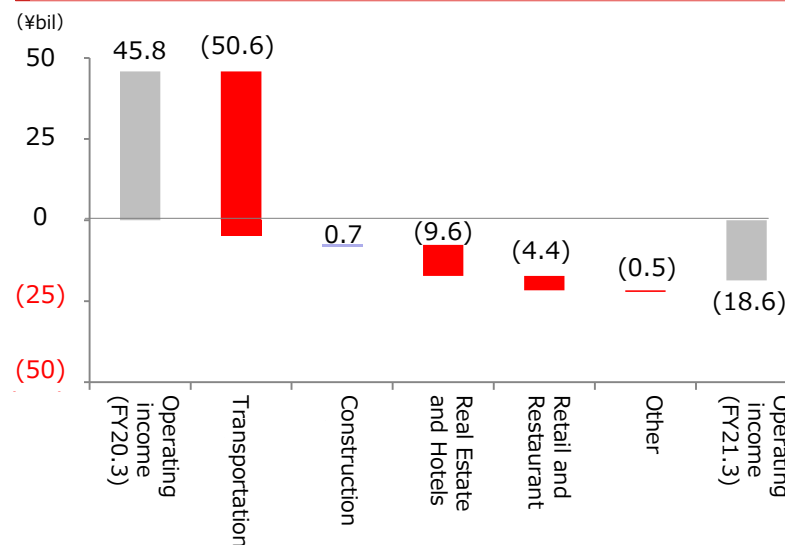
	9 months ended December 31, 2019	9 months ended December 31, 2020	YoY	(¥bil)
Operating revenue	319.6	202.4	(117.2)	63.3%
Operating income	45.8	(18.6)	(64.4)	-
Ordinary income	46.9	(16.1)	(63.1)	-
Extraordinary gains and losses	(0.1)	2.5	2.6	-
Net income attributable to owners of the parent	35.3	(11.6)	(46.9)	-
EBITDA*	64.4	1.7	(62.7)	2.7%

*Note: EBITDA = operating income + depreciation expense (excluding depreciation of leased assets held for subleasing purposes). The same applies hereafter

Change in operating revenue by segment



Change in operating income by segment

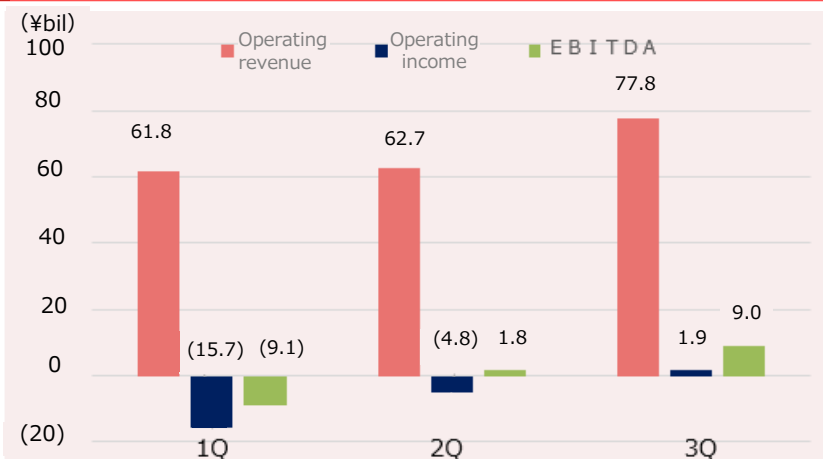


FY2021/3 — Quarterly Results

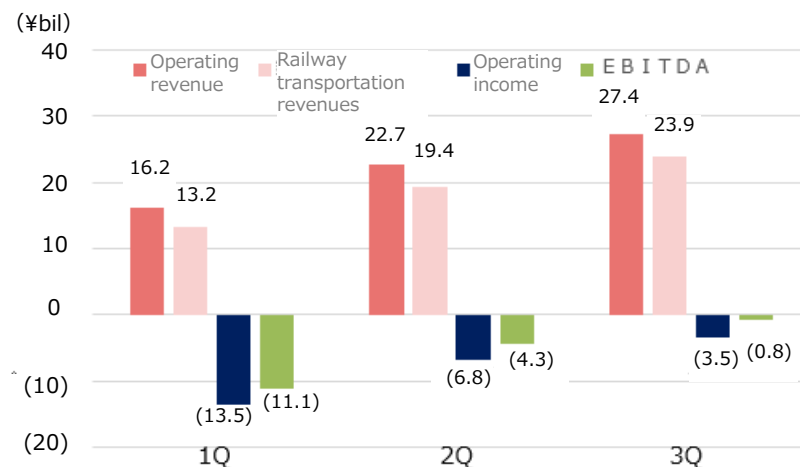


- Operating revenues in each business continued to follow a recovery trend, and we implemented thorough cost management to control operating expenses.
- For the third quarter, we achieved profitability at the consolidated operating income level, and EBITDA showed steady improvement.

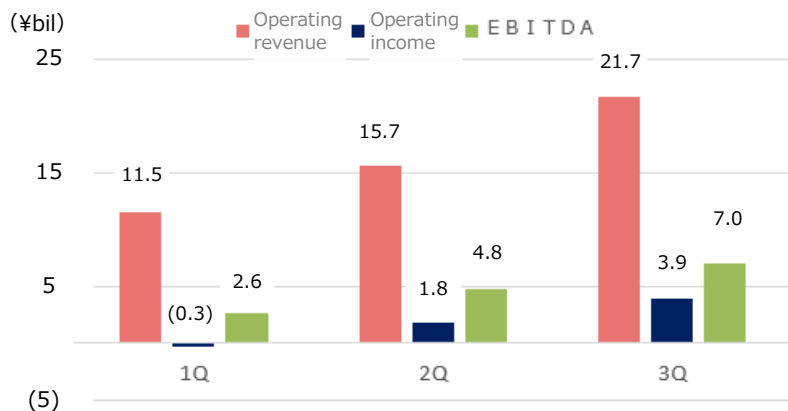
Consolidated results



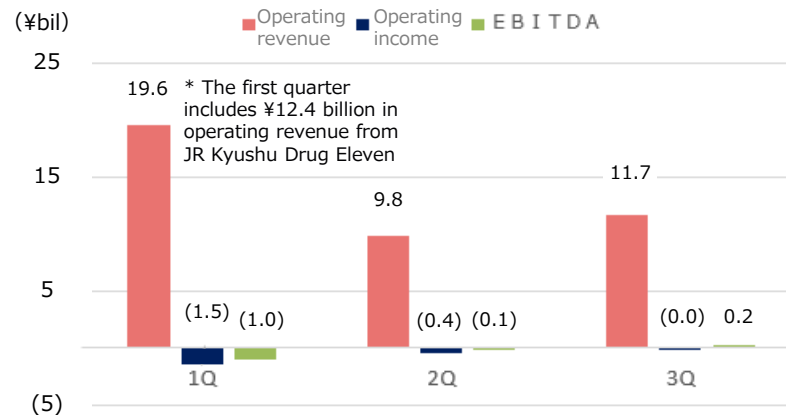
Non-consolidated, railway business



Real Estate and Hotels Segment



Retail and Restaurant Segment



Results for the First Nine Months of FY21.3 (by segment)



(¥bil)

	9 months ended December 31, 2019	9 months ended December 31, 2020	YoY		Major factors
Operating revenue	319.6	202.4	(117.2)	63.3%	
Transportation	135.9	70.2	(65.6)	51.7%	Decrease in passenger demand (railway, hydrofoil ferry, bus) due to influence of the COVID-19 infection
Railway Business (non-consolidated)	129.4	66.3	(63.0)	51.3%	
Construction	57.2	58.2	1.0	101.8%	Increase in Shinkansen-related construction
Real Estate and Hotels	62.4	49.0	(13.3)	78.6%	
Real Estate Lease	41.4	36.4	(5.0)	87.8%	Decrease in revenues from leases (mainly station buildings) due to influence of the COVID-19 infection
Condominium Sales	7.8	7.3	(0.4)	93.6%	Decrease in revenue from sales of condominiums
Hotel Business	13.2	5.3	(7.8)	40.7%	Decrease in number of guests due to influence of the COVID-19 infection
Retail and Restaurant	79.7	41.1	(38.5)	51.7%	Decrease due to transfer of a portion of holdings of shares of JR Kyushu Drug Eleven and to the influence of the COVID-19 infection
Other	52.6	44.3	(8.3)	84.1%	Decrease due to decline in construction material revenues and to the transfer of the leasing and installment financing businesses
Operating income	45.8	(18.6)	(64.4)	-	
Transportation	25.8	(24.8)	(50.6)	-	
Railway Business (non-consolidated)	25.9	(23.8)	(49.8)	-	
Construction	1.8	2.6	0.7	140.3%	
Real Estate and Hotels	15.0	5.4	(9.6)	36.0%	
Real Estate Lease	13.3	8.8	(4.5)	66.0%	
Condominium Sales	0.4	0.0	(0.3)	21.2%	
Hotel Business	1.2	(3.4)	(4.7)	-	
Retail and Restaurant	2.4	(1.9)	(4.4)	-	
Other	1.3	0.8	(0.5)	63.8%	
EBITDA	64.4	1.7	(62.7)	2.7%	
Transportation	32.6	(16.5)	(49.2)	-	
Railway Business (non-consolidated)	32.0	(16.3)	(48.3)	-	
Construction	2.7	3.4	0.6	125.2%	
Real Estate and Hotels	23.4	14.5	(8.8)	62.1%	
Real Estate Lease	20.2	16.1	(4.0)	79.8%	
Condominium Sales	0.4	0.1	(0.3)	22.3%	
Hotel Business	2.7	(1.7)	(4.4)	-	
Retail and Restaurant	3.6	(0.9)	(4.5)	-	
Other	2.9	2.2	(0.6)	77.9%	

Results for the First Nine Months of FY21.3 (non-consolidated)



(¥bil)

	9 months ended December 31, 2019	9 months ended December 31, 2020	YoY		Major Factors
Operating revenue	160.2	97.0	(63.2)	60.6%	
Railway transportation revenues	116.2	56.6	(59.6)	48.7%	Influence of the COVID-19 infection
Shinkansen	42.2	16.7	(25.5)	39.6%	
Conventional Lines	73.9	39.8	(34.0)	53.9%	
Other revenue	43.9	40.4	(3.5)	91.9%	Decrease in revenue from sales of condominiums
Operating expense	124.1	111.0	(13.1)	89.4%	
Personnel expense	36.8	29.5	(7.2)	80.4%	Decrease in bonus payments Decrease due to the transfer of the hospital business
Non-personnel expense	67.4	59.6	(7.8)	88.4%	
Energy cost	7.0	6.0	(1.0)	85.7%	Decrease due suspension of train service
Maintenance cost	20.6	17.4	(3.2)	84.5%	
Other	39.7	36.1	(3.5)	91.0%	Decrease in cost of sales of condominiums
Taxes	8.9	8.7	(0.1)	98.1%	
Depreciation cost	10.9	13.0	2.0	118.8%	
Operating income	36.0	(14.0)	(50.0)	-	
Non-operating income and expense	6.1	9.5	3.3	153.5%	Increase in gains on investment securities
Ordinary income	42.2	(4.4)	(46.7)	-	
Extraordinary gain and losse	0.4	3.4	2.9	732.3%	Increase due to sale of a portion of holdings of the shares of JR Kyushu Drug Eleven (+9.0) Increase in provision for loss on disaster related to restoration of Hitahikosan Line (-2.1) Increase in disaster expenses associated with heavy rains in July 2020 (-3.6)
Net income	35.0	1.1	(33.9)	3.3%	

Consolidated Financial Highlights for FY21.3



	Results FY20.3	Forecasts FY21.3	YoY	
Operating revenue	432.6	291.7	(140.9)	67.4%
Operating income	49.4	(32.3)	(81.7)	-
Ordinary income	50.6	(31.4)	(82.0)	-
Net income attributable to owners of the parent	31.4	(28.4)	(59.8)	-
EBITDA	75.0	(4.2)	(79.2)	-

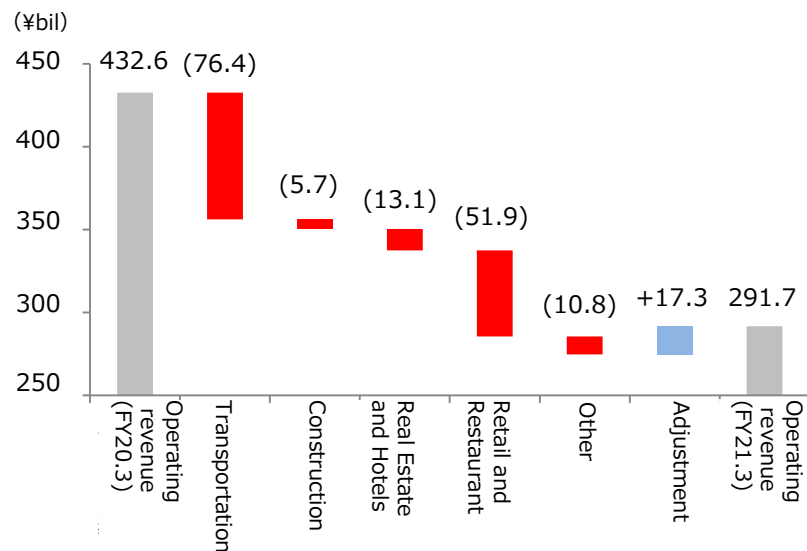
Operating revenue

Operating revenue declined significantly owing in part to a decrease in railway transportation revenues [¥(69.7) billion] and the influence of changing JR Kyushu Drug Eleven Co., Ltd. to an equity-method affiliate ([¥(39.7) billion].

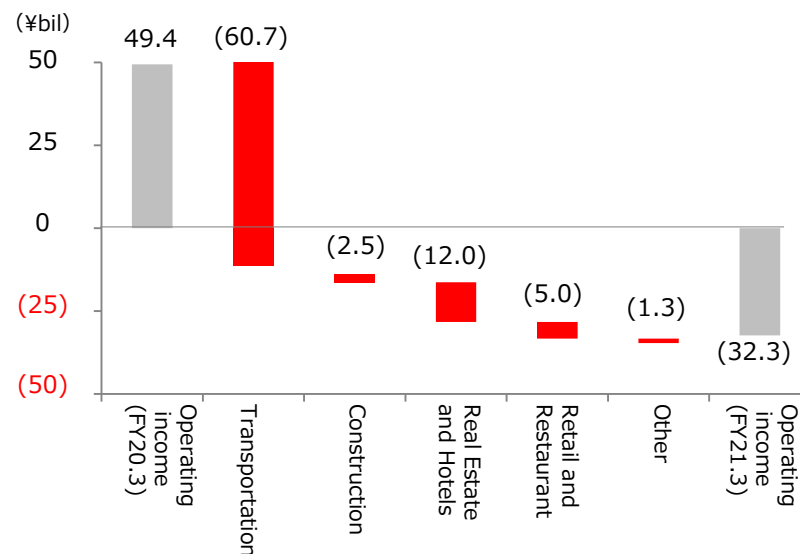
Operating income

Despite planning for cost reductions of approximately ¥14.0 billion on a non-consolidated basis and roughly ¥3.0 billion at Group companies, operating income decreased following the significant decline in operating revenue.

Change in operating revenue by segment



Change in operating income by segment



Consolidated Financial Forecasts (by segment)



(¥bil)

	Results FY20.3	Forecasts FY21.3	YoY	Major factors	
Operating revenue	432.6	291.7	(140.9)	67.4%	
Transportation	173.7	97.3	(76.4)	56.0%	Decrease in passenger demand (railway, hydrofoil ferry, bus) due to influence of the COVID-19 infection
Railway Business (non-consolidated)	165.2	92.2	(73.0)	55.8%	
Construction	99.3	93.6	(5.7)	94.2%	Decrease in railway construction orders from JR Kyushu
Real Estate and Hotels	90.7	77.6	(13.1)	85.5%	
Real Estate Lease	55.2	49.5	(5.7)	89.6%	Decrease in revenues from leases (mainly station buildings) due to influence of the COVID-19 infection
Condominium Sales	18.9	21.5	2.5	113.6%	Increase in revenue from sales of condominiums
Hotel Business	16.6	6.6	(10.0)	39.7%	Decrease in number of guests due to influence of the COVID-19 infection
Retail and Restaurant	104.6	52.7	(51.9)	50.4%	Decrease due to transfer of a portion of holdings of shares of JR Kyushu Drug Eleven and to the influence of the COVID-19 infection
Other	72.1	61.3	(10.8)	84.9%	Decrease due to the influence of the COVID-19 infection and to the transfer of the leasing and installment financing businesses
Operating income	49.4	(32.3)	(81.7)	-	
Transportation	19.8	(40.9)	(60.7)	-	
Railway Business (non-consolidated)	20.0	(39.1)	(59.1)	-	
Construction	6.5	4.0	(2.5)	60.8%	
Real Estate and Hotels	19.1	7.1	(12.0)	37.1%	
Real Estate Lease	16.7	11.4	(5.3)	67.9%	
Condominium Sales	1.5	1.9	0.3	121.3%	
Hotel Business	0.7	(6.2)	(6.9)	-	
Retail and Restaurant	2.8	(2.2)	(5.0)	-	
Other	2.2	0.9	(1.3)	39.4%	
EBITDA	75.0	(4.2)	(79.2)	-	
Transportation	29.5	(29.8)	(59.3)	-	
Railway Business (non-consolidated)	28.8	(28.4)	(57.2)	-	
Construction	7.6	5.0	(2.6)	65.0%	
Real Estate and Hotels	30.5	19.7	(10.8)	64.4%	
Real Estate Lease	26.1	21.6	(4.5)	82.7%	
Condominium Sales	1.5	1.9	0.3	120.5%	
Hotel Business	2.8	(3.8)	(6.6)	-	
Retail and Restaurant	4.4	(0.8)	(5.2)	-	
Other	4.3	2.8	(1.5)	64.5%	

Non-consolidated Financial Forecasts



(¥bil)

	Results FY20.3	Forecasts FY21.3	YoY		Major factors	Cost reductions
Operating revenue	214.8	145.0	(69.8)	67.5%		
Railway transportation revenues	147.3	77.6	(69.7)	52.7%	Influence of the COVID-19 infection	
Shinkansen	52.3	24.0	(28.3)	45.9%		
Conventional Lines	95.0	53.6	(41.4)	56.4%		
Other revenue	67.5	67.4	(0.1)	99.8%		
Operating expense	180.4	169.5	(10.9)	93.9%		(14.0)
Personnel expense	48.7	39.5	(9.2)	81.0%	Decline due to the transfer of the hospital business (-2.0) Natural decline due to a decrease in employee numbers	(6.0)
Non-personnel expense	105.5	101.2	(4.3)	95.9%		
Energy cost	9.2	8.4	(0.8)	91.0%		(0.5)
Maintenance cost	33.4	30.2	(3.2)	90.2%		(3.5)
Other	62.8	62.6	(0.2)	99.6%	Increase due to sale of hospital business (+2.0) Increase in cost of sales of condominiums (+1.8)	(4.0)
Taxes	10.7	10.9	0.1	101.5%		
Depreciation cost	15.4	17.9	2.4	115.8%		
Operating income	34.3	(24.5)	(58.8)	-		
Non-operating income and expense	6.1	8.7	2.5	140.6%	Increase in dividend income	
Ordinary income	40.5	(15.8)	(56.3)	-		
Extraordinary gain and losse	(6.3)	3.5	9.8	-	Increase due to sale of a portion of holdings of the shares of JR Kyushu Drug Eleven (+9.0) Rebound from increase in provision for loss on guarantees related to loss on QUEEN BEETLE, etc. (+6.5) Increase in provision for loss on disaster related to restoration of Hitahikosan Line (-2.1) Increase in disaster expenses associated with heavy rains in July 2020 (-3.3)	
Net income	28.6	(11.4)	(40.0)	-		

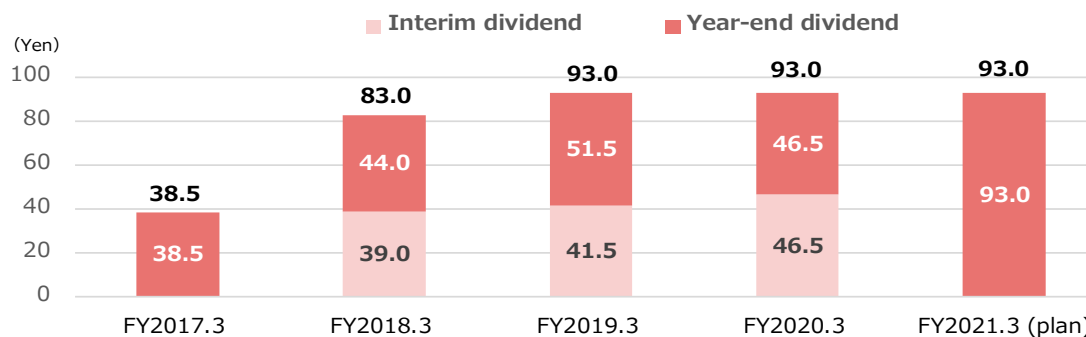
Dividend Forecasts



- The Company views the return of profits to shareholders as one of its most important management tasks. Accordingly, the Company believes it is important to provide stable shareholder returns over the long term.

Over the period to the fiscal year ending March 31, 2022, the Company will aim for a consolidated dividend payout ratio of 35%, with a minimum dividend per share of ¥93. In addition, to increase capital efficiency, the Company will implement share repurchases depending on the situation.
- The Company is forecasting extremely severe results for the fiscal year ending March 31, 2021. However, as a result of consideration in accordance with the above policy, the Company has decided to set the dividend forecast for the fiscal year ending March 31, 2021, at ¥93 per share.
- Up to this point, the Company has paid dividends from retained earnings in two parts — an interim dividend and a year-end dividend. However, matters such as the influence of COVID-19 on future results will require careful consideration, and accordingly we have decided to suspend the interim dividend for FY2021.3 and plans to pay dividends in one part, which will be the year-end dividend.

Annual dividends per share



Dividend payout ratio	13.8%	26.3%	30.2%	46.9%	-
Total payout ratio	13.8%	26.3%	30.2%	78.6%	-

* Implementation of a share repurchase (¥10 billion)



II STATUS OF MAJOR SEGMENTS



KYUSHU RAILWAY COMPANY

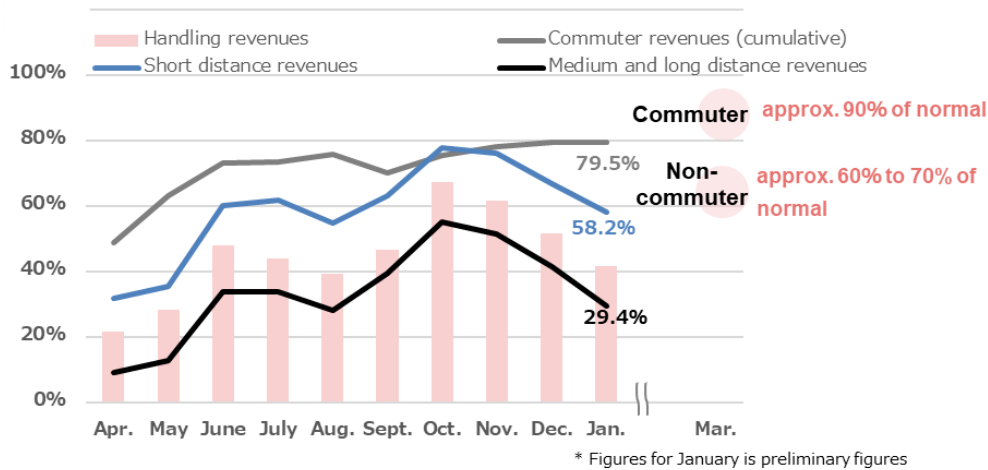
Status of major segments (1)



- In the first half of the third quarter, there was a basic trend of recovery, but there was a slowdown from late November.
- Customer usage weakened further due to the declaration of a state of emergency, etc.

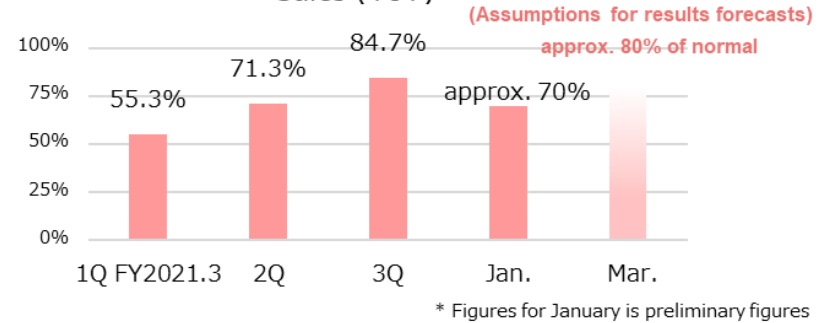
Transportation Segment

Trend of handling revenues (YoY)



Retail and Restaurants

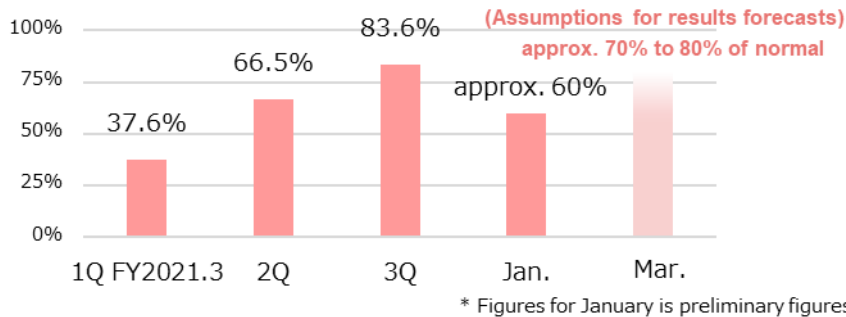
Sales (YoY) ※



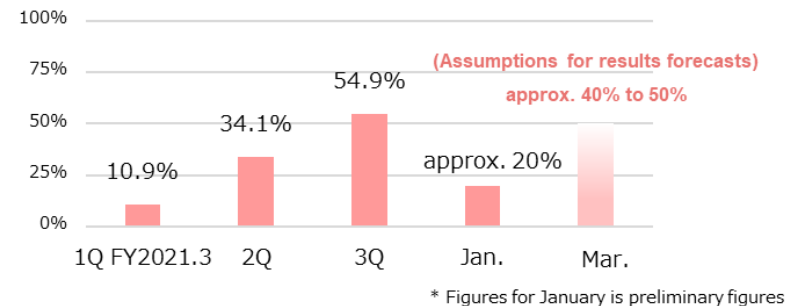
* YoY figures are calculated after subtracting the results of JR Kyushu Drug Eleven, which changed to an equity-method affiliate from the end of the first quarter of this period.
 * January preliminary figures is sales of major Group companies

Real Estate and Hotels Segment

Tenant sales at five major station buildings (YoY)



Occupancy rate



Status of major segments (2)



Status of state of emergency in Kyushu

- Declaration of state of emergency : Fukuoka Prefecture(January 14 to March 7 * Could possibly be shortened)
- Requests from local governments: Saga, Nagasaki, Kagoshima, Miyazaki Prefectures (~February 7) , Kumamoto Prefecture (~February 21)

Influence on the Group

- We are continuing business management with the highest priority on safety and peace of mind for customers and employees.
- Requests for restraint in going out/moving around and for shortened hours at restaurants have had an effect, centered on the railway, hotel, and restaurant businesses.

Segment	Business	Major influences
Transportation services	Railway	Number of passengers declined accompanying restraint in going out/moving around and recommendations for teleworking. Suspended certain operations for limited-express trains, D&S trains, and the Seven Stars in Kyushu cruise train
	Hydrofoil ferries	[Hydrofoil ferry] Suspended operation due to the government's request to suspend operation of passenger ships (March 9, 2020 ~)
	Buses	[Buses] Suspended operation of certain high-speed buses, took fewer orders for chartered buses
Real Estate and Hotels	Real estate lease	Reduced operating hours at station buildings in areas subject to the state of emergency
	Condominiums	No particular influence (continued operations at model rooms while implementing infection countermeasures)
	Hotels	Sluggish new reservations (temporarily closed resort-style hotels and Japanese-style inns on days when there were few reservations)
Retail and restaurants	Retail	Decline in customers at stores in areas surrounding stations
	Restaurants	Decline in customers at stores in areas surrounding stations Reduced operating hours at certain stores in areas subject to the state of emergency

Transportation Segment



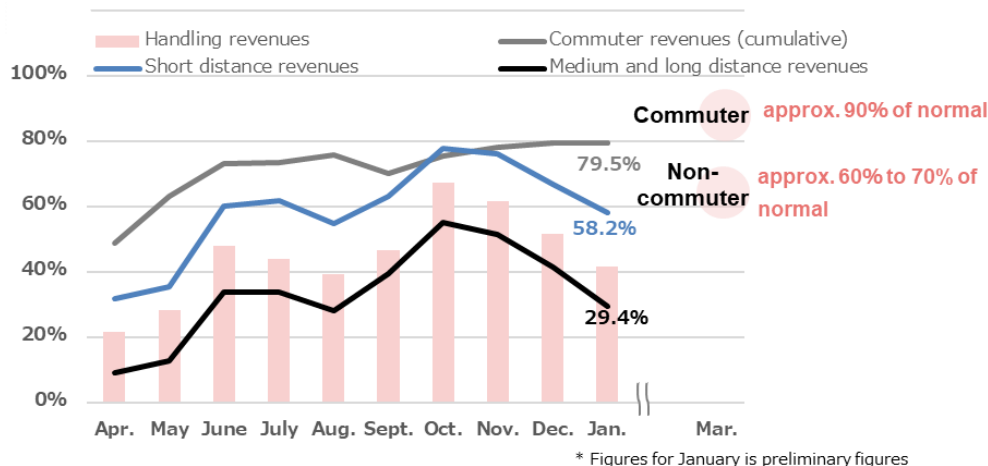
	【Results】			
	9 months ended December 31, 2019	9 months ended December 31, 2020	YoY	(¥bil)
Operating revenue	135.9	70.2	(65.6)	51.7%
Railway Business (non-consolidated)	129.4	66.3	(63.0)	51.3%
Railway transportation revenues	116.2	56.6	(59.6)	48.7%
Operating income	25.8	(24.8)	(50.6)	-
Railway Business (non-consolidated)	25.9	(23.8)	(49.8)	-
EBITDA	32.6	(16.5)	(49.2)	-
Railway Business (non-consolidated)	32.0	(16.3)	(48.3)	-

	【Forecasts】			
	Results FY20.3	Forecasts FY21.3	YoY	(¥bil)
	173.7	97.3	(76.4)	56.0%
	165.2	92.2	(73.0)	55.8%
	147.3	77.6	(69.7)	52.7%
	19.8	(40.9)	(60.7)	-
	20.0	(39.1)	(59.1)	-
	29.5	(29.8)	(59.3)	-
	28.8	(28.4)	(57.2)	-

Railway Business

Monthly trend / Results forecast assumptions

Trend of handling revenues (YoY)



Overview

- In the first quarter, people refrained from going out due to the declaration of a state of emergency. In addition, during the Golden Week holiday period, we suspended operation of all conventional-line limited-express trains. As a result, circumstances remained difficult, mainly medium to long distance.
- In the second quarter, in the first half conditions were difficult due to a second round of COVID-19 infections and to the resulting trend toward people staying at home during the Bon holidays. In the second half, the number of people with the COVID-19 infection began to decline, and as a result transportation revenues turned to an underlying trend of recovery.
- In the third quarter, despite an ongoing basic trend of recovery, there was a slowdown, centered on business and tourism, due to concerns about the spread of the infection from late November. Currently, due to the influence of the state of emergency, transportation revenues are sluggish, mainly medium to long distance.

Passenger ship business / bus business

- In the passenger ship business, service has been suspended since March 9, 2020, due to a government request to halt passenger transportation.

- In the bus business, we continue to suspend operation of certain high-speed buses, with consideration for the challenging usage conditions.

Railway business



Railway Transportation Revenues

(¥bil)

	9 months ended December 31, 2019	9 months ended December 31, 2020	YoY		Major Factors
Total	116.2	56.6	(59.6)	48.7%	
Commuter pass	25.1	19.9	(5.2)	79.3%	
Non-commuter pass	91.0	36.6	(54.4)	40.2%	
Shinkansen	42.2	16.7	(25.5)	39.6%	Decline due to influence of COVID-19 infection
Commuter pass	2.1	1.8	(0.2)	87.1%	Decrease due to rebound from previous year's longer Golden Week holiday period
Non-commuter pass	40.1	14.8	(25.2)	37.0%	
Conventional Lines	73.9	39.8	(34.0)	53.9%	Decline due to influence of COVID-19 infection
Commuter pass	23.0	18.0	(4.9)	78.5%	Decrease due to suspension of all limited-express trains during Golden Week period
Non-commuter pass	50.9	21.7	(29.1)	42.8%	Decrease due to rebound from previous year's longer Golden Week holiday period

Passenger-Kilometers

(Millions of passenger-kilometer)

	9 months ended December 31, 2019	9 months ended December 31, 2020	YoY	
Total	7,173	4,230	(2,943)	59.0%
Commuter pass	3,301	2,685	(616)	81.3%
Non-commuter pass	3,872	1,545	(2,327)	39.9%
Shinkansen	1,569	650	(919)	41.4%
Commuter pass	157	136	(21)	86.4%
Non-commuter pass	1,412	514	(898)	36.4%
Conventional Lines	5,604	3,580	(2,023)	63.9%
Commuter pass	3,144	2,549	(594)	81.1%
Non-commuter pass	2,460	1,031	(1,428)	41.9%

Real Estate and Hotels Segment (1)

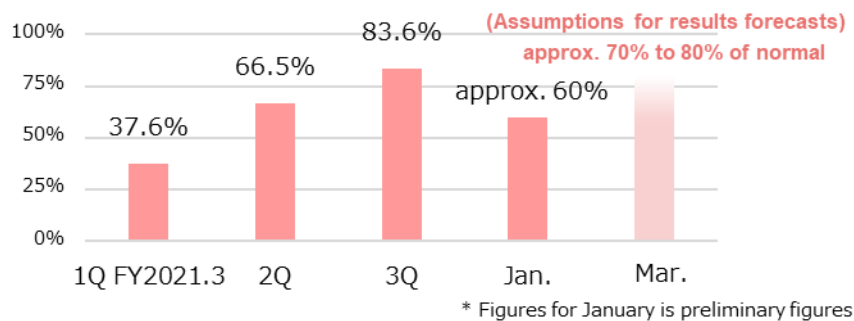


Real estate leasing business

	【Results】			(¥bil)	【Forecasts】			(¥bil)
	9 months ended December 31, 2019	9 months ended December 31, 2020	YoY		Results FY20.3	Forecasts FY21.3	YoY	
Operating revenue	41.4	36.4	(5.0)	87.8%	55.2	49.5	(5.7)	89.6%
Operating income	13.3	8.8	(4.5)	66.0%	16.7	11.4	(5.3)	67.9%
EBITDA	20.2	16.1	(4.0)	79.8%	26.1	21.6	(4.5)	82.7%

Quarterly trend / Results forecast assumptions

Tenant sales at five major station buildings (YoY)



Overview

Station buildings

- In the first quarter, revenues were significantly lower due to the closure of station buildings, rent reductions offered to support tenants, etc.*
- In the second quarter, there was a decline in August due to the trend toward people staying at home accompanying a second round of the COVID-19 infections, but generally the underlying recovery trend continued.
- In the third quarter, despite an ongoing basic trend of recovery that exceeded the increase in railway usage, there was a slowdown due to concerns about the spread of the infection from December. Currently, conditions are sluggish due to the influence of the state of emergency.
- *From April to July, implemented reduced rents and exemptions from sales promotion expenses for station building tenants (approx. ¥1.9 billion)

Office buildings, rental apartments

- Solid trend, with no change in vacancy rates

Real Estate and Hotels Segment (2)



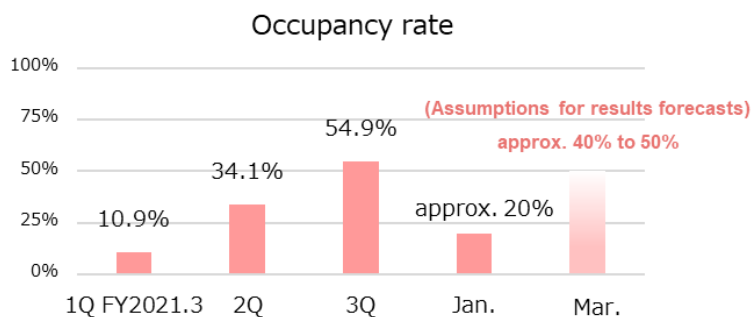
Condominium sales business

	【Results】				【Forecasts】			
			(¥bil)				(¥bil)	
	9 months ended December 31, 2019	9 months ended December 31, 2020	YoY		Results FY20.3	Forecasts FY21.3	YoY	
Operating revenue	7.8	7.3	(0.4)	93.6%	18.9	21.5	2.5	113.6%
Operating income	0.4	0.0	(0.3)	21.2%	1.5	1.9	0.3	121.3%
EBITDA	0.4	0.1	(0.3)	22.3%	1.5	1.9	0.3	120.5%

Hotel business

	【Results】				【Forecasts】			
			(¥bil)				(¥bil)	
	9 months ended December 31, 2019	9 months ended December 31, 2020	YoY		Results FY20.3	Forecasts FY21.3	YoY	
Operating revenue	13.2	5.3	(7.8)	40.7%	16.6	6.6	(10.0)	39.7%
Operating income	1.2	(3.4)	(4.7)	-	0.7	(6.2)	(6.9)	-
EBITDA	2.7	(1.7)	(4.4)	-	2.8	(3.8)	(6.6)	-

Quarterly trend / Results forecast assumptions



* Figures for January is preliminary figures

Overview

- In the first quarter, there was a significant decrease in occupancy rates due to the influence of hotel closure and people staying at home.
- In the second quarter, there was a decline in August due to the trend toward people staying at home accompanying a second round of the COVID-19 infections, but generally the underlying recovery trend continued.
- In the third quarter, the Go To Campaign resulted in an increase in travelers, and the moderate recovery trend continued. There has been improvement in occupancy rates at hotels in Tokyo and Okinawa, but there was a slowdown due to concerns about the spread of the infection from late November. Currently, conditions are very sluggish due to the influence of the state of emergency.

Retail and Restaurant Segment

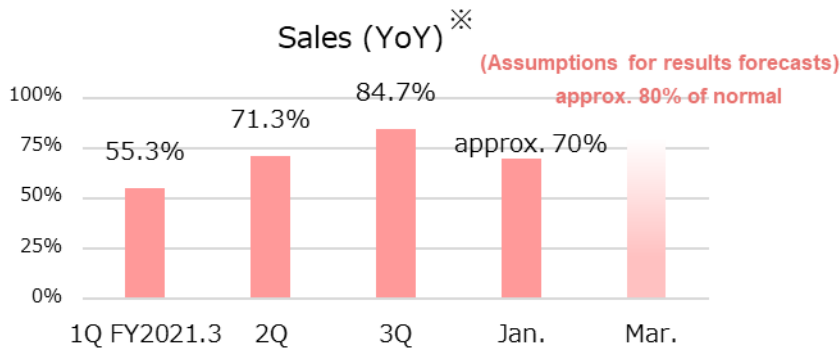


	【Results】			【Forecasts】			
	9 months ended December 31, 2019	9 months ended December 31, 2020	YoY	Results FY20.3	Forecasts FY21.3	YoY	
Operating revenue	79.7	41.1	(38.5) 51.7%	104.6	52.7	(51.9) 50.4%	
Operating income	2.4	(1.9)	(4.4) -	2.8	(2.2)	(5.0) -	
EBITDA	3.6	(0.9)	(4.5) -	2.2	(0.8)	(5.2) -	

*Amount of influence of JR Kyushu Drug Eleven becoming an equity-method affiliate : [¥(26.6) billion]

*Amount of influence of JR Kyushu Drug Eleven becoming an equity-method affiliate : [¥(39.7) billion]

Quarterly trend / Results forecast assumptions



* Figures for January is preliminary figures

* YoY figures are calculated after subtracting the results of JR Kyushu Drug Eleven, which changed to an equity-method affiliate from the end of the first quarter of this period.

* January preliminary figures is sales of major Group companies

Overview

- In the first quarter, circumstances were challenging, mainly at stores in areas surrounding stations, due to significant declines in the number of visitors to facilities around stations as a result of the decline in railway passengers, closure of station buildings.
- In the second quarter, conditions continued to be solid for takeout business and stores in suburbs. At facilities around stations, the moderate underlying recovery trend continued due to an increase in the number of people in the area, but souvenir shops and other specialty stores faced challenging circumstances.
- In the third quarter, accompanying an increase in usage resulting from the Go To Campaign, we also saw improvement at souvenir shops, where conditions had been sluggish. However, the recovery slowed due to concerns about the spread of the infection from late November. Currently, there is a decline in revenues, mainly at stores in areas surrounding stations, due to the influence of the state of emergency.



III INITIATIVES FOR THE NEXT FISCAL YEAR



KYUSHU RAILWAY COMPANY

Issues Arising Due to COVID-19 and Status of Initiatives



The Group's Circumstances

- It is not possible to forecast the resolution of the COVID-19 infection, and the demand situation is expected to be challenging in the future.
- In achieving sustainable business operations, we face the management issue of achieving profitability in our major businesses.
- We will leverage the strengths of our stations and search for new businesses.

Issues

Improving the break-even point
in businesses with a high
percentage of fixed expenses

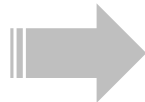
(in particular, railway business /
hotel business)



Direction of initiatives

- Thoroughly reevaluating cost structure (Railway business)
- **Page 22: BPR strategy**
- **Page 23: Utilizing Digital Technologies**
- **Page 24: Schedule revision** (Hotel business)
 - Joint procurement of hotel goods, reevaluation of workforce.

Taking on the challenge of
securing earnings



- **Page 25: Reevaluating discount ticket**
- **Page 26: Shinkansen cargo transport**
- Advancing city-building in area surrounding Kumamoto Station

Initiatives for the growth of the
Kyushu region



- Building cyclical investment model through consideration of private REIT formation
- Considering establishment of specialized regional funds

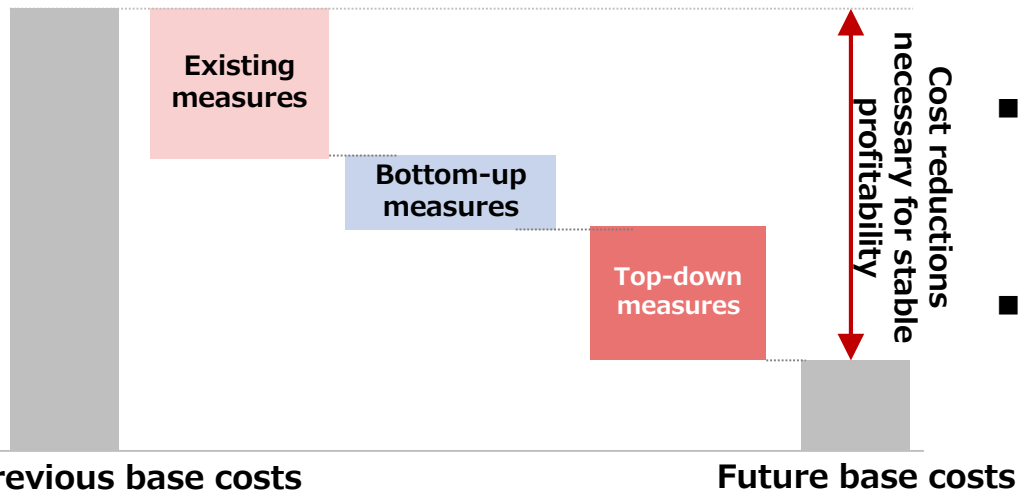
Increasing Efficiency in the Railway Business (1): BPR strategy



Goals of BPR strategy

- Aiming to generate stable profits even though revenues from railway transportation will not return to the level before COVID-19, we will implement cost structure reforms and restructure operational processes and systems.

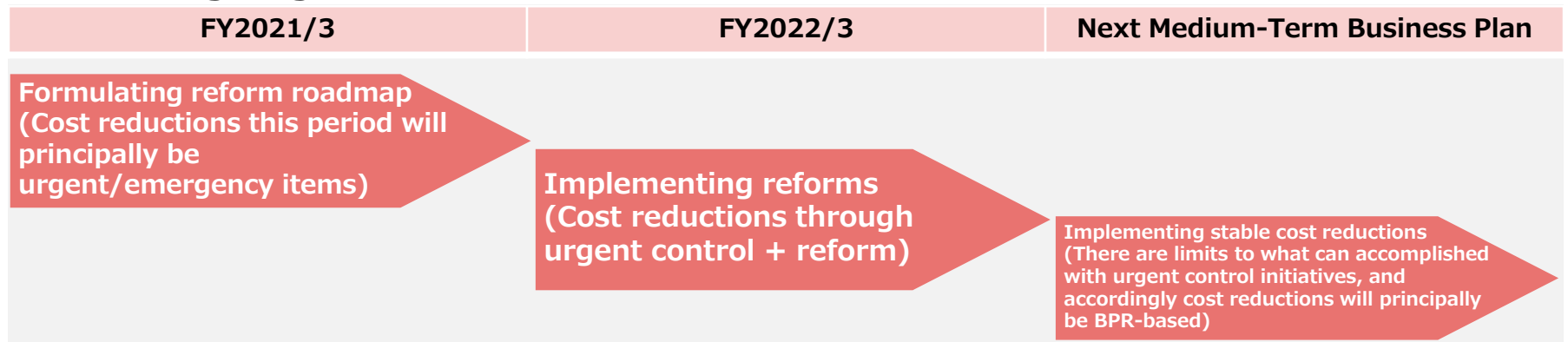
Direction of cost structure reforms



(* Business Process Re-engineering)

- **Further advancing existing measures**
 - Revising to schedules aligned with demand
 - Advancing measures to increase productivity
 - Expanding SSS, Assist Mars, one-person train operation, etc.
- **Bottom-up measures**
 - Rapidly implementing improvement ideas from the front lines
 - Identifying and reducing waste in front-line operations
 - Reevaluating independent inspection levels, etc.
- **Top-down measures led by executives**
 - Organizational streamlining
 - Building operational administration systems transcending organization and areas
 - Reevaluating cost/administrative structures of functional subsidiaries
 - Reducing overlapping operations/functions between parent and subsidiaries, reevaluating contracts, etc.

Schedule going forward



Increasing Efficiency in the Railway Business (2): Utilizing Digital Technologies

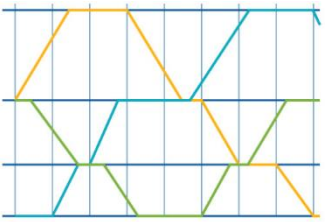


Optimizing rolling stock operation through the use of quantum computing technologies.

- We will work together with Groovenauts, Inc., to start verification of the optimization of rolling stock operation with the use of quantum computing technology, etc.
- The objective of this project will be to optimize rolling stock operation and reduce the number of rolling stock held, thereby reducing rolling stock maintenance costs and future capital investment related to the replacement of aging rolling stock.
- We will conduct verification on the Fukuhoku Yutaka Line and Wakamatsu Line, and if it is determined to be achievable, then we will consider expanding this initiative to other lines.


Matters that need to be addressed

○ Schedules




○ Usage circumstances

Passenger numbers




Time

○ Restricted items




Rolling stock inspection, connection/disconnection, cleaning, etc.

MAGELLAN BLOCKS

- Quantum computing
- AI (machine learning)
- Simulation

High-speed, automatic calculations using these and other technologies



* Restricted items and schedule adjustments will continue to be handled by people

Number of rolling stock theoretically necessary

If it falls below the number of rolling stock that we currently have, then we will decide if we have room for reduction in rolling stock.

Areas in which verification will be conducted



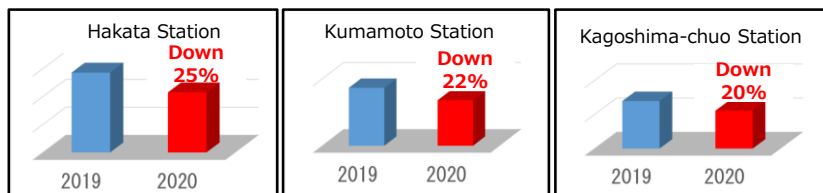
Increasing Efficiency in the Railway Business (3): Schedule Revision



Difficult usage conditions

- Accompanying the establishment of teleworking and new lifestyles, customer usage is declining.
- In the short term, we do not expect future trends in such areas as movement and consumption to return to the levels before COVID-19.

Status of usage at major hub stations



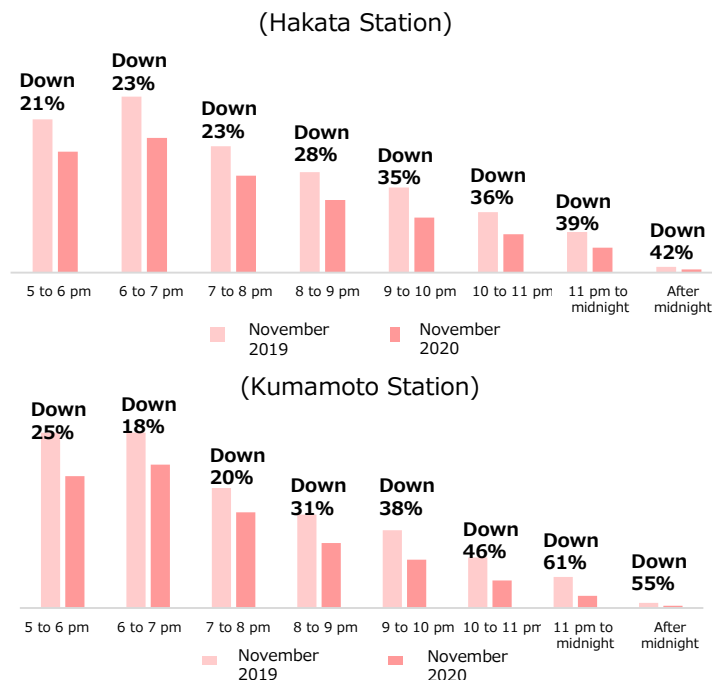
* [Status of usage at stations in prefectural capitals in Kyushu (November 2020, YoY)]

Usage status for conventional line limited express trains and the Shinkansen



* [Status of usage on major trains (November 2020, YoY)]

Hakata Station and Kumamoto Station: Status of evening/nighttime usage



Schedule revisions to accommodate future usage conditions

- Reducing number of trains (train-kilometers: Down approximately 5% YoY)
- Reducing costs by approximately ¥500 million per year through reductions in energy expenses, maintenance expenses, and personnel costs.
- Implementing flexible response by operating trains that have been reduced as special trains in line with increases in customers

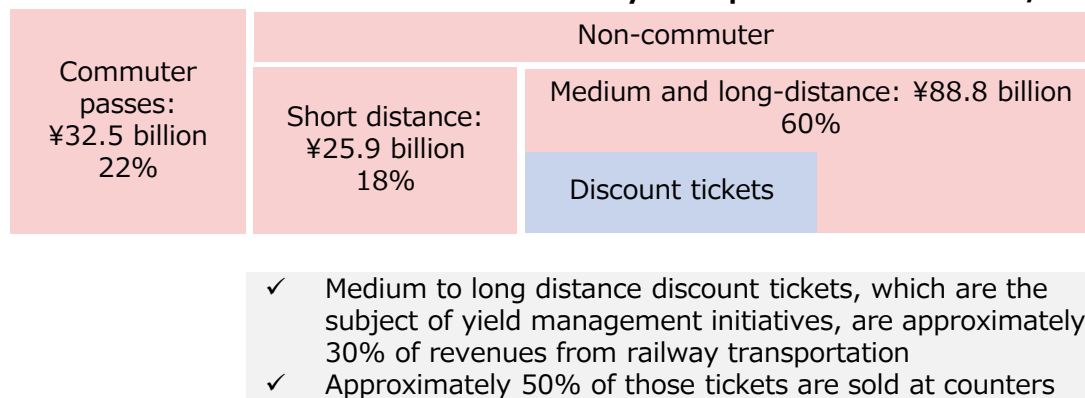
Measures to Increase Revenues in the Railway Business (1): Reevaluating Discount Tickets



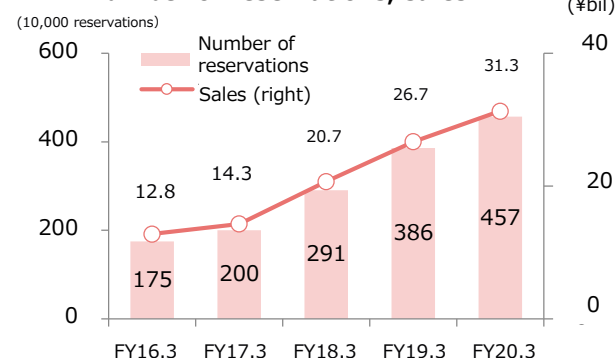
Railway fare strategy

- In the past, we maintained competitiveness versus other means of transportation by offering discount tickets with high discount rates.
- In recent years, demand and supply have been reflected in prices, etc., and earnings opportunities have expanded, and accordingly we have focused on advancing Internet sales.
- We have taken steps to expand the share of Internet sales, such as ending sales of certain coupon tickets for multiple rides in 2018.

Classification of revenues from railway transportation in FY2020/3



Internet train reservation services: Number of reservations, sales



Reevaluating discount tickets (April 2021, average price revision rate: + approximately 8%)

Major revision details

[Discontinuing counter sales tickets]

- Completely discontinuing two-part tickets on the Shinkansen (21 segments)
- Discontinuing approximately 60% of two-part tickets on conventional lines (51 segments)

[Price revisions]

- On approximately 20% of segments, price increases on tickets sold over Internet or at counters

Effects

- ✓ Higher revenues due to ticket price increases
- ✓ Accelerating shift to Internet sales
 - Reduction in opportunities for contact at time of purchase
 - Increasing efficiency of station operations

Measures to Increase Revenues in the Railway Business (2): Shinkansen Cargo Transport

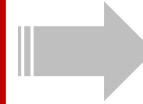


Potential of Shinkansen cargo transport

Strengths of Shinkansen in terms of speed and regular schedule



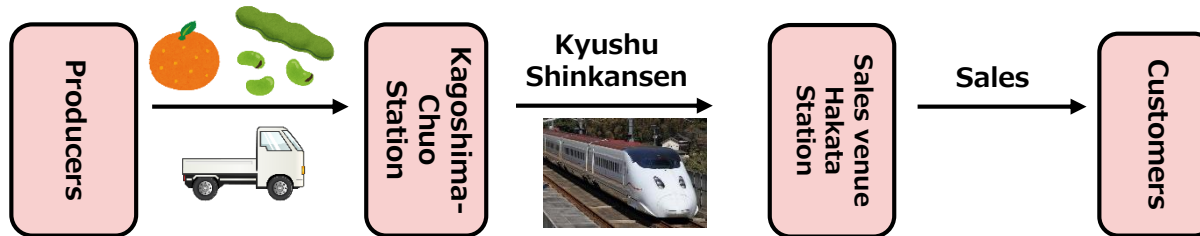
Utilization of surplus space on Shinkansen trains



Securing new earnings opportunities

Trial within the Group (sales of Kagoshima local specialties at Hakata Station)

- As a trial of Shinkansen cargo transportation, we held an event for the sale of fresh Kagoshima specialties at Hakata Station, and we implemented PR initiatives to secure customers.
- Going forward, we will work to resolve the issues that were identified through the trial, and we will advance verification testing together with other companies.



Trial operations within the Group using Shinkansen trains



Strengthening collaboration with other companies to support practical implementation

- SAGAWA** Concluded basic agreement in August 2020, holding discussions regarding verification testing
- JR** Planning for verification testing in February 2021 (sales of Kyushu regional specialties in the Kansai area)



Forward-Looking Statements



These materials contain forward-looking statements concerning business forecasts, targets, etc. of the JR Kyushu Group.

The Company decided on these forward-looking statements based on the available information, as well as Company estimates and assumptions, at the time these materials were created. Please note that actual performance may vary greatly depending on the impact of various factors such as the economic environment in Kyushu as well as greater Japan and overseas, the condition of the real estate market, the progress of each individual project, changes in laws and regulations, and a wide range of other risks.

IR materials can be viewed on our corporate website:

http://www.jrkyushu.co.jp/company/ir_eng/library/earnings/