



**FY19.3**

# **Financial Results Overview, Third Quarter**

February 4, 2019

Kyushu Railway Company



KYUSHU RAILWAY COMPANY



- I am Mori, General Manager of the Strategy Management Department. I would like to thank everyone for taking the time to join us today.
- I will discuss our results in the nine-month period ending December 31, 2018, and our full-year performance forecasts for the fiscal year ended March 31, 2019, while referring to the financial results materials released today.

# Contents

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I	Financial Results for the Nine-month Period Ended December 31, 2018	3
II	Forecasts for FY19.3	11

# **I . Financial Results for the Nine-month Period Ended December 31, 2018**

3

- First, I will provide an explanation regarding our financial results for the third quarter of FY2019/3.
- Please turn to slide four.

# Consolidated Financial Highlights for the Nine-Month Period Ended December 31, 2018 (Year on Year)



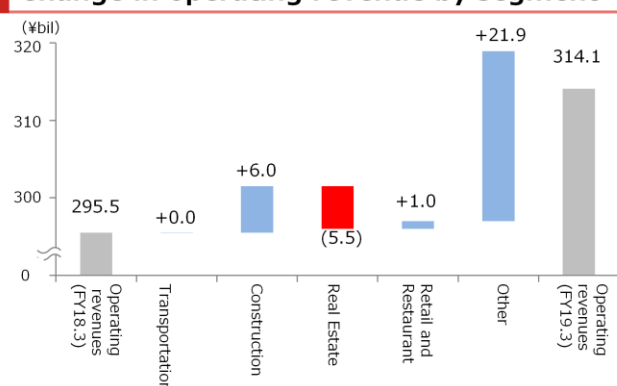
- Operating revenues up for the second consecutive year (record high)
- Operating income down for the first time in six years
- Net income attributable to owners of the parent down for the first time in two years
- EBITDA up for the second consecutive year (record high)

(¥bil)

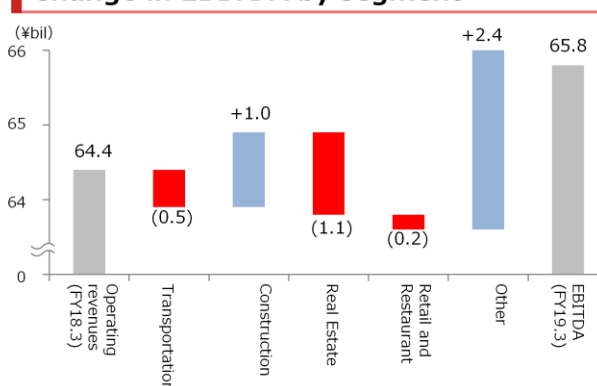
	9 months ended December 31, 2017	9 months ended December 31, 2018	YoY	
Operating revenue	295.5	314.1	18.6	106.3%
Operating income	51.7	50.2	(1.4)	97.1%
Ordinary income	54.2	52.6	(1.6)	97.0%
Net income attributable to owners of the parent	39.9	39.4	(0.4)	98.8%
EBITDA <sup>(※)</sup>	64.4	65.8	1.4	102.2%

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 EBITDA by segment



Note: Figures for changes in operating revenues and EBITDA by segment are prior to eliminating intersegment transactions and therefore do not coincide with consolidated figures.

4

- Despite lower revenues from sales of JR Kyushu condominiums, etc., consolidated operating revenues increased ¥18.6 billion year on year due to increased revenues from the consolidation of Caterpillar Kyushu Co., Ltd., etc.
- Operating income declined ¥1.4 billion year on year due to an increase in depreciation at JR Kyushu, etc.
- Net income attributable to owners of the parent decreased by ¥0.4 billion as the decrease of disaster losses recorded in the previous equivalent period, etc., offset the newly recorded losses in relation to the July 2018 heavy rains.
- Net income attributable to owners of the parent decreased by ¥0.4 billion, due primarily to a decline in disaster losses associated with that occurred in the previous year, which offset the newly recorded losses related to the July 2018 heavy rains.
- In addition, earnings before interest, taxes, depreciation, and amortization (EBITDA) grew ¥1.4 billion due to the consolidation of Caterpillar Kyushu Co., Ltd., etc.
- More details on performance can be found on slide 5.
- We will next look at segment performance. Please turn to slide 6.

# Consolidated Income Statements



(¥bil)

	9 months ended December, 31 2017	9 months ended December, 31 2018	YoY		Major factors
Operating revenues	295.5	314.1	18.6	106.3%	Increase due to consolidation of Caterpillar Kyushu
Operating expenses	243.8	263.9	20.1	108.2%	Increase due to consolidation of Caterpillar Kyushu Increase in depreciation costs (JR Kyushu)
Operating income	51.7	50.2	(1.4)	97.1%	
Non-operating income and expenses	2.5	2.4	(0.1)	94.2%	
Ordinary income	54.2	52.6	(1.6)	97.0%	
Extraordinary gains and losses	(2.9)	(1.2)	1.6		Increase in extraordinary gains (insurance income associated with disasters, etc.) - Decrease in extraordinary losses (lower disaster expenses, etc.)
Net income attributable to owners of the parent	39.9	39.4	(0.4)	98.8%	
EBITDA	64.4	65.8	1.4	102.2%	

# Segment Information 【Summary】



(Ybil)

	9 months ended December, 31 2017	9 months ended December, 31 2018	YoY		Major factors
<b>Operating revenues</b>	295.5	314.1	18.6	106.3%	
Transportation	135.3	135.4	0.0	100.0%	Increase in railway transportation revenues, etc.
Construction	46.2	52.2	6.0	113.0%	Increase in Shinkansen-related construction, etc.
Real Estate	53.6	48.1	(5.5)	89.7%	Decrease in revenue from sales of condominiums, etc.
(Real Estate Lease)	36.2	38.7	2.4	106.8%	Increase due to serviced apartment business in Thailand, to Ropponmatsu 421, and to Higo Yokamon Ichiba, etc.
Retail and Restaurant	77.5	78.5	1.0	101.3%	
Other	43.0	64.9	21.9	150.9%	Consolidation of Caterpillar Kyushu, full nine-month contribution from JR Kyushu Hotel Blossom Naha, etc.
<b>Operating income</b>	51.7	50.2	(1.4)	97.1%	
Transportation	27.4	25.5	(1.9)	93.0%	Increase in depreciation costs, etc.
Construction	1.5	2.5	0.9	163.8%	
Real Estate	18.8	17.3	(1.4)	92.2%	
(Real Estate Lease)	16.3	16.7	0.3	102.4%	
Retail and Restaurant	2.7	2.5	(0.2)	91.5%	Increase in personnel costs, etc.
Other	1.4	2.7	1.3	190.1%	Consolidation of Caterpillar Kyushu, full nine-month contribution from JR Kyushu Hotel Blossom Naha, etc.
<b>EBITDA</b>	64.4	65.8	1.4	102.2%	
Transportation	31.1	30.6	(0.5)	98.2%	
Construction	2.1	3.2	1.0	150.9%	
Real Estate	25.4	24.2	(1.1)	95.6%	
(Real Estate Lease)	22.8	23.6	0.7	103.3%	
Retail and Restaurant	4.0	3.7	(0.2)	94.0%	
Other	2.3	4.7	2.4	204.8%	

6

- This slide shows performance by segment.
- The Transportation segment posted an increase in revenues but a decrease in income. This outcome was a result of higher railway transportation revenues coupled with an increase in depreciation costs at JR Kyushu, etc. EBITDA also declined.
- The Construction segment recorded increases in both revenues and income due to an increase in Shinkansen-related work, etc. EBITDA also rose.
- The Real Estate segment recorded an increase in real estate leasing due to the serviced apartment business in Thailand that was acquired in the previous fiscal year; Ropponmatsu 421, which was opened in the previous fiscal year; and Higo Yokamon Ichiba. However, as a result of a decrease in revenues from sales of condominiums, etc., the segment recorded lower revenues and income. EBITDA also declined.
- The Retail and Restaurant segment posted higher revenues thanks to the benefits of new drug store and convenience store openings, etc., but income declined due to higher personnel expenses, etc. EBITDA also decreased.
- The Other segment saw increases in revenue, income, and EBITDA because of the consolidation of Caterpillar Kyushu and the fact that expenses at JR Kyushu Hotel Blossom Naha, which was opened in the previous fiscal year, made a full nine-month contribution for the period, etc.
- We will now move on to discuss non-consolidated performance. Please turn to slide 8.

# Balance Sheet



(¥bil)

	FY18.3	9 months ended December 31, 2018	Increase/ (decrease)	Major Factors
Total Assets	749.3	751.8	2.4	
Cash and time deposits	15.0	17.5	2.4	
Short-term securities	65.0	33.7	(31.3)	Decrease in negotiable certificates of deposit
Money held in trust	55.7	57.0	1.2	
Property, plant and equipment	390.6	429.2	38.5	Acquisition of land in Kyoto, etc.
Railway business assets	47.2	52.7	5.4	
Interest-bearing debt	87.3	86.9	(0.4)	
Net assets	383.2	410.8	27.6	
Paid-in capital	250.2	250.2	(0.0)	
Capital and retained earnings	124.9	150.7	25.7	

# Non-consolidated Income Statements



	9 months ended December 31, 2017	9 months ended December 31, 2018	YoY		Majour Factors
Operating revenues	164.3	157.5	(6.8)	95.9%	
Railway transportation revenues	113.9	114.2	0.3	100.3%	
Other revenues	50.4	43.2	(7.1)	85.8%	Decrease in revenue from sales of condominiums, etc.
Operating expenses	122.6	118.8	(3.7)	96.9%	
Personnel expenses	38.1	37.3	(0.7)	97.9%	
Non-personnel expenses	71.1	66.2	(4.8)	93.1%	
Energy costs	6.6	7.0	0.4	106.4%	
Maintenance costs	20.2	20.6	0.4	102.1%	
Other	44.2	38.5	(5.7)	87.0%	Decrease in cost of sales of condominiums, etc.
Taxes	6.2	6.6	0.3	105.3%	
Depreciation costs	7.0	8.6	1.5	122.6%	
Operating income	41.7	38.7	(3.0)	92.7%	
Non-operating income and expenses	4.5	8.4	3.8	185.8%	Increase in dividend income, etc.
Ordinary income	46.2	47.1	0.8	101.8%	
Extraordinary gains and losses	(3.6)	(0.7)	2.8	-	Increase in proceeds from insurance income, decrease in disaster expenses associated with heavy rain in northern Kyushu in 2017 and typhoon No. 18, increase in disaster expenses associated with heavy rain in July 2018, etc.
Net income	34.9	38.4	3.5	110.2%	

8

- Non-consolidated operating revenues declined ¥6.8 billion year on year due to a decrease in revenues from sales of condominiums, etc.
- Despite higher depreciation, energy costs, and maintenance costs, operating expenses were down ¥3.7 billion due to lower personnel costs and lower cost of sales of condominiums, etc.
- The balance of extraordinary gains and losses equated to a net loss that was ¥2.8 billion lower than the loss recorded in the same period of the previous year. This outcome can be attributed to an increase in proceeds from insurance income associated with the 2016 Kumamoto earthquakes and to a decline in disaster losses associated with disasters that occurred in nine-month period ended December 31, 2017, etc., which outweighed the increase in disaster expenses associated with heavy rain seen in July 2018.
- As a result of these factors, non-consolidated net income rose ¥3.5 billion year on year.
- Please turn to slide 10.



# Non-consolidated Income Statements (Reprint)



(¥bil)

		9 months ended December 31, 2017	9 months ended December 31, 2018	YoY	
Railway business	Operating revenues	126.1	125.9	(0.2)	99.8%
	Operating expenses	99.2	100.7	1.4	101.5%
	Operating income	26.8	25.2	(1.6)	93.7%
Related businesses	Operating revenues	38.2	31.6	(6.6)	82.7%
	Operating expenses	23.3	18.1	(5.2)	77.5%
	Operating income	14.8	13.5	(1.3)	90.9%

# Railway business



## Transportation Revenues

(¥bil)

	9 months ended December, 2017	9 months ended December, 2018	YoY		Majour Factors
<b>Total</b>	113.9	114.2	0.3	100.3%	
<b>Commuter pass</b>	24.7	24.8	0.1	100.4%	
<b>Non-commuter pass</b>	89.1	89.4	0.2	100.3%	
<b>Shinkansen</b>	41.0	41.7	0.7	101.9%	· Basic trend (approx. 101% )
Commuter pass	2.0	2.0	0.0	101.9%	· Increase due to broadcast of Segodon period drama
Non-commuter pass	38.9	39.7	0.7	101.9%	· Increase due to consecutive holidays in September 2018
<b>Conventional Lines</b>	72.9	72.5	(0.4)	99.4%	· Basic trend (approx. 100%)
Commuter pass	22.7	22.7	0.0	100.3%	· Decrease due to heavy rain in July 2018
Non-commuter pass	50.2	49.7	(0.4)	99.0%	· Decrease due to rebound from favorable weather in 2017 rainy season

## Passenger-Kilometers

(Millions of passenger-kilometers)

	9 months ended December, 2017	9 months ended December, 2018	YoY	
<b>Total</b>	7,115	7,080	(35)	99.5%
<b>Commuter pass</b>	3,265	3,267	1	100.0%
<b>Non-commuter pass</b>	3,850	3,813	(36)	99.0%
<b>Shinkansen</b>	1,516	1,545	28	101.9%
Commuter pass	150	151	1	101.2%
Non-commuter pass	1,366	1,393	26	102.0%
<b>Conventional Lines</b>	5,599	5,535	(63)	98.9%
Commuter pass	3,115	3,115	(0)	99.9%
Non-commuter pass	2,483	2,419	(63)	97.4%

10

- Railway transportation revenues were up 1.9% year on year due to a solid basic trend that was 1% higher than in the previous fiscal year for Shinkansen lines as well as the benefits of the broadcast of the *Segodon* period drama on television and an increase in the number of consecutive holidays in September, etc.
- On conventional lines, the basic trend was relatively flat and revenues decreased 0.6% because of the impacts of the heavy rain that occurred in July 2018 and the rebound from favorable weather seen in the 2017 rainy season, etc.
- Next, I would like to explain our forecasts for full-year performance in the year ending March 31, 2019.
- Please turn to slide 12.

## **II. Forecasts for FY19.3**

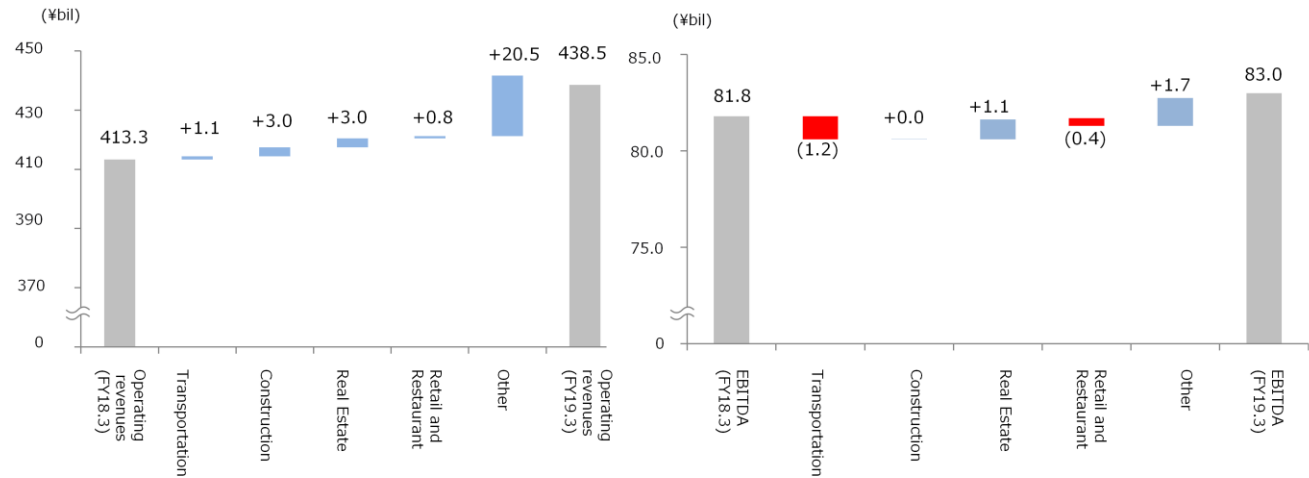
# Consolidated Financial Highlights for FY19.3



	Results FY18.3	Forecasts FY19.3 (12/13)	Forecasts FY19.3 (2/4)	YoY		Difference from previous forecast
Operating revenue	413.3	439.7	438.5	25.1	106.1%	(1.2)
Operating income	63.9	60.7	61.9	(2.0)	96.8%	1.2
Ordinary income	67.0	62.6	64.4	(2.6)	96.1%	1.8
Net income attributable to owners of the parent	50.4	47.5	48.2	(2.2)	95.6%	0.7
Net income per share (yen)	315.07	296.88	301.25	(13.82)	95.6%	4.38
EBITDA	81.8	82.0	83.0	1.1	101.4%	1.0

Change in operating revenue by segment

Change in EBITDA by segment



- In regard to our full-year performance forecasts for the fiscal year ending March 31, 2019, in comparison with the forecasts announced on December 13, 2018, we have made a downward revision to the forecast for operating revenues and upward revisions to the forecasts for operating income, ordinary income, and net income attributable to owners of the parent.
- I will discuss the performance forecasts by segment.
- Please turn to slide 13.

# Consolidated Financial Forecasts (By segment)



(¥bil)

	Results FY18.3	Forecasts FY19.3		YoY	Difference from previous forecast
		(12/13)	(2/4)		
Operating revenue	413.3	439.7	438.5	25.1	106.1% (1.2)
Transportation	183.7	186.9	184.9	1.1	100.6% (2.0)
Construction	88.0	88.6	91.1	3.0	103.5% 2.5
Real Estate	69.4	70.6	72.5	3.0	104.4% 1.9
(Real Estate Lease)	49.0	51.6	52.6	3.5	107.3% 1.0
Retail and Restaurant	103.1	105.4	104.0	0.8	100.8% (1.4)
Other	67.4	87.2	88.0	20.5	130.5% 0.8
Operating income	63.9	60.7	61.9	(2.0)	96.8% 1.2
Transportation	29.2	27.5	26.1	(3.1)	89.3% (1.4)
Construction	6.2	5.1	6.2	(0.0)	98.9% 1.1
Real Estate	23.2	22.6	23.9	0.6	103.0% 1.3
(Real Estate Lease)	20.6	20.6	21.5	0.8	104.1% 0.9
Retail and Restaurant	3.6	3.6	3.2	(0.4)	87.7% (0.4)
Other	2.4	2.7	3.3	0.8	136.9% 0.6
EBITDA	81.8	82.0	83.0	1.1	101.4% 1.0
Transportation	34.3	34.4	33.1	(1.2)	96.2% (1.3)
Construction	7.0	5.9	7.1	0.0	100.4% 1.2
Real Estate	32.0	32.1	33.2	1.1	103.6% 1.1
(Real Estate Lease)	29.4	30.0	30.8	1.3	104.5% 0.8
Retail and Restaurant	5.3	5.3	4.9	(0.4)	91.8% (0.4)
Other	3.9	5.1	5.7	1.7	143.9% 0.6

13

- Next, I will provide explanations for major segments.
- In the Transportation segment, there was a decline in revenues due to a decrease in compensated construction work, etc., and an increase in energy expenses resulting from higher crude oil prices, etc. As a result, in comparison with the previous forecasts, we are now forecasting lower revenues and income.
- In the Construction segment, in comparison with the previous forecasts, we are now forecasting higher revenues and income due to an increase resulting from the advancement of Shinkansen-related work and to the levels of personnel costs and material costs, etc., which are lower than initially planned.
- In the Real Estate segment, in comparison with the previous forecasts, we are now forecasting higher revenues and income due to increased condominium sales, condominium leasing revenues, etc.
- In Retail and Restaurant segment, in consideration of the delay in new drugstore openings and of the influence on existing stores of intensified competition with other companies, in comparison with the previous forecasts, we are now forecasting lower revenues and income.
- In the Other segment, in comparison with previous forecasts, we are now forecasting higher revenues and income due to solid trends in the hotel business and to higher Shinkansen-related materials revenues, etc.
- Next, I will discuss our non-consolidated performance forecasts.
- Please turn to slide 14.

# Non-consolidated Financial Forecasts



(¥bil)

	Results FY18.3	Forecasts FY19.3		YoY	Difference from previous forecast	
		(12/13)	(2/4)			
Operating revenue	219.7	222.8	222.2	2.4	101.1%	(0.6)
Railway transportation revenues	151.1	151.5	151.5	0.3	100.2%	-
Shinkansen	54.1	55.0	55.0	0.8	101.6%	-
Conventional Lines	97.0	96.5	96.5	(0.5)	99.5%	-
Other revenues	68.5	71.3	70.7	2.1	103.1%	(0.6)
Operating expenses	172.9	178.0	177.4	4.4	102.6%	(0.6)
Personnel expenses	51.3	49.8	49.8	(1.5)	96.9%	-
Non-personnel expenses	104.3	108.0	107.6	3.2	103.1%	(0.4)
Energy costs	8.8	9.0	9.5	0.6	107.2%	0.5
Maintenance costs	36.3	38.9	38.2	1.8	105.0%	(0.7)
Other	59.0	60.1	59.9	0.8	101.4%	(0.2)
Taxes	7.5	8.2	8.1	0.5	106.8%	(0.1)
Depreciation costs	9.6	12.0	11.9	2.2	122.8%	(0.1)
Operating income	46.7	44.8	44.8	(1.9)	95.8%	-
Non-operating income and expenses	5.5	5.5	8.4	2.8	152.0%	2.9
Ordinary income	52.2	50.3	53.2	0.9	101.8%	2.9
Extraordinary gains and losses	(2.3)	-	(0.1)	2.2	-	(0.1)
Net income	41.6	41.7	44.6	2.9	107.1%	2.9

14

- In regard to our non-consolidated performance forecasts, in comparison with the full-year forecasts announced on December 13, 2018, we made a downward revision to the forecast for operating revenues, left the forecast for operating income unchanged, and made an upward revision to the forecast for net income attributable to owners of the parent.
- For railway transportation revenues, the heavy rains that occurred in July 2018 had an influence, but in consideration of the solid Shinkansen revenues etc, and usage conditions in the nine-month period ended December 31, etc., we have decided not to revise the previously announced forecast.
- For operating expenses, energy costs are projected to increase by ¥500 million from the previous forecast due to higher unit prices, etc., but we are now forecasting a reduction of ¥600 million from the previous forecast due to lower maintenance costs associated with a reduction in compensated construction work, etc.
- In regard to non-operating income and expenses, we have increased the forecast by ¥2.9 billion from the previous forecast due to an increase in dividend income received from Group companies, etc.
- Consequently, we are forecasting ¥44.6 billion for net income attributable to owners of the parent, an increase of ¥2.9 billion from the previous forecast.
- This concludes my explanation. I thank you for your attention.

# Non-consolidated Financial Forecasts (Reprint)



(¥bil)

		Results FY18.3	Forecasts FY19.3		YoY		Difference from previous forecast
			(12/13)	(2/4)			
Railway business	Operating revenues	171.3	174.0	172.3	0.9	100.6%	(1.7)
	Operating expenses	143.0	147.5	146.6	3.5	102.5%	(0.9)
	Operating income	28.2	26.5	25.7	(2.5)	91.1%	(0.8)
Related businesses	Operating revenues	48.4	48.8	49.9	1.4	103.0%	1.1
	Operating expenses	29.9	30.5	30.8	0.8	103.0%	0.3
	Operating income	18.5	18.3	19.1	0.5	103.1%	0.8

# Forward-Looking Statements

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