

(Translation)

December 18, 2020
Kyushu Railway Company

Main Questions and Answers from JR Kyushu IR Day

(1) Medium-Term Business Vision (President and CEO Toshihiko Aoyagi, Director and Managing Corporate Officer Toshihiro Mori)

Q. I think such factors as the GoTo Campaign produced benefits from October onward. To what extent are results surpassing the performance forecast? For the third quarter alone, can we expect a move into the black? Also, with respect to the coming fiscal year, will you be able to move into the black for the full fiscal year?

A. (Mori) From October onward, in addition to the GoTo Campaign, there were contributions from such areas as station buildings that screened Demon Slayer: Kimetsu no Yaiba and railway-related collaborative promotions. October exceeded expectations, and the feeling is that we came close to moving into the black on a single month basis.

On the other hand, the effect of a rise in the number of those infected with COVID-19 has been increasing gradually since the second half of November. Therefore, whether we will be able to move into the black in the third quarter on a standalone basis is unclear. Further, we want to move railway operations into the black in the coming fiscal year. However, the situation does not permit forecasts.

Q. To what extent will railway transportation revenues recover over the medium to long term (in three years, in five years)?

A. (Aoyagi) As the COVID-19 infection situation going forward will have an effect, there cannot be any certainty about forecasts. This is just my personal view, but looking over the medium to long term, I believe domestic demand will take about three years to recover. Taking into account such factors as the holding of Expo 2025 (the 2025 World Exposition) in Osaka, demand from visitors to Japan will require around five years to recover. Prior to COVID-19, we envisioned that visitors to Japan would account for roughly 3.0% of railway transportation revenues. Until demand from visitors to Japan recovers, we must ensure that we capture the pickup in domestic demand. At the same time, we must make railway operations even leaner.

Q. When will you prepare the next medium-term business plan? Continuing balance sheet deterioration could be a concern. What are your thoughts on establishing financial key performance indicators (KPIs)?

A. (Mori) We withdrew the numerical management targets in the Medium-Term Business Plan very recently, in November. At the moment, we are in the process of discussing whether to continue with existing measures and how to revise them. We want to issue numerical targets for the coming fiscal year at the announcement of financial results that is scheduled in May. We have not established a particular time for the announcement of our next medium-term business plan.

As for financial KPIs, before COVID-19 we were considering a debt-to-EBITDA ratio (D/EBITDA) of between two and three times as one indicator. However, given concern that EBITDA may be unstable for the time being, we are currently focusing on the balance of debt and equity, and our credit rating can also be a guide. In addition, as we have accumulated debt over a short period, partly with a view to maintaining the soundness of our balance sheet, we have begun considering a private REIT offering.

Q. What schedule are you envisioning for the plan for utilizing the space above the tracks at Hakata Station?

A. (Aoyagi) After we established the medium-term business plan, we proceeded with the compilation of a general outline. Due to the effect of COVID-19, however, it became necessary to revise our entire investment plan, including growth investment. At present, we are in the midst of considering the possibility of implementation in accordance with the schedule going forward.

Q. The advancement of capital alliance is mentioned in one slide. Which fields are you envisioning?

A. (Mori) We believe that we need to consider ways of extending and growing existing businesses. For example, the transfer of a portion of the shares of JR Kyushu Drug Eleven Inc. to TSURUHA HOLDINGS INC. is a type of capital alliance. Through this alliance, we aim to leverage the economies of scale of TSURUHA HOLDINGS to achieve further growth.

Also, JR Kyushu System Solutions Inc. has concluded a capital alliance with NSD CO., LTD., by issuing shares equivalent to approximately 10% based on a capital increase through the allotment of new shares to a third party. We want to advance initiatives so that we grow together.

Q. What degree of improvement in income and expenditure do you expect from changing the Hitahikosan Line over to bus rapid transit (BRT)? Also, are you able to consider BRT changeovers for regional lines for which profitability has been disclosed?

A. (Aoyagi) Regarding the Hitahikosan Line, we expected that restoring the railway would result in expenses of approximately ¥300.0 million and revenues of approximately ¥20.0 million annually. We believe using BRT will improve profitability by halving annual expenses while realizing enhanced convenience that increases revenues.

With respect to the disclosure of profitability of regional lines, the purpose is to share the difficult situation regarding the profitability of railways and then conduct deliberations with municipal authorities and other stakeholders on what type of measures should be taken to maintain the railways and methods of invigoration. These efforts are not premised on conversion to BRT.

(2) City-Building and MaaS in Miyazaki (Managing Executive Officer Takuma Matsushita, Director Toshihide Ichikawa)

Q. In Miyazaki, due to the effect of the COVID-19 infection some tenants have canceled contracts. Do the replacement tenants have different types of businesses?

A. (Matsushita) In our facilities as a whole, the initially anticipated changes in the business mix among our tenants has not happened. After cancellations, we have been able to ensure that we attract replacement tenants.

Q. Given that AEON MALL is comparatively nearby, is coexistence possible? For example, Oita Station building competes with large-scale shopping centers in the suburbs. Can you please explain the situation with reference to the performance of Oita Station building since it opened?

A. (Matsushita) I believe we can coexist with AEON MALL. For example, our station buildings include 39 tenants who have opened stores in Miyazaki Prefecture for the first time. As we have been able to attract stores that generate outing demand—that is to say stores that customers use on special occasions, such as Tokyu Hands and BEAMS—we have been able to offer customers value through the station buildings in the form of new options. In the future, we believe that there could be circulation of customers between AEON MALL and our station buildings.

Although initially there was concern over competition from nearby facilities, Oita Station building continued to steadily grow sales until COVID-19 emerged. We want to take measures to ensure that Miyazaki Station building is able to grow in the same way.

Q. What effect do you think the increased proportion of e-commerce shopping has on the ability of station buildings to attract customers?

A. (Matsushita) The proportion of e-commerce is expected to increase. As a result, customers will seek different things from brick-and-mortar shopping centers. For this reason, station buildings will need to be able to change constantly. We have an annual tenant turnover of about 10.0%, and we have been responding at a very high pace. Responding promptly to such changes enables us to provide customers with new value. Also, the Company's strengths include customer service, information dissemination, and educational capabilities as a developer. We want to maintain strong appeal by properly honing these strengths.

Q. How do you expect the COVID-19 infection will affect Kumamoto Station building, which is scheduled to open next spring?

A. (Matsushita) As we announced the other day, the tenants of Kumamoto Station building have largely been determined. We expect to open without any unoccupied stores. After opening, I think the COVID-19 infection could affect the sales of tenants. However, given that the leasing situation is progressing, I believe preparations for opening are moving forward favorably.

Q. What are your impressions of the Miyazaki development Director Ichikawa?

A. (Ichikawa) I visited after the opening, and my impression was that the Company has become skilled in station building development as a result of the experience it has accumulated through the development of station buildings to date. I feel that the building has good quality tenants and has achieved differentiation from AEON MALL. Further, and this also relates to the social facet of environmental, social, and governance (ESG) factors, the Company's steady implementation of initiatives with regions will probably become a basis for development going forward. As for points that could be improved, it may have been better if the Company had bought more of the surrounding land. The station buildings themselves are excellent. Therefore, I believe that, based on the lively activity produced by the station buildings, the Company could have also developed apartments and

other facilities nearby, which would have generated even larger benefits from the project.

(3) ESG Initiatives (Director and Senior Managing Corporate Officer Yoji Furumiya, Director Kuniko Muramatsu)

Q. How do you view the risks and opportunities associated with climate change? Do you plan to express agreement with the Task Force on Climate-related Financial Disclosures (TCFD)? Also, will you set CO2 emissions reduction targets with the aim of achieving a carbon-free society?

A. (Furumiya) Regarding the first question, we believe that risks or opportunities could emerge depending on how the environmental advantages of railways change in the future. Going forward, we want to maintain the environmental advantages of railways. Moreover, there is a need to deepen discussion on CO2 emissions reduction and other matters from the viewpoint of preventing an increase in the severity of natural disasters due to global warming.

With respect to the second question on agreement with the TCFD, the Group views environmental measures as an important ESG theme for the realization of a sustainable society. We have been selected as a corporate participant in the Ministry of the Environment's "Fiscal 2020 Project for Supporting the Scenario Analysis of Climate Risks and Opportunities in Accordance with TCFD." As well as endeavoring to reduce greenhouse gas emissions, we want to proceed with disclosure in accordance with TCFD.

As for the third question concerning CO2 emissions reduction, going forward we will proceed with examination of the establishment of targets and specific countermeasures. We believe that the measures we have advanced until now—such as the introduction of energy-saving train cars that incorporates new technologies and the enhancement of the energy-saving performance of station buildings and other facilities—are necessary measures.

(Muramatsu) Climate change is an extremely important theme for the Company. I believe that, under the aforementioned project for supporting scenario analysis, steady consideration of a wide range of scenarios will render initiatives for ESG factors more meaningful.

Q. What is your approach to the promotion of diversity?

A. (Furumiya) We believe that diversity is a very important goal. Previously, in the Japanese National

Railways era, female employees could not be assigned to certain types of job because facilities for overnight-stay and nighttime work had not been established. After privatization, on the other hand, in step with progress in the establishment of laws, we actively implemented concrete measures, such as the development of workplace environments where women can work. As a result, many female employees can now be seen, even at work sites.

With respect to the important roles that women play, currently women serve as the presidents of Group companies and stationmasters. Going forward, we want to continue proactively creating opportunities for employees to play important roles, regardless of gender.

Further, from the viewpoint of diversity, we believe that contributions to our operations from employees who have various backgrounds and a range of different experience and values—including non-Japanese employees, employees hired mid-career, disabled employees, and employees who rear children or provide nursing care to family members while working—will help sustain the development of the Company.

(Muramatsu) I want to actively monitor and make recommendations based on my long experience of working on the advancement of diversity as a field of specialization. I understand that the Company has been proactively moving forward with initiatives that emphasize diversity. However, I believe there are issues. For example, how is diversity being used to strengthen business models and organizations? I would like the Company to entrench initiatives even further by setting numerical targets and clarifying its strategic approach in relation to diversity.

Q. The integrated report and other documents include statements suggesting that corporate value is the sum of the value created for stakeholders. What corporate value is created for shareholders as stakeholders? Also, with respect to related KPIs, if there is anything other than “stable, continuous shareholder returns,” could you please explain it?

A. (Furumiya) With respect to shareholders, we believe that the implementation of stable, continuous shareholder returns is of primary importance. Further, from the perspective of value creation for stakeholders, the experience of the COVID-19 infection has led us to appreciate that valuing employees is more important than ever, and this includes protecting employees from the spread of infection. We believe that, in the long term, ensuring employees work steadily will also enable the provision of stable, continuous returns to shareholders. Going forward, we want to enhance corporate value while taking into consideration various stakeholders.

(4) Dialog with Outside Directors (Director Toshihide Ichikawa, Director Kuniko Muramatsu)

Q. What are the issues of JR Kyushu with respect to the real estate field?

A. (Ichikawa) During the year and a half since I became an outside director, I have had many opportunities to inspect properties and talk with employees. Employees have a wide range of skills, and many of the development projects centered on station buildings deserve praise.

Going forward, however, development sites will transition from mainly being in-house sites to mainly being externally acquired sites. Therefore, appreciating the liquidity of all land will be important. This means the Company must always have an understanding of the profitability of land as a commercial product. Moreover, the Company needs to carefully analyze not only the assets that it acquires going forward but also assets that it currently owns in regard to whether they should be kept or whether the Company should add value to the assets and then dispose of them.

Another task is deeper analysis of the portfolio in relation to regions and assets. In light of the effect of the COVID-19 infection, the Company must consider how to allocate management resources with a view to the future. In addition, I believe that there is scope for growth if the Company takes advantage of its experience to date and broadens its horizons to include diversification of such businesses as mediation and management.

Q. With respect to acquiring land and developing it, how does the competitiveness of JR Kyushu's real estate development compare with that of major real estate companies in Tokyo or with that of other local companies?

A. (Ichikawa) The condominium business has built up a track record in the acquisition and development of land and is particularly competitive in Kyushu. While there are no issues in relation to the ability of the Company to develop offices and other assets, I feel that its skill in attracting tenants is unknown. In heightening competitiveness, it is important to always bear in mind such points as whether the Company can be sure of realizing a profit when it disposes of a property.

Q. What are JR Kyushu's issues in relation to ESG factors? How do you think these issues are viewed by the market?

A. (Muramatsu) Sustainability is inherent in the businesses of the Company because it has developed

them through collaboration with local communities. On the other hand, as the Company has been meeting this obligation as a matter of course, when we look at the Company from an ESG perspective, there is insufficient visualization of how businesses are contributing to corporate value or the resolution of local communities' issues. To overcome this problem, for example, using an ESG evaluation agency to provide visualized evaluations of initiatives is important. Then, the Company could enhance the quality of business management by setting goals, having goal-focused scenarios, and conducting dialogues with investors.

Q. In light of the effect of the COVID-19 infection, what type of issues are being shared at meetings of the Board of Directors?

A. (Muramatsu) I feel that the Company has been set an extremely difficult task, namely, to steadily conduct operations while endeavoring to curb the risk of infection. At meetings of the Board of Directors, I have been advising that, in an emergency such as this, the issue is whether we can adopt a flexible mindset and implement measures rapidly and without being constrained by existing practices.

Q. Have you ever opposed an investment proposal on the grounds of capital efficiency? Also, I think that the reduced capital efficiency of investments outside the region could be concern. What are your views this regard?

A. (Ichikawa) I of course make statements at meetings of the Board of Directors from the viewpoint of capital efficiency. At stages before meetings of the Board of Directors, on multiple occasions I have opposed proposals, and they have been revised.

As for investments outside the region, I believe that, from the perspective of medium- to long-term risk management, it is necessary to have a certain level of assets outside Kyushu. Moreover, by aiming to develop businesses that can win outside Kyushu, the Company will develop the strengths of its businesses. We should discuss the kind of scale that is required. Taking capital efficiency into consideration is natural, but I do not believe that stopping investment outside the region is advisable.

Q. Compared with other types of business, railway companies tend to have a low percentage of female employees. What is your evaluation of initiatives to empower women and other diversity initiatives?

A. (Muramatsu) Although it is a fact that historically there have been few female employees, it is also a fact that the Company's efforts to foster women so that they can play important roles has produced tangible results, with women serving in such positions as executive officer and Group company president. The Company is making progress in the development of workplace environments and has ample systems for childcare leave and other requirements. On the other hand, there is a difference in the retention rates for men and women, and I would like to see the Company analyze the factors that are causing obstructions and make even more progress in developing environments where everyone can exercise their talents. Further, I believe that establishing clear policies and indicators and then tackling initiatives is important not only in advancing the empowerment of women but also in advancing diversity as a human resources strategy that is integrated into the Group's management strategy.

Q. The increase in cross-shareholdings is a measure contrary to the expectations of many investors is it not? Could you please explain how this was decided by the Board of Directors?

A. (Ichikawa) Amid the increasing importance of corporate governance, the management team understands that there is a need to be sufficiently aware of cross-shareholdings. At meetings of the Board of Directors, there were various exchanges of opinions, ultimately however, the Board of Directors approved the measure in light of the need to continue further strengthening collaboration with three JR companies that is focused on MaaS and in light of opinions related to such matters as concern over the dilution of relationships with more than 30 years having passed since the privatization of Japanese National Railways.

< A Cautionary Note >

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