FY21.3
Financial Results Overview, Third Quarter

February 9, 2021

KYUSHU RAILWAY COMPANY

KYUSHU RAILWAY COMPANY

- I would like to thank everyone for taking the time to join us today.

- I will discuss the third quarter financial results, our full-year forecasts, the status of major segments, and our initiatives for the Next Fiscal Year.

- First, I will discuss the third quarter financial results and the full-year forecasts. Please turn to slide 4.

Contents

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

(¥bil)

	9 months ended December 31, 2019	9 months ended December 31, 2020	YoY	
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

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].

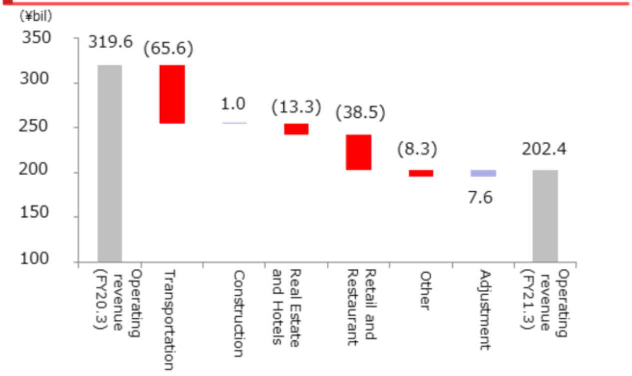
Operating income

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

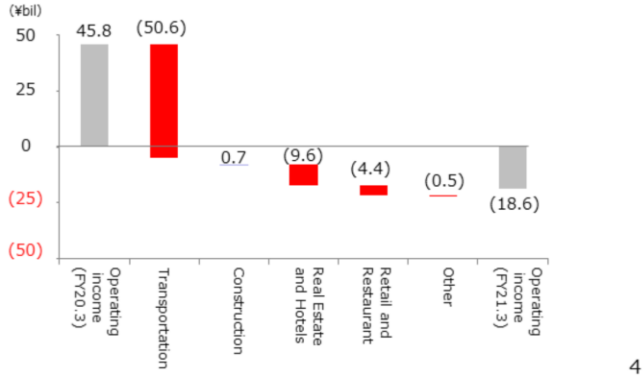
Extraordinary gains and losses

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.

Change in operating revenue by segment



Change in operating income by segment



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- First, consolidated operating revenue was ¥202.4 billion, a decline of approximately 37% year on year, as a result of such factors as a decline in revenues from railway transportation due to the influence of the COVID-19 infection and the change of JR Kyushu Drug Eleven Co., Ltd. to an equity-method affiliate.

- We have been working to reduce operating costs through urgent countermeasures, but these were not sufficient to offset the large decline in operating revenues, and as a result we recorded an operating loss of ¥18.6 billion. However, EBITDA was restored to a positive result, at ¥1.7 billion.

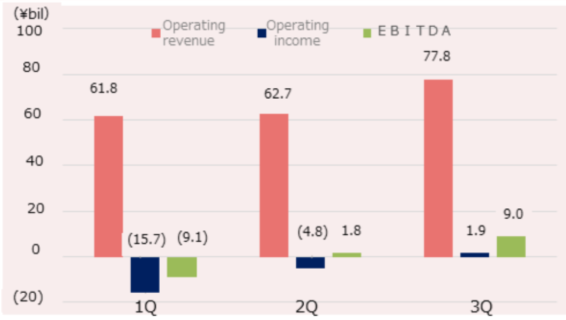
- As a result, net income/loss attributable to owners of the parent worsened by ¥46.9 billion year on year, and net loss was ¥11.6 billion.

- Please turn to the next slide.

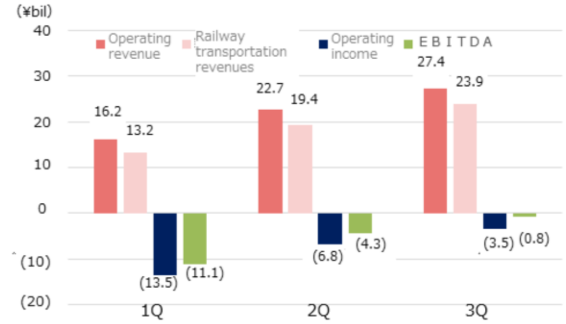
FY2021/3 — Quarterly Results

- 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.

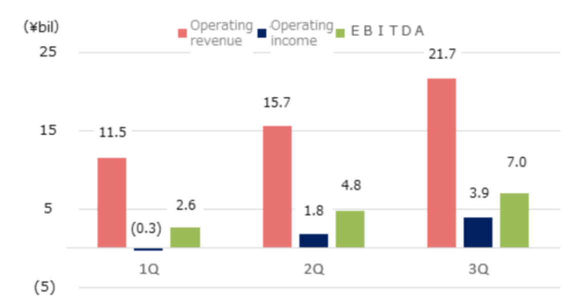
Consolidated results



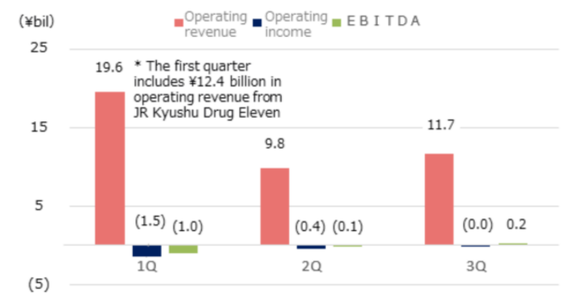
Non-consolidated, railway business



Real Estate and Hotels Segment



Retail and Restaurant Segment



- This slide shows trends in performance by quarter.

- On a non-consolidated basis in the third quarter, the basic trend of recovery continued in all of our businesses, and we returned to profitability at the consolidated operating income level due to thorough cost management. In these ways, conditions were solid overall.

- Next, I will explain our full-year performance forecasts and dividend forecasts. Please turn to slide 8.

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)	-

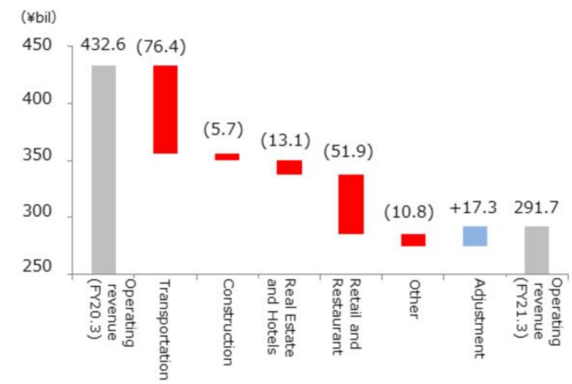
Operating revenue

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].

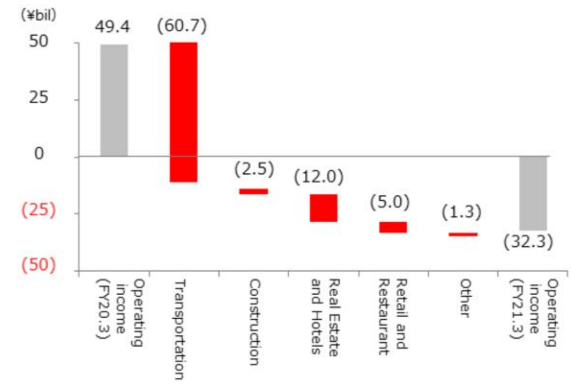
Operating income

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



- Looking at the full-year forecasts for performance and dividends, although a state of emergency has been declared due to the COVID-19 infection, and the future is uncertain, with consideration for circumstances up to the end of the third quarter, there is no change to the forecasts announced on November 4. Going forward, we will continue working to reduce costs and consider additional cost reductions as necessary, while monitoring future trends.

- Next, I will discuss the status of major segments. Please turn to slide 13.

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 businesss (-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)	-		

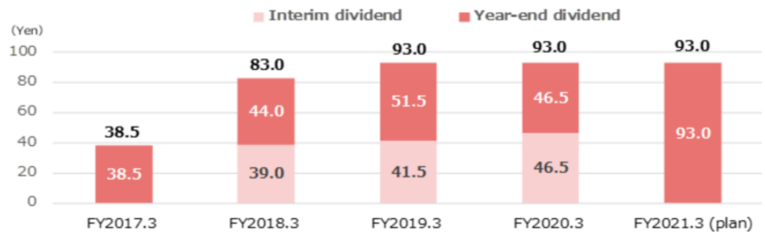
Dividend Forecasts

■ 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

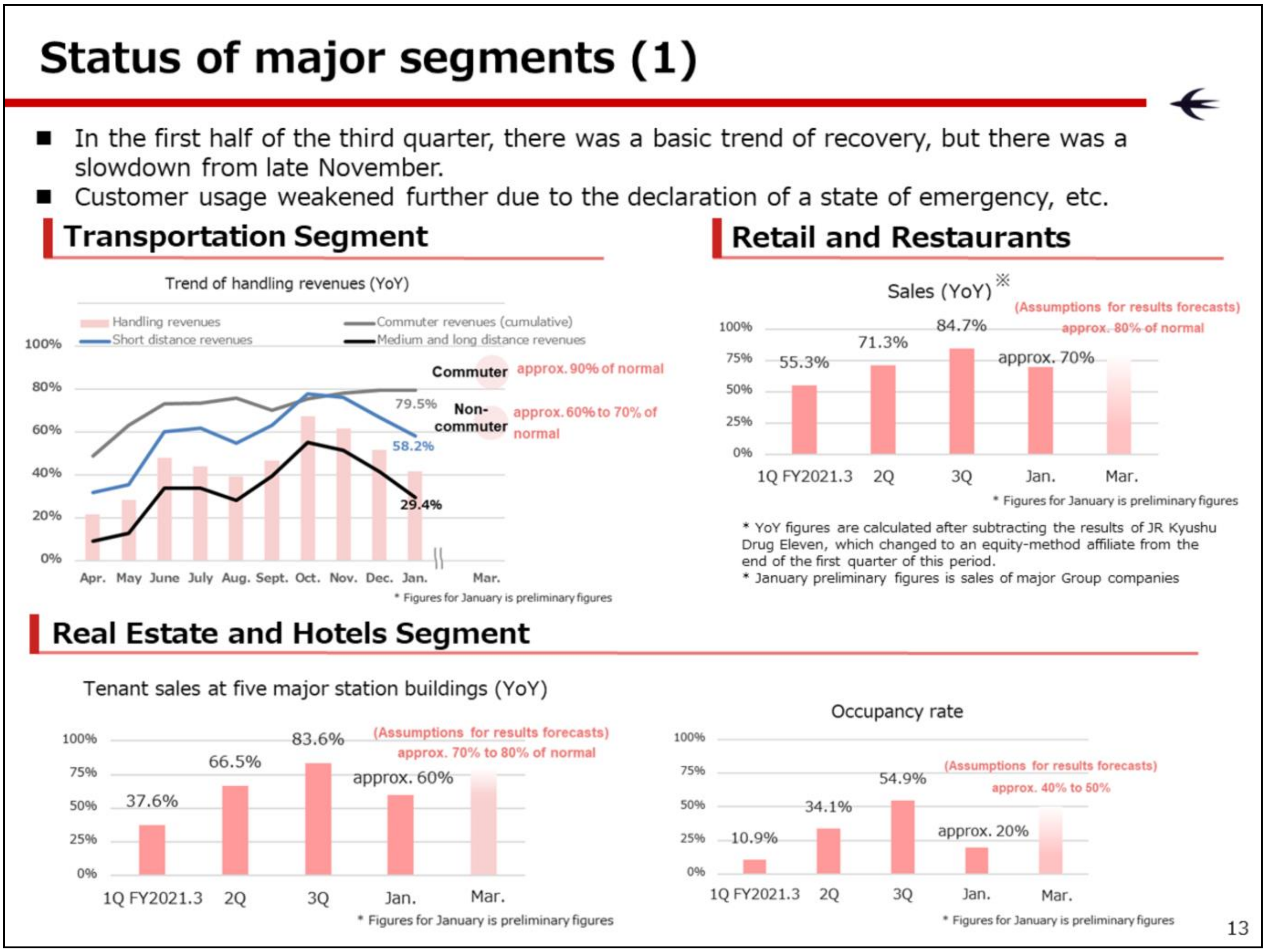


	FY2017.3	FY2018.3	FY2019.3	FY2020.3	FY2021.3 (plan)
Dividend payout ratio	13.8%	26.3%	30.2%	46.9%	-
Total payout ratio	13.8%	26.3%	30.2%	78.6%	-

* Implementation of a share repurchase (¥10 billion)

Ⅱ STATUS OF MAJOR SEGMENTS

KYUSHU RAILWAY COMPANY



- In the first half of the third quarter, there was a basic trend of recovery in each business as the spread of the infection subsided. However, from late November concern about the spread of the infection led to a growing trend toward refraining from going out, and usage declined up to the end of the year.

- In Kyushu, a state of emergency was declared in Fukuoka Prefecture in January. In addition, in certain prefectures local governments have made their own declarations. This has had an increased influence on the Transportation Segment as well as the Real Estate and Hotels Segment and the Retail and Restaurant Segment, which are closely correlated with the railway business.

- In the railway business, we expanded the suspension of operation of certain trains and implemented other measures, such as reducing the operating hours of station buildings, temporarily closing certain hotels and restaurants, and reducing the operating hours at restaurants. Customer usage is declining due to restraint in going out/moving around.

- The state of emergency has already been extended to March 7. Going forward, we will continue to focus on future trends while giving the highest priority to the safety of customers and employees.

- Next, I will discuss initiatives for the next fiscal year. Please turn to slide 21.

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 Buses	【Hydrofoil ferry】 Suspended operation due to the government's request to suspend operation of passenger ships (March 9, 2020 ~) 【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】 (¥bil)

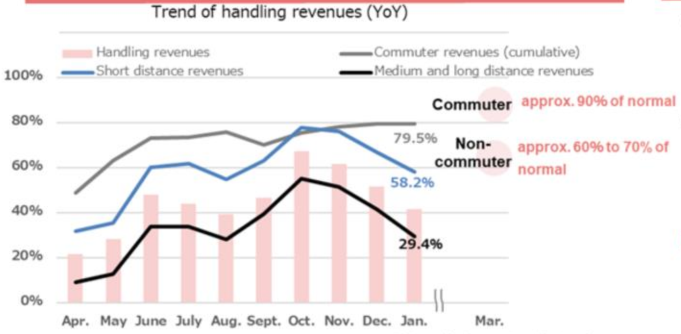
	9 months ended December 31, 2019	9 months ended December 31, 2020	YoY	
Operating revenue	135.9	70.2	(65.6)	51.7%
Railway Business (non-consolidated)	129.4	66.3	(63.0)	51.3%
Railway transportation revenues	116.2	56.6	(59.6)	48.7%
Operating income	25.8	(24.8)	(50.6)	-
Railway Business (non-consolidated)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

【Forecasts】 (¥bil)

	Results FY20.3	Forecasts FY21.3	YoY	
Operating revenue	173.7	97.3	(76.4)	56.0%
Railway Business (non-consolidated)	165.2	92.2	(73.0)	55.8%
Railway transportation revenues	147.3	77.6	(69.7)	52.7%
Operating income	19.8	(40.9)	(60.7)	-
Railway Business (non-consolidated)	20.0	(39.1)	(59.1)	-
EBITDA	29.5	(29.8)	(59.3)	-
Railway Business (non-consolidated)	28.8	(28.4)	(57.2)	-

Railway Business

Monthly trend / Results forecast assumptions



* Figures for January is preliminary figures

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 Decrease due to rebound from previous year's longer Golden Week holiday period
Commuter pass	2.1	1.8	(0.2)	87.1%	
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 Decrease due to suspension of all limited-express trains during Golden Week period Decrease due to rebound from previous year's longer Golden Week holiday period
Commuter pass	23.0	18.0	(4.9)	78.5%	
Non-commuter pass	50.9	21.7	(29.1)	42.8%	

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)

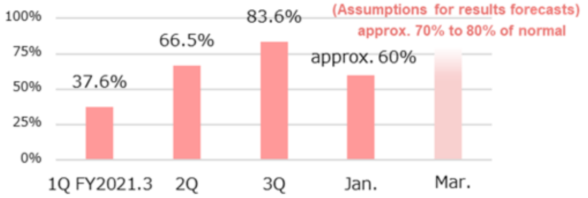
	9 months ended December 31, 2019	9 months ended December 31, 2020	YoY	
Operating revenue	41.4	36.4	(5.0)	87.8%
Operating income	13.3	8.8	(4.5)	66.0%
EBITDA	20.2	16.1	(4.0)	79.8%

【Forecasts】 (¥bil)

	Results FY20.3	Forecasts FY21.3	YoY	
Operating revenue	55.2	49.5	(5.7)	89.6%
Operating income	16.7	11.4	(5.3)	67.9%
EBITDA	26.1	21.6	(4.5)	82.7%

Quarterly trend / Results forecast assumptions

Tenant sales at five major station buildings (YoY)



* Figures for January is preliminary figures

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】 (¥bil)

	9 months ended December 31, 2019	9 months ended December 31, 2020	YoY	
Operating revenue	7.8	7.3	(0.4)	93.6%
Operating income	0.4	0.0	(0.3)	21.2%
EBITDA	0.4	0.1	(0.3)	22.3%

【Forecasts】 (¥bil)

	Results FY20.3	Forecasts FY21.3	YoY	
Operating revenue	18.9	21.5	2.5	113.6%
Operating income	1.5	1.9	0.3	121.3%
EBITDA	1.5	1.9	0.3	120.5%

Hotel business

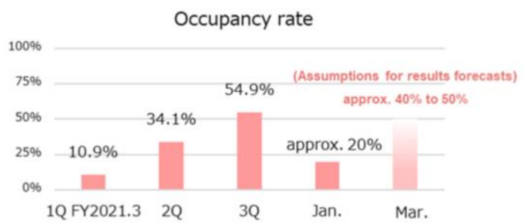
【Results】 (¥bil)

	9 months ended December 31, 2019	9 months ended December 31, 2020	YoY	
Operating revenue	13.2	5.3	(7.8)	40.7%
Operating income	1.2	(3.4)	(4.7)	-
EBITDA	2.7	(1.7)	(4.4)	-

【Forecasts】 (¥bil)

	Results FY20.3	Forecasts FY21.3	YoY	
Operating revenue	16.6	6.6	(10.0)	39.7%
Operating income	0.7	(6.2)	(6.9)	-
EBITDA	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】 (¥bil)

	9 months ended December 31, 2019	9 months ended December 31, 2020	YoY	
Operating revenue	79.7	41.1	(38.5)	51.7%
Operating income	2.4	(1.9)	(4.4)	-
EBITDA	3.6	(0.9)	(4.5)	-

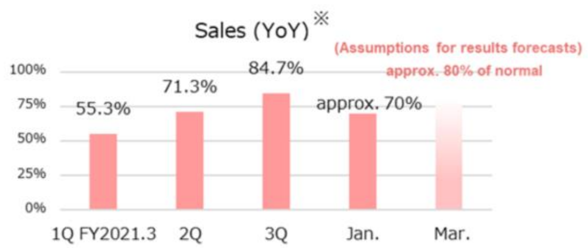
*Amount of influence of JR Kyushu Drug Eleven becoming an equity-method affiliate : [¥(26.6) billion]

【Forecasts】 (¥bil)

	Results FY20.3	Forecasts FY21.3	YoY	
Operating revenue	104.6	52.7	(51.9)	50.4%
Operating income	2.8	(2.2)	(5.0)	-
EBITDA	2.2	(0.8)	(5.2)	-

*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	Direction of initiatives
Improving the break-even point in businesses with a high percentage of fixed expenses (in particular, railway business / hotel business)	• 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

- Even at this point, we cannot forecast the resolution of the COVID-19 infection. In the short term, based on the expectation that revenues from railway transportation will not return to the levels before COVID-19, we will work to support sustainable business operations. To that end, we recognize that important management issues include the achievement of profitability in the railway business and the improvement of cash flow.

- Accordingly, we will need to advance the structural reforms that will be necessary for the Group to achieve growth over the long term. These reforms will include taking on the challenges of implementing further cost reductions in the railway and hotel businesses, where the percentage of fixed costs is high, as well as securing new earnings. We will also implement initiatives targeting growth for the Kyushu region.

- I will discuss three initiatives in the area of costs and two initiatives in the area of earnings, especially with regard to the railroad business, which is in urgent need of improvement. Please turn to the next slide.

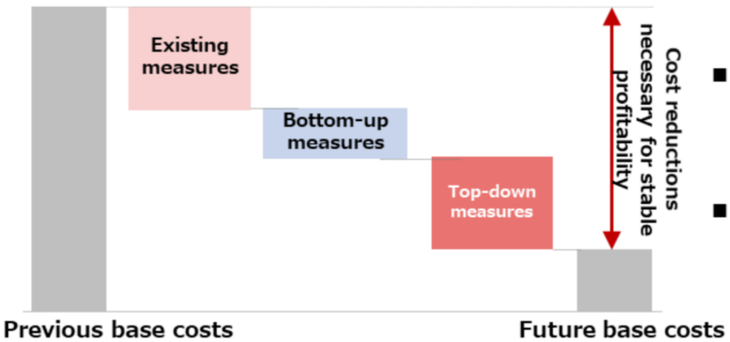
Increasing Efficiency in the Railway Business (1): BPR strategy

Goals of BPR strategy

(* Business Process Re-engineering)

- 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



- **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

FY2021/3	FY2022/3	Next Medium-Term Business Plan
Formulating reform roadmap (Cost reductions this period will principally be urgent/emergency items)	Implementing reforms (Cost reductions through urgent control + reform)	Implementing stable cost reductions (There are limits to what can accomplished with urgent control initiatives, and accordingly cost reductions will principally be BPR-based)

- Our first initiative in the area of costs is our BPR strategy.
- This period, we are working to reduce costs, principally urgent/emergency items, with an objective of ¥14.0 billion on a non-consolidated basis.
- It will not be easy to reduce costs in the railway business, where the percentage of fixed costs is high. However, with a focus on the next fiscal year and thereafter, we will need to restructure an operational structure that can generate stable profits even though revenues do not return to the level before COVID-19.
- First, centered on a project team established in December 2020, we will conduct thorough reevaluations to address such issues as whether or not we have systems and operations that have become pro forma over the long history of the railway business, and whether or not we can further standardize operations and specifications. We will develop a road-map for cost structure reforms by the end of the period.
- We will not simply extend existing measures. Rather, we will advance both bottom-up measures, with a focus on the front-lines and increasing efficiency at front-line work-sites, and top-down measures led by executives, such as organizational streamlining. We will aim make the cost reductions that will be necessary for the achievement of stable profitability.
- Please turn to the next slide.

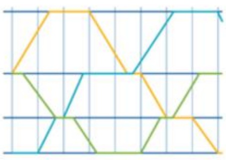
Increasing Efficiency in the Railway Business (2): Utilizing Digital Technologies

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

○Restricted items

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

Groovenauts

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

- I will discuss the use of digital technologies, the second of our initiatives in the area of costs.

- Leveraging the quantum computing technology, etc of Groovenauts, Inc., we commenced verification initiatives for rolling stock operation. If the number of rolling stock needed declines as a result of optimization, it will be possible to reduce maintenance costs and the cost of replacing aging rolling stock.

- In addition, the process of formulating schedules involves many aspects that depend on the experience of people, and securing human resources will be an issue in the future. We will explore ways of using digital transformation technologies to address future issues.

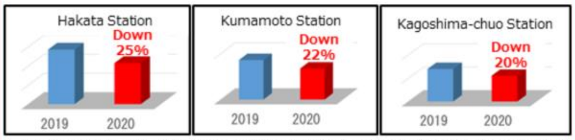
- Please turn to the next slide.

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

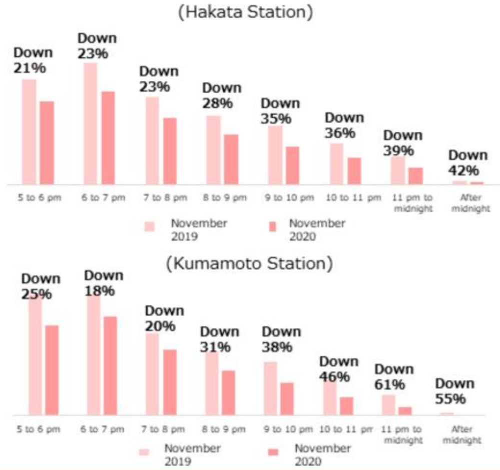


* 【Status of usage at stations in in prefectural capitals in Kyushu (November 2020, YoY)】

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

- I will discuss schedule revisions, the third of our initiatives in the area of costs.

- Currently, it is not possible to forecast the resolution of the COVID-19 infection, and a return to normal conditions is not expected in the short term. Accordingly, to continue efficient operations while sustaining the transportation network, we will implement flexible schedule revisions in line with customer demand.

- Through schedule revisions, we will reduce the number of trains so that train-kilometers decrease by about 5% year on year. In this way, we will reduce energy expenses, maintenance costs, and personnel costs. Through these initiatives, we expect to be able to reduce annual costs by approximately ¥500 million.

- In regard to the trains that have been reduced, we will take steps to see that we address demand, such as flexibly operating those trains in line with demand recovery.

- Please turn to the next slide.

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

Commuter passes: ¥32.5 billion 22%

Non-commuter

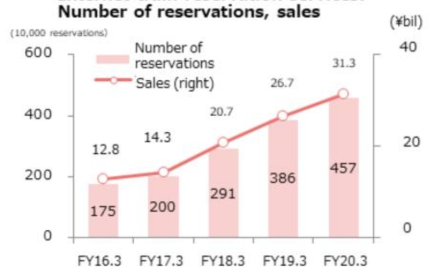
Short distance: ¥25.9 billion 18%

Medium and long-distance: ¥88.8 billion 60%

Discount tickets

✓ Medium to long distance discount tickets, which are the subject of yield management initiatives, are approximately 30% of revenues from railway transportation
✓ Approximately 50% of those tickets are sold at counters

Internet train reservation services: Number of reservations, sales



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

Major revision details

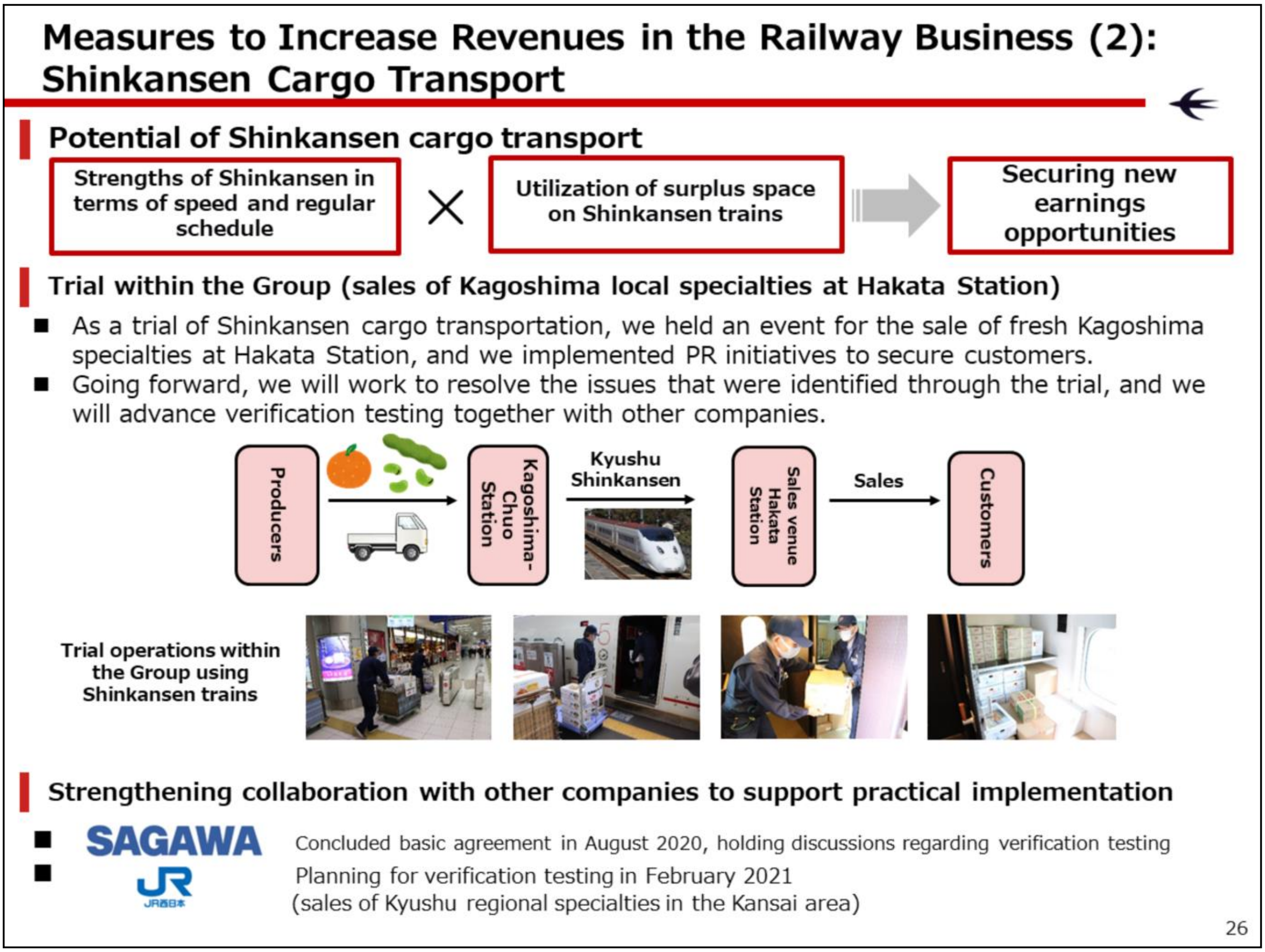
【Discontinuing counter sales tickets】
- Completely discontinuing two-part tickets on the Shinkansen (21 segments)
- Discontinuing approximately 60% of two-part tickets on conventional lines (51 segments)

【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

- Our first initiative to secure revenues is the reevaluation of discount tickets.
- In the past, we maintained competitiveness versus other means of transportation through counter sales tickets with high discount rates. However, in recent years we have focused on advancing Internet sales, for which demand and supply conditions can be reflected in prices.
- To improve earnings in the railway business on an urgent basis, we will revise discount ticket prices, increasing prices an average of 8%, while giving consideration to competitiveness with other means of transportation.
- In addition, by substantially reducing the difference in discount rates between Internet sales tickets and counter sales tickets, and by substantially discontinuing counter sales tickets, we will work to further increase the Internet sales share, reduce opportunities for contact at the time of purchase with consideration for changes in lifestyles, and increase efficiency in station systems.
- Please turn to the next slide.



- Finally, I will discuss Shinkansen cargo transport.

- Leveraging the strengths of the Shinkansen in terms of speed and a regular schedule, we will utilize surplus space on Shinkansen trains, thereby advancing initiatives leading to the acquisition of new earnings opportunities.

- In December 2020, at Hakata Station we conducted a trial of sales of local specialties from Kagoshima that were delivered directly on the Kyushu Shinkansen. An issue with cargo transportation is the method of unloading cargo efficiently while the train is stopped at the station, and accordingly we will take steps to advance verification.

- In addition, we will conduct demonstration tests in cooperation with Sagawa Express Co., Ltd. and West Japan Railway Company, with the aim of putting the system into practical use as soon as possible.

- This concludes my presentation. Thank you for your attention.

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/