(Translation)

Consolidated Financial Results for the Six-Month Period Ended September 30, 2021 (Japanese GAAP)

November 2, 2021

Company name:	Kyushu Railway Company
Stock exchange listings:	Tokyo and Fukuoka
Securities code:	9142
URL:	https://www.jrkyushu.co.jp/
Representative:	Toshihiko Aoyagi, President and CEO
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Scheduled date for filing of quarterly report:	November 5, 2021
Date of dividend payment commencement:	―
Preparation of supplementary explanations for financial results:	Yes
Holding of a briefing on quarterly financial results:	Yes

(Amounts less than one million yen, except for per share amounts, are omitted.)

1. Consolidated Financial Results for the Six-Month Period Ended September 30, 2021 (From April 1, 2021 to September 30, 2021)

(1) Consolidated operating results

(Percentages show year-on-year changes.)

	Operating revenue		Operating income		Ordinary income		Net income attributable to owners of the parent	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2021	141,621	13.7	(4,072)	―	(1,064)	―	(2,025)	―
September 30, 2020	124,552	(41.5)	(20,571)	―	(19,520)	―	(10,248)	―

(Note) Comprehensive income: Six months ended September 30, 2021: ¥80 million (―%)
Six months ended September 30, 2020: ¥(13,666) million (―%)

	Net income per share — basic	Net income per share — diluted
Six months ended	Yen	Yen
September 30, 2021	(12.89)	―
September 30, 2020	(65.23)	―

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2021	861,257	378,122	43.7
As of March 31, 2021	891,379	395,408	43.8

(Reference) Shareholders' equity: As of September 30, 2021: ¥376,073 million
As of March 31, 2021: ¥390,189 million

2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2021	―	0.00	―	93.00	93.00
Year ending March 31, 2022	―	0.00			
Year ending March 31, 2022 (Forecast)			―	93.00	93.00

(Note) Revisions to the most recently disclosed dividend forecasts: No

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2022
(April 1, 2021 to March 31, 2022)

(Percentages for the full year show year-on-year changes.)

	Operating revenue		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	315,800	7.4	(2,300)	—	800	—	3,400	—	21.64

(Note) Revisions to the most recently disclosed financial forecasts: Yes

Notes

(1) Changes in significant subsidiaries during the six months ended September 30, 2021 (changes in specified subsidiaries affecting the scope of consolidation): No

(2) Application of special accounting treatment in preparing the quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates and restatement of revisions

i Changes in accounting policies with revision of accounting standards: Yes
ii Changes in accounting policies other than the above: Yes
iii Changes in accounting estimates: Yes
iv Restatement of revisions: No

(Notes)
ii is subject to "Changes in Accounting Policies That Are Difficult to Distinguish from Changes in Accounting Estimates."

For details about i, please refer to "(4) Notes to Quarterly Consolidated Financial Statements, Changes in Accounting Policies" on page 15 of the accompanying materials.

For details about ii and iii, please refer to "(4) Notes to Quarterly Consolidated Financial Statements, Changes in Accounting Policies That Are Difficult to Distinguish from Changes in Accounting Estimates and Changes in Accounting Estimates" on page 16 of the accompanying materials.

(4) Number of shares outstanding (common stock)

i Number of shares issued and outstanding at end of period (including treasury stock)	As of September 30, 2021	157,301,600 shares	As of March 31, 2021	157,301,600 shares
ii Number of shares of treasury stock at end of period	As of September 30, 2021	183,700 shares	As of March 31, 2021	184,600 shares
iii Average number of shares during the period	As of September 30, 2021	157,117,450 shares	As of September 30, 2020	157,116,250 shares

Note: The number of shares of treasury stock at the end of the period includes the number of shares of the Company's stock held by the Board Benefit Trust (BBT) (Second quarter of FY2022/3, 183,700 shares; FY2021/3, 184,600 shares). In addition, the number of shares of the Company's stock held by the Board Benefit Trust (BBT) is included in the treasury stock that is subtracted in the calculation of the average number of shares during the period (Second quarter of FY2022/3, 184,150 shares; Second quarter of FY2021/3, 185,350 shares).

* This summary of consolidated financial results is not subject to quarterly reviews by certified public accountants or corporate auditors.

Explanation of Appropriate Uses of Performance Forecasts and Other Important Items
Performance forecasts and other forward-looking statements appearing in this document are based on currently available information and specific assumptions deemed rational, and are not assurances that the Company will achieve these forecasts. Actual performance can vary greatly depending on various factors such as fluctuations in interest rates, fluctuations in share prices, changes in exchange rates, fluctuations in the value of assets, changes in the economic and financial environment, changes in the conditions of competition, occurrences of large-scale and other disasters, and changes in regulations.

Supplementary quarterly materials are attached to this summary of consolidated financial results.

Kyushu Railway Company plans to hold a quarterly financial results presentation meeting for analysts on Thursday, November 4, 2021. The Company plans to publish the presentation materials distributed at this meeting on its website immediately after the meeting is concluded.

Contents of Accompanying Materials

○(Financial results presentation materials)
Financial Results for the Second Quarter of FY22.3 (Cumulative total for the six-month period from April to September)

1. Qualitative Information on Quarterly Consolidated Financial Performance

Forward-looking statements in this document are based on assessments as of the end of the second quarter of FY2022/3.

From the first quarter of FY2022/3, the Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc.

Details are provided in "2. Quarterly Consolidated Financial Statements and Major Notes, (4) Notes to Quarterly Consolidated Financial Statements (Changes in Accounting Policies)" and "2. Quarterly Consolidated Financial Statements and Major Notes, (4) Notes to Quarterly Consolidated Financial Statements (Segment Information)."

(1) Qualitative Information on Consolidated Operating Results

In the six month period ended September 30, 2021, due to the re-spread of the COVID-19 infection, a state of emergency was declared and extended multiple times. Domestic demand remained sluggish, centered on the service sector. Due to the expansion of vaccination programs, etc., there are expectations for progress with the control of COVID-19 and with economic activity, but the timing, extent, etc., of a recovery in economic activity remain highly uncertain, and challenging conditions are expected to continue for the time being.

Looking at the Group's results, due to spread of the COVID-19 infection and to the state of emergency declarations, the railway and other businesses were affected by declining mobility demand and sluggish consumer spending. In these conditions, we worked in accordance with our recognition that our most important mission is safety in the railway business, which is our mainstay business. We steadily invested in railway safety, and in April 2021 we opened the Kumamoto Station Building, which is part of our implementation of strategic city-building initiatives in the regions around our bases. Furthermore, we rolled out a project under the title "Until the day the state of emergency is lifted, let's stay strong together," which expresses our wishes for the resolution of COVID-19 and the invigoration of Kyushu. We also implemented initiatives to promote "Local Community Invigoration," such as establishing a specialized regional fund. In addition, the future course of trends in the management environment is unclear. In preparation for changes in the management environment, we took steps to reduce costs, centered on the railway business. These steps included temporary leave for employees.

As a result, operating revenue were up 13.7% year on year, to ¥141,621 million; operating loss was ¥4,072 million (compared with operating loss of ¥20,571 million in the same period of the previous fiscal year); EBITDA was ¥8,820 million (compared with negative EBITDA of ¥7,302 million in the same period of the previous fiscal year); ordinary loss was ¥1,064 million (compared with ordinary loss of ¥19,520 million in the same period of the previous fiscal year); and net loss attributable to owners of the parent was ¥2,025 million (compared with net loss attributable to owners of the parent of ¥10,248 million in the same period of the previous fiscal year).

(Note) EBITDA for the consolidated period under review is the numerical value of operating income plus the cost of depreciation (excluding the cost of depreciation related to lease assets held for the purpose of subleasing).

The Group's business performance by segment is as follows.

(Millions of Yen)

	Operating revenue			Operating income / loss			EBITDA (Note 2)		
	FY2022/3, consolidated cumulative second quarter (six months ended September 30, 2021)	YoY		FY2022/3, consolidated cumulative second quarter (six months ended September 30, 2021)	YoY		FY2022/3, consolidated cumulative second quarter (six months ended September 30, 2021)	YoY	
Transportation	48,970	7,617	18.4%	(11,983)	9,169	—	(7,766)	8,011	—
Construction	38,645	2,502	6.9%	1,199	126	11.8%	1,692	127	8.2%
Real Estate and Hotels	43,774	16,471	60.3%	6,756	5,275	356.1%	13,703	6,215	83.0%
Real estate lease	28,302	5,323	23.2%	7,348	2,327	46.4%	13,195	3,358	34.1%
Real estate sale	11,943	10,035	526.0%	1,556	1,908	—	1,562	1,908	—
Hotel	3,529	1,112	46.1%	(2,148)	1,039	—	(1,054)	948	—
Retail and Restaurant	19,667	(9,780)	(33.2%)	(1,124)	823	—	(537)	691	—
Other	27,729	(552)	(2.0%)	1,295	856	195.2%	2,116	848	67.0%
Total	178,787	16,257	10.0%	(3,856)	16,251	—	9,208	15,895	—
Adjustment (Note 1)	(37,166)	810	—	(216)	247	—	(387)	228	—
Amount on the consolidated financial statements	141,621	17,068	13.7%	(4,072)	16,498	—	8,820	16,123	—

(Notes) 1. Adjustments reflect the elimination of intersegment transactions.

2. Consolidated EBITDA = operating income + depreciation (after elimination of intersegment transactions, excluding depreciation of leased assets held for subleasing purposes), segment EBITDA = segment operating income + segment depreciation (after elimination of intersegment transactions, excluding depreciation of leased assets held for subleasing purposes)

a. Transportation Group

In the railway business, the Company worked to secure safety and implemented measures to prevent the spread of COVID-19. On that basis, we worked to secure revenues. In addition, we advanced cost reductions in order to improve profitability in the railway business, which has a high percentage of fixed costs.

In terms of safety initiatives, we implemented safety creation activities in order to steadily create safety for the entire JR Kyushu Group. The slogan of the activities was “Save lives!! Understand the rules and put them into practice.” In addition, we steadily implemented safety investment, such as new production of rolling stock and replacement of aging facilities.

In regard to services, with consideration for prevention of the COVID-19 infection, we worked to understand the needs of each customer and to meet their expectations with prompt action. In addition, we worked to provide services that are aligned with new lifestyles, are safe, and can be used with peace of mind, such as a hygiene promotion using D&S trains, which was implemented in collaboration with Lion Corporation, and verification testing of touchless reserved-seat ticket sales machines.

In marketing, we conducted a tourism campaign in Kumamoto and Kagoshima to commemorate the 10th anniversary of the full opening of the Kyushu Shinkansen. Together with HKT48, we also implemented the “Motto! Minna no Kyushu Project.” Furthermore, we implemented a promotion to expand the use of the Internet train reservation services, with the catchphrase “For the ticket, use the Internet!” In line with the decrease in usage accompanying the spread of the COVID-19 infection, for certain discount tickets, we ended sales or revised prices. In addition, we started a new Shinkansen cargo transport business with the aim of securing new earnings opportunities.

In transportation, while implementing infection prevention measures at stations and on trains, we worked to maintain the transportation network, which is social infrastructure. Due to the impacts of heavy rain that occurred in northern Kyushu in July 2017, we are implementing substitute forms of transportation between Soeda Station and Yoake Station on the Hitahikosan Line. We have obtained the approval of related local governments regarding restoration through the introduction of a bus rapid transit (BRT) system, and we are advancing preparations for the restoration. Furthermore, due to the influence of the heavy rains in July 2020, which occurred in July 2020, railway facilities on the Hisatsu Line were damaged, and we are implementing substitute forms of transportation on certain sections.

In our passenger ship business, as a protection measure to prevent the spread of the COVID-19 infection, the Japanese government requested the halting of passenger transportation operations, and operations have been suspended on all scheduled routes since March 2020. Also, as an initiative to be implemented during the suspension of service on scheduled routes, from March 2021 we were conducting domestic sightseeing operation of the “QUEEN BEETLE” new-style hydrofoil ferry. However, measures equivalent to priority measures were implemented, such as measures to prevent the spread of the infection in Fukuoka Prefecture, and there were state of emergency declarations. As a result, domestic sightseeing operations were suspended from May 6 to July 11 and from August 2 to September 30.

In our bus business, we reduced service in line with usage conditions, while working to create an environment in which customers can use bus services with peace of mind through measures to prevent the spread of infection.

In the field of new mobility services (MaaS), with the objective of restoring a lively atmosphere to the center of Fukuoka City, which has been affected by the influence of the COVID-19 infection, we launched sales of digital tickets on a MaaS app in conjunction with Nishi-Nippon Railroad Co., Ltd., and 18 commercial facilities in the Tenjin and Hakata areas. We have been advancing MaaS initiatives in the Miyazaki region since FY2021/3. Targeting the establishment of sustainable regional transportation services in the Miyazaki region, in September 2021 we concluded a memorandum regarding collaboration in regional transportation services with Miyazaki kotsu Co., Ltd, and we started a new regional transportation service utilizing bus and railway services at Nippo Main Line’s Takanabe Station. In addition, we are working to roll out MaaS initiatives in areas around Kyushu, including the Yufuin region in Oita Prefecture. Furthermore, we also advanced initiatives through collaboration with other transportation companies outside of Kyushu. For example, we agreed to provide information related to stations and train locations within the JR Kyushu service area through a MaaS app provided by West Japan Railway Company, and we started the provision of this service.

As a result, the Transportation Group recorded operating revenue of ¥48,970 million, up 18.4% year on year; an operating loss of ¥11,983 million (compared with operating loss of ¥21,152 million in the same period of the previous fiscal year); and negative EBITDA of ¥7,766 million (compared with negative EBITDA of ¥15,777 million in the same period of the previous fiscal year).

b. Construction Group

In the construction business, we leveraged specialized skills in the railway business in order to contribute to safe, stable railway operations through railway-related civil engineering, railroad track, and construction work as well as through maintenance operations and rolling stock equipment work. In railway construction, in a continuation from the previous fiscal year, we endeavored to steadily advance work related to the Nishi-Kyushu Shinkansen and the Hokuriku Shinkansen.

Furthermore, we worked to obtain orders from government and municipal offices and from private enterprises for the construction of elevated tracks and for work related to the Shinkansen, condominiums, and other projects. We also endeavored to reduce costs.

As a result, the Construction Group posted operating revenue of ¥38,645 million, up 6.9% year on year; operating income of ¥1,199 million, up 11.8%; and EBITDA of ¥1,692 million, up 8.2%.

c. Real Estate and Hotels Group

In the real estate business, we opened Amu Plaza Kumamoto in April 2021. On the other hand, a state of emergency was declared, and in accordance with requests from the local government, at our station buildings we implemented shorter operating hours and certain tenants suspended operations at stores.

In the real estate sale business, while instituting infection prevention measures at model rooms, we recorded sales from “MJR Sakaisuji Honmachi Tower,” “MJR Hirao Ekimae,” “MJR Miyazakieki Minami Park Side” and other condominium buildings, and we sought to promote sales of “MJR the Garden Shimoori,” “MJR the Garden Kashii,” “MJR Kumamoto The Tower,” etc.

In the hotel business, we opened THE BLOSSOM KUMAMOTO in April 2021. In addition, we took steps to capture limited demand, such as sales of a plan for teleworking. Nonetheless, our business was affected by people refraining from going out, the cancellation of events, the disappearance of inbound demand, etc., due to the spread of the COVID-19 infection.

As a result, the Real Estate and Hotels Group posted operating revenue of ¥43,774 million, up 60.3% year on year; operating income of ¥6,756 million, up 356.1%; and EBITDA of ¥13,703 million, up 83.0%.

d. Retail and Restaurant Group

In our retail business, we renovated convenience stores, and we opened “hands be Amu Plaza Kumamoto” at Amu Plaza Kumamoto, which opened in April 2021. In addition, we implemented online openings of “Yobuko Manbou” and “FAMILK!!” on Ekicho Osusume No e-MALL, a JR Kyushu Group e-commerce site that opened in August 2021. Furthermore, in September 2021 we opened the “Famima Toranomon Hills,” our first convenience store in the Kanto region.

In the restaurant business, we took steps to expand new store openings. For example, we opened a new Cinnabon specialty cinnamon roll shop in Amu Plaza Kumamoto, which opened in April 2021. Furthermore, we took steps to create new demand. For example, in August 2021 we opened the first Umaya freestanding restaurant in a suburban location. In addition, we continued the initiative of using platform stores at Hakata Station as pop-up shops. Moreover, we also worked to further improve management efficiency, including closing unprofitable stores.

Nonetheless, stores in stations and existing restaurants were affected by the decline in mobility demand and sluggish consumption demand due to the influence of the spread of COVID-19. In addition, in May 2020, the Company transferred to TSURUHA Holdings, Inc. a portion of its holdings of the shares of JR Kyushu Drug Eleven Inc. JR Kyushu Drug Eleven was removed from the scope of consolidation from the end of the first quarter of FY2021/3, which also had an effect on the Retail and Restaurant Group.

As a result, the Retail and Restaurant Group recorded operating revenue of ¥19,667 million, down 33.2% year on year; operating loss of ¥1,124 million (compared with operating loss of ¥1,947 million in the same period of the previous fiscal year); and negative EBITDA of ¥537 million (compared with negative EBITDA of ¥1,229 million in the same period of the previous fiscal year).

e. Other Groups

For the construction machinery sales and rental business, we worked to secure earnings through aggressive sales activities.

As a result, Other Groups posted operating revenue of ¥27,729 million, down 2.0% year on year; operating income of ¥1,295 million, up 195.2%; and EBITDA of ¥2,116 million, up 67.0%.

(Note) EBITDA for the consolidated period under review is the numerical value of operating income plus the cost of depreciation (excluding the cost of depreciation related to lease assets held for the purpose of subleasing).

(2) Qualitative Information on Consolidated Financial Position

1. Assets, Liabilities, and Equity

Total assets as of September 30, 2021, decreased 3.4% compared with the previous fiscal year-end, to ¥861,257 million. Current assets decreased 33.7%, to ¥133,286 million, due to the collection of accounts receivable-trade and other factors. Non-current assets increased 5.4%, to ¥727,971 million, due principally to the acquisition of property, plant and equipment, etc.

Meanwhile, total liabilities decreased 2.6% compared with the previous fiscal year-end, to ¥483,135 million. Current liabilities decreased 21.4%, to ¥113,736 million, due to payment of payables and accounts payable-trade and other factors. Non-current liabilities were up 5.2%, to ¥369,398 million, as a result of the issuance of bonds and other factors.

Furthermore, total equity decreased 4.4% compared with the previous fiscal year-end, to ¥378,122 million, due primarily to a decrease in retained earnings resulting from the payment of dividends, etc.

2. Cash Flows

(Cash flows from operating activities)
Net cash provided by operating activities totaled ¥21,669 million, due to such factors as improvement in income (loss) before income taxes. (In the same period of the previous fiscal year, net cash used in operating activities was ¥15,193 million.)

(Cash flows from investing activities)
Net cash used in investing activities was ¥52,006 million, up ¥32,579 million year on year, due to such factors as a decline in proceeds from sales of shares of subsidiaries and associates.

(Cash flows from financing activities)
Net cash provided by financing activities came to ¥5,931 million, down ¥119,318 million year on year, due to such factors as declines in long-term loans and the issuance of bonds.

As a result of the above, cash and cash equivalents at end of the period were down ¥24,146 million year on year, to ¥40,872 million.

(3) Qualitative Information on Consolidated Performance Outlook

Looking at the consolidated performance forecasts for FY2022/3, as a result of the re-spread of the COVID-19 infection, a state of emergency has been declared and extended multiple times, and mobility demand and consumer spending continue to be sluggish. We have no choice but to forecast a substantial decline in revenues, and accordingly we have implemented downward revisions to the forecasts for operating revenue, operating income, ordinary income, and net income attributable to owners of the parent that were announced on August 3, 2021.

Going forward, it is still not possible to forecast the timing of the resolution of the COVID-19 infection, and the operating environment will remain challenging. On the other hand, due to the expansion of vaccination programs, etc., circumstances are reaching the point where both COVID-19 infection control and economic activity can be expected.

Approaching these circumstances as an opportunity, in the third quarter and thereafter we will continue working to advance cost structure reforms in the railway business, which has high fixed costs, and to increase city value with stations as bases in the real estate business.

Full-year performance forecasts for FY2022/3
Operating revenue ¥315,800 million (up 7.4% YoY)
Operating income ¥ (2,300) million (operating loss of ¥22,873 million in previous fiscal year)
Ordinary income ¥800 million (ordinary loss of ¥19,323 million in previous fiscal year)
Net income attributable to owners of the parent ¥3,400 million (net loss attributable to owners of parent of ¥18,984 million in previous fiscal year)
EBITDA ¥24,700 million (increase of 432.4 % YoY)

* In regard to the method of depreciation for railway business fixed assets, previously the Company primarily used the declining-balance method. However, from FY2022/3, the Company has changed to mainly using the straight-line method. In addition, in regard to rolling stock, the Company has changed to useful life in line with usage condition. As a result, in comparison with before the change, depreciation in the railway business is expected to decline by approximately ¥3,100 million.

Also, forecasts by segment for operating revenue, operating income, and EBITDA are as follows.

(Millions of Yen)

	Operating revenue			Operating income / loss			EBITDA		
	FY 2022/3 (April 1, 2021 – March 31, 2022)	YoY		FY 2022/3 (April 1, 2021 – March 31, 2022)	YoY		FY 2022/3 (April 1, 2021 – March 31, 2022)	YoY	
Transportation	109,900	14,605	15.3%	(22,400)	15,229	—	(13,500)	13,007	—
Construction	95,600	(923)	(1.0%)	5,400	(1,590)	(22.8%)	6,200	(1,841)	(22.9%)
Real Estate and Hotels	91,900	11,772	14.7%	14,400	4,486	45.3%	28,300	6,074	27.3%
Real estate lease	57,600	7,838	15.8%	13,900	1,827	15.1%	25,600	3,590	16.3%
Real estate sale	23,600	39	0.2%	2,500	(140)	(5.3%)	2,500	(152)	(5.8%)
Hotel	10,700	3,893	57.2%	(2,000)	2,799	—	200	2,637	—
Retail and Restaurant	43,800	(7,688)	(14.9%)	(1,000)	1,575	—	200	1,380	—
Other	59,600	(4,041)	(6.4%)	2,300	548	31.3%	4,800	1,092	29.5%
Total	400,800	13,724	3.5%	(1,300)	20,248	—	26,000	19,713	313.6%
Adjustment	(85,000)	8,161	—	(1,000)	325	—	(1,300)	347	—
Amount on the consolidated financial statements	315,800	21,885	7.4%	(2,300)	20,573	—	24,700	20,060	432.4%

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Consolidated Balance Sheets

(Millions of Yen)

	FY 2021/3 (As of March 31, 2021)	FY 2022/3, Second Quarter (As of September 30, 2021)
ASSETS		
Current assets		
Cash and time deposits	22,927	32,872
Notes and accounts receivable–trade	50,857	—
Notes and accounts receivable–trade, and contract assets	—	35,652
Fares receivable	1,059	1,792
Securities	42,096	8,031
Merchandise and finished goods	13,583	6,031
Work in process	20,429	21,966
Raw materials and supplies	8,352	9,793
Other	41,646	17,187
Allowance for doubtful accounts	(47)	(43)
Total current assets	200,906	133,286
Non-current assets		
Property, plant and equipment		
Buildings and fixtures (net)	284,255	309,042
Machinery, rolling stock and vehicles (net)	38,047	40,225
Land	153,553	156,129
Lease assets (net)	19,664	19,452
Construction in progress	28,498	35,674
Other (net)	8,002	7,905
Net property, plant and equipment	532,021	568,430
Intangible assets	3,940	3,670
Investments and other assets		
Investment securities	45,162	44,840
Deferred tax assets	55,252	54,100
Net defined benefit assets	873	1,027
Other	54,062	56,732
Allowance for doubtful accounts	(840)	(830)
Total investments and other assets	154,510	155,871
Total non-current assets	690,472	727,971
Total assets	891,379	861,257

(Millions of Yen)

	FY 2021/3 (As of March 31, 2021)	FY 2022/3, Second Quarter (As of September 30, 2021)
LIABILITIES AND EQUITY		
Current liabilities		
Notes and accounts payable–trade	31,942	15,404
Short-term loans	6,885	6,850
Commercial papers	―	5,000
Current portion of long-term debt	4,674	4,677
Payables	47,952	26,885
Accrued income taxes	2,749	500
Fare deposits received with regard to railway connecting services	3,060	1,224
Railway fares received in advance	4,737	5,076
Accrued bonuses	5,814	6,686
Other	36,864	41,431
Total current liabilities	144,681	113,736
Non-current liabilities		
Corporate bonds	80,000	100,000
Long-term debt	159,383	158,091
Allowance for safety and environmental measures	1,412	1,412
Allowance for disaster-damage losses	3,773	4,109
Net defined benefit liabilities	50,507	49,807
Asset retirement obligations	1,462	1,458
Other	54,750	54,519
Total non-current liabilities	351,290	369,398
Total liabilities	495,971	483,135
EQUITY		
Shareholders' equity		
Common stock	16,000	16,000
Capital surplus	224,021	224,910
Retained earnings (Deficit)	150,017	132,665
Treasury stock	(594)	(591)
Total shareholders' equity	389,445	372,984
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	7,079	8,404
Foreign currency translation adjustments	(186)	243
Remeasurements of defined benefit plans	(6,148)	(5,559)
Total accumulated other comprehensive income	743	3,088
Non-controlling interests	5,218	2,049
Total equity	395,408	378,122
TOTAL LIABILITIES AND EQUITY	891,379	861,257

(2) Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Income Statements

Consolidated Cumulative Second Quarter

(Millions of Yen)

	FY 2021/3, Second Quarter (Six months ended September 30, 2020)	FY 2022/3, Second Quarter (Six months ended September 30, 2021)
OPERATING REVENUE	124,552	141,621
OPERATING EXPENSE		
Transportation, other services and cost of sales	99,248	100,825
Selling, general and administrative expense	45,875	44,868
Total operating expense	145,124	145,693
OPERATING LOSS	(20,571)	(4,072)
NON-OPERATING INCOME		
Interest income	40	40
Dividend income	373	320
Gain on assets held in trust	783	1,079
Subsidies for employment adjustment	579	1,295
Other	351	1,823
Total non-operating income	2,128	4,558
NON-OPERATING EXPENSE		
Interest expense	821	739
Foreign exchange losses	0	499
Other	256	311
Total non-operating expense	1,077	1,549
ORDINARY LOSS	(19,520)	(1,064)
EXTRAORDINARY GAINS		
Construction grants received	987	487
Gain on sales of shares of subsidiaries and associates	9,144	—
Other	343	272
Total extraordinary gains	10,475	760
EXTRAORDINARY LOSSES		
Losses from provision for cost reduction of fixed assets	947	478
Provision for loss on disaster	5,306	936
Disaster-damage losses	156	13
Other	1,139	276
Total extraordinary losses	7,549	1,705
LOSS BEFORE INCOME TAXES	(16,593)	(2,009)
INCOME TAXES -Current	300	467
INCOME TAXES -Deferred	(6,489)	(228)
Total income taxes	(6,188)	238
NET LOSS	(10,405)	(2,247)
NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	(156)	(222)
NET LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT	(10,248)	(2,025)

Quarterly Consolidated Comprehensive Income Statements
Consolidated Cumulative Second Quarter

(Millions of Yen)

	FY 2021/3, Second Quarter (Six months ended September 30, 2020)	FY 2022/3, Second Quarter (Six months ended September 30, 2021)
NET LOSS	(10,405)	(2,247)
OTHER COMPREHENSIVE INCOME		
Unrealized gain on available-for-sale securities	(3,708)	1,323
Gain (loss) on deferred hedges	(15)	—
Foreign currency translation adjustments	(46)	430
Remeasurements of defined benefit plans	508	573
Total other comprehensive income	(3,261)	2,327
COMPREHENSIVE INCOME	(13,666)	80
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent	(13,492)	203
Non-controlling interests	(174)	(123)

(3) Consolidated Statements of Cash Flows

(Millions of Yen)

	FY 2021/3, Second Quarter (Six months ended September 30, 2020)	FY 2022/3, Second Quarter (Six months ended September 30, 2021)
OPERATING ACTIVITIES		
Loss before income taxes	(16,593)	(2,009)
Depreciation	14,158	13,965
Losses from provision for cost reduction of fixed assets	947	478
Provision for loss on disaster	5,306	936
Disaster-damage losses	156	13
Net change in allowance for doubtful accounts	(15)	(13)
Net change in net defined benefit liabilities	(1,306)	(27)
Interest and dividend income	(413)	(360)
Interest expense	821	739
Foreign exchange losses (gains)	0	493
Construction grants received	(987)	(487)
Gain on sales of shares of subsidiaries and associates	(9,144)	―
Net change in major receivables	7,552	14,473
Net change in inventories	(8,622)	5,327
Net change in major payables	(5,952)	(18,035)
Gain on assets held in trust	(783)	(1,079)
Subsidies for employment adjustment	(579)	(1,295)
Other	4,341	8,982
Sub-total	(11,115)	22,101
Proceeds from interest and dividends	408	354
Payments of interest	(688)	(694)
Proceeds from gain on assets held in trust	776	1,068
Payments of disaster-damage losses	(2,060)	(1,559)
Income taxes paid	(3,092)	(494)
Amount received as subsidies for employment adjustment	579	895
Net cash provided by operating activities	(15,193)	21,669
INVESTING ACTIVITIES		
Payments for purchases of fixed assets	(57,395)	(59,518)
Purchases of investment securities	(1,314)	(986)
Proceeds from construction grants received	19,487	7,311
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	12,311	―
Other	7,484	1,187
Net cash used in investing activities	(19,427)	(52,006)
FINANCING ACTIVITIES		
Net change in short-term loans	67	(52)
Net change in commercial papers	―	5,000
Proceeds from long-term loans payable	100,000	―
Payments of long-term loans	(9,155)	(1,305)
Repayments of long-term liabilities	(129)	(131)
Proceeds from issuance of bonds	40,000	20,000
Proceeds from deposits and guarantees	2,096	896
Redemption of deposits and guarantees	(577)	(291)
Cash dividends paid	(7,314)	(14,629)
Cash dividends paid to non-controlling interests	(7)	(7)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	―	(2,035)
Other	270	(1,512)
Net cash used in financing activities	125,250	5,931
Translation differences for cash and cash equivalents	(29)	258
NET CHANGE IN CASH AND CASH EQUIVALENTS	90,599	(24,146)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	23,817	65,019
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	114,417	40,872

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

None

(Notes on Significant Changes in the Value of Shareholders' Equity)

None

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter, "Accounting Standard for Revenue Recognition"), etc., from the beginning of the first quarter of the current consolidated fiscal year. The Company has decided to recognize as revenue the amount expected to be received in exchange for promised goods or services at the point when control of the goods or services is transferred to the customer. The major resulting changes are as follows.

(1) Revenue recognition related to contract work

Previously, in regard to construction contracts, the percentage of completion method was applied to work for which it was possible to accurately confirm the degree of progress, and the completed-contract method was applied to other work. From the current consolidated fiscal year, this has been changed to the method of recognizing revenue over a certain period of time as performance obligations are fulfilled. In regard to work for which it is not possible to rationally estimate the percentage of progress related to the fulfillment of performance obligations, the cost-recovery method is applied.

(2) Revenue recognition related to agent transactions

For certain transactions, previously the Company recognized as revenue the total amount of consideration received from the customer. From the current consolidated fiscal year, for transactions in which the role of the Group corresponds to that of an agent in the provision of goods or services to the customer, the net amount, calculated by subtracting the amount paid to the supplier from the amount received from the customer, is recognized as revenue.

(3) Revenue recognition related to seniors business

Previously, in regard to certain lump-sum move-in fees at private retirement homes, revenue was recognized at the point when it was confirmed that repayment would not be required. From the current consolidated fiscal year, the Company has decided to estimate a rational period of time related to the fulfillment of performance obligations and to recognize revenue over a certain period of time in accordance with the percentage of progress.

The application of the Accounting Standard for Revenue Recognition, etc., is in accordance with the transitional treatment stipulated in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of retrospectively applying the new accounting policy prior to the beginning of the first quarter of the current consolidated fiscal year has been added to or deducted from retained earnings at the beginning of the first quarter of the current consolidated fiscal year, and the new accounting policy has been applied from this starting balance.

In the second quarter of the current consolidated fiscal year, this had the result of increasing operating revenue by ¥1,048 million, increasing operating expenses by ¥1,017 million, and improving each of operating loss, ordinary loss, and loss before income taxes by ¥30 million. In addition, the starting balance of retained earnings for the period was decreased by ¥698 million.

As a result of the application of the Accounting Standard for Revenue Recognition, etc., "notes and accounts receivable–trade," which were presented under "current assets" in the consolidated balance sheet for the previous consolidated fiscal year, are included in "notes and accounts receivable–trade, and contract assets", from the first quarter of the current consolidated fiscal year. In accordance with the transitional treatment stipulated in paragraph 89-2 of the Accounting Standard for Revenue Recognition, prior fiscal years have not been reclassified using the new presentation method.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter, "fair value measurement accounting standard"), etc., from the beginning of the first quarter of the current consolidated fiscal year. In accordance with the transitional treatment stipulated in article 19 of the fair value measurement accounting standard and article 44–2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Company has decided to prospectively apply the new accounting policies specified by the fair value measurement accounting standard. The application of the fair value measurement accounting standard had no effect on the quarterly consolidated financial statements.

(Changes in Accounting Policies That Are Difficult to Distinguish from Changes in Accounting Estimates and Changes in Accounting Estimates)

(Changes in method of depreciation and useful life for property, plant and equipment)

In regard to the method of depreciation for property, plant and equipment, previously the Company primarily used the declining-balance method. However, from the first quarter, the Company has changed to mainly using the straight-line method.

In the Company's railway business, the current rolling stock is becoming obsolete. The Medium-Term Business Plan includes the policy of developing and expanding the introduction of energy-saving rolling stock with the objective of efficient energy usage. In accordance with this policy, as replacements for conventional-line rolling stock, the Company is advancing the new production of 821 series AC suburban-type rolling stock, YC1 series storage battery-equipped diesel-electric rolling stock, etc. In addition, future plans call for a substantial amount of investment in new rolling stock, such as the new production of Shinkansen rolling stock at the time of the opening of the Nishi-Kyushu Shinkansen route.

With consideration for these changes in the management environment and future investment plans in the railway business, the Company reconsidered the pattern of consumption of the future economic benefit for all property, plant and equipment, including that in the railway business. As a result, the Company determined that from the first quarter the economic situation would be more appropriately reflected if the Company changed to mainly using the straight-line method for property, plant and equipment.

In addition, the useful life of the Company's property, plant and equipment was in line with the same standards as the method stipulated in the Corporation Tax Act. However, with the change in the method of depreciation, the useful life has been revised to the estimated economic useful life from the first quarter. This revision was decided with comprehensive consideration for the physical useful life of property, plant and equipment as well as the usage record, etc.

Due to these changes, in comparison with the previous method, for the first six months of the fiscal year, operating loss, ordinary loss, and loss before income taxes each improved by ¥1,615 million.

The influence on segment information is described in “Segment Information.”

(Additional information)

(Occurrence of damage due to rainstorms and heavy rains in the period from August 7, 2021, to August 23, 2021)

Due to the influence of the heavy rains that occurred throughout Kyushu in August 2021, damage occurred on multiple lines, including the Sasebo Line and the Kyudai Main Line. This damage included deformation of tracks over bridges and flooding of tracks. Among the recovery expenses, etc., resulting from this damage, extraordinary losses were recorded in the quarterly consolidated income statements for the consolidated cumulative second quarter. Recovery expenses, etc., for the consolidated cumulative second quarter were recorded as “disaster-damage losses” and a reasonable estimate of the amount of recovery expenses, etc., anticipated in the consolidated third quarter and thereafter was recorded as “provision for loss on disaster.”

(Segment Information)

I FY 2021/3, Second Quarter (Six-Month Period Ended September 30, 2020)

1. Information Related to Operating Revenue and Income (Loss) by Segment

(Millions of Yen)

	Reportable Segment				Others (Note 1)	Total	Adjustment (Note 2)	Quarterly Consolidated Statements of Income (Note 3)
	Transportation	Construction	Real Estate and Hotels	Retail and Restaurant				
Operating Revenue								
Outside Customers	38,123	15,727	25,650	29,386	15,664	124,552	—	124,552
Inside Group	3,230	20,415	1,652	61	12,617	37,977	(37,977)	—
Total	41,353	36,142	27,303	29,448	28,282	162,530	(37,977)	124,552
Segment income	(21,152)	1,073	1,481	(1,947)	438	(20,107)	(463)	(20,571)

(Notes) 1. "Others" represents categories of business that are not included in reportable segments and includes the construction machinery sales and rental business, etc.
2. The ¥463 million deduction from segment income (loss) reflects the elimination of intersegment transactions.
3. Segment income (loss) has been adjusted for the operating loss figure on the quarterly consolidated income statements.

2. Information related to assets for each reportable segment

(Significant decrease in assets due to decline in the number of subsidiaries)

Due to the exclusion from the scope of consolidation of JR Kyushu Drug Eleven Inc. (currently: DRUG ELEVEN CO., LTD.), in comparison with the previous fiscal year, assets in the Retail and Restaurant segment were down ¥18,657 million.

II FY 2022/3, Second Quarter (Six-Month Period Ended September 30, 2021)

1. Information Related to Operating Revenue and Income (Loss) by Segment

(Millions of Yen)

	Reportable Segment				Others (Note 1)	Total	Adjustment (Note 2)	Quarterly Consolidated Statements of Income (Note 3)
	Transportation	Construction	Real Estate and Hotels	Retail and Restaurant				
Operating Revenue								
Outside Customers	45,568	18,475	41,872	19,583	16,122	141,621	—	141,621
Inside Group	3,402	20,169	1,902	84	11,607	37,166	(37,166)	—
Total	48,970	38,645	43,774	19,667	27,729	178,787	(37,166)	141,621
Segment income	(11,983)	1,199	6,756	(1,124)	1,295	(3,856)	(216)	(4,072)

(Notes) 1. "Others" represents categories of business that are not included in reportable segments and includes the construction machinery sales and rental business, etc.
2. The ¥216 million deduction from segment income (loss) reflects the elimination of intersegment transactions.
3. Segment income (loss) has been adjusted for the operating loss figure on the quarterly consolidated income statements.

2. Information regarding changes to reportable segments, etc.

(Application of Accounting Standard for Revenue Recognition, etc.)
As described in “Changes in Accounting Policies” the Company has applied the Accounting Standard for Revenue Recognition, etc., from the beginning of the first quarter of the current consolidated fiscal year and changed the method of accounting for revenue recognition. As a result, the Company has similarly changed the method of calculating segment income or loss.

As a result of this change, in comparison with the previous method, operating revenue decreased by ¥136 million in Transportation, increased by ¥4,401 million in Construction, decreased by ¥26 million in Real Estate and Hotels, decreased by ¥729 million in Retail and Restaurant, and decreased by ¥356 million in Other. Segment income improved by ¥30 million in Real Estate and Hotels.

(Changes in method of depreciation and useful life for property, plant and equipment)
As described in “Changes in Accounting Policies That Are Difficult to Distinguish from Changes in Accounting Estimates and Changes in Accounting Estimates,” previously the Company primarily used the declining-balance method of depreciation for property, plant and equipment. However, from the first quarter, the Company has changed to mainly using the straight-line method. In addition, with the change in the method of depreciation, the useful life has been revised to the estimated economic useful life from the first quarter. Due to these changes, in comparison with the previous method, the segment loss in the transportation segment improved by ¥1,615 million.

(Significant Subsequent Events)
None