

FY23.3 Financial Results Overview, First Quarter

August 2, 2022

KYUSHU RAILWAY COMPANY

- I am Takuma Matsushita, the CFO of JR Kyushu. I would like to thank everyone for taking the time to join us.
- Today, I will discuss our financial results for the first three months of the fiscal year ending March 31, 2023, the status of our segments, and progress on the three key strategies of our medium-term business plan.
- First, I will discuss our financial results for the first three months of the fiscal year ending March 31, 2023. Please turn to slide 4.

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I Financial Results for the First Three-Months of FY23.3

Consolidated Financial Highlights for the Three-Month Period Ended June 30, 2022

| | (¥bil) | | |
|---|---------------------------------|---------------------------------|-------------|
| | 3 months ended June, 30 2021 | 3 months ended June, 30 2022 | YoY |
| Operating revenue | 72.0 | 90.4 | 18.3 125.5% |
| Operating income | (1.3) | 7.8 | 9.2 - |
| Ordinary income | 0.3 | 8.5 | 8.1 - |
| Extraordinary gains and losses | 0.0 | (0.2) | (0.2) - |
| Net income attributable to owners of the parent | 0.9 | 6.9 | 5.9 746.0% |
| EBITDA※ | 5.0 | 14.7 | 9.7 292.5% |

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

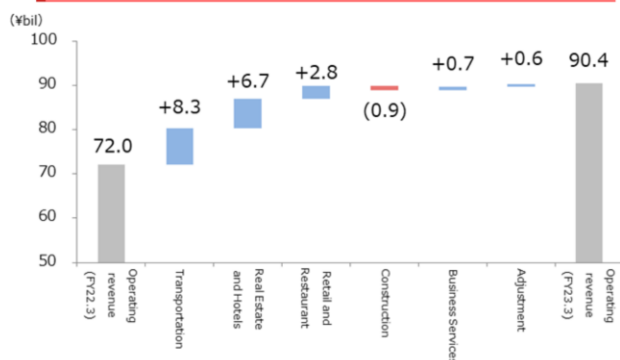
Operating revenue

Although COVID-19 continued to affect performance, revenue increased thanks to a modest recovery in demand from the railway business and various other businesses, as well as from the sale of a property held by the Company to a third party.

Operating income

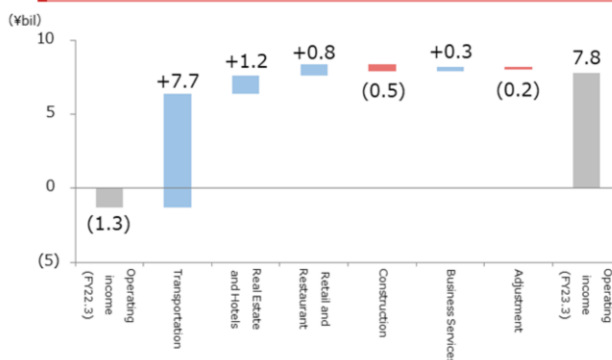
Operating income increased due to higher operating revenue and the effect of reducing fixed costs in the railway business, among other factors. (Moving into the black in Q1 for the first time since FY20.3)

Change in operating revenue by segment*



* New segment categorization

Change in operating income by segment*



- On a consolidated basis, during the first quarter operating revenue increased ¥18.3 billion year on year, to ¥90.4 billion. Although COVID-19 continued to affect performance, we benefited from a modest recovery in demand from the railway business and various other businesses, as well as from the sale of a property held by the Company to a third party.
- Operating income rose ¥9.2 billion, to ¥7.8 billion, moving into positive territory thanks to the rise in operating revenue and the effect of fixed cost reductions in the railway business.
- As a result, net income attributable to owners of the parent was ¥6.9 billion, and EBITDA rose ¥9.7 billion year on year, to ¥14.7 billion.
- Next, I will discuss performance forecasts for the fiscal year ending March 31, 2023. Please turn to slide 8.

Results for the First Three Months of FY23.3 (by segment) (Shown According to New Segments)

| | 3 months ended June, 30 2021 | 3 months ended June, 30 2022 | YoY | | Major factors |
|-------------------------------------|---------------------------------|---------------------------------|-------|--------|--|
| Operating revenue | 72.0 | 90.4 | 18.3 | 125.5% | |
| Transportation | 23.0 | 31.4 | 8.3 | 136.4% | |
| Railway Business (non-consolidated) | 22.8 | 31.1 | 8.3 | 136.4% | Increase due to moderate recovery in demand |
| Real Estate and Hotels | 25.9 | 32.6 | 6.7 | 125.9% | |
| Real Estate Lease | 14.0 | 14.9 | 0.8 | 105.9% | |
| Real Estate Sales | 10.2 | 14.4 | 4.2 | 141.9% | Increase from the sale of a property, decrease in revenue from sales of condominiums |
| Hotel Business | 1.6 | 3.2 | 1.5 | 197.1% | Increase due to moderate recovery in demand |
| Retail and Restaurant | 9.4 | 12.3 | 2.8 | 130.1% | Increase due to moderate recovery in demand |
| Construction | 17.2 | 16.3 | (0.9) | 94.5% | Decrease in construction related to the Nishi-Kyushu Shinkansen |
| Business Services | 16.0 | 16.7 | 0.7 | 104.8% | |
| Operating income | (1.3) | 7.8 | 9.2 | - | |
| Transportation | (5.3) | 2.3 | 7.7 | - | |
| Railway Business (non-consolidated) | (5.0) | 2.5 | 7.5 | - | |
| Real Estate and Hotels | 3.9 | 5.1 | 1.2 | 132.2% | |
| Real Estate Lease | 3.7 | 3.7 | 0.0 | 101.2% | |
| Real Estate Sales | 1.3 | 1.5 | 0.1 | 111.8% | |
| Hotel Business | (1.1) | (0.1) | 1.0 | - | |
| Retail and Restaurant | (0.8) | (0.0) | 0.8 | - | |
| Construction | 0.1 | (0.4) | (0.5) | - | |
| Business Services | 0.6 | 0.9 | 0.3 | 148.8% | |
| EBITDA | 5.0 | 14.7 | 9.7 | 292.5% | |
| Transportation | (3.2) | 4.8 | 8.0 | - | |
| Railway Business (non-consolidated) | (3.1) | 4.9 | 8.1 | - | |
| Real Estate and Hotels | 7.4 | 8.6 | 1.2 | 116.3% | |
| Real Estate Lease | 6.6 | 6.6 | 0.0 | 100.2% | |
| Real Estate Sales | 1.3 | 1.5 | 0.1 | 111.8% | |
| Hotel Business | (0.6) | 0.3 | 1.0 | - | |
| Retail and Restaurant | (0.5) | 0.2 | 0.8 | - | |
| Construction | 0.4 | (0.1) | (0.5) | - | |
| Business Services | 1.0 | 1.5 | 0.4 | 143.0% | |

(¥bil)

Results for the First Three Months of FY23.3 (non-consolidated)

(¥bil)

| | 3 months ended June, 30 2021 | 3 months ended June, 30 2022 | YoY | | Major factors |
|----------------------------------|---------------------------------|---------------------------------|-------|--------|---|
| Operating revenue | 40.5 | 53.4 | 12.9 | 132.0% | |
| Railway transportation revenues | 19.6 | 27.5 | 7.9 | 140.3% | Increase due to moderate recovery in demand |
| Shinkansen | 5.3 | 9.0 | 3.6 | 168.2% | |
| Conventional Lines | 14.3 | 18.5 | 4.2 | 129.8% | |
| Other revenue | 20.8 | 25.8 | 5.0 | 124.3% | Increase due to the sale of a property, decrease in revenue from sales of condominiums |
| Operating expense | 40.3 | 45.7 | 5.4 | 113.5% | |
| Personnel expense | 10.4 | 9.7 | (0.6) | 93.5% | |
| Non-personnel expense | 23.3 | 29.0 | 5.7 | 124.8% | |
| Energy cost | 1.9 | 2.2 | 0.2 | 114.9% | Unit price increases due to sharply higher crude oil prices |
| Maintenance cost | 4.6 | 4.6 | (0.0) | 99.9% | |
| Other | 16.6 | 22.1 | 5.4 | 132.9% | Rise in cost of sales due to sale of a property, decline in cost of sales due to lower revenue from sales of condominiums |
| Taxes | 2.6 | 2.7 | 0.0 | 101.1% | |
| Depreciation cost | 3.9 | 4.2 | 0.3 | 107.8% | |
| Operating income | 0.1 | 7.7 | 7.5 | - | |
| Non-operating income and expense | 3.6 | 4.4 | 0.7 | 121.3% | Increase in dividend income |
| Ordinary income | 3.8 | 12.1 | 8.3 | 317.4% | |
| Extraordinary gain and losses | 0.1 | (0.0) | (0.1) | - | |
| Net income | 4.6 | 10.7 | 6.1 | 231.4% | |

II Full-Year Performance Forecasts and Dividend Forecasts for FY23.3

Consolidated Financial Forecast Highlights for FY23.3

| | Results FY22.3 | Forecasts FY23.3 | YoY |
|---|-------------------|---------------------|-------------|
| Operating revenue | 329.5 | 381.4 | 51.8 115.7% |
| Operating income | 3.9 | 29.0 | 25.0 735.2% |
| Ordinary income | 9.2 | 30.0 | 20.7 324.8% |
| Net income attributable to owners of the parent | 13.2 | 24.5 | 11.2 184.9% |
| EBITDA | 30.7 | 58.2 | 27.4 189.1% |

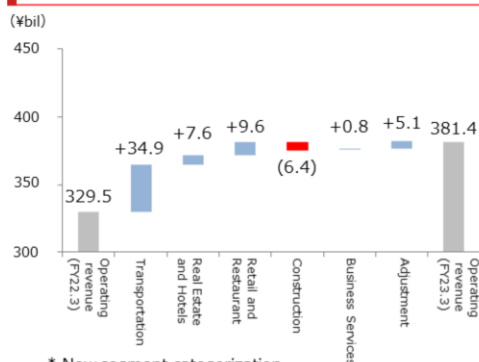
Operating revenue

Despite the impact of COVID-19 and a downturn in the sale of properties, we expect operating revenues to increase due to gradual demand recovery in each segment and other factors.

Operating income

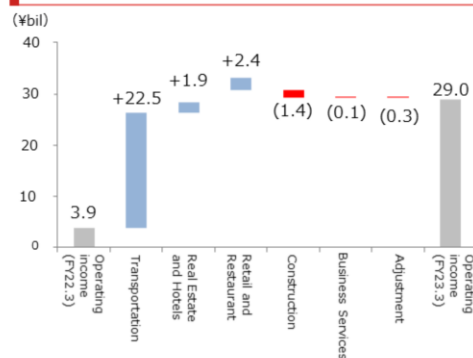
We anticipate an increase in operating income due to the impact of higher operating revenues and expect to achieve a ¥14.0 billion/year reduction in fixed costs, despite an increase in depreciation costs and a rise in expenses associated with the conclusion of Shinkansen special measures (between Hakata and Shin-Yatsushiro).

Change in operating revenue by segment*



* New segment categorization

Change in operating income by segment*



- Taking into account our first-quarter performance and uncertainties in the economic situation (such as the recent increase in the number of COVID-19 cases), we leave our performance and dividend forecasts unchanged from the figures announced on May 10.
- We will continue to monitor the recovery in revenue. Along the way, we will promote various measures to meet this year's performance targets and the numerical management targets in our medium-term business plan.
- Next, I will discuss the status of our segments. Please turn to slide 13.

Consolidated Financial Forecasts for FY23.3 (by segment) (Shown According to New Segments)

(¥bil)

| | Results FY22.3 | Forecasts FY23.3 | YoY | Major factors |
|-------------------------------------|-------------------|---------------------|-------|--|
| Operating revenue | 329.5 | 381.4 | 51.8 | 115.7% |
| Transportation | 104.2 | 139.2 | 34.9 | 133.5% Increase due to moderate recovery in demand in railway business |
| Railway Business (non-consolidated) | 102.9 | 136.9 | 33.9 | 133.0% |
| Real Estate and Hotels | 113.7 | 121.4 | 7.6 | 106.8% |
| Real Estate Lease | 58.5 | 61.6 | 3.0 | 105.2% Increase in revenues from leases due to moderate recovery in demand |
| Real Estate Sales | 46.1 | 43.2 | (2.9) | 93.5% Decrease in the sale of properties |
| Hotel Business | 8.9 | 16.6 | 7.6 | 184.6% Increase in the number of guests due to a moderate recovery in demand |
| Retail and Restaurant | 43.6 | 53.3 | 9.6 | 122.1% Increase due to a moderate recovery in demand and Nurubon's full-year contribution to results |
| Construction | 92.9 | 86.5 | (6.4) | 93.1% Decrease in construction related to the Nishi-Kyushu Shinkansen |
| Business Services | 69.5 | 70.4 | 0.8 | 101.3% |
| Operating income | 3.9 | 29.0 | 25.0 | 735.2% |
| Transportation | (22.7) | (0.2) | 22.5 | - |
| Railway Business (non-consolidated) | (22.0) | 0.1 | 22.1 | - |
| Real Estate and Hotels | 18.0 | 20.0 | 1.9 | 111.0% |
| Real Estate Lease | 14.7 | 13.9 | (0.8) | 94.2% |
| Real Estate Sales | 6.2 | 5.4 | (0.8) | 86.7% |
| Hotel Business | (2.9) | 0.7 | 3.6 | - |
| Retail and Restaurant | (1.2) | 1.2 | 2.4 | - |
| Construction | 7.0 | 5.6 | (1.4) | 79.4% |
| Business Services | 3.3 | 3.2 | (0.1) | 95.9% |
| EBITDA | 30.7 | 58.2 | 27.4 | 189.1% |
| Transportation | (14.1) | 10.3 | 24.4 | - |
| Railway Business (non-consolidated) | (13.7) | 10.4 | 24.1 | - |
| Real Estate and Hotels | 31.9 | 34.2 | 2.2 | 107.0% |
| Real Estate Lease | 26.5 | 25.8 | (0.7) | 97.3% |
| Real Estate Sales | 6.2 | 5.4 | (0.8) | 86.4% |
| Hotel Business | (0.7) | 3.0 | 3.7 | - |
| Retail and Restaurant | 0.0 | 2.5 | 2.4 | - |
| Construction | 8.0 | 6.7 | (1.3) | 83.2% |
| Business Services | 5.7 | 5.6 | (0.1) | 98.0% |

Non-consolidated Financial Forecasts for FY23.3

(¥bil)

| | Results FY22.3 | Forecasts FY23.3 | YoY | | Major factors |
|----------------------------------|-------------------|---------------------|-------|--------|---|
| Operating revenue | 179.9 | 210.5 | 30.5 | 117.0% | |
| Railway transportation revenues | 89.3 | 122.6 | 33.2 | 137.2% | Increase due to moderate recovery in demand |
| Shinkansen | 27.4 | 43.8 | 16.3 | 159.5% | |
| Conventional Lines | 61.9 | 78.8 | 16.8 | 127.3% | |
| Other revenue | 90.6 | 87.9 | (2.7) | 97.0% | |
| Operating expense | 181.3 | 192.3 | 10.9 | 106.1% | |
| Personnel expense | 40.8 | 40.8 | (0.0) | 100.0% | |
| Non-personnel expense | 113.2 | 121.2 | 7.9 | 107.0% | |
| Energy cost | 8.6 | 10.1 | 1.4 | 116.4% | Unit price increases due to sharply higher crude oil prices |
| Maintenance cost | 30.0 | 30.4 | 0.3 | 101.2% | |
| Other | 74.5 | 80.7 | 6.1 | 108.3% | Increased expenses due to the conclusion of Shinkansen special measures |
| Taxes | 11.3 | 12.2 | 0.8 | 107.6% | |
| Depreciation cost | 15.9 | 18.1 | 2.1 | 113.6% | |
| Operating income | (1.3) | 18.2 | 19.5 | - | |
| Non-operating income and expense | 3.5 | 4.5 | 0.9 | 125.7% | |
| Ordinary income | 2.2 | 22.7 | 20.4 | - | |
| Extraordinary gain and losses | (2.0) | (0.4) | 1.6 | - | |
| Net income | 8.9 | 21.1 | 12.1 | 235.7% | |

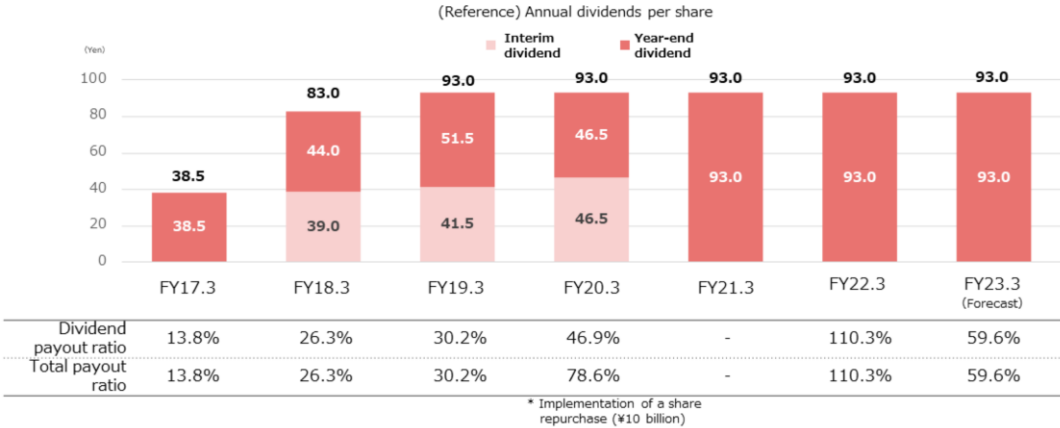
FY23.3 dividend forecasts

Shareholder return policy

- JR Kyushu places importance on the stable provision of return to shareholders over the long term. Over the period to FY25.3, we will **aim for a consolidated dividend payout ratio of 35%, with a minimum dividend per share of ¥93.0**. We will **flexibly implement share repurchases as necessary**.

FY23.3 dividend forecasts

- We are forecasting continued extremely severe results for FY23.3. However, as a result of consideration in accordance with the above policy, **the dividend forecast for FY23.3 is ¥93.0 per share**.
- In FY23.3 we plan to pay dividends in one part, which will be the year-end dividend, with no interim dividend.** This is due to the need to carefully consider the influence on future results of matters such as the COVID-19 infection.

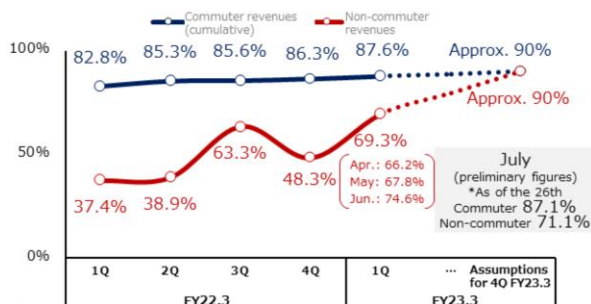


III Status of Segments

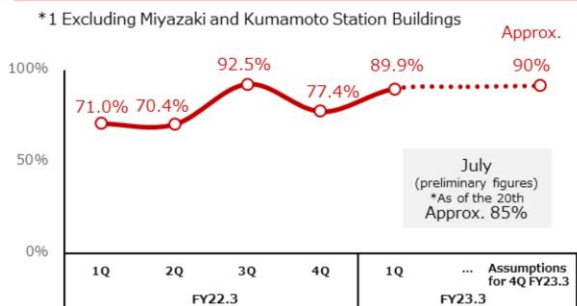
Status of Segment Revenues

- We continue to anticipate a gradual recovery in mobility demand and personal consumption due to the combination of efforts to suppress infections and consumer activity.
- In Q1, performance was robust, centered on the railway business. However, the pace of recovery is now slowing, owing to the resurgence of COVID-19.

Railway Business | Handling revenues from railway transportation (vs. FY19.3)



Real Estate Leasing Business | Station building* tenant sales (vs. FY19.3)



Real Estate Sales Business

- Operating revenue from condominiums tends to fluctuate on a quarterly basis, but for the year we anticipate levels on a par with FY22.3.
- The sale of properties included the Q1 sale to a third party of Shinkawa East Building (an office building). Owing to this sale, combined with the future sale of rental apartments and other properties to a private REIT, we anticipate operating revenue of around ¥17.0 billion for the full fiscal year.



Hotel business | Occupancy rate and ADR



- In the first quarter, we continued to be affected by COVID-19, but absent any strict restrictions on behavior, travel demand and personal consumption continued to recover from the end of the previous fiscal year.
- However, we are currently seeing a rapid resurgence of COVID-19, which is slowing the pace of recovery.
- Next, I will discuss progress on the key strategies of our medium-term business plan. Please turn to slide 20.

Transportation Segment

- The number of COVID-19 infections remained high in Q1. However, absent any strict restrictions on behavior, demand recovered more quickly than we had anticipated.
- BPR in the railway business was favorable, and we expect to reduce fixed costs for the full year by ¥14.0 billion.

[Results]

| | 3 months ended June, 30 2021 | 3 months ended June, 30 2022 | YoY | (¥bil) |
|-------------------------------------|------------------------------|------------------------------|-----|--------|
| Operating revenue | 23.0 | 31.4 | 8.3 | 136.4% |
| Railway Business (non-consolidated) | 22.8 | 31.1 | 8.3 | 136.4% |
| Railway transportation revenues | 19.6 | 27.5 | 7.9 | 140.3% |
| Operating income | (5.3) | 2.3 | 7.7 | - |
| Railway Business (non-consolidated) | (5.0) | 2.5 | 7.5 | - |
| EBITDA | (3.2) | 4.8 | 8.0 | - |
| Railway Business (non-consolidated) | (3.1) | 4.9 | 8.1 | - |

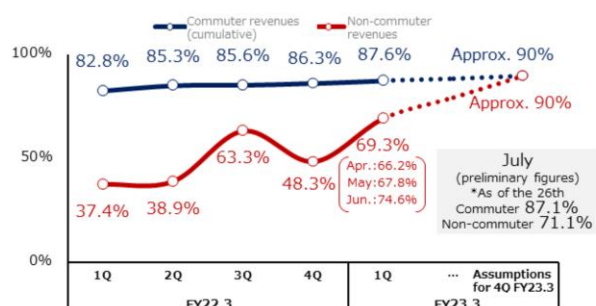
[Forecasts]

| | Results FY22.3 | Forecasts FY23.3 | YoY | (¥bil) |
|-------------------------------------|----------------|------------------|------|--------|
| Operating revenue | 104.2 | 139.2 | 34.9 | 133.5% |
| Railway Business (non-consolidated) | 102.9 | 136.9 | 33.9 | 133.0% |
| Railway transportation revenues | 89.3 | 122.6 | 33.2 | 137.2% |
| Operating income | (22.7) | (0.2) | 22.5 | - |
| Railway Business (non-consolidated) | (22.0) | 0.1 | 22.1 | - |
| EBITDA | (14.1) | 10.3 | 24.4 | - |
| Railway Business (non-consolidated) | (13.7) | 10.4 | 24.1 | - |

Assumptions behind performance forecasts

- Our performance forecasts for FY23.3 anticipate increased revenues due to the opening of the Nishi-Kyushu Shinkansen (September 2022).
- In Q4 FY23.3, we expect commuter revenues (cumulative) and non-commuter revenues to recover to around 90% of FY19.3 levels.
- We expect to achieve ¥14.0 billion in fixed cost reductions and ¥4.0 billion in cost reductions through emergency restraints and revenue-linked cost reductions.

Railway Business | Handling revenues from railway transportation (vs. FY19.3)



Railway business (transportation data)

Railway Transportation Revenues

(¥bil)

| | 3 months ended June, 30 2021 | 3 months ended June, 30 2022 | YoY | | Major factors |
|--------------------|---------------------------------|---------------------------------|-----|--------|--|
| Total | 19.6 | 27.5 | 7.9 | 140.3% | |
| Commuter pass | 7.2 | 7.4 | 0.2 | 103.5% | |
| Non-commuter pass | 12.4 | 20.1 | 7.6 | 161.7% | |
| Cargo | 0.0 | 0.0 | 0.0 | 366.5% | |
| Shinkansen | 5.3 | 9.0 | 3.6 | 168.2% | |
| Commuter pass | 0.6 | 0.6 | 0.0 | 103.2% | Increase due to gradual recovery in demand |
| Non-commuter pass | 4.7 | 8.3 | 3.6 | 177.1% | |
| Conventional Lines | 14.3 | 18.5 | 4.2 | 129.8% | |
| Commuter pass | 6.5 | 6.8 | 0.2 | 103.5% | Increase due to gradual recovery in demand |
| Non-commuter pass | 7.7 | 11.7 | 4.0 | 152.2% | |

Passenger-Kilometers

(Millions of passenger-kilometer)

| | 3 months ended June, 30 2021 | 3 months ended June, 30 2022 | YoY | |
|--------------------|---------------------------------|---------------------------------|-----|--------|
| Total | 1,496 | 1,816 | 319 | 121.4% |
| Commuter pass | 993 | 1,023 | 30 | 103.1% |
| Non-commuter pass | 503 | 792 | 289 | 157.5% |
| Shinkansen | 201 | 319 | 118 | 158.7% |
| Commuter pass | 47 | 50 | 2 | 105.9% |
| Non-commuter pass | 153 | 269 | 115 | 175.0% |
| Conventional Lines | 1,294 | 1,496 | 201 | 115.6% |
| Commuter pass | 945 | 973 | 27 | 103.0% |
| Non-commuter pass | 349 | 522 | 173 | 149.7% |

Real Estate and Hotels Segment: Real estate leasing business

- Station building tenant sales showed a modest recovery in Q1, although COVID-19 continues to affect performance.
- In office buildings and rental apartments, performance was affected by the sale of properties to a private REIT in Q4 FY22.3. However, performance remained robust, with no major changes to vacancy rates at currently owned properties.

[Results]

| | 3 months ended June, 30 2021 | 3 months ended June, 30 2022 | (¥bil) | |
|-------------------|------------------------------|------------------------------|--------|--------|
| | | | YoY | |
| Operating revenue | 14.0 | 14.9 | 0.8 | 105.9% |
| Operating income | 3.7 | 3.7 | 0.0 | 101.2% |
| EBITDA | 6.6 | 6.6 | 0.0 | 100.2% |

[Forecasts]

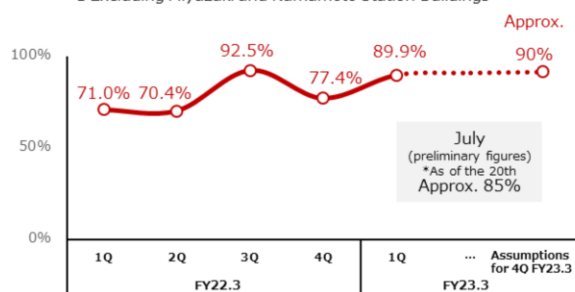
| | Results FY22.3 | Forecasts FY23.3 | (¥bil) | |
|-------------------|----------------|------------------|--------|--------|
| | | | YoY | |
| Operating revenue | 58.5 | 61.6 | 3.0 | 105.2% |
| Operating income | 14.7 | 13.9 | (0.8) | 94.2% |
| EBITDA | 26.5 | 25.8 | (0.7) | 97.3% |

Assumptions behind performance forecasts

- In Q4 FY23.3, we expect tenant sales at five station buildings to recover to around 90% of FY19.3 levels.
- In office buildings and rental apartments, we anticipate solid performance, with no sign of major changes in vacancy rates at existing properties.
- Despite a decline in rents stemming from the sale of properties, we expect higher earnings from station buildings and other items.

Station building* tenant sales (vs. FY19.3)

*1 Excluding Miyazaki and Kumamoto Station Buildings



Real Estate and Hotels Segment: Real estate sales business

- In Q1, sales of condominiums were down year on year, but revenues and profit increased due to the sale to a third party of a Company-owned office building (Shinkawa East Building).

[Results]

| | 3 months ended June, 30 2021 | 3 months ended June, 30 2022 | YoY | |
|-------------------|------------------------------|------------------------------|-----|--------|
| | | | | (¥bil) |
| Operating revenue | 10.2 | 14.4 | 4.2 | 141.9% |
| Operating income | 1.3 | 1.5 | 0.1 | 111.8% |
| EBITDA | 1.3 | 1.5 | 0.1 | 111.8% |

[Forecasts]

| | Results FY22.3 | Forecasts FY23.3 | YoY | |
|--|----------------|------------------|-------|--------|
| | | | | (¥bil) |
| | 46.1 | 43.2 | (2.9) | 93.5% |
| | 6.2 | 5.4 | (0.8) | 86.7% |
| | 6.2 | 5.4 | (0.8) | 86.4% |

Assumptions behind performance forecasts

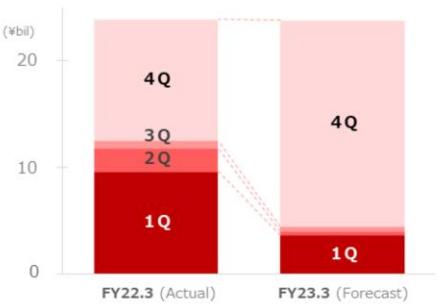
- Operating revenue from condominiums tends to fluctuate on a quarterly basis, but for the year we anticipate levels on a par with FY22.3.
- The sale of properties included the Q1 sale to a third party of Shinkawa East Building (an office building). Owing to this sale, combined with the future sale of rental apartments and other properties to a private REIT, we anticipate operating revenue of around ¥17.0 billion for the full fiscal year.

Shinkawa East Building



Date of acquisition : January 2019
Location: Chuo-ku, Tokyo
Structure: 14 aboveground floors, 1 belowground floor
Date of construction: August 1990
Floor space: Approx. 10,289㎡
Lot area: Approx. 1,249㎡

Condominium sales forecast (operating revenue)



Real Estate and Hotels Segment: Hotel business

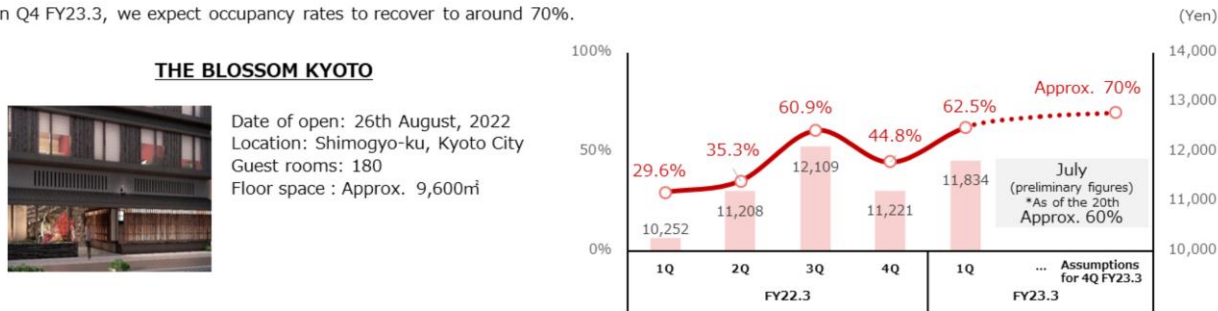
- In Q1, the government postponed its nationwide tourism support program due to the resurgence of COVID-19. However, prefectural discount programs, which also cover neighboring prefectures, continued.
- Although occupancy rates were up compared with Q4 of FY22.3, we posted a loss of ¥0.1 billion.

| | [Results] | | | | [Forecasts] | | | |
|-------------------|------------------------------|------------------------------|-----|--------|----------------|------------------|-----|--------|
| | 3 months ended June, 30 2021 | 3 months ended June, 30 2022 | YoY | | Results FY22.3 | Forecasts FY23.3 | YoY | |
| Operating revenue | 1.6 | 3.2 | 1.5 | 197.1% | 8.9 | 16.6 | 7.6 | 184.6% |
| Operating income | (1.1) | (0.1) | 1.0 | - | (2.9) | 0.7 | 3.6 | - |
| EBITDA | (0.6) | 0.3 | 1.0 | - | (0.7) | 3.0 | 3.7 | - |

Assumptions behind performance forecasts

- THE BLOSSOM KYOTO is scheduled to be open on 26th August
- In Q4 FY23.3, we expect occupancy rates to recover to around 70%.

Hotel business | Occupancy rate and ADR



IV Progress on the Three Key Strategies of the Medium-Term Business Plan

JR Kyushu Group Medium-Term Business Plan 2022-2024

Three key strategies of the medium-term business plan

Robustly promoting three key strategies during the stage for returning the Company to a growth track

Completing business structural reforms

Key strategy ①

| | |
|--------------------------------|---|
| Railway business | Stabilizing profitability |
| Hotel business | Increasing competitiveness of existing hotels |
| Retail and Restaurant business | Increasing the competitiveness of brands and of stores/restaurants |
| Construction business | Implementing transition in primary focus from inside the Group to outside |

Key strategies for the realization of the long-term vision

Key strategy ②

Creating a model for building cities that promote well-being

Key strategy ③

Developing businesses in new areas in which we can contribute

Developing human resources for the implementation and realization of strategies

Building foundations for advancing strategies on a Groupwide basis

2030 Long-Term Vision

We will contribute to the sustainable development of Kyushu through city-building initiatives that leverage the distinctive characteristics of local communities, centered on safe and secure mobility services.

Policy ①

Implementing city-building initiatives for the realization of well-being, with consideration for changes in values

Policy ②

Expanding areas we work in that contribute to the sustainable development of Kyushu

FY31.3 (numerical targets)



Numerical targets, etc. (FY25.3)

[Consolidated]

| | | | |
|-------------------|--------------|------------------|--------------|
| Operating revenue | ¥440 billion | Operating income | ¥57 billion |
| EBITDA | ¥94 billion | ROE [reference] | More than 8% |

[By segment*]

(¥bil)

| Segment name | Operating revenue | Operating income |
|------------------------|-------------------|------------------|
| Transportation | 163 | 17 |
| Real Estate and Hotels | 133 | 27 |
| Retail and Restaurant | 65 | 3 |
| Construction | 95 | 7 |
| Business Services | 80 | 4 |

* Segment operating revenues and operating income are prior to elimination of inter-segment transactions.

[Cumulative investment planned for 2022-2024]

¥340 billion

¥225 billion
(including items that have not been confirmed)

¥115 billion

¥58 billion

Investment plan

Bonds, borrowings, etc.

Consolidated operating cash flow
¥230 billion

(Reference) Fund-raising (plan)

Financial soundness indicators (end-FY25.3)

D/EBITDA Approx. 5 times

Capital adequacy ratio Approx. 40%

Legend: Growth investment (including M&A) (pink), Maintenance and upgrade investment (light pink), Safety investment (hatched)

Shareholder return policy

JR Kyushu places importance on the stable provision of return to shareholders over the long term. Over the period to FY25.3, we will aim for a consolidated dividend payout ratio of 35%, with a minimum dividend per share of ¥93.0. We will flexibly implement share repurchases as necessary.

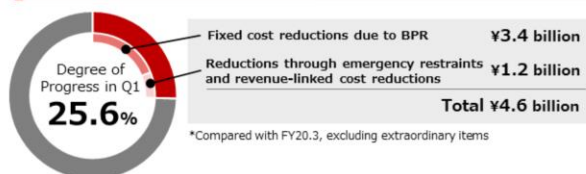
- We are positioning the three-year period covered by our medium-term business plan through the fiscal year ending March 31, 2025 as the stage for returning the Company to a growth track, with a view to realizing our 2030 Long-Term Vision. We are pursuing three key strategies in this regard. I will discuss our progress on these key strategies.
- Please turn to the next slide.

Key strategy① Completing business structural reforms: Reduce Costs in the Railway Business through BPR*

*Business Process Re-engineering

We expect to make steady progress on an **¥18.0 billion cost reduction in the current year**, centering on BPR-related cost reductions in the railway business.

Progress on reducing costs (Q1 results)



Main measures that have been effective

- **Establish new service systems**
By utilizing DX and other initiatives, realize employee-free stations, discontinue ticket-sales counters, and reduce operating hours.
- **Establish a new rolling stock and ground equipment systems**
Handle internally those operations related to rolling stock and equipment that are currently being outsourced, eliminate ticket gate equipment, etc.
- **Increase efficiency of inspection and maintenance**
Revise replacement standards by enhancing inspection accuracy, revise inspection/maintenance operations based on train lines' state of use, reduce labor requirements by changing rolling stock materials, etc.

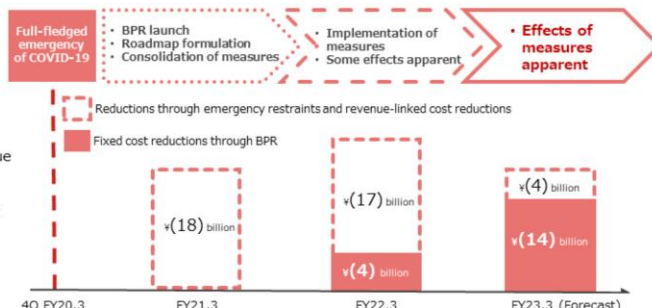
Main measures from Q2

Optimize timetables (autumn 2022 timetable revisions)

- Revise the operating system to match passenger usage
- Particularly on conventional lines, revise operating system centering on the Fukuoka metro area, expand number of segments where trains are operated by a single person, and introduce other measures.

| Train-kilometers | Rolling stock owned | Expected cost reductions (full year) |
|------------------|---------------------|--------------------------------------|
| (2.3)% | (7)% | ¥(0.8) billion |

History of cost-structure reforms



Establish a new rolling stock and ground equipment systems

As we expand the number of segments where trains are operated by a single person, we will ensure safety by installing cameras on rolling stock and installing platform railings at some stations.



Camera on rolling stock

Promote employee acquisition of multiple skills

On the Nishi-Kyushu Shinkansen, which is scheduled to open in September, the driver will conduct vehicle inspections along with the staff in charge of rolling stock.






- Now I will discuss business structural reforms in the railway business. In the current fiscal year, we expect to reduce costs by around ¥18.0 billion. Of this amount, some ¥14.0 billion will comprise reductions in fixed costs due to BPR. The majority of the ¥21.0 billion in cost reductions in the previous year were due to urgent control measures and revenue-linked expenses. This year, we expect a reduction in fixed costs due to BPR to be the main component.
- In the first quarter, we reached 25.6% of our cost-reduction goal for the year, which amounted to steady progress. Since COVID-19 began its full-scale expansion from the end of the fiscal year ended March 31, 2020, the entire Company has been working on business structural reforms with a sense of speed. We have been combining both a top-down and a bottom-up approach, and these initiatives are producing results.
- In the first quarter, the railway business generated operating income of ¥2.5 billion on a non-consolidated basis. Producing ¥3.4 billion in cost reductions due to BPR contributed substantially to moving the railway business into the black.
- As major BPR measures going forward, when revising autumn timetables we will adjust the operating system in accordance with usage conditions and build new facilities. We will also encourage employees to acquire multiple skills. As a result, we aim to reduce costs by around ¥0.8 billion on a full-year basis.
- Please turn to the next slide.

Securing Revenues in the Railway Business: Improving convenience and revising tickets

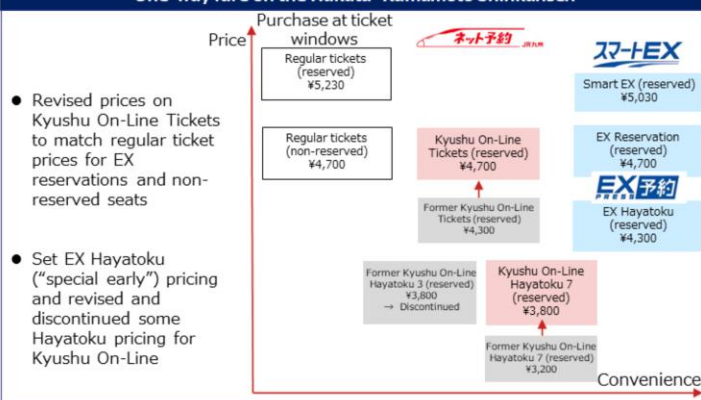
- Create added value by introducing the EX Service, and revise the Shinkansen rate structure
- Foster ongoing increases in convenience and service through proactive DX and other measures

Introduction of EX Service and revisions on various tickets (from 6/25)

- Enhanced convenience by **shifting to ticketless service** on Shinkansen
- **Revised rate structure** of various tickets according to their characteristics

| Comparison of various membership systems |    | | | |
|--|---|---|--|---------------------------------------|
| | Annual fee | Free of charge | Free of charge | ¥1,100 (including tax) |
| | Tickets | Pick up at vending machines or ticket windows | Ticketless (transport system IC) | Ticketless (specialized IC) |

Example of rate structure revisions: One-way fare on the Hakata-Kumamoto Shinkansen



Introduction of new payment and ticketless service options

- **Visa touch payment (verification testing)**



We became the first company in the JR Group to introduce, on a trial basis, a service that allows passengers to use trains by passing a Visa touch payment-compatible card or smartphone over a dedicated terminal at an automatic ticket gate.

- **Purchase of limited express tickets using PayPay (verification testing → continued setup)**



In January-March 2022, we introduced functionality on some limited express trains that allowed the purchase of limited express tickets using PayPay's QR codes. Having confirmed operational safety and the increase in convenience, we are continuing this setup.

Reevaluating limited express surcharges on conventional lines (from 4/1)

- Completely reviewed limited express surcharges on non-reserved seats (**revising average prices by around 40%**)
- **Introduced new peak season rates** for reserved-seating limited express tickets
- **Added a surcharge when purchasing limited express tickets for non-reserved seats on board** for some routes

- In tandem with cost-structure reforms in the railway business, we are working to secure revenue by improving convenience and revising ticket prices.
- On June 25, we extended the EX Service area of the Shinkansen to Kagoshima, enhancing convenience by shifting to ticketless service. At the same time, we revised the rate structure of various Shinkansen tickets in accordance with their characteristics.
- As a result, along with the reevaluation of discount tickets in the previous fiscal year, and the reevaluation of limited express surcharges on conventional lines at the start of the current fiscal year, we expect an annual increase in revenue of around ¥2.5 billion based on pre-COVID revenues.
- We are also making progress on the introduction of new digital services, such as Visa touch payment and allowing the purchase of some limited express tickets using PayPay. In these ways, we are working to improve railroad convenience and services.
- Please turn to the next slide.

Key strategy① Completing business structural reforms: Retail and Restaurant business

In light of the COVID-19 situation, we have reviewed our store opening strategy. We are working to improve profitability and enhance competitiveness by strengthening existing brands and taking on the challenge of new business formats.

| | FY19.3 (before COVID) | FY22.3 (actual) | | FY23.3 (plan) | | FY25.3 (target) |
|-------------------------|--------------------------|--------------------|--|------------------|--|--------------------|
| Operating revenue | ¥104.0 billion | ¥43.6 billion | | ¥53.3 billion | | ¥65.0 billion |
| Operating income margin | 3.3% | (2.8)% | | 2.3% | | 4.6% |

- Became unprofitable, affected by the increase in COVID-19 infections
- Stores/restaurants in areas surrounding stations were particularly hard-hit
- Performance at suburban and takeout locations remained firm
- Transferring and selling businesses, as necessary
 - Made Manbou, a processed marine products company, into a subsidiary (December 2019)
 - Sold some shares of JR Kyushu Drug Eleven (May 2020)
 - Acquired the Narubon business (suburban barbecue restaurant) (October 2021)

- Withdraw from unprofitable stores, regardless of location
- Apply our accumulated expertise and competitive strength to open suburban stores and take on the challenge of new business formats

Work to improve profitability and competitiveness



We opened restaurants in suburban commercial facilities, such as Mitsui Shopping Park LaLaport FUKUOKA (Hakata-ku, Fukuoka: opened April 2022) and THE OUTLETS KITAKYUSHU (Kitakyushu, Fukuoka Prefecture; opened April 2022).



Entering the Châteaurois business, we opened a roadside confectionery shop (first shop opened in April 2022).

- Next, I will discuss initiatives aimed at “completing business structural reforms” in the retail and restaurant businesses. A key strategy under the current medium-term business plan outlines our policy toward “increasing the competitiveness of brands and of stores/restaurants” in the retail and restaurant businesses.
- COVID-19 substantially reduced footfall to stores/restaurants in areas surrounding stations as well as Japanese-style pubs, but performance at suburban and takeout locations was firm. In light of this situation, in addition to withdrawing from unprofitable stores, we will work to improve profitability and competitiveness by applying our accumulated expertise and competitive strength to open suburban stores, take on the challenge of new business formats, and undertake other initiatives.
- Please turn to the next slide.

Key strategy② Creating a model for building cities that promote well-being: City-Building in the Western Kyushu Area

As the date for opening the Nishi-Kyushu Shinkansen nears, we are starting promotions that involve the local community in an effort to maximize the impact of the opening.

Overview

| | Nishi-Kyushu Shinkansen (opening 9/23) |
|-----------------------------------|--|
| Kilometers of operation | 69.6km (Reference) Kyushu Shinkansen: 288.9km |
| Stations | Five (including two new stations) |
| Trains | 47/day |
| Trains' Nickname | Kamome |
| Time savings (Hakata-Nagasaki) | Approx. 30 minutes (Around 1 hour, 50 minutes → around 1 hour, 20 minutes) |
| D&S trains from arriving stations | TWO STARS 4047 36+3 (Sanju-Roku plus San) |



Promotion



Kamome Gakudan (8/7)
We are planning to hold a one-day event with local participants greeting the "Kamome" train at each Nishi-Kyushu Shinkansen station by singing and dancing.

Nishi-Kyushu Tourism Urban Development AWARD
Created an award to be presented to people who are rooted in the community and contribute to the development of attractive towns in the Western Kyushu area.



Test ride for the general public (9/18, 19)

Saga, Nagasaki Destination Campaign (from 10/1)

TWO STARS 4047



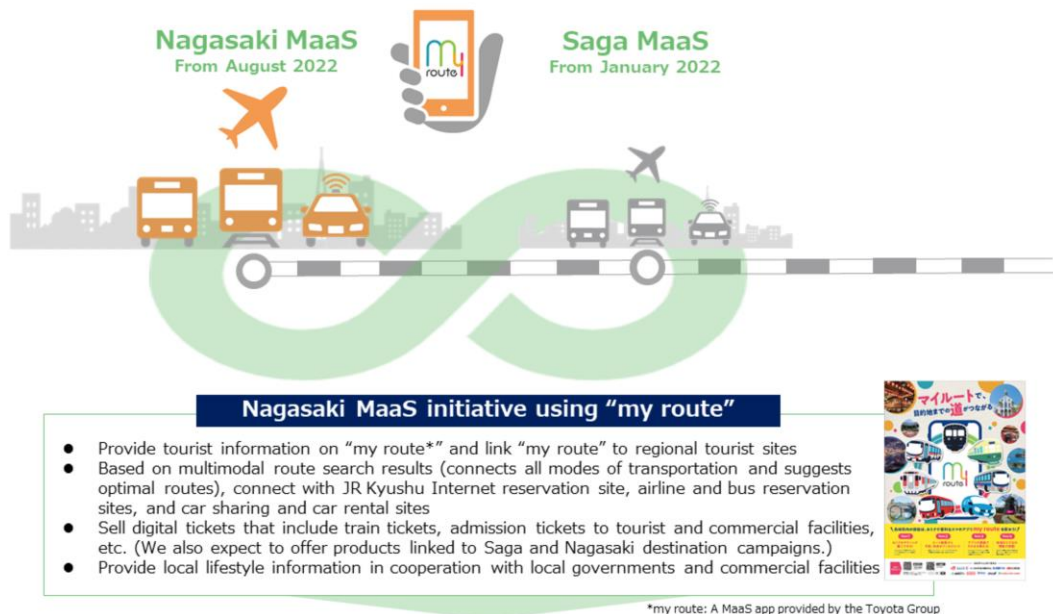
Start of operation: September 23, 2022
Operating segment: Takeo Onsen-Nagasaki
Concept: "A train to tour the seas of West Kyushu"



- Next, I will discuss the state of progress on our second key strategy, "creating a model for building cities that promote well-being."
- With less than two months to go until the opening of the Nishi-Kyushu Shinkansen, we have begun various promotions involving the local community. To bolster the effects of the opening of Nishi-Kyushu Shinkansen, we will promote urban development that catalyzes this impact to open up areas throughout Saga and Nagasaki prefectures, as well as along the railway lines.
- Please turn to the next slide.

Key strategy② Creating a model for building cities that promote well-being: Promoting MaaS

- Following our efforts in the Saga area, we will introduce a MaaS initiative in the Nagasaki area in August 2022.
- In conjunction with the opening of the Nishi-Kyushu Shinkansen, we aim to provide seamless travel throughout the Western Kyushu area by linking the Nagasaki and Saga areas through MaaS.



We will work to strengthen and expand MaaS in cooperation with other businesses and local governments.

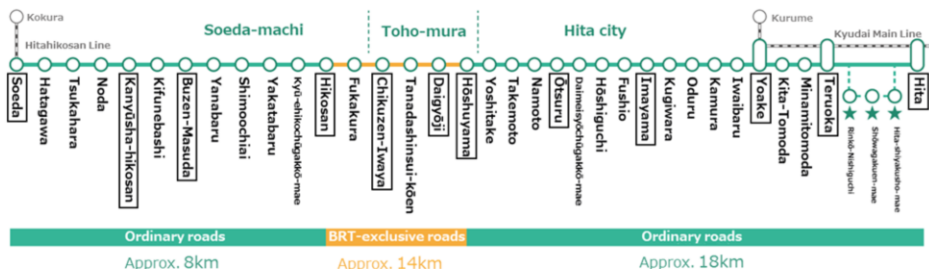
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- Yesterday, we announced the start of a new MaaS initiative in the Nagasaki area.
- Focusing on “my route,” a MaaS app, we will reinforce and expand MaaS while collaborating with other businesses and local governments. Also, in conjunction with the opening of Nishi-Kyushu Shinkansen, we aim to provide seamless travel throughout the Western Kyushu area by linking up with the Saga area through MaaS.
- Please turn to the next slide.

Key strategy② Creating a model for building cities that promote well-being: Transitioning to BRT for the Hitahikosan Line

- In summer of 2023, BRT service is scheduled to commence on the Soeda–Yoake/Hita segment, which a disaster made impossible in July 2017.
- Through cooperation with local governments and related organizations, we plan to establish 37 BRT stations (12 train stations, plus 25 new BRT stations), mainly in areas closely connected to daily life, such as schools and hospitals.

Stations on the Hikoboshi Line (official name: Hitahikosan Line BRT)



Note: Boxes indicate the names of railway stations operating prior to the heavy rains in northern Kyushu in July 2017.
BRT stations shown with dotted lines “—★—” will provide partial morning and evening service.
Information is based on current plans and is subject to change.

Concept “Friendly to people, communities, and the future”



The logo is intended to evoke an image of creating new attractiveness and brilliance in the community.



Conceptual design of a BRT station

The basic design was conceived in cooperation between members of the Company, mainly young employees who are engaged in construction work, and the local community.

Environmental considerations

Introduction of electric buses



BRT vehicles will include environmentally friendly electric buses.

Note: Some medium-sized diesel buses will be used to meet school commuting demand.

Resource recycling initiatives



Rails from the track were cut and driven into the ground as earth retaining piles for the dedicated road, and the ballast was mixed with gravel and reused as a base for the pavement.

- BRT service is scheduled to commence on the Soeda–Yoake/Hita segment of the Hitahikosan Line in the summer of 2023. Through cooperation with local governments and related organizations, we plan to add 25 new stations, mainly in areas closely connected to daily life, such as schools and hospitals, for a total of 37 BRT stations.
- We will continue working with the local community to prepare for the opening of the new bus line. We will introduce electric buses and take other environmentally friendly measures in line with the concept of being “friendly to people, communities, and the future.” In this manner, we will strive to build a new transportation infrastructure model with close ties to the local community.
- Please turn to the next slide.

Damage to the Hisatsu Line due to Heavy Rains in July 2020

We participated in the JR Hisatsu Line Review Conference held by the Ministry of Land, Infrastructure, Transport and Tourism and Kumamoto Prefecture concerning policy for restoring the Hisatsu Line. The policy on restoration is being discussed carefully from various perspectives, including sustainability (factors such as recovery and maintenance costs, and forecasts for the usage of the line once service is restored).



JR Hisatsu Line Review Conference

- Purpose of the conference:
To consider how to restore the Hisatsu Line, which was damaged by heavy rains, including the possibility of linking the line restoration with rivers, roads, and other public works, and what the Hisatsu Line should look like after restoration
- Attendees:
Personnel from the Ministry of Land, Infrastructure, Transport and Tourism (MLIT); Kumamoto Prefecture; the Kyushu District Transport Bureau; the Kyushu Regional Development Bureau; and JR Kyushu
- Summary of the conference
Note: Subsequent meeting dates remain to be determined.

First review conference
(March 22, 2022)

- JR Kyushu reported on the status of key damage and provided a general estimate indicating that railway restoration costs would amount to **around ¥23.5 billion***1.

Second review conference
(May 20, 2022)

- MLIT indicated that the majority of the cost of reconstruction of the two bridges would be borne by the river administrator (national government) in coordination with disaster restoration work on national roads and other areas, and that restoration costs would be **¥7.6 billion***1 if the bridges were restored to railway use. MLIT also introduced a disaster recovery subsidy system as a possible way to further reduce ¥7.6 billion*1 burden on the operator (JR Kyushu).
- JR Kyushu presented data*2 on usage of the Hisatsu Line prior to the disaster in order to consider sustainability.

*1 Restoration amounts listed are calculated under certain conditions and may vary depending on circumstances.

*2 Operating loss on the Yatsushiro–Yoshimatsu segment: Around ¥0.9 billion (as of FY20.3, prior to the disaster)

➤ We participated in a review conference held by the Ministry of Land, Infrastructure, Transport and Tourism and Kumamoto Prefecture concerning damage to the Hisatsu Line due to heavy rains in July 2020. The policy on restoration is being discussed carefully from various perspectives, including sustainability (factors such as recovery and maintenance costs, and forecasts for the usage of the line once service is restored).

➤ Please turn to the next slide.

ESG Initiatives

- We are promoting ESG initiatives based on the materiality we established to accomplish the 2030 Long-Term Vision.
- As one non-financial KPI under the medium-term business plan, we have decided to link an employee awareness survey to director compensation.



Realization of a decarbonized society

At Hakata Station, use of electricity produced using renewable energy



- We have switched to renewable energy for the electricity^{*1} used at JR Kyushu's Hakata Station (from July 1, 2022).

^{*1} Excluding electricity for station buildings and train operations

- Some of the electricity will come from Kusu Solar Power Station (owned by a Group company), allowing us to utilize renewable electricity within the Group.

- We expect to reduce annual CO₂ emissions by 2,651 tons.

Considering the introduction of energy conversion technologies through cooperation with other companies



- We conducted a performance test of engines using 100% biofuel refined from waste oil (April 2022).
- We are continuing to consider possible introduction.



Sustainable city-building

Participation in the Aburayama Shimin no Mori and other renewal projects

- Located 10km south of central Fukuoka, the area where this renewal project is taking place has long been a popular place to get in touch with nature. (The project was publicly solicited by the city of Fukuoka.)
- A total of nine companies, including JR Kyushu as leader and Snow Peak, Inc., are working together on this development project, which is scheduled to open in FY24.3 once the renewal is complete.
- This is being positioned as a leading project under "Fukuoka Green NEXT," and we are promoting initiatives in cooperation with the city of Fukuoka and other businesses.



Camping/glamping Forest Outdoor Park



A vision to preserve Fukuoka's forests for future generations



Sound corporate management

Linking an employee awareness survey to director compensation

- As one of the non-financial KPIs under our medium-term business plan, we have decided to link the results of an employee awareness survey with director^{*2} compensation.
- The results of the employee awareness survey are an important quantitative indicator of the degree to which the human resource strategy, which is the source of value creation, has been realized. The management team will be held accountable and provided with an incentive by using the same indicators as evaluation items.

^{*2} Excludes outside directors and directors who are Audit and Supervisory Committee members

| New director compensation system (from July 1, 2022) | |
|--|---|
| Basic remuneration: performance-linked remuneration = 8 : 2 (Performance-linked remuneration (short-term incentives) generally does not exceed 20% of total compensation for each fiscal year.) | |
| Overview of performance-linked remuneration | |
| Remuneration | KPIs |
| Fixed remuneration | Consolidated operating income for each fiscal year |
| Short-term incentives | Consolidated operating income for each fiscal year |
| Long-term incentives | TSR (compared with industry peers) During the period of the medium-term business plan Note: Varies depending on the TOPIX growth rate |
| Non-financial (long-term incentives) | Employee awareness survey during the period of the medium-term business plan |
| Benefit period | Provided upon director retirement |

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- I will conclude by discussing our ESG initiatives. We are promoting initiatives in each ESG category based on the materiality we established to accomplish the 2030 Long-Term Vision.
- Looking first at the environmental component, we are working to realize a decarbonized society by switching to renewables-based power for the electricity used at Hakata Station. We are also undertaking other initiatives.
- Next, let us look at the social component. We are taking the lead role among the nine companies that are working together on the Aburayama Shimin no Mori and other renewal projects, which is scheduled to reopen in the fiscal year ending March 31, 2024. The vision for the project is "the coexistence of people, cities, and nature." This is being positioned as a leading project under "Fukuoka Green NEXT", and we are promoting sustainable urban development in cooperation with the city of Fukuoka and other businesses.
- Finally, let us discuss governance. As one of the non-financial KPIs under our medium-term business plan, we have decided to link the results of an employee awareness survey with director compensation. The results of the employee awareness survey are an important quantitative indicator of the degree to which the human resource strategy, which is the source of value creation, has been realized. The management team will be held accountable and provided with an incentive by using the same indicators as evaluation items. We will further enhance our initiatives with a view to sound corporate management.
- 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.

These statements are judgments made by the Company based on information, projections, and assumptions available at the time of the materials' creation. Accordingly, please be advised that actual operating results could greatly differ from the contents of the materials due to the influence of COVID-19; changes in people's values and lifestyles; the economic situation inside and outside Japan and the economic situation in Kyushu; real estate market conditions; the progress of respective projects; changes in laws and regulations; and a wide range of other risk factors.

IR materials can be viewed on our corporate website:
https://www.jrkyushu.co.jp/company/ir_eng/library/earnings/