

(Translation)

December 14, 2022

Kyushu Railway Company

Main Questions and Answers from JR Kyushu IR Day 2022

Part 1: President's Opening Remarks for IR DAY, Toward the Railway of the Future, City-Building in the Nagasaki Area

Participants: Yoji Furumiya (President and CEO), Hiroyuki Fukunaga (Director and Managing Corporate Officer), Toshihiro Mori (Director and Managing Corporate Officer)

Q. Regarding office leasing of the Nagasaki Station Building, please describe progress on leasing, the type of tenants, and whether the building has helped to stem the outflow of companies from Nagasaki Prefecture to other prefectures, while the population of Nagasaki Prefecture declines.

A. (Mori) Currently, about two-thirds of the office space has been set to tenants from a wide range of sectors, such as telecoms-related companies and manufacturers. In some cases, tenants are local companies that call Nagasaki their home, such as professional occupations, but there are no major tenants so far, with branch offices of Tokyo companies comprising a majority.

Q. Regarding the Nishi-Kyushu Shinkansen, pre-opening news said that use of the Nishi-Kyushu Shinkansen would be difficult to manage so why have operations been so good up to the present?

A. (Fukunaga) The Nishi-Kyushu Shinkansen was opened with great expectations because we have taken initiatives to win the support of local residents, such as various promotional campaigns prior to its opening. It also opened when COVID-19 cases were on the decline, and people were increasingly keen to get out and travel—a tailwind.

Q. In the Nagasaki area, many companies plan to construct or expand plants. Is JR Kyushu trying to tap into commuter demand on the Nishi-Kyushu Shinkansen?

A. (Fukunaga) The Nishi-Kyushu Shinkansen satisfies two major needs, namely demand for high-speed transportation between Hakata and Nagasaki, and demand related to daily commutes and shopping over short distances, with relatively short distances between stations. We welcome the construction of new plants along our train lines. In addition to promoting sales of the affordable Excel Pass for convenient commutes to work, we intend to stimulate ongoing demand by offering our customers the experience of comfortable and speedy travel on the shinkansen.

(Furumiya) At Takeo City and Ureshino City along the shinkansen line, the cities have started offering assistance to customers commuting to work or school on the shinkansen. With this as an impetus, we think the number of commuters who use the shinkansen regularly with commuter passes will increase.

Q. JR Kyushu clarified differences between the Future Railway Project and BPR. The Company expects BPR to result in a ¥14.0 billion reduction in fixed costs in the short term. Can you describe in numbers how the Future Railway Project will boost sales growth and reduce costs?

A. (Fukunaga) Today, I cannot give concrete numbers about the potential boost from the Future Railway Project, which differs from BPR in key considerations for improving income and expenditures, such as measures to increase revenue. While making the necessary investments, JR Kyushu will proactively take on new challenges.

Q. I think there is strong demand for transportation in the Kyushu region, from other prefectures to Fukuoka Prefecture, and demand for transportation to Nagasaki is relatively weak. In order to stimulate demand for travel within the Kyushu region and from across Japan to Nagasaki, is collaboration necessary with companies outside the region, such as travel agencies, in addition to coordination with local companies?

A. (Fukunaga) JR Kyushu is working with travel agencies and other companies outside the region. In order to sustain the boost from the opening of the Nishi-Kyushu Shinkansen, we are taking steps to avoid a one-time boom in demand.

Q. The Company explained that it is considering the introduction of amoeba management in the railway business. How this approach be customized to the railway business, with its many fixed costs?

A. (Fukunaga) The railway business has recognized train stations as profit centers and maintenance divisions, etc., as cost centers. So, there was not much thought given to income and expenses in each business area. For example, in management accounting, we will customize our approach in terms of managing income and expenses in each department, with income commensurate with the value of maintenance work in the maintenance and repair department. Among railway companies, we have not heard of any who have adopted amoeba management, so we believe there is value in being a pioneer in this regard.

Q. Regarding the development of Nagasaki, how is it different from the development of other station buildings?

A. (Mori) A point in common is that development is advancing while collaborating with the local community, but there are two unique aspects of the development of Nagasaki that differ from other areas. The first difference is that prefectural government offices and the police station have already relocated next to Nagasaki Station, one of the few flat areas in Nagasaki. In the future, there are plans to open a soccer stadium, for example, along with other rapid developments. The Nishi-Kyushu Shinkansen and the development of the Nagasaki Station Building are also well-timed. The second difference is that in other areas, development began from scratch, where as in Nagasaki, there was an existing station building to which a new station building, offices and the Marriot Hotel are being built. This is also a difference

from previous developments.

Q. In the explanation of the Future Railway Project, the Company talked about generating commensurate value. Please explain the details of pricing in the context of sophisticated yield management and the value proposition. At present, is it correct to understand that the Company continue on its current trajectory, and not undertake new initiatives?

A. (Fukunaga) In generating commensurate value, JR Kyushu has revised the prices of discount tickets and takes other measures. We will also continue to examine yield controls while monitoring the balance with changes in ridership when prices are increased. Some measures are extensions of past initiatives, but when creating new services, we aim to generate value commensurate with the service.

Q. Regarding the Future Railway Project, where is JR Kyushu focusing initiatives to increase revenue in the railway business? When does management expect to see a boost from cost reductions from BPR? And how much of a boost?

A. (Fukunaga) All of the measures described in the presentation materials are important for increasing revenue. The railway business is in a mature industry where it is important to acquire new customers. When the population contracts and leads to lower revenues and cost cuts, this downward spiral makes it an unattractive place to work or business. We are making an effort to acquire new customers by conveying the attractiveness of our product as a railway transportation service, while also motivating ourselves at work. The TWO STARS 4047 train that entered service along with the opening of the Nishi-Kyushu Shinkansen has also been a popular hit. JR Kyushu aims to discover new needs while collaborating with city-building, and increase the resident population, commuter population and employment at the same time. We recognize we must reduce costs further. While an expression of our determination at this juncture, we believe there is no end to cost reductions, and we will explore every avenue to reduce costs.

Q. Have sensing, AI and other technologies needed to realize the Future Railway Project already been established? Can this project be realized if enough money and time is invested?

A. (Fukunaga) There are both established technologies, and technologies that have not been proven yet. The unproven technologies are being developed with a medium-to long-term perspective while eyeing our 2030 long-term vision. For a railway operator, there was no precedent to the effort we are putting into autonomous train operations (GoA 2.5) when we initially examined the idea, but we are strongly determined to realize autonomous operations, and have been gaining experience by running tests with prototypes. We are taking on the challenge of developing new technologies with the aim of making the future railway like this .

*GoA 2.5: Autonomous operations with attendant who do not have a driver's license for emergency braking, etc.

Part 2: Opinion Exchange with Outside Directors

Participants: Toshihide Ichikawa (Outside Director), Shinji Asatsuma (Outside Director), Yoji Furumiya (President and CEO), Takuma Matsushita (Director and Managing Corporate Officer)

Q. What are Director Asatsuma's views of JR Kyushu, compared with other companies you have worked at? What kind of contributions can you make to JR Kyushu?

A. (Asatsuma) I feel that JR Kyushu has a large number of fans and supporters. I believe most fans have been drawn to JR Kyushu's ambition to revitalize the region through the railway business. This might be an asset of JR Kyushu like goodwill. With condominiums, for example, there are people who are reassured about buying a condominium because it was built by JR Kyushu, and I hope the Company will leverage this asset. At a chemicals maker where I previously worked, it had a higher ratio of overseas sales, and although it is a different industry and business model, I needed to take a cautious approach to cost management and the allocation of management resources because the pandemic started soon after my appointment. As a representative of shareholders, I believe I can play my role and fulfill my responsibilities in this sense.

Q. This question is for the two outside directors. I understand that the new medium-term business plan was created based on communications with investors, but do you see any potential upside to the targets laid out in the plan?

A. (Ichikawa) My career background entails the real estate sector with employment at Mitsui Fudosan, so with this in mind, my first impression is that JR Kyushu has done well over the past 30 years since being privatized. I think the Company started its real estate business by utilizing company-owned land, and has refined its skill to be able to compete with other real estate companies, and I see growth potential here. I look forward to future developments in this business.

(Asatsuma) In terms of medium-to long-term upside, JR Kyushu has concentrated capital investments in services and housing for urban and suburban areas, as well as office buildings. Over the long term, if the Company can extend these investments to rural areas, and connect them with our efforts to revitalize the entire Kyushu region, we will create new earnings opportunities. I want it to be realized.

Q. This is another question for Director Ichikawa. I understand that real estate development will pick up in the future. Although JR Kyushu targets ROE of 8%, if real estate development increases, ROA might decline. Is management thinking of measures or discussing ways to counter this decline?

A. (Ichikawa) JR Kyushu has earned stable revenue from the development of station buildings on company-owned land, and has also developed condominiums and rental apartments. My personal opinion is three main pillars for JR Kyushu are its real estate holdings, the sale of properties to investors that are not limited to condominiums, and its non-asset businesses after these sales. And It will be important how allocate these pillars in Kyushu, other regions in Japan and around the world. JR Kyushu has sold

properties to investors through the establishment of a private REIT, expanding the scope of its operations considerably, and the Company is now able to engage in a variety of businesses without expanding its balance sheet. The human resources involved in real estate development are honing their abilities to a level that meets investor expectations. JR Kyushu will rotate its assets without letting them go idle.

Q. I understand that the employee awareness survey is reflected in directors' remuneration based on year-on-year improvement metrics. As JR Kyushu shuffles its business portfolio, employee engagement might decline due to the stress that comes from restructuring. Efforts to improve employee engagement might not match completely with initiatives to optimize the overall portfolio. In terms of improving corporate value, as an outside director, how do you evaluate and monitor the employee awareness? I would like to see outside directors use their insight while giving feedback to employees about their new business ideas and motivate employees to take on new challenges as a result. What can the outside directors do to better motivate employees in this context?

A. (Ichikawa) JR Kyushu takes the employee awareness survey seriously, and management truly listens to the opinions of employees. As shown in the graph of the survey's results, there are both positives and negatives in the results that are reported without modification to the Board of Directors, and management is proactive on disclosing measures to address any shortcomings. I believe this stance is one of the positive aspects of JR Kyushu. We did not make the suggestion to link this survey to remuneration—it was volunteered by the management team. I think this is significant in terms of self-reform. I spoke with the manager in charge of renovating old Japanese homes the other day about feedback for employees' new business ideas, and it was an exciting talk. I heard that the Aburayama business idea came from a young employee, a positive development.

(Asatsuma) We will examine the most appropriate way of motivating employees in response to criticism that there might be too much focus on just improving the results of the survey. As for new businesses, the president, who is younger than previous presidents, has been communicating with employees more often like an older brother talking to family, and various business ideas are being shared with the business execution side. As for outside directors, they have undergone training and visit the front lines more often to communicate with employees. Starting next year, there is talk of having outside directors pay visits to Group companies as well, so I think opportunities will increase for employee engagement.

Q. You mentioned that there are many fans and supporters of JR Kyushu in the Kyushu region. What are your thoughts about investing in areas outside the Kyushu region, and returns on these investments?

A. (Asatsuma) My personal opinion is that JR Kyushu should invest in the Kyushu region while seeking out synergies on various fronts. I believe JR Kyushu should invest outside the Kyushu region when a decent return is expected on specific investments. Our thought process goes beyond numbers. For example, JR Kyushu might decide to invest capital in hotels located in Tokyo and Osaka with the aim of creating a luxury brand that would be difficult to establish by opening hotels in only the Kyushu region.

I have talked about the following with Director Ichikawa. Considering the possibility the Japanese economy will sink and the weak yen will continue, I think it would be interesting if JR Kyushu invested in major cities in the dollar and euro regions, not just Thailand where it has a business presence. Naturally, management should be cautious in making decisions, but if the returns on such investments look good, I think JR Kyushu could well make investments outside the Kyushu region.

- Q. This question is for Director Ichikawa. What are the advantages and disadvantages that railway companies have in the real estate business? Railway companies, including JR Kyushu, are strengthening their real estate businesses. For example, assuming there is idle land near a train station and the Company buys more adjacent land, instead of a third party buying it as usual, one effective strategy might be to enhance the value of the land. Another possible strategy is to take the development value gained as a result of infrastructure upgrades and selling it to a third party and jointly developing the land, which could lead to development value without must labor. What are your thoughts on this?
- A. (Ichikawa) From the standpoint of a real estate company, having railway operations is a distinct advantage. People congregate around train stations, and the proximity of residences and offices to train stations is a point of differentiation. JR Kyushu has mainly utilized company-owned land, and has been able to interact with various tenants through the development of this land. In this sense, having train stations and railroads is a major advantage in the real estate business. During the pandemic, I believe not only JR Kyushu, but other companies as well, will put more effort into their real estate businesses.

< A Cautionary Note >

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