

# **FY23.3 Financial Results Overview, Third Quarter**

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February 7, 2023

**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 nine months of the fiscal year ending March 31, 2023, our full-year performance forecast for the fiscal year ending March 31, 2023, and progress on the three key strategies of our medium-term business plan.
- First, I will discuss our financial results for the first nine months of the fiscal year ending March 31, 2023. Please turn to slide 4.

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## **I Financial Results for the First Nine-Months of FY23.3**

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# Consolidated Financial Highlights for the Nine-Month Period Ended December 31, 2022

	9 months ended December, 31 2021	9 months ended December, 31 2022	YoY	(¥bil)
Operating revenue	222.7	261.2	38.5	117.3%
Operating income	2.7	22.5	19.7	808.5%
Ordinary income	6.9	23.5	16.5	337.7%
Extraordinary gains and losses	(0.9)	2.7	3.6	-
Net income attributable to owners of the parent	9.2	21.5	12.3	233.7%
EBITDA <sup>※</sup>	22.6	44.2	21.5	195.2%

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

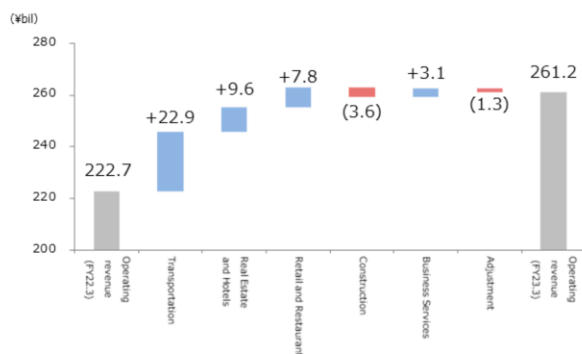
## Operating revenue

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

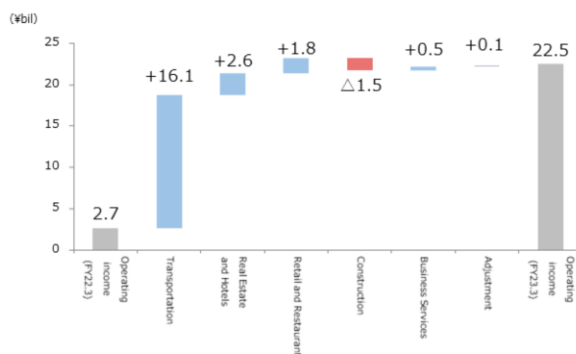
Operating income increased due to higher operating revenue and the effect of reducing fixed costs in the railway business, among other factors.

### Change in operating revenue by segment\*



\* New segment categorization

### Change in operating income by segment\*



- On a consolidated basis, during the first nine months operating revenue increased ¥38.5 billion year on year, to ¥261.2 billion. Although COVID-19 continued to affect performance, restrictions on behavior and socioeconomic activity began to normalize. Consequently, 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 in the first quarter.
- Operating income rose ¥19.7 billion, to ¥22.5 billion, thanks in part to the rise in operating revenue and the steady effect of fixed cost reductions in the railway business. EBITDA increased ¥21.5 billion, to ¥44.2 billion.
- Net income attributable to owners of the parent was up ¥12.3 billion, to ¥21.5 billion, benefiting from an extraordinary gain associated with a gain on sales of shares in Huis Ten Bosch.
- Next, I will explain our full-year performance forecasts for the fiscal year ending March 31, 2023. Please turn to slide 8.

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

	9 months ended December, 31 2021	9 months ended December, 31 2022	YoY		Major factors
Operating revenue	222.7	261.2	38.5	117.3%	
Transportation	78.0	100.9	22.9	129.4%	
Railway Business (non-consolidated)	77.1	99.9	22.7	129.5%	Increase due to moderate recovery in demand
Real Estate and Hotels	65.0	74.7	9.6	114.9%	
Real Estate Lease	43.7	46.2	2.5	105.7%	
Real Estate Sales	14.5	16.4	1.9	113.2%	Increase from the sale of a property, decrease in revenue from sales of condominiums
Hotel Business	6.7	11.9	5.2	177.8%	Increase due to moderate recovery in demand
Retail and Restaurant	32.4	40.2	7.8	124.1%	Increase due to moderate recovery in demand
Construction	60.5	56.8	(3.6)	93.9%	Decrease in construction related to the Nishi-Kyushu Shinkansen
Business Services	48.8	51.9	3.1	106.4%	
Operating income	2.7	22.5	19.7	808.5%	
Transportation	(11.7)	4.3	16.1	-	
Railway Business (non-consolidated)	(11.0)	5.0	16.0	-	
Real Estate and Hotels	10.6	13.2	2.6	124.6%	
Real Estate Lease	11.6	11.6	(0.0)	99.6%	
Real Estate Sales	1.1	0.9	(0.2)	80.6%	
Hotel Business	(2.2)	0.6	2.8	-	
Retail and Restaurant	(0.7)	1.0	1.8	-	
Construction	2.6	1.0	(1.5)	39.7%	
Business Services	2.4	2.9	0.5	122.9%	
EBITDA	22.6	44.2	21.5	195.2%	
Transportation	(5.4)	12.2	17.6	-	
Railway Business (non-consolidated)	(5.2)	12.6	17.9	-	
Real Estate and Hotels	21.0	23.7	2.6	112.7%	
Real Estate Lease	20.4	20.4	(0.0)	99.7%	
Real Estate Sales	1.2	0.9	(0.2)	80.9%	
Hotel Business	(0.6)	2.3	2.9	-	
Retail and Restaurant	0.1	2.0	1.8	-	
Construction	3.3	1.8	(1.5)	54.6%	
Business Services	4.1	4.8	0.7	118.0%	

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

	9 months ended December, 31 2021	9 months ended December, 31 2022	YoY		Major Factors
Operating revenue	115.0	140.1	25.1	121.8%	
Railway transportation revenues	67.2	88.7	21.5	132.0%	Increase due to moderate recovery in demand
Shinkansen	20.8	31.6	10.8	152.0%	
Conventional Lines	46.4	57.0	10.6	123.0%	
Other revenue	47.7	51.3	3.6	107.6%	Increase due to the sale of a property, decrease in revenue from sales of condominiums
Operating expense	113.7	123.6	9.9	108.7%	
Personnel expense	30.3	30.1	(0.2)	99.2%	
Non-personnel expense	62.4	71.0	8.5	113.7%	
Energy cost	6.2	7.8	1.5	124.5%	Unit price increase due to soaring resource prices
Maintenance cost	17.6	18.2	0.5	102.9%	
Other	38.4	44.9	6.5	116.9%	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	9.0	9.1	0.1	101.8%	
Depredation cost	11.8	13.2	1.4	112.0%	
Operating income	1.3	16.5	15.2	-	
Non-operating income and expense	3.3	3.8	0.5	115.9%	Increase in dividend income
Ordinary income	4.6	20.3	15.7	437.8%	
Extraordinary gain and losses	(0.7)	2.8	3.5	-	Increase due to a gain on the sales of Huis Ten Bosch shares
Net income	8.3	20.7	12.3	246.7%	

### Results by business (non-consolidated) (included in above table)

		9 months ended December, 31 2021	9 months ended December, 31 2022	YoY	
Railway business	Operating revenue	77.1	99.9	22.7	129.5%
	Operating income	(11.0)	5.0	16.0	-
Related businesses	Operating revenue	37.8	40.1	2.3	106.2%
	Operating income	12.3	11.4	(0.8)	93.0%

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

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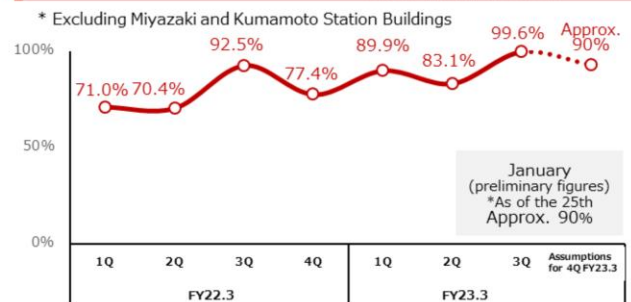
## Performance Forecasts for FY23.3: Current Conditions and Revenues Expectations in Major Businesses

- Despite the resurgence of COVID-19, the trend toward a recovery in demand continued in each business, due to the introduction of a nationwide travel support program, the easing of protection measures, and other factors.
- Although the outlook remains uncertain, particularly in the railway and hotel businesses, we maintained revenue expectations for the current fiscal year.

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



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



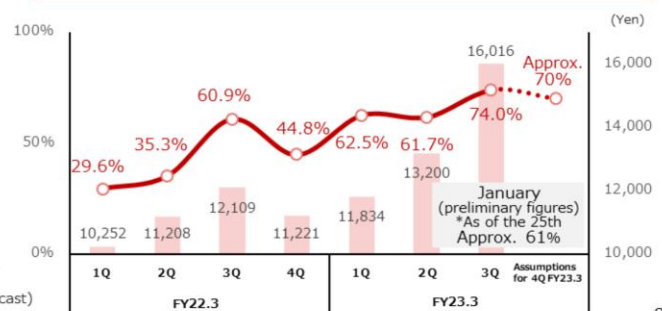
### Real Estate Sales Business

- 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 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



- First, I will describe the revenue situation for the main businesses on which the performance forecasts are based.
- The impact of COVID-19 on individual business earnings has been easing gradually. In the third quarter, despite a resurgence of COVID-19, the trend toward a recovery continued, due to the introduction of a government nationwide travel support program, the easing of protection measures, and other factors.
- Current circumstances indicate some remaining uncertainty about the outlook, particularly in the railway and hotel businesses. However, as we anticipate no significant change in demand trends, our fourth-quarter earnings assumptions for each business remain unchanged.
- Please turn to the next slide.



# 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	26.6	13.3	200.7%
EBITDA	30.7	58.2	27.4	189.1%

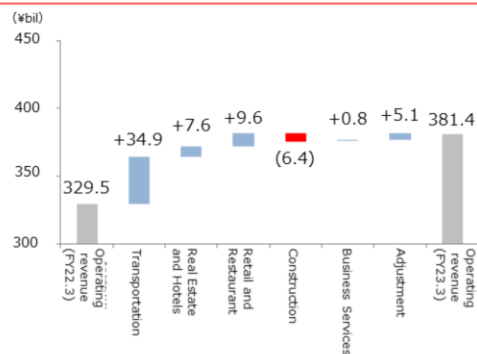
## Operating revenue

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.

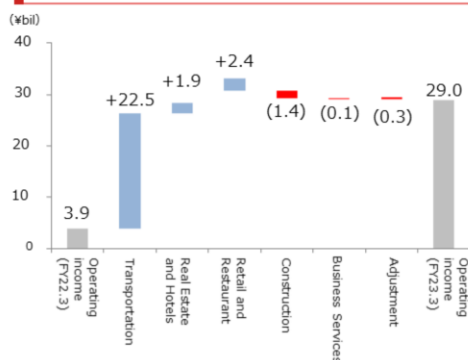
## Operating income

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\*



### Change in operating income by segment\*



\* New segment categorization

- Based on our third-quarter results and the earnings assumptions explained earlier, our full-year consolidated earnings and dividend forecasts for the current fiscal year remain unchanged from those announced on November 1.
- The Company will continue to work on targeted cost reductions, while closely monitoring future trends and considering additional cost reductions as necessary.
- Next, I will discuss progress on the key strategies of our medium-term business plan. Please turn to slide 20.

# 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)	2.4	4.4	-	
Net income	8.9	23.2	14.2	259.2%	

Results by business (non-consolidated) (included in above table)

(¥bil)

		Results FY22.3	Forecasts FY23.3	YoY	
Railway business	Operating revenue	102.9	136.9	33.9	133.0%
	Operating income	(22.0)	0.1	22.1	-
Related businesses	Operating revenue	77.0	73.6	(3.4)	95.5%
	Operating income	20.7	18.1	(2.6)	87.4%

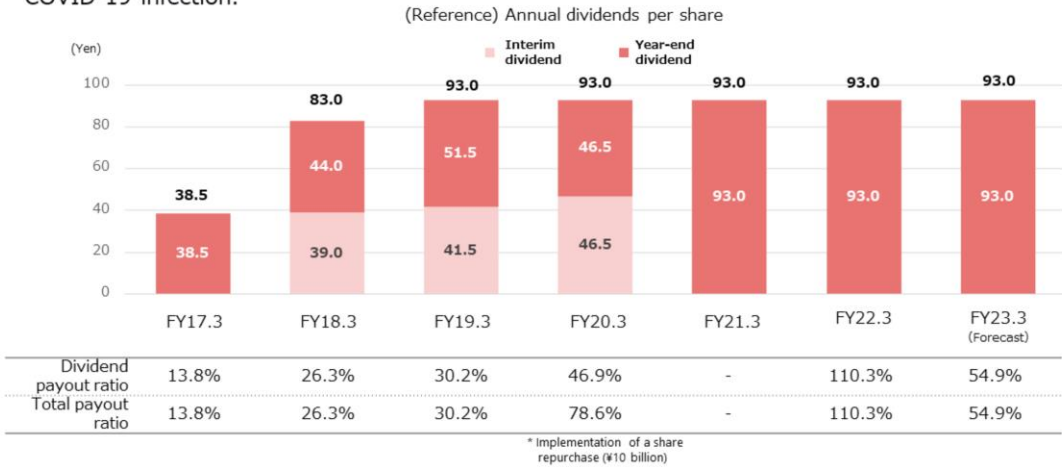
# FY23.3 Dividend Forecasts

## 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**

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## Transportation Segment

- Q2 saw a temporary decrease in mobility demand due to the spread of COVID-19. However, operating in a business environment in which infections were increasing, in Q3, both domestic and inbound demand recovered steadily, centered on non-commuter medium- to long-distance revenues, due to the introduction of a nationwide travel support program, the easing of protection measures, and other factors.

[Results]

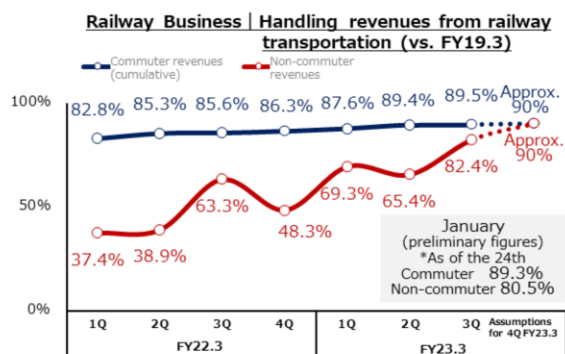
	9 months ended December, 31 2021	9 months ended December, 31 2022	YoY	
			(¥bil)	
Operating revenue	78.0	100.9	22.9	129.4%
Railway Business (non-consolidated)	77.1	99.9	22.7	129.5%
Railway transportation revenues	67.2	88.7	21.5	132.0%
Operating income	(11.7)	4.3	16.1	-
Railway Business (non-consolidated)	(11.0)	5.0	16.0	-
EBITDA	(5.4)	12.2	17.6	-
Railway Business (non-consolidated)	(5.2)	12.6	17.9	-

[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 noncommuter 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 (Transportation Data)

## Railway Transportation Revenues

	9 months ended December, 31 2021	9 months ended December, 31 2022	YoY		Major Factors
Total	67.2	88.7	21.5	132.0%	
Commuter pass	21.4	22.2	0.8	104.0%	
Non-commuter pass	45.8	66.4	20.6	145.0%	
Cargo	0.0	0.0	0.0	155.7%	
Shinkansen	20.8	31.6	10.8	152.0%	
Commuter pass	1.8	2.0	0.1	108.7%	Increase due to gradual recovery in demand
Non-commuter pass	18.9	29.6	10.6	156.3%	
Conventional Lines	46.4	57.0	10.6	123.0%	
Commuter pass	19.5	20.2	0.7	103.6%	Increase due to gradual recovery in demand
Non-commuter pass	26.8	36.8	9.9	137.1%	

## Passenger-Kilometers

	9 months ended December, 31 2021	9 months ended December, 31 2022	YoY		(Millions of passenger-kilometer)
Total	4,714	5,582	868	118.4%	
Commuter pass	2,831	2,931	99	103.5%	
Non-commuter pass	1,882	2,651	768	140.8%	
Shinkansen	762	1,121	359	147.2%	
Commuter pass	136	151	15	111.0%	
Non-commuter pass	625	970	344	155.1%	
Conventional Lines	3,952	4,460	508	112.9%	
Commuter pass	2,694	2,779	84	103.1%	
Non-commuter pass	1,257	1,681	424	133.7%	

# Real Estate and Hotels Segment: Real Estate Leasing Business

- In Q3, station building tenant sales recovered to a level similar to FY19.3, mainly due to higher demand for clothing following sudden cold spell in December.
- In office buildings and rental apartments, performance was affected by such factors as the sale of properties to a private REIT and other buyers since FY22.3. However, performance remained robust, with no major changes to vacancy rates at currently owned properties.

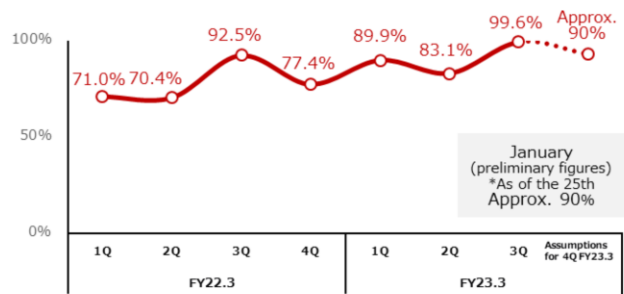
【Results】				【Forecasts】			
	9 months ended December, 31 2021	9 months ended December, 31 2022	YoY		FY22.3 Results	FY23.3 Forecasts	YoY
Operating revenue	43.7	46.2	2.5 105.7%	(¥bil)	58.5	61.6	3.0 105.2%
Operating income	11.6	11.6	(0.0) 99.6%		14.7	13.9	(0.8) 94.2%
EBITDA	20.4	20.4	(0.0) 99.7%		26.5	25.8	(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)

\* Excluding Miyazaki and Kumamoto Station Buildings





# Real Estate and Hotels Segment: Real Estate Sales Business

- Q3 revenue from the sale of condominiums was slightly lower, as we had initially anticipated.
- In Q4, in addition to selling properties to a private REIT, we expect to sell numerous condominiums.

[Results]

(¥bil)

	9 months ended December, 31 2021	9 months ended December, 31 2022	YoY	
Operating revenue	14.5	16.4	1.9	113.2%
Operating income	1.1	0.9	(0.2)	80.6%
EBITDA	1.2	0.9	(0.2)	80.9%

[Forecasts]

(¥bil)

	FY22.3 Results	FY23.3 Forecasts	YoY	
	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

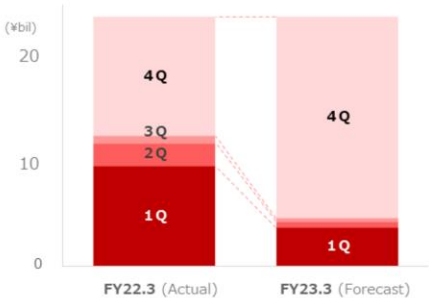
- Operating revenue from condominiums tends to fluctuate on a quarterly basis, but for the year we anticipate levels on a par with FY22.3.
- The sale of properties included the Q1 sale to a third party of Shinkawa East Building (an office building). Owing to this sale, combined with the future sale of 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 Q3, both domestic and inbound demand recovered significantly with the introduction of a nationwide travel support program and the easing of protection measures. ADR also exceeded pre-pandemic levels, pushing operating income into positive territory on a quarterly basis for the first time since the start of the pandemic (Q3 of FY20.3).

	【Results】			【Forecasts】		
	9 months ended December, 31 2021	9 months ended December, 31 2022	YoY	FY22.3 Results	FY23.3 Forecasts	YoY
Operating revenue	6.7	11.9	5.2	8.9	16.6	7.6
Operating income	(2.2)	0.6	2.8	(2.9)	0.7	3.6
EBITDA	(0.6)	2.3	2.9	(0.7)	3.0	3.7

## Assumptions behind performance forecasts

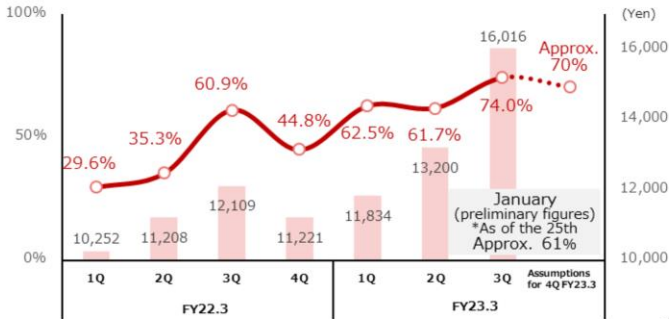
- THE BLOSSOM KYOTO (180 rooms) was opened on 26th August, 2022
- Blossom Fukuoka (90 rooms) has been temporarily closed due to building maintenance from October 3, 2022.
- In Q4 FY23.3, we expect occupancy rates to recover to around 70%.

### THE BLOSSOM KYOTO



Date of open: 26th August, 2022  
 Location: Shimogyo-ku, Kyoto City  
 Guest rooms: 180  
 Floor space : Approx. 9,600㎡

Hotel business | Occupancy rate and ADR



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

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# 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



## 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.

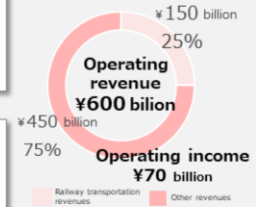
### Policy ①

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 **More than 8%** [reference]

### [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 specifically the state of progress on individual measures aimed at achieving the numeric targets of our forecasts for the current fiscal year and the medium-term business plan.
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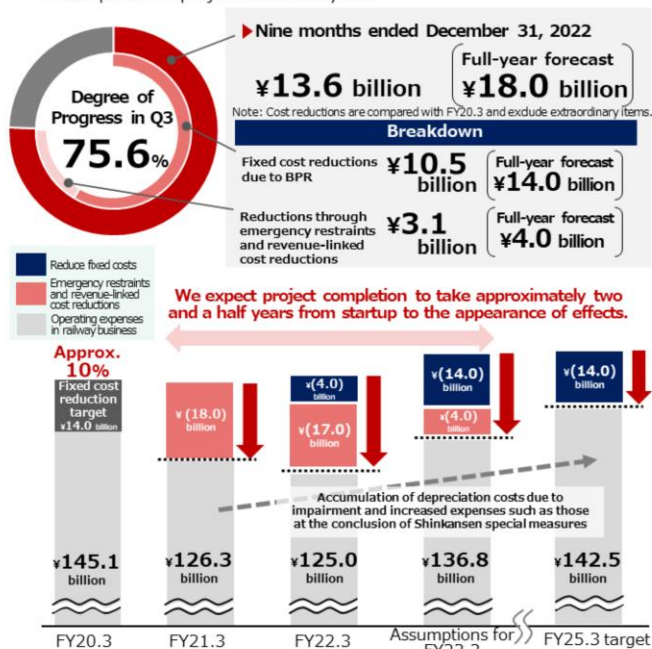
# Key strategy① Completing Business Structural Reforms: Reduce Costs in the Railway Business Through BPR\*

\* Business Process Re-engineering

- We are making steady progress toward a ¥18.0 billion reduction in costs this fiscal year (fixed cost reductions through BPR: ¥14.0 billion; urgent control measures, etc.: ¥4.0 billion).
- To promote further growth in the railway business, we will move forward with considerations under the Future Railway Project

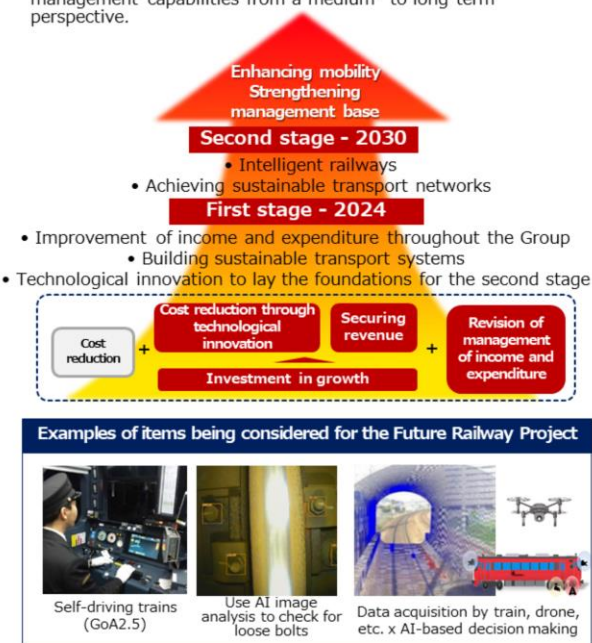
## Progress on reducing costs (Q3 results)

- We are promoting the BPR project (business structural reforms) as a response to the sharp drop in demand due to COVID-19. We expect to complete the project this fiscal year.



## The Future Railway Project

- To create a "railway of the future" that drives city-building in Kyushu, we will work to evolve mobility and strengthen our management capabilities from a medium- to long-term perspective.



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- First, I will discuss business structural reforms in the railway business.
- We launched the BPR project in response to the sharp drop in demand caused by COVID-19. Through this project, we expect the Company to achieve its fixed-cost-reduction target of ¥14 billion this fiscal year, or about 10% of pre-pandemic railway business expenses.
- On the other hand, due to the structure of our railway business we expect depreciation costs to increase for the foreseeable future. This reflects the large-scale impairment losses we have incurred in the past. We also recognize that our business environment is slated to become increasingly severe due to a shrinking population, falling birthrate, and aging populace.
- The Future Railway Project aims to create a "railway of the future" that will drive Kyushu's city-building from a medium- to long-term perspective. Rather than simply cutting costs, the project is studying ways to incorporate DX and new technologies to generate new revenues and reduce costs.
- We introduced details of our thoughts on the Future Railway Project at the JR KYUSHU IR DAY 2022, on November 29, 2022. Please refer to our website.
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# Securing Revenues in the Railway Business: Capturing Demand Recovery Opportunities and Creating New Demand

## Initiatives to capture the recovery in inbound demand and create new demand

### Initiatives to capture inbound demand

#### ● Resumption of inbound promotions



We have resumed full-scale promotion in Asia. We exhibited at travel expos and placed ads online and in inbound media to promote Kyushu tourism and rail pass sales.

#### ● Introduction of touch payment at automatic ticket gates (verification testing)



We have introduced on a trial basis a service that allows passengers to use trains by touching their touch payment-compatible credit cards or smartphones to dedicated terminals at automatic ticket gates. (In addition to Visa, we have also added compatibility to JCB and American Express.)

### <Reference> Inbound-related indicators

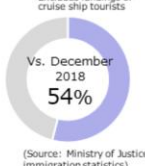
JR-KYUSHU RAIL PASS sales results  
(December 2022)



Number of international flights in Kyushu\*  
(As of January 13, 2023)



Number of foreign arrivals in Kyushu\*  
(Preliminary figures for December 2022)



### Initiatives to create new demand

#### ● Signing of a cooperation agreement with neuet, Inc.



We have signed an agreement with neuet, a company that operates a shared cycle service, to collaborate on "city-building initiatives for the realization of well-being." We will work together to establish cycle ports, utilize data, promote tourism, develop new businesses, and in other ways.

#### ● Subscription service targeting people with commuter passes (verification testing)



We are introducing a trial subscription service and discount for SUGOCA commuter pass holders, which can be used at stores in Hakata Station and the Fukuoka area, such as coffee shops and izakaya (Japanese-style pubs).

#### ● Operation of cycle trains (verification testing)



In cooperation with local governments, we are implementing on a trial basis a "cycle train" service that allows bicycles to be brought onto dedicated trains without disassembly.

#### ● Expansion of a train luggage transportation service (verification testing)



On a trial basis, we are introducing a new service to transport fresh fish by Shinkansen from Kagoshima Prefecture to restaurants in the cities of Fukuoka and Osaka in just 11 hours or less on the same day, from order to delivery.

- In parallel with structural reforms, in the railway business we are also working to capture opportunities for a demand recovery and create new demand in order to ensure profitability.
- Inbound promotions have recommenced in earnest, now that the government has eased COVID-19 protection measures. In December, the number of tickets sold for the JR-KYUSHU RAIL PASS, an unlimited-ride ticket for foreign visitors to Japan, was at about 60% of the December 2018 level. In monetary terms, these sales recovered to just under 80%, partly due to price revisions. There is still room for recovery in the number of international flights and foreign visitors to Kyushu, and we will continue working to capture inbound demand.
- In addition, to cultivate new value and demand in the railway business, we are taking part in links with a bicycle sharing service and demonstration tests of new services such as transporting fresh fish by Shinkansen.
- 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

Aiming to maximize the opening effect of the Nishi-Kyushu Shinkansen by promoting development in the western Kyushu area, using the opening of the Nishi-Kyushu Shinkansen as a catalyst



State of use, four months after the opening of the Nishi-Kyushu Shinkansen (between Takeo Onsen and Nagasaki from September 23 to January 22)

Total usage	Daily average	Compared with pre-COVID (Reference)
Approx. 811,000 people	Approx. 6,600 people	Approx. 104%
		Kyushu Shinkansen (Hakata to Kumamoto) Approx. 79%

Note: Usage is in comparison with the Kamome express on conventional line between Isahaya and Nagasaki on the same day of 2018

**B New Nagasaki Station building area development\*** (autumn 2023)  
\*Nagasaki Marriott in early 2024



- Implementing an integrated development project as the land gateway to Nagasaki, an international tourism city. Including hotels (Nagasaki Marriott Hotel), commercial facilities, offices, parking lots, etc.
- Implementing such initiatives as environmental burden reduction, infection countermeasures, introduction of next-generation AI/ICT, etc.

January 2022	March 2022	September 2022	Spring 2023	Autumn 2023	Early 2024
<b>A</b> Akane-sasu Hizenhamashuku Accommodation in an old private home	<b>B</b> Kamome Ichiba Souvenirs, dining, etc.	<b>C</b> Nishi-Kyushu Shinkansen	<b>C</b> Under the elevated tracks at Saga Station Renovation	<b>B</b> New Nagasaki Station Building <b>D</b> URESHINO YADOYA (Japanese-style inn with hot spring)	<b>B</b> Nagasaki Marriott Hotel

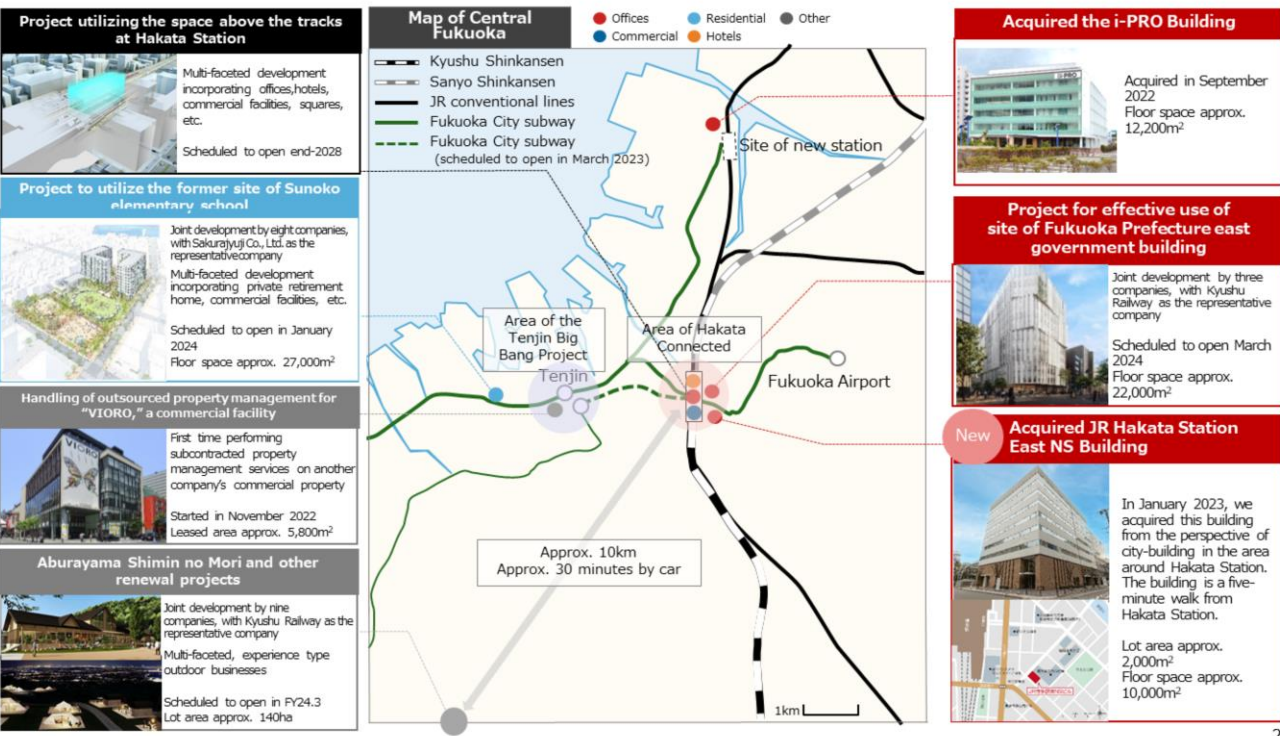
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- Four months have passed since the Nishi-Kyushu Shinkansen opened on September 23, 2022. Passenger traffic has continuously exceeded pre-pandemic levels of traffic on conventional limited express trains on parallel sections. In our view, we have sustained a strong performance in light of the fact that traffic on other routes, including Kyushu Shinkansen, have not yet fully recovered.
- Going forward, we will continue working to sustain and maximize the effect of the Shinkansen's opening through city-building. We will begin renovating the area under the elevated tracks at Saga Station in spring 2023. Autumn 2023 will mark the opening of the New Nagasaki Station Building and a ryokan (Japanese-style inn) in Ureshino, and the Nagasaki Marriott Hotel will open in early 2024.
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## Key strategy② Creating a Model for Building Cities that Promote Well-Being: City-Building in the Fukuoka Area

In the city of Fukuoka, where the amount and rate of population growth are the largest among ordinance-designated cities in Japan, in addition to real estate development we are promoting city-building across a wide domain, including outsourced property management business and the development and operation of outdoor facilities.



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- Fukuoka is a strategically important area for the Group in terms of population, economic scale, and future growth potential. We are promoting participation in city-building in a wide range of areas, including multi-faceted, experience-type outdoor business, mixed-use development including private retirement homes, and the property management of commercial facilities in the Tenjin area.
- In particular, we see Hakata as an area of opportunity to promote city-building, thanks to the relaxation of building conditions through Hakata Connected until 2028 and the improvement of the terminal function of Hakata Station through extension of the Nanakuma Line Fukuoka City Subway, which is less than two months away from opening.
- In addition to expanding earnings from the real estate business, last month we allocated a portion of the 90 billion yen growth investment that had not yet been confirmed in our medium-term business plan as part of our contribution to city-building in the Hakata Station area. We used these funds to acquire an office building a five-minute walk away from Hakata Station.
- We will continue to actively consider city-building in the continuously growing city of Fukuoka and the surrounding area.
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## Key Strategy ② Creating a Model for Building Cities That Promote Well-Being: Rediscovering and Making Use of Regional Resources

### Kyushu DREAM STATION: Nigiwai Partner

- Select partners who will work with us to create a lively atmosphere in the entire Kyushu area by utilizing JR Kyushu stations and train lines
- Starting with these four stations, continue to work with local companies to promote initiatives to invigorate the community



#### Nagayo Station (Nagasaki Prefecture)

- Partial outsourcing of station operations at Nagayo Station premises
- Planning and operation of exhibitions, product sales events, etc. through the employment support business at community halls

Nagayo Kousaikai,  
a social welfare  
corporation



#### Misumi Station (Kumamoto Prefecture)

- City-building not only in Misumi Station but also in the entire area including the Misumi East Port

Sea Cruise Co., Ltd.



#### Kirishima-Jingu Station (Kagoshima Prefecture)

- Renovation of the Kirishima-Jingu Station interior
- Development of "teahouses" (food and beverage shops) in the station

IFOO Co., Ltd.



#### Aoshima Station (Miyazaki Prefecture)

- Aoshima Station as a starting point for promoting tourism to the Aoshima area

Ofa Support Inc.



— Kyushu Shinkansen  
— Nishi-Kyushu Shinkansen  
— Sanyo Shinkansen  
— Trunk Lines  
— Local Lines

- Our city-building efforts are not limited to the areas around terminal stations.
- We have been working to make effective use of stations and create a bustling atmosphere in cooperation with the local community and other businesses. This year, we are launching the Kyushu DREAM STATION to create an even more vigorous atmosphere at the station and in the surrounding area. We have recruited "nigiwai partners," who are willing to collaborate with us to create a lively atmosphere by utilizing our stations and train lines.
- Starting with partners selected at four stations this year, we will continue to cultivate and promote the attractiveness of local resources and promote city-building in cooperation with other businesses through these initiatives.
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## Key Strategy ② Creating a Model for Building Cities That Promote Well-Being: The BRT on the Hitahikosan Line

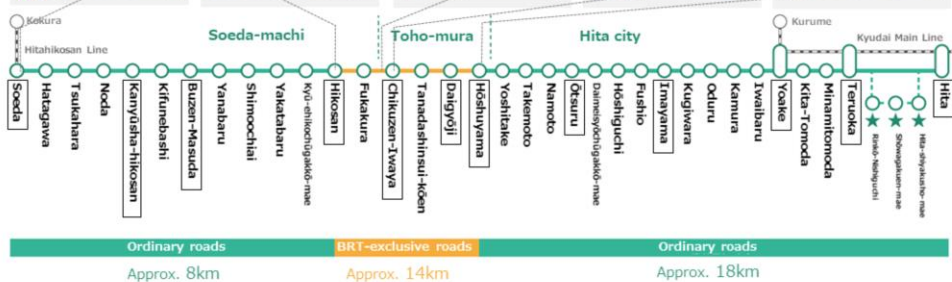
- In summer of 2023, BRT service is scheduled to commence on the Soeda–Yoake/Hita segment, which a disaster made impassible in July 2017.
- The number of stations is expected to triple from pre-disaster levels, mainly in areas closely connected to daily life (originally, 12 train stations)

### Progress of construction



### Commencement of test runs using electric busses

The four electric buses to be introduced are scheduled to begin test runs on public roads on March 7, 2023, to confirm vehicle performance and equipment.



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.  
Plans are as of February 7, 2023, and are subject to change.

Construction updates are now available on [YouTube](#).



- Regarding BRT for the Hitahikosan line, construction is progressing smoothly toward the line's opening in summer 2023. On March 7, environmentally friendly electric buses are scheduled to begin running tests on public roads.
- We plan to install about three times as many stations as before the disaster, mainly in areas closely connected to daily life, with the aim of making mobility more convenient than ever for local residents.
- 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

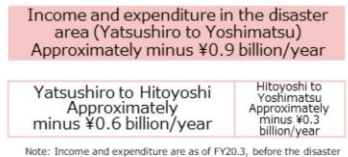
- Purpose of the conference:  
To consider how to restore the Hisatsu Line, which was damaged by heavy rains, including the possibility of linking the line restoration with rivers, roads, and other public works, and what the Hisatsu Line should look like after restoration
- Attendees:  
Personnel from the Ministry of Land, Infrastructure, Transport and Tourism (MLIT); Kumamoto Prefecture; the Kyushu District Transport Bureau; the Kyushu Regional Development Bureau; and JR Kyushu
- Discussion points (based on the 3rd JR Hisatsu Line Review Conference agenda)

#### (1) Restoration costs



Note: The restoration amounts indicated here are calculated under specific conditions; amounts may vary depending on circumstances.

#### (2) Post-restoration sustainability



In addition to restoration costs, each stage of the project should be considered from a broad perspective, starting with an overall regional picture of the future to the specifics of transportation (positioning of the railroad) and sustainability of the railroad.

- We are participating in review conferences 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.
- At the most recent conference, it was confirmed that, in addition to restoration costs, each stage of the project should be considered from a broad perspective, starting with an overall regional picture of the future to the specifics of transportation and sustainability of the railroad, as well as to conduct specific research and study projects in the future.
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## Key Strategy③ Developing Businesses in New Areas in Which We Can Contribute: Reinforcing the Manufacturing Field

We will reinforce the manufacturing sector to provide stable support to the Transportation Segment and the Real Estate and Hotels Segment, which are central to city-building, and to expand the area of contribution to city-building by making the Construction Segment more competitive.

Development of the Fukuoka Works as a base for technological development and manufacturing

Conceptual image of the Fukuoka Works



We aim to concentrate management resources, such as human resources, technology, and equipment, by consolidating eight workplaces that are currently dispersed across Fukuoka Prefecture to improve technological development and manufacturing construction capabilities.

Operating entity	JR Kyushu Engineering, Ltd.
Location	Koga, Fukuoka Prefecture
Scheduled completion date	October 2023
Scale, construction	Lot area: 5,686.35m <sup>2</sup> [Office wing] Reinforced steel construction, three floors, 1,448.45m <sup>2</sup> Expect to obtain ZEB certification 1F Office                      Quarters for factory technicians 2F Office                      Some headquarters functions 3F Training room           Employee training, technology training Clean room                  Maintenance of printed circuit boards for electronic equipment R&D laboratory              Development of robots, test equipment, etc. [Factory wing] Reinforced steel construction, two floors, 2,705.11m <sup>2</sup> Inspection space            Inspection of parts for rolling stock and rail maintenance machinery Production space            Production of parts for rolling stock, wheel lathes, turning machines, etc.

### Examples of products



### Examples of technology development



#### **PANDHR, a robot for maintaining pantograph shoes**

Using robots to maintain about 1,500 pantograph shoes per year for Shinkansen rolling stock will save labor and free workers from exposure to the dust generated by polishing.

Note: PANDHR = Panta shoe mainte Diversity of Human Robot

In the future, the company will also manufacture work robots, various measuring instruments, and other equipment to attract business from fields outside the railroad industry.



#### **JR Kyushu Engineering, Ltd.**

This wholly owned subsidiary belongs to the Group's Construction Segment. As the core Group business in the manufacturing category, JR Kyushu Engineering is mainly responsible for the manufacture, maintenance, and repair of rolling stock, machinery, and equipment.

- In line with our third key strategy, of developing businesses in new areas in which we can contribute, we are working to reinforce the Construction Segment's manufacturing field.
- JR Kyushu Engineering, a wholly owned subsidiary, mainly manufactures, maintains, and repairs rolling stock and machinery and equipment for JR Kyushu's railway business, but the company also provides some of products it fabricates to companies outside the Group.
- In October 2023, we plan to consolidate eight workplaces dispersed throughout Fukuoka Prefecture. As a result, we aim to concentrate management resources, such as human resources, technology, and equipment, and improve our technological development and manufacturing construction capabilities. We will continue to develop equipment, such as work robots and various measuring instruments, that will attract attention outside the railroad industry.
- 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/](https://www.jrkyushu.co.jp/company/ir_eng/library/earnings/)