

(Translation)

December 13, 2023  
Kyushu Railway Company

### **Main Questions and Answers from JR Kyushu IR Day 2023**

#### **Personnel Strategy (Senior Corporate Officer Hisashi Yamane)**

- Q. How does JR Kyushu present its attractiveness to prospective hires and what is its personnel strategy in the overall context of new graduate recruitment? While this might be a presumptuous assumption, I believe that in the past, JR Kyushu took on various challenging endeavors outside its railway business, and the people who saw achievements in these endeavors are now in executive positions, including the president. With today's briefing, I understand that there are various mechanisms for people to inherit this spirit of taking on challenges, but I think the mindset of people seeking to join JR Kyushu changed after it became a publicly listed company and achieved stable performance. What kind of personnel strategy is implementing for such people, and what systems and messages are creating to continue attracting people who like a challenge? Please explain these initiatives from the perspective of succession for personnel.
- A. There has been no change in our policy of creating various businesses based on the railway business. Our policy of seeking out people who like a challenge has also not changed. As you mentioned, Director and Senior Managing Corporate Officer Mori, Director and Managing Corporate Officer Matsushita, Director and Managing Corporate Officer Akagi, and myself have all served as presidents of group companies. In this sense, we are showing students that they can advance their careers by gaining experience in various businesses. I am in charge of final interviews with job applicants and directly convey to students the interesting side of taking on challenges in various businesses. We will continue recruiting people who are willing to take on various challenges.
- Q. Regarding recruitment at the operational level, I think the fact that more semiconductor companies are setting up base in Kyushu has led to the creation of jobs with better work conditions. What measures are JR Kyushu taking to recruit new graduates across various age groups?
- A. We have raised the base wages, which is a key part of our personnel strategy. Specifically, we have increased the base monthly wage by ¥30,000 for young employees. Moreover, we feature young employees as role models on our website. For women, we actively hold meetings for exchanging opinions with young female employees. The number of pre-entries is up by about 30% compared to last year, which I believe reflects an improvement in our recruitment competitiveness.

- Q. You mentioned an increase in pre-entry numbers, but there is a perception among young people that the railway industry involves long work hours and salaries that are not that high. Can you explain in more detail why the number of pre-entries has increased?
- A. As I mentioned earlier, featuring relatable young employees on our website and elsewhere in our communications is very important. JR Kyushu is involved in various operations, including the railway business and other business development, and we feature role models from each business division on our website. We acknowledge there is a perception of low wages in the industry, but we believe that we have increased the base wages in light of wage levels at other local companies, which is having a positive impact on our recruitment numbers.
- Q. What, if any, strategies are being considered in light of the declining birthrate in Japan and long-term challenges in recruitment?
- A. Given the decline in birthrates, we expect recruitment to become more challenging in the future. JR Kyushu is focusing on improving work efficiency. Taking our Future Railway Project as an example, we aim to enhance the efficiency of our employees when rolling out new technologies and operate with a lean system.
- Q. Considering the age composition of JR Kyushu's employees, from a human resource management perspective, is there a shortage of people in any specific age group? Is there a good balance of personnel for the next 10 to 20 years?
- A. I am 56 years old, and employees in my age group were hired after the national railway system was reformed, so we are somewhat few in number. Since then, recruitment has been smooth, so I do not think there is a shortage of people in any particular age group. However, we did halt recruitment for a year during the COVID-19 pandemic, so there is an urgent need to fill that gap. We plan to recruit 200 young employees this fiscal year.
- Q. Today's presentation mainly covered the organizational culture and hard aspects like systems and rules. Could you talk more about the soft aspects, like how employees' psychological safety is now, and any issues they may be facing?
- A. We conduct employee awareness surveys every year, and one concern among employees is about the future of JR Kyushu. Additionally, it seems like loyalty to the company might be lacking somewhat. To improve this situation, we have held an opinion exchange event for all employees, and I have been participating in it. We believe that having direct conversations is the best way to alleviate the anxiety employees faced during COVID-19 and accurately convey the company's policies and aims. We think this approach is yielding results. This is evidenced by the fact that the number of resignations among employees under 50 has decreased by about 30% this fiscal year compared with last year, and this was probably influenced by the recent wage increases we made as a part of our personnel strategy.

Q. What is the feedback status regarding employees' opinions from the opinion exchange events with the management team?

A. We answer each and every question individually. We initially provide a general answer to the questions posed by participants in the opinion exchange events, and then we follow up with the relevant departments to provide a more detailed answer for the participants.

Q. In this year's integrated report, I noticed there were improvements on various metrics in the employee awareness survey. However, I am particularly concerned about the sense of routine in their work and the sense of burden in their work quality. From a human resources perspective, what initiatives need to be taken to address these issues? Or, if there are already human resource systems in place for situations like this, what would be the necessary next steps? What are the keys to improving these issues in actual business operations?

A. Regarding the sense of routine in their work, especially in the railway business, there is some truth to this in work that seems simple, whether it be operating trains or manning train station booths. We believe it is important to show employees, such as through the Future Railway Project, that their job will evolve. We are also considering the introduction of a Talent Management System based on our personnel strategy. It is important to understand the challenges being undertaken by individual employees and facilitate transfers to other positions in light of these. We have already started a voluntary transfer system and believe it is important to expand it to cover more employees.

Q. Regarding the future of introducing the Talent Management System, is there any discussion in the Human Resources Strategy Committee about excessive or insufficient levels of skills and experiences, and how to allocate future investments in talent to address any shortages?

A. We aim to introduce the Talent Management System next year and are currently examining its specifications. In the context of excessive or insufficient levels of skills and experiences, the Human Resources Strategy Committee has been discussing how to develop executives and promote young employees. We plan to train dozen or more people for a year, giving them various experiences while monitoring their development. We aim to develop young employees into executives at the management level.

- Q. I have high expectations for the Future Creation Program HIRAMEKI as a platform for challenges. I think its continued success will require innovation. From small to large challenges, including psychological safety, how do you plan to effectively incorporate employees' opinions into management, including the ideas gleaned from the opinion exchange events with management? In this context, how will management increase the number of challenges on various fronts?
- A. Regarding HIRAMEKI, starting this fiscal year, we switched to a system where the company closely supports the people who propose ideas. This has significantly increased the number of proposals that are being carried out. To increase the number of proposals further, we are continuously soliciting proposals based on customer feedback about our services and those necessary for maintaining safety. We are attentive to even small ideas, a stance we intend to continue.

**Progress on JR Kyushu Group DX Strategy 2022-2024 (Director and Managing Corporate Officer Yumi Akagi)**

- Q. In today's presentation, I was surprised by the digital challenge where people with no app development experience are given a chance at creating apps. What organizational methods or techniques are involved in this?
- A. As I touched upon earlier, we have established teams of specialized personnel within the IT Strategic Planning Department, known as CoE, that take the lead on conducting workshops at various workplaces. We have made it possible for anyone to participate in these workshops for app development using low-code tools, even for people who do not know how to write code. We are educating interested employees on how to create apps.
- Q. Have any specific requirements been defined for app development?
- A. We have proper guidelines, and, of course, app development begins by first identifying issues in need of a solution in our work. For example, if going paperless is the goal and some sort of an app might allow this, each department has a digital representative to consult. When it comes to app development, the head of the department makes a commitment to support its development, kicking off the development process.
- Q. Regarding autonomous driving, I assume the ultimate goal is complete automation. At this juncture, is it safe to assume that complete automation is near impossible on all train lines? Or does the company plan to implement automation across all JR Kyushu lines eventually?
- A. Currently, we are considering its deployment on certain sections of track. We need to think about cost effectiveness because adding an Automatic Train Stop (ATS) system, which is base of an autonomous driving system, and Automatic Train Operation (ATO) equipment to trains is necessary. We are moving ahead with implementation in limited sections of track, while considering future technological advancements and ways to strengthen labor-saving measures which catching up on the technology side.
- Q. My understanding is that responding with ATS, which is a normal speed verification is a challenge, and more precise control is necessary, requiring more investments in equipment. Therefore, is JR Kyushu advancing with autonomous driving while considering the cost-effectiveness of such investments?
- A. Actually, Automatic Train Control (ATC) is the autonomous driving system known around the world, a different system from the one we use. What we claim as a first in Japan is in the sections where ATS are introduced, and its implementation in areas with railroad crossings, which is a new concept. In terms of Grade of Automation (GOA), GOA is 2.5, between 2 and 3, so we are proceeding cautiously while seeking approval from the regulatory authorities.

Q. I would like to ask about JR KYUPO. Due to expansion in membership, I assume cross-selling across Group businesses is going well, but is it also reasonable to expect cost reductions and similar outcomes? For instance, by getting members to use the Group's credit card instead of external ones, can credit card processing fees be internalized? Are there any positive factors other than the boost to revenue?

A. As you suggested, customers who have JQ Cards use JR KYUPO more, so it is rather important to increase the number of customers with JQ Cards. Rather than reducing costs, we are more focused on expanding the top line. We recently rolled out JR KYUPO in station buildings about two months ago, and just over the past month, the number of JR KYUPO app downloads increased by about 60,000. Previously, the app was downloaded around 5-6,000 times per month. This surge to over 60,000 downloads in a month is quite encouraging. We will focus on raising the Group's overall top line, using purchase data from JR KYUPO, which is not limited to a single payment method.

Q. Does JR Kyushu plan to set specific targets for the impact of DX initiatives on revenues and profits?

A. Since digitalization is still an initiative in progress, the key point in terms of business transformation is shifting from Time Based Maintenance (TBM) to Condition Based Maintenance (CBM), especially from a cost reduction standpoint. As mentioned earlier, we aim to increase the top line in customer-related areas, but we have not set specific numerical targets yet. Under our new medium-term business plan, in the context of further advancing DX, we want to establish different KPIs beyond just the number of participants in education and training.

## **Exchange of Opinions with Outside Directors (Outside Director Muramatsu, Outside Director Yamamoto, and Director and Managing Corporate Officer Matsushita)**

Q. This question is for Director Muramatsu. At the end of your self-introduction, you talked about how personnel strategy will affect the effectiveness of various measures and their outcomes. From the perspective of investors, if personnel strategy is linked to management strategy, I would like you to understand which measures translate into higher corporate value based on an analysis of their relationship with corporate value. Lastly, I would like you to discuss how this is used in management in the PDCA cycle. Is this the intention expressed in your earlier statements?

A. (Muramatsu) I share the same concerns. We intend to carefully examine how these measures relate to corporate value, though it may take time. My advice is to first properly implement the measures, set KPIs, and then visualize and understand their effects. Then, any necessary updates should be made, and make everything transparent and clear. This includes investment amounts and seeing how management and personnel strategies are linked, which I have advised and the executive side is pursuing.

Q. For data visualization, I think it is very difficult to analyze correlations without accumulating data through employee awareness surveys. What is the timeline for such analysis, and how do you envision linking it with the strategies of the Human Resources Strategy Committee, Executive Committee, or the Board of Directors? Please tell me if there has been any discussion about this.

A. (Muramatsu) We conduct employee awareness surveys once a year and we are expanding these surveys to include Group companies starting this year. While conducting these surveys as point-in-time observations, the executive side also examines the outcomes and any issues for each measure. The executive side then aligns these outcomes to trends and progress on our medium-term business plan. Ideally, the board would receive explanations and reports at least quarterly, and proceed accordingly. In terms of advice not only among board meetings, for example, both Director Yamamoto and I have been involved in providing advice about diversity strategy for a long time, as well as individual consultations outside of board meetings. In this way, we contribute towards increasing the effectiveness of measures and their advancement.

- Q. This question is for Director Yamamoto. As an outside director affiliated with ANA, what suggestions or proposals have you made to JR Kyushu, based on your experience at ANA? What experiences at ANA are applicable to JR Kyushu? JR Kyushu mainly engages in the railway business and real estate, while ANA is only involved in the passenger business. Conversely, are there aspects of JR Kyushu's operations that you feel could be of use to ANA? Please share them.
- A. (Yamamoto) I have advised on advancing DE&I while referring to global standards. I am affiliated with the ANA Strategic Research Institute, where we recognize that regional revitalization is a critical issue, and I think that JR Kyushu and ANA need to consider collaborative MaaS initiatives. Such initiatives include travel products and experience programs that encourage inbound tourists to explore not just Kansai but also Kyushu. Additionally, in light of Japan's low birthrate and aging population, I believe that we need to attract both foreign visitors and residents of Japan to Kyushu, while ensuring stress-free travel experiences.
- Q. This next question is for both outside directors. As outside directors of JR Kyushu, what do you perceive as its challenges, and what areas do you think need change?
- A. (Muramatsu) I believe much of what needs to be done is already being addressed. However, I think that there is still room for growth on the business management side, particularly in integrating financial and business strategies from a comprehensive view of the overall situation, including personnel strategy. Additionally, for Group management, I see the potential to further expand Group synergies and enhance Group governance, especially in risk management.
- A. (Yamamoto) In my second year as an outside director, my perception of JR Kyushu is that management is diligently and sincerely addressing challenges. From a future perspective, I think a more global outlook could be beneficial. Moreover, I believe that JR Kyushu has substantial brand power in Kyushu that could be useful in appealing to customers both in Japan and around the world. I aim to contribute to improving how the JR Kyushu brand is presented to the world.

<A Cautionary Note>

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