

(Translation)

April 1, 2022

Kyushu Railway Company

**Main Questions and Answers from Presentation for JR Kyushu Group Medium-Term
Business Plan 2022-2024**

Q. The targets for operating income — ¥70.0 billion in FY2031/3 and ¥57.0 billion in FY2025/3 — appear to be stretch targets. Would you discuss what will be necessary to achieve these targets, and what types of discussions were held at meetings of the Board of Directors? Also, what is the probability that the targets will be achieved in the event that the entire amount of capital investment in the plan — ¥340.0 billion — is utilized?

A. Looking at the composition of our businesses over the period of the plan, the percentage of non-railway businesses will increase. It will be important that we have the strength to carry out a variety of businesses. From this perspective, in implementing key strategies, human resources have been positioned as an important foundation. Opinions expressed at meetings of the Board of Directors included the view that it will be important to advance the plan with an awareness that we are “a company that also has a railway business.”

To achieve the target of ¥57.0 billion in operating income in FY2025/3, it will be necessary to make progress with the ¥90.0 billion in capital investment that has not been confirmed. Also, in the railway business, we are anticipating revenue of 95% or more of the level in FY2020/3, and we believe that it will also be necessary for there to be some degree of resolution of the COVID-19 situation.

Q. In regard to the FY2025/3 numerical targets in the Transportation Segment, will the Company be able to record additional operating income if there is a certain degree of recovery in operating revenue and a reduction of ¥14.0 billion in fixed costs?

The railway business is a difficult business, with a large number of regional routes. In considering the realization of the 2030 Long-Term Vision, what types of discussions were held at meetings of the Board of Directors in regard to the railway business?

A. The operating income target for the Transportation Segment depends to a significant extent on the recovery of revenue in the railway business. In addition, in the past we have recorded impairment loss on fixed assets in the railway business, and accordingly we are also taking into consideration the influence of the accumulation of depreciation accompanying annual capital investment.

At meetings of the Board of Directors, our discussions include the need for a long-term viewpoint in the railway business, rather than a short-term viewpoint; how to provide optimal mobility, including regional routes, as we work toward the realization of the 2030 Long-Term Vision; and how we can aim for environmentally friendly mobility as we aim for carbon neutrality. With consideration for these types of discussions, we will establish the Regional Strategy Department in April 2022.

Q. The opening of the Nishi-Kyushu Shinkansen will have the effect of increasing revenue. How has this effect been reflected in railway business revenue and expenses during the period of the plan? The plan calls for a recovery in railway business revenue to 96% of the level in FY2020/3. Excluding the revenue-increasing effect of the opening of the Nishi-Kyushu Shinkansen, approximately what level of recovery is expected?

A. In regard to the revenue-increasing effect of the opening of the Nishi-Kyushu Shinkansen, there are some uncertain elements, and accordingly we are not disclosing that information. Also, in regard to operating expenses, we are expecting an increase in depreciation, mainly due to capital investment related to Shinkansen rolling stock.

Q. How has the effect of inflation over the period of the plan been taken into account? Also, in regard to price increases, including the revision of fares, how have these been incorporated by segment?

A. In regard to energy expenses over the period of the plan, we had expected an expense-reduction effect accompanying reduced usage due to the revision of the number of trains operated and other factors. However, with consideration for a unit-price increase, we are now anticipating a large amount of energy expenses in comparison with past amounts. Hotels are assets for which it is easy to reflect inflation in sales prices, but the extent to which we will be able to increase ADR after the resolution of COVID-19 will be an issue going forward.

In regard to fare revisions, the government is holding committee meetings in regard to the way that the system should be. We will respond flexibly while monitoring the progress of the discussions.

Q. Would you discuss specific additions to cost-reduction initiatives that are related to BPR?

A. BPR-related initiatives have accumulated to more than ¥14.0 billion. Going forward, we are thinking about the utilization of digital technologies. An example would be reducing energy expenses by increasing skill levels in operations through the use of rolling stock data. In addition, we are considering frameworks for increasing each employee's awareness of profitability, including the reevaluation of organizations.

Q. The presentation included an explanation of city-building initiatives in areas around terminal stations and railway lines. Of the FY2025/3 operating income target of ¥27.0 billion in the Real Estate and Hotels Segment, if the areas around terminal stations and the areas around railway lines are considered separately, what is the amount of profit contribution from each category?

A. It is difficult to indicate the amount of profit contribution from each of the categories of areas around terminal stations, areas around railway lines, and local regions. However, we think that as of FY2025/3, the majority of operating income will be received from areas around terminal stations. In regard to future development in areas around railway lines, including the development of the former site of Kyushu University's Hakozaki Campus, we will provide more information as the projects take shape.

Q. Would you discuss the factors for increased profit in the Real Estate and Hotels Segment in FY2025/3? Which will make a larger contribution — sales or leasing? Also, in regard to the investment plan over the period of the business plan, it is difficult to see investment recovery. What are the Company's expectations in this regard? Also, what are the Company's thoughts regarding the percentages of investment within Kyushu and outside of Kyushu?

A. Over the period of the plan, we are anticipating a recovery in the results of station buildings, which were affected by COVID-19. In addition, there are also the opening of the new Nagasaki Station building and the Kagoshima-Chuo Station west entrance development. The contribution

of leasing will likely continue to be larger. In regard to sales, condominiums and sales of properties to the private REIT will continue to make contributions. We will consider future sales of properties to the private REIT while monitoring market conditions, our balance sheet, etc.

Looking at growth investment over the period of the plan, many development projects will open by FY2025/3. Accordingly, the amount of capital investment over the period of the plan will make a large contribution to the FY2025/3 operating income target of ¥57.0 billion.

Looking at the issue of within Kyushu and outside of Kyushu, projects within Kyushu will be the main focus of capital investment. However, we might also secure profits by selling Tokyo projects to the private REIT.

Q. Would you provide details about hotel brand rebuilding initiatives?

A. Hotel brand rebuilding is something that we will consider in detail going forward, but THE BLOSSOM is sluggish due to COVID-19. Brand value has not been communicated to customers, and we recognize that this is an issue. We will consider this issue in a wide-ranging manner, including collaborating with other companies and implementing brand rebuilding on our own.

Q. Would you describe the risk scenario for the investment plan and the fund-raising plan in the event that, due to the re-spread of COVID-19, etc., the Company is not able to achieve the FY2025/3 operating income target of ¥57.0 billion?

A. Over the period of the previous plan, prior to the withdrawal of the numerical management targets and reference indicators, we had also anticipated investment of ¥340.0 billion, but due to the influence of COVID-19, we reduced this to approximately ¥270.0 billion. Accordingly, in the event of the same type of risk scenario, we will consider such matters as how we will reduce the ¥90.0 billion in capital investment that has not been settled, and if we can reduce or postpone maintenance and upgrade investment. In addition, we will likely consider further measures to reduce costs, without being satisfied with the fixed-cost reduction of ¥14.0 billion through BPR.

Q. In regard to major investment projects, my impression is that we have received explanations of many projects, but other than those, what types of projects are there?

A. The investment projects listed in the plan account for the majority of projects that are currently settled. We are advancing consideration of pipeline enhancement for logistics facilities, rental apartments, etc., and we will provide information as these issues are settled.

Q. Would you discuss the details and returns regarding the approximately ¥60.0 billion in investment that is related to increases in environmental value? Also, would it be accurate to say that environment-related investment has been positioned as growth investment?

A. The approximately ¥60.0 billion in investment related to increases in environmental value is divided into growth investment and maintenance and upgrade investment. Of these projects, capital investment related to the Nagasaki Station building, which is a large project, has been positioned as growth investment. We expect capital investment related to green buildings to be slightly more than ¥40.0 billion. Note that, in regard to returns, it will not be worse than other station buildings.

Of the remaining ¥20.0 billion, capital investment related to rolling stock, which will be between ¥10.0 billion and ¥15.0 billion, will be included in clean transport.

The remaining amount of several billion yen is for projects that have not been settled, but we would like to utilize it for proactive environmental investment, such as investment in funds related to solar power generation.

Q. There was an explanation about strengthening B-to-B businesses. In regard to implementing M&A initiatives, would you discuss business categories, targets, and scale?

A. In regard to M&A, we have not determined the extent to which we will utilize the ¥90.0 billion in investment that has not been settled. Over the period of the previous plan, although the scale was small, we implemented multiple M&A initiatives, such as Caterpillar Kyushu. Aiming to expand business areas, we will work to link these initiatives to the strengthening of B-to-B businesses and B-to-G businesses, including businesses directly related to existing businesses.

Q. In regard to determining the shareholder return policy, would you describe the types of

discussions that were held? Considering the balance among each type of stakeholder, did the discussions include the view that the policy of a minimum dividend of ¥93 per share should be eliminated?

A. In regard to the shareholder return policy, a variety of discussions were held at meetings of the Board of Directors. Results have not recovered completely, and the issue of whether or not the policy of a minimum dividend of ¥93 per share should be continued was a point of our discussions. However, we place importance on the stable provision of return to shareholders over the long term, and with consideration for the dividend payout ratio, operating cash flow level, capital investment amount, D/EBITDA ratio, equity ratio, etc., in FY2025/3, we determined that there was not a problem with the policy of a minimum dividend of ¥93 per share.

Q. Would you discuss the outlook for free cash flow? To what extent will the private REIT be utilized?

A. We will strive to achieve positive free cash flow in the railway business before the end of the plan. Free cash flow will continue to be negative in non-railway businesses. Accordingly, although we are anticipating improvement in consolidated free cash flow, we expect it to be at a negative level over the period of the plan. Note that we will strive to make consolidated free cash flow positive over the period of the next plan. In that case, in regard to the question of how we view the contribution from the private REIT, we will strive to ensure that we do not depend excessively on the generation of cash flow from the private REIT.

Q. The level of approximately 5 times seems high for the D/EBITDA ratio. Is it the Company's belief that there is no problem with this level, even from a medium-term viewpoint, such as 2030?

A. Before COVID-19, we had anticipated that the D/EBITDA ratio would be 2 times to 3 times. Accordingly, the level of 5 times is high in comparison with previous levels. During the period of the next plan, we will strive to make consolidated free cash flow positive, and we will work to make the D/EBITDA ratio less than 5 times.

Q. There was an explanation about advancing the personnel strategy. Has a decision been made in

regard to specifically how the system will be changed? Also, how will the reform of the personnel system enable the resolution of matters that have been issues? Would you describe the background to the commencement of personnel system reform?

A. There are several issues with regard to human resources. With the diversification of our businesses, the largest issue is a growing need for human resources with specialized skills. However, we have not changed our personnel system since it was revised more than 15 years ago, and, as an extension of the system under Japanese National Railways, it is centered on the railway business. Through the reform of the personnel system, we will work to implement a special focus on the treatment of human resources with specialized skills.

Also, given household circumstances, such as the provision of care for parents, there has been an increase in the number of employees who want to work in a specific area. There have also been employees who changed their careers for that reason. If we do not build a personnel system that offers multiple options for employment styles and career steps, then we will not be able to secure highly capable human resources. We will strive to rapidly revise the system during the period of the plan.

Q. This is a question for Mr. Furumiya. What would you like to work on after you become president?

A. The period of the plan has been positioned as a “return to a growth track,” and during the period of the plan we will strive to restore businesses that had been following an underlying trend of contraction. We have announced an operating income target of ¥57.0 billion for FY2025/3. Under the previous plan, this was a numerical management target for FY2022/3, before it was withdrawn. This is a challenging target, but the entire Company will work together in a positive and energetic manner to move beyond COVID-19. Our numerical targets for FY2031/3 are challenging. Nonetheless, I will strive to encourage our employees to work toward these substantial goals.

<A Cautionary Note>

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