

(Translation)

Consolidated Financial Results
for the Six-Month Period Ended September 30, 2020
(Japanese GAAP)

November 4, 2020

Company name: Kyushu Railway Company
Stock exchange listings: Tokyo and Fukuoka
Securities code: 9142
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Scheduled date for filing of quarterly report: November 6, 2020
Date of dividend payment commencement: —
Preparation of supplementary explanations for financial results: Yes
Holding of a briefing on quarterly financial results: Yes

(Amounts less than one million yen, except for per share amounts, are omitted.)

1. Consolidated Financial Results for the Six-Month Period Ended September 30, 2020
(From April 1, 2020 to September 30, 2020)

(1) Consolidated operating results

(Percentages show year-on-year changes.)

	Operating revenue		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2020	124,552	(41.5)	(20,571)	—	(19,520)	—	(10,248)	—
September 30, 2019	212,861	1.3	30,217	(9.1)	31,026	(11.5)	23,025	(12.2)

(Note) Comprehensive income: Six months ended September 30, 2020: ¥(13,666) million (—%)
Six months ended September 30, 2019: ¥25,244 million [(9.9%)]

	Net income per share — basic	Net income per share — diluted
Six months ended	Yen	Yen
September 30, 2020	(65.23)	—
September 30, 2019	143.96	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2020	896,915	397,279	43.8
As of March 31, 2020	828,590	418,298	49.9

(Reference) Shareholders' equity: As of September 30, 2020: ¥392,421 million
As of March 31, 2020: ¥413,293 million

2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2020	—	46.50	—	46.50	93.00
Year ending March 31, 2021	—	0.00			
Year ending March 31, 2021 (Forecast)			—	93.00	93.00

(Note) Revisions to the most recently disclosed dividend forecasts: No

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2021 (April 1, 2020 to March 31, 2021)

(Percentages for the full year show year-on-year changes.)

	Operating revenue		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	291,700	(23.6)	(32,300)	—	(31,400)	—	(28,400)	—	(180.76)

(Note) Revisions to the most recently disclosed financial forecasts: No

Notes

- (1) Changes in significant subsidiaries during the six months ended September 30, 2020 (changes in specified subsidiaries affecting the scope of consolidation): No
- (2) Application of special accounting treatment in preparing the quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates and restatement of revisions
 - i Changes in accounting policies with revision of accounting standards: No
 - ii Changes in accounting policies other than the above: No
 - iii Changes in accounting estimates: No
 - iv Restatement of revisions: No
- (4) Number of shares outstanding (common stock)

i Number of shares issued and outstanding at end of period (including treasury stock)	As of September 30, 2020	157,301,600 shares	As of March 31, 2020	157,301,600 shares
ii Number of shares of treasury stock at end of period	As of September 30, 2020	184,600 shares	As of March 31, 2020	186,100 shares
iii Average number of shares during the period	As of September 30, 2020	157,116,250 shares	As of September 30, 2019	159,937,967 shares

Note: The number of shares of treasury stock at the end of the period includes the number of shares of the Company's stock held by the Board Benefit Trust (BBT) (Second quarter of FY2021/3, 184,600 shares; FY2020/3, 186,100 shares). In addition, the number of shares of the Company's stock held by the Board Benefit Trust (BBT) is included in the treasury stock that is subtracted in the calculation of the average number of shares during the period (Second quarter of FY2021/3, 185,350 shares; Second quarter of FY2020/3, 62,033 shares).

* This summary of consolidated financial results is not subject to quarterly reviews by certified public accountants or corporate auditors.

Explanation of Appropriate Uses of Performance Forecasts and Other Important Items

Performance forecasts and other forward-looking statements appearing in this document are based on currently available information and specific assumptions deemed rational, and are not assurances that the Company will achieve these forecasts. Actual performance can vary greatly depending on various factors such as fluctuations in interest rates, fluctuations in share prices, changes in exchange rates, fluctuations in the value of assets, changes in the economic and financial environment, changes in the conditions of competition, occurrences of large-scale and other disasters, and changes in regulations.

Supplementary quarterly materials are attached to this summary of consolidated financial results.

Kyushu Railway Company plans to hold a quarterly financial results presentation meeting for analysts on Thursday, November 5, 2020. The Company plans to publish the presentation materials distributed at this meeting on its website immediately after the meeting is concluded.

Contents of Accompanying Materials

1. Qualitative Information on Quarterly Consolidated Financial Performance.....	2
(1) Qualitative Information on Consolidated Operating Results	2
(2) Qualitative Information on Consolidated Financial Position	7
(3) Qualitative Information on Consolidated Performance Outlook.....	7
2. Quarterly Consolidated Financial Statements and Major Notes	8
(1) Consolidated Balance Sheets	8
(2) Consolidated Statements of Income and Comprehensive Income	10
Quarterly Consolidated Income Statements	
Consolidated Cumulative Second Quarter	10
Quarterly Consolidated Comprehensive Income Statements	
Consolidated Cumulative Second Quarter	11
(3) Consolidated Statements of Cash Flows	12
(4) Notes to Quarterly Consolidated Financial Statements	13
(Notes on Going Concern Assumption)	13
(Notes on Significant Changes in the Value of Shareholders' Equity).....	13
(Additional Information)	13
(Segment Information)	14
(Significant Subsequent Events)	14

○(Financial results presentation materials)

Financial Results for the Second Quarter of FY21.3 (Cumulative total for the six-month period from April to September)

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Qualitative Information on Consolidated Operating Results

In the six month period ended September 30, 2020, Japan's economy faced downward pressure on business conditions due to the influence of the COVID-19 infection in Japan and overseas. After the government lifted the state of emergency in May 2020, economic activity gradually began to restart. In this setting, consumer spending has shown signs of improvement. However, the outlook for the resolution of the COVID-19 crisis is unclear, and in this environment the timing, extent, etc., of a recovery in economic activity remain highly uncertain. Challenging conditions are expected to continue for the time being.

Looking at the Group's results, due to spread of the COVID-19 infection, the railway and other businesses were affected by declining mobility demand, sluggish consumer spending, etc. In these conditions, we worked in accordance with our recognition that our most important mission is safety in the railway business, which is our mainstay business. We steadily invested in railway safety, and we advanced preparations for the opening of the Miyazaki and Kumamoto station buildings, which are part of our implementation of strategic city-building initiatives in the regions around our bases. On the other hand, the future course of trends in the management environment is unclear, and in preparation for changes in the management environment, we took necessary countermeasures, such as implementing aggressive, accelerated fund-raising; taking steps to reduce costs, including temporary leave for employees; and reevaluating investment plans.

As a result, operating revenue were down 41.5% year on year, to ¥124,552 million; operating loss was ¥20,571 million (compared with operating income of ¥30,217 million in the same period of the previous fiscal year); negative EBITDA was ¥7,302 million (compared with EBITDA of ¥42,389 million in the same period of the previous fiscal year); ordinary loss was ¥19,520 million (compared with ordinary income of ¥31,026 million in the same period of the previous fiscal year); and net loss attributable to owners of the parent was ¥10,248 million (compared with net income attributable to owners of the parent of ¥23,025 million in the same period of the previous fiscal year).

(Note) EBITDA for the consolidated period under review is the numerical value of operating income plus the cost of depreciation (excluding the cost of depreciation related to lease assets held for the purpose of subleasing).

The Group's business performance by segment is as follows.

(Millions of Yen)

	Operating revenue			Operating income			EBITDA (Note 2)		
	FY2021/3, consolidated cumulative second quarter (six months ended September 30, 2020)	YoY		FY2021/3, consolidated cumulative second quarter (six months ended September 30, 2020)	YoY		FY2021/3, consolidated cumulative second quarter (six months ended September 30, 2020)	YoY	
Transportation	41,353	(49,164)	(54.3%)	(21,152)	(38,521)	—	(15,777)	(37,628)	—
Construction	36,142	1,533	4.4%	1,073	796	288.3%	1,564	719	85.2%
Real Estate and Hotels	27,303	(14,852)	(35.2%)	1,481	(8,635)	(85.4%)	7,488	(8,080)	(51.9%)
Real estate lease	22,979	(4,476)	(16.3%)	5,020	(3,948)	(44.0%)	9,837	(3,712)	(27.4%)
Real estate sale	1,907	(4,599)	(70.7%)	(351)	(959)	—	(346)	(963)	—
Hotel	2,416	(5,776)	(70.5%)	(3,187)	(3,727)	—	(2,003)	(3,404)	—
Retail and Restaurant	29,448	(23,574)	(44.5%)	(1,947)	(3,663)	—	(1,229)	(3,737)	—
Other	28,282	(8,314)	(22.7%)	438	(702)	(61.5%)	1,267	(878)	(40.9%)
Total	162,530	(94,372)	(36.7%)	(20,107)	(50,726)	—	(6,686)	(49,605)	—
Adjustment (Note 1)	(37,977)	6,064	—	(463)	(61)	—	(616)	(87)	—
Amount on the consolidated financial statements	124,552	(88,308)	(41.5%)	(20,571)	(50,788)	—	(7,302)	(49,692)	—

(Notes) 1. Adjustments reflect the elimination of intersegment transactions.

2. Consolidated EBITDA = operating income + depreciation (after elimination of intersegment transactions, excluding depreciation of leased assets held for subleasing purposes), segment EBITDA = segment operating income + segment depreciation (after elimination of intersegment transactions, excluding depreciation of leased assets held for subleasing purposes)

a. Transportation Group

In the railway business, we worked to secure safety and implemented measures to prevent the spread of COVID-19. On that basis, we worked to secure revenues and advanced measures to control investment and reduce costs.

In terms of safety initiatives, we steadily implemented safety investment, such as updating rolling stock and replacing aging facilities. In addition, from April 2020, we installed train inspection support systems and train track monitoring equipment on certain trains used to carry passengers. We commenced initiatives to increase efficiency of inspection operations, enhance equipment quality, and increase safety for employees.

In regard to services, with consideration for prevention of the COVID-19 infection, we worked to facilitate comfortable usage by understanding the attitudes of customers and aggressively taking action. In addition, on trains we expanded the introduction of the “JR-KYUSHU FREE Wi-Fi,” a free,

public wireless LAN service. Also, we posted notices regarding the Help Mark system on priority seating. In these ways, we worked to provide diverse, customer-focused services.

In marketing, from May 2020, on the Kōrimoto—Kiire segment of the Ibusuki Makurazaki Line, we introduced the Smart Support Station system. In addition, we rolled out a project under the title “Until the day the state of emergency is lifted, let’s stay strong together.” Through this project, we worked with a commitment to supporting the resolution of COVID-19 and took steps to promote the vitality of Kyushu. Furthermore, we worked to expand usage of Internet train reservation services, such as through sales of Minna no Kyushu Kippu, a product available only through the Internet. Moreover, we implemented such measures as a campaign to promote registration and use of the JR KYUPO app. We also worked to increase customer convenience and took steps to encourage customers to patronize multiple Group businesses, including the railway business and other businesses.

In transportation, while implementing infection prevention measures at stations and on trains, we worked to maintain the transportation network, which is social infrastructure. On the other hand, with consideration for the decline in mobility demand, we reduced the number of trains operated. In addition, the heavy rains in July 2020, which occurred in July 2020, caused damage to railway facilities on the Kyudai Main Line and the Hisatsu Line, and we provided substitute forms of transportation on certain sections. Also, due to the impacts of heavy rain that occurred in northern Kyushu in July 2017, we implemented substitute forms of transportation between Soeda Station and Yoake Station on the Hitahikosan Line. For this line, we have reached agreement with related local governments about the restoration of service through the introduction of a bus rapid transit (BRT) system, and we are moving ahead with preparations for the restoration of service. With regard to the segment between Higo-Ozu Station and Aso Station on the Houhi Main Line, which was impassable due to the impacts of the 2016 Kumamoto earthquakes, we completed restoration work and resumed service on the entire route in August 8, 2020.

In our passenger ship business, as a part of protection measures at ports and airports in order to prevent the spread of the COVID-19 infection, we received an order from the Japanese government to halt passenger transportation, and regular service has been suspended on all routes since March 9, 2020. On the other hand, as special domestic routes we offered service to Tsushima in August and to Hirado and Yobuko in September.

In our bus business, through measures to prevent the spread of infection, we worked to create an environment in which customers can use bus services with peace of mind, and at the same time we halted or reduced service in line with usage conditions.

In the field of new mobility services (MaaS), we advanced initiatives targeting the establishment of a sustainable public transportation network, centered on collaboration with DAIICHI KOUTSU SANGYO Co., Ltd., and Nishi-Nippon Railroad Co., Ltd. At Moji Station and Mojikō Station on the Kagoshima Main Line, we worked to improve connections between buses and trains. Our model for these initiatives was our collaboration with Nishitetsu Bus at Shimosone Station on the Nippo Main Line, which began in March 2020. In these types of ways, we worked to increase the convenience of public transportation. Moreover, the MaaS verification testing in Miyazaki Prefecture was selected by the Ministry of Land, Infrastructure, Transport and Tourism as a 2020 Japan-style MaaS promotion/support enterprise. We are moving forward with preparations for the start of verification testing from November 2020.

Despite the above efforts, due to the influence of COVID-19, revenues declined significantly in the

railway, passenger ship, and bus businesses, and the Transportation Group recorded operating revenue of ¥41,353 million, down 54.3% year on year; an operating loss of ¥21,152 million (compared with operating income of ¥17,369 million in the same period of the previous fiscal year); and negative EBITDA of ¥15,777 million (compared with EBITDA of ¥21,850 million in the same period of the previous fiscal year).

b. Construction Group

In the construction business, work orders have been received for the construction of elevated tracks and Shinkansen-related, condominium-related, and other projects, with construction being steadily executed. Cost reductions were also pursued.

As a result, the Construction Group posted operating revenue of ¥36,142 million, up 4.4% year on year; operating income of ¥1,073 million, up 288.3% year on year; and EBITDA of ¥1,564 million, an increase of 85.2% year on year.

c. Real Estate and Hotels Group

In the real estate business, we worked to create an environment in which customers can use services with peace of mind, and we advanced preparations for the opening of Amu Plaza Miyazaki in fall 2020. In addition, from May 2020, we started accepting tenants at RJR Precia Tenjin South, a rental apartment facility. However, revenues were lower as a result of the influence of measures implemented due to the spread of the COVID-19 infection, such as station building closures and operating hour reductions, as well as rent reductions to support tenants that operate stores.

In the real estate sale business, while temporarily closing model rooms and instituting infection prevention measures, we recorded sales from “MJR the Garden Kagoshima-Chuo,” “Marks City Futsukaichi,” and other condominium buildings, and we sought to promote sales of “MJR Sakaisuji Hommachi Tower,” “MJR Chihaya Branchera,” etc.

In the hotel business, due to the influence of COVID-19, we closed 8 of the 16 facilities in Japan. After reopening, we utilized the tourism support measures of the national government and local governments, created a plan for teleworking, etc. In these ways, we worked to capture limited demand. However, due to self-restraint in mobility, the cancellation of events, lower inbound demand, etc., revenues recorded a significant decline.

As a result, the Real Estate and Hotels Group posted operating revenue of ¥27,303 million, down 35.2% year on year; operating income of ¥1,481 million, down 85.4% year on year; and EBITDA of ¥7,488 million, down 51.9% year on year.

d. Retail and Restaurant Group

In our retail business, we moved forward with the opening of new convenience stores. In addition, we focused on taking steps to limit the decline in demand, such as renovating the Oita Souvenir Shop and establishing a premium corner. In May 2020, we transferred to TSURUHA Holdings, Inc. a portion of our holdings of the shares of JR Kyushu Drug Eleven Inc. Accompanying this transfer, from the end of the first quarter of the fiscal year ending March 31, 2021, JR Kyushu Drug Eleven Inc. has been excluded from the scope of consolidation and included in the scope of application of the equity-method.

In the restaurant business, we advanced new openings, such as the opening in July of Meinohama Marché at the Fukuoka City Subway's Meinohama Station and the opening in September of a restaurant that is a collaborative venture between a pizza restaurant and a chicken specialty restaurant, as well as a premium bread shop. On the other hand, we took steps to further increase management efficiency, such as closing unprofitable restaurants.

Nonetheless, due to the influence of COVID-19, revenues at station stores and existing restaurants declined substantially. As a result of this significant decline in revenues, the Retail and Restaurant Group recorded operating revenue of ¥29,448 million, down 44.5% year on year; an operating loss of ¥1,947 million (compared with operating income of ¥1,715 million in the same period of the previous fiscal year); and negative EBITDA of ¥1,229 million (compared with EBITDA of ¥2,507 million in the same period of the previous fiscal year).

e. Other Groups

For the construction machinery sales and rental business, we worked to secure earnings through aggressive sales activities.

As a result, Other Groups posted operating revenue of ¥28,282 million, down 22.7% year on year; operating income of ¥438 million, down 61.5% year on year; and EBITDA of ¥1,267 million, down 40.9% year on year.

(Note) EBITDA for the consolidated period under review is the numerical value of operating income plus the cost of depreciation (excluding the cost of depreciation related to lease assets held for the purpose of subleasing).

(2) Qualitative Information on Consolidated Financial Position

1. Assets, Liabilities, and Equity

Total assets as of September 30, 2020, increased 8.2% compared with the previous fiscal year-end, to ¥896,915 million. Current assets increased 38.4%, to ¥223,308 million, due to an increase in securities and other factors. Non-current assets increased 0.9%, to ¥673,607 million, due principally to the acquisition of property, plant and equipment, etc.

Meanwhile, total liabilities increased 21.8% compared with the previous fiscal year-end, to ¥499,636 million. Current liabilities fell 26.0%, to ¥148,115 million, due to payment of payables. Non-current liabilities were up 67.4%, to ¥351,520 million, as a result of the issuance of bonds and an increase in long-term debt and other factors.

Furthermore, total equity decreased 5.0% compared with the previous fiscal year-end, to ¥397,279 million, due primarily to a decrease in retained earnings resulting from the recording of a net loss attributable to owners of the parent and the payment of dividends, etc.

2. Cash Flows

(Cash flows from operating activities)

Net cash used in operating activities totaled ¥15,193 million, due to such factors as the recording of a loss before income taxes of ¥16,593 million. (In the same period of the previous fiscal year, cash provided by operating activities was ¥39,129 million.)

(Cash flows from investing activities)

Net cash used in investing activities was ¥19,427 million, down ¥3,004 million year on year, due to such factors as a decrease in payments for purchases of fixed assets.

(Cash flows from financing activities)

Net cash provided by financing activities came to ¥125,250 million, up ¥134,263 million year on year, due to such factors as long-term loans and the issuance of bonds.

As a result of the above, cash and cash equivalents at end of the period increased ¥90,599 million year on year, to ¥114,417 million.

(3) Qualitative Information on Consolidated Performance Outlook

In regard to the full-year performance forecasts for FY2021.3, there are no changes to the announcement made on September 24, 2020.

Moreover, the performance outlook was prepared based on information available as of the release date of these materials, and there are cases where actual performance differs from outlook figures due to various factors that arise going forward.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Consolidated Balance Sheets

(Millions of Yen)

	FY 2020/3 (As of March 31, 2020)	FY 2021/3, Second Quarter (As of September 30, 2020)
ASSETS		
Current assets		
Cash and time deposits	23,817	42,963
Notes and accounts receivable–trade	38,707	32,663
Fares receivable	4,126	1,081
Securities	—	71,485
Merchandise and finished goods	19,702	10,924
Work in process	28,364	35,595
Raw materials and supplies	7,574	9,764
Other	39,082	18,915
Allowance for doubtful accounts	(82)	(83)
Total current assets	161,293	223,308
Non-current assets		
Property, plant and equipment		
Buildings and fixtures (net)	268,654	269,787
Machinery, rolling stock and vehicles (net)	32,578	34,332
Land	147,736	148,883
Lease assets (net)	19,953	18,350
Construction in progress	40,133	43,542
Other (net)	8,935	8,130
Net property, plant and equipment	517,992	523,028
Intangible assets	6,280	3,708
Investments and other assets		
Investment securities	38,835	40,616
Deferred tax assets	51,768	57,494
Net defined benefit assets	720	763
Other	52,537	48,801
Allowance for doubtful accounts	(838)	(805)
Total investments and other assets	143,024	146,870
Total noncurrent assets	667,297	673,607
Total assets	828,590	896,915

(Millions of Yen)

	FY 2020/3 (As of March 31, 2020)	FY 2021/3, Second Quarter (As of September 30, 2020)
LIABILITIES AND EQUITY		
Current liabilities		
Notes and accounts payable–trade	32,460	19,925
Short-term loans	10,572	10,259
Current portion of long-term debt	30,421	22,421
Payables	63,841	30,181
Accrued income taxes	3,666	688
Fare deposits received with regard to railway connecting services	1,175	1,238
Railway fares received in advance	4,720	5,187
Accrued bonuses	8,922	5,893
Other	44,467	52,320
Total current liabilities	200,248	148,115
Non-current liabilities		
Corporate bonds	40,000	80,000
Long-term debt	60,556	159,084
Allowance for safety and environmental measures	1,609	1,609
Allowance for disaster-damage losses	1,732	5,861
Liability for retirement benefits	53,801	51,593
Asset retirement obligations	1,690	1,330
Other	50,653	52,040
Total noncurrent liabilities	210,043	351,520
Total liabilities	410,291	499,636
EQUITY		
Shareholders' equity		
Common stock	16,000	16,000
Capital surplus	224,024	224,021
Retained earnings (Deficit)	176,329	158,706
Treasury stock	(599)	(594)
Total common stock	415,754	398,133
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	4,422	717
Gain (loss) on deferred hedges	15	—
Foreign currency translation adjustments	158	115
Defined retirement benefit plans	(7,057)	(6,545)
Total accumulated other comprehensive income	(2,461)	(5,712)
Non-controlling interests	5,004	4,858
Total equity	418,298	397,279
TOTAL LIABILITIES AND EQUITY	828,590	896,915

(2) Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Income Statements

Consolidated Cumulative Second Quarter

(Millions of Yen)

	FY 2020/3, Second Quarter (Six months ended September 30, 2019)	FY 2021/3, Second Quarter (Six months ended September 30, 2020)
OPERATING REVENUE	212,861	124,552
OPERATING EXPENSE		
Transportation, other services and cost of sales	129,006	99,248
Selling, general and administrative expense	53,637	45,875
Total operating expense	182,644	145,124
OPERATING INCOME (LOSS)	30,217	(20,571)
NON-OPERATING INCOME		
Interest income	34	40
Dividend income	262	373
Gain on assets held in trust	714	783
Subsidies for employment adjustment	—	579
Other	489	351
Total non-operating income	1,500	2,128
NON-OPERATING EXPENSE		
Interest expense	609	821
Other	81	256
Total non-operating expense	691	1,077
ORDINARY INCOME (LOSS)	31,026	(19,520)
EXTRAORDINARY GAINS		
Construction grants received	1,904	987
Gain on sales of shares of subsidiaries and associates	—	9,144
Gain on sales of trusts	574	—
Other	138	343
Total extraordinary gains	2,616	10,475
EXTRAORDINARY LOSSES		
Losses from provision for cost reduction of fixed assets	1,877	947
Provision for loss on disaster	1,299	5,306
Disaster-damage losses	176	156
Other	137	1,139
Total extraordinary losses	3,491	7,549
INCOME (LOSS) BEFORE INCOME TAXES	30,152	(16,593)
INCOME TAXES		
Current	5,123	300
Deferred	1,993	(6,489)
Total income taxes	7,116	(6,188)
NET INCOME (LOSS)	23,035	(10,405)
NET INCOME (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	9	(156)
NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT	23,025	(10,248)

Quarterly Consolidated Comprehensive Income Statements
Consolidated Cumulative Second Quarter

(Millions of Yen)

	FY 2020/3, Second Quarter (Six months ended September 30, 2019)	FY 2021/3, Second Quarter (Six months ended September 30, 2020)
NET INCOME (LOSS)	23,035	(10,405)
OTHER COMPREHENSIVE INCOME		
Unrealized gain on available-for-sale securities	1,885	(3,708)
Gain (loss) on deferred hedges	(99)	(15)
Foreign currency translation adjustments	26	(46)
Defined retirement benefit plans	397	508
Total other comprehensive income	2,208	(3,261)
COMPREHENSIVE INCOME	25,244	(13,666)
TOTAL COMPREHENSIVE INCOME		
ATTRIBUTABLE TO:		
Owners of the parent	25,229	(13,492)
Non-controlling interests	14	(174)

(3) Consolidated Statements of Cash Flows

(Millions of Yen)

	FY 2020/3, Second Quarter (Six months ended September 30, 2019)	FY 2021/3, Second Quarter (Six months ended September 30, 2020)
OPERATING ACTIVITIES		
Income (loss) before income taxes	30,152	(16,593)
Depreciation	12,505	14,158
Gain on sales of trusts	(574)	—
Losses from provision for cost reduction of fixed assets	1,877	947
Disaster-damage losses	176	156
Provision for loss on disaster	1,299	5,306
Net change in allowance for doubtful accounts	(3)	(15)
Net change in net defined benefit liabilities	(1,676)	(1,306)
Interest and dividend income	(296)	(413)
Interest expense	609	821
Construction grants received	(1,904)	(987)
Gain on sales of shares of subsidiaries and associates	—	(9,144)
Net change in major receivables	8,238	7,552
Net change in inventories	(11,946)	(8,622)
Net change in major payables	(158)	(5,952)
Gain on assets held in trust	(714)	(783)
Subsidies for employment adjustment	—	(579)
Other	8,768	4,341
Sub-total	46,352	(11,115)
Proceeds from interest and dividends	296	408
Payments of interest	(540)	(688)
Proceeds from gain on assets held in trust	773	776
Payments of disaster-damage losses	(1,939)	(2,060)
Income taxes paid	(5,812)	(3,092)
Amount received as subsidies for employment adjustment	—	579
Net cash provided by operating activities	39,129	(15,193)
INVESTING ACTIVITIES		
Payments for purchases of fixed assets	(59,799)	(57,395)
Purchases of investment securities	(1,600)	(1,314)
Proceeds from sales of money held in trust	12,259	—
Proceeds from construction grants received	19,058	19,487
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	12,311
Other	7,649	7,484
Net cash used in investing activities	(22,431)	(19,427)
FINANCING ACTIVITIES		
Net change in short-term loans	963	67
Proceeds from long-term loans payable	—	100,000
Payments of long-term loans	(599)	(9,155)
Repayments of long-term liabilities	(172)	(129)
Proceeds from issuance of bonds	—	40,000
Proceeds from deposits and guarantees	552	2,096
Redemption of deposits and guarantees	(474)	(577)
Purchase of treasury shares	(599)	—
Cash dividends paid	(8,240)	(7,314)
Cash dividends paid to non-controlling interests	(72)	(7)
Other	(371)	270
Net cash used in financing activities	(9,013)	125,250
Translation differences for cash and cash equivalents	2	(29)
NET CHANGE IN CASH AND CASH EQUIVALENTS	7,686	90,599
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	36,865	23,817
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	44,552	114,417

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

None

(Notes on Significant Changes in the Value of Shareholders' Equity)

None

(Additional Information)

(Restoration of the Hitahikosan Line)

Due to the influence of the heavy rains in northern Kyushu in July 2017, we are implementing substitute forms of transportation on the Soeda-Yoake segment of the Hitahikosan Line. At the sixth meeting regarding the restoration of the Hitahikosan Line, which was held on July 16, it was decided that service on the line would be restored and an agreement was reached on the method of restoration.

Accordingly, in the consolidated cumulative second quarter, expenses related to removal and repair of railway facilities and were rationally estimated, and provision for loss on disaster of ¥2,187 million was recorded under extraordinary losses in the quarterly consolidated income statements.

(Accounting estimates related to the influence of the spread of the COVID-19 infection)

With consideration for the most recent circumstances, the Company has made changes to assumptions, including the timing of the resolution of the COVID-19 situation, that were included in the Annual Securities Report (Yuho) for the previous fiscal year under "Additional information, Accounting estimates related to the influence of the spread of the COVID-19 infection." The Company's approach after the changes is as follows.

In regard to the influence of COVID-19 in FY2021.3, with consideration for revenue trends following the lifting of the state of emergency, and based on information available at this point, the Company assumes that there will be a certain degree of recovery by the end of the fiscal year, but that the influence of COVID-19 will continue for a certain period of time in the next fiscal year. The Company has made accounting estimates for fixed-asset impairment accounting, recoverability of deferred tax assets, etc.

The effect of these changes on the quarterly consolidated financial statements is insignificant.

(Occurrence of damage due to heavy rains in July 2020)

Due to the influence of the heavy rains in July 2020, which occurred throughout Kyushu in July 2020, damage occurred on multiple routes, including the Kyudai Main Line and the Hisatsu Line. This damage included bridges being washed away and damage to tracks. Among the recovery expenses, etc., resulting from this damage, in regard to recovery expenses, etc., that can be reasonably estimated at this point, extraordinary losses were recorded in the quarterly consolidated income statements for the consolidated cumulative second quarter. Recovery expenses, etc., for the consolidated cumulative second quarter were recorded as "disaster-damage losses" and a reasonable estimate of the amount of recovery expenses, etc., anticipated in the consolidated cumulative third quarter and thereafter was recorded as "provision for loss on disaster."

Recovery expenses, etc., are expected to occur, but recovery expenses, etc., that are difficult to reasonably estimate are not included in "provision for loss on disaster."

(Segment Information)

FY 2020/3, Second Quarter (Six-Month Period Ended September 30, 2019)

Information Related to Operating Revenue and Income by Segment

(Millions of Yen)

	Reportable Segment				Others (Note 1)	Total	Adjustment (Note 2)	Quarterly Consolidated Statements of Income (Note 3)
	Transportation	Construction	Real Estate and Hotels	Retail and Restaurant				
Operating Revenue								
Outside Customers	86,913	14,076	39,984	52,868	19,017	212,861	—	212,861
Inside Group	3,604	20,532	2,171	154	17,579	44,041	(44,041)	—
Total	90,517	34,609	42,155	53,023	36,596	256,903	(44,041)	212,861
Segment income	17,369	276	10,116	1,715	1,141	30,619	(402)	30,217

(Notes) 1. "Others" represents categories of business that are not included in reportable segments and includes the construction machinery sales and rental business, etc.

2. The ¥402 million deduction from segment income reflects the elimination of intersegment transactions.

3. Segment income has been adjusted for the operating income figure on the quarterly consolidated income statements.

FY 2021/3, Second Quarter (Six-Month Period Ended September 30, 2020)

1. Information Related to Operating Revenue and Income (Loss) by Segment

(Millions of Yen)

	Reportable Segment				Others (Note 1)	Total	Adjustment (Note 2)	Quarterly Consolidated Statements of Income (Note 3)
	Transportation	Construction	Real Estate and Hotels	Retail and Restaurant				
Operating Revenue								
Outside Customers	38,123	15,727	25,650	29,386	15,664	124,552	—	124,552
Inside Group	3,230	20,415	1,652	61	12,617	37,977	(37,977)	—
Total	41,353	36,142	27,303	29,448	28,282	162,530	(37,977)	124,552
Segment income	(21,152)	1,073	1,481	(1,947)	438	(20,107)	(463)	(20,571)

(Notes) 1. "Others" represents categories of business that are not included in reportable segments and includes the construction machinery sales and rental business, etc.

2. The ¥463 million deduction from segment income (loss) reflects the elimination of intersegment transactions.

3. Segment income (loss) has been adjusted for the operating income figure on the quarterly consolidated income statements.

2 Information related to assets for each reportable segment

(Significant decrease in assets due to decline in the number of subsidiaries)

Due to the exclusion from the scope of consolidation of JR Kyushu Drug Eleven, in comparison with the previous fiscal year, assets in the Retail and Restaurant segment were down ¥18,657 million.

(Significant Subsequent Events)

None