



# Not Just A Railway Company

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EDITORIAL POLICY

This annual report was developed for the purpose of imparting a deeper understanding of the Group's operations (JR Kyushu and related companies) to our stakeholders. It is the editors' aim to communicate financial and non-financial information, such as management policies, business strategies, and ESG information, to readers in a concise manner. For those interested, more detailed information is available on the corporate website.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements, including future outlooks and objectives of the JR Kyushu Group. These statements are judgements made by the Company based on information, projections, and assumptions available at the time of the document's creation. Accordingly, please be advised that actual operating results could greatly differ from the contents of this

document due to the effects of the economic situation inside and outside Japan and of the Kyushu area, real estate market conditions, the progress of respective projects, changes in laws and regulations, and a wide range of other risk factors. The purpose of this document is not to solicit the purchase of the Company's stocks or other financial instruments in Japan. In addition, this

report does not constitute an offer of securities in the United States. Based on the American Securities Act of 1933, offering or selling securities in the United States is not permitted, with the exception of cases where there is registration of securities or exemption from registration. In cases where securities are being publicly issued in the United States, an English prospectus created on the basis

of the Securities Act of 1933 will be used. The prospectus states that said securities may be acquired from an issuing company or seller and also contains detailed information and financial statements on issuing companies and their management.



## PROFILE

JR Kyushu was created following the breakup and privatization of Japanese National Railways in 1987. We have since fostered a sense of trust in the residents of Kyushu through our railway business, with its network of railways reaching across the Kyushu area. Based on this trust, we have built up a variety of businesses along our rail lines, through which we work to create a virtuous cycle promoting further use of our railways. Specifically, the Group handles transportation, real estate, retail and restaurant, and construction businesses in addition to the railway business. In this way, we actively promote the construction of robust railways and city-building (community enhancement and vitalization) through a variety of businesses. Moving forward, we aim to be a corporate group that invigorates Kyushu, Japan, and greater Asia with safety and service as its foundation.

KYUSHU  
ISLAND



# We Are a Railway Company but ...









## INTRODUCTION

### Railways as More Than a Means of Transport

Our railway network, including the Kyushu Shinkansen line, represents a main component of the transportation infrastructure that supports the functions of daily life, from intercity railway transportation to work and school commutes, thereby earning steadfast trust within Kyushu. Beyond that, JR Kyushu also plays an important role in attracting tourists to Kyushu and elevating Kyushu's brand equity as a whole. For instance, operation of "Seven Stars in Kyushu" commenced in 2013 as the first ever luxury sleeper train in Japan to tour Kyushu. The image on the right depicts one of the cabins, all of which are suites. Since operation began, reservations have consistently exceeded capacity, with passengers coming from not only Japan but overseas as well. We also operate a number of "Design & Story" trains, which brim with design and a sense of story that reflect regional specialties. Both services have been evaluated highly. Moving forward, we will continue to offer services brimming with charm, elevate the brand equity of Kyushu as a whole, and promote tourism.







## Stations as More Than a Place to Board a Train

The Group operates 567 train stations throughout Kyushu. Of those, Hakata Station boasts the highest number of passengers in the region, with the number of daily passengers increasing every year. Hakata Station encompasses the terminus for the Sanyo Shinkansen line that links the Japanese mainland with Kyushu and the point of departure for the Kyushu Shinkansen line. This station also functions as the main hub for conventional train lines in the area. The image on the left shows JR Hakata City, which houses Hakata Station and opened in 2011 as one of the largest station buildings in Japan. It has roughly 240,000 m<sup>2</sup> of commercial floor space and more than 400 specialty stores and eateries. Since opening, sales have steadily been growing, with tenant sales breaking ¥100 billion in FY2017/3. Our station building is known and used by railway passengers and local residents alike as part of their daily routine and referred to as “the city.” Leveraging the trust and capacity to attract railway passengers that JR Kyushu has built in the railway business, we will continue to conduct this type of city-building in major cities in Kyushu. Looking forward, we will work to further increase our earnings capacity in the station building business and railway passengers through such initiatives.





## INTRODUCTION

### City-Building beyond the Area Surrounding Our Railway Lines

The Group has acquired extensive expertise through years of promoting city-building alongside our railway lines. In addition, by taking advantage of our long-cultivated experience, we have actively expanded our city-building efforts beyond the area surrounding our railway lines and into the city, thereby contributing to creating a lively Kyushu. For instance, in the Ropponmatsu area of Fukuoka City, we are working toward interactive city-building that unites people who visit and people who live, work, and study in the city based on the development concept of “a city bringing people together in harmony.” The artistic rendition on the right shows development in Ropponmatsu. MJR Ropponmatsu is a residence located in the western district. The eastern district holds a residence-style private retirement home as a place to live, commercial facilities as a place to gather, and a science museum and graduate school as places to study. Expanding beyond the railside, we will continue to pursue Growth and Evolution through city-building in the city moving forward.

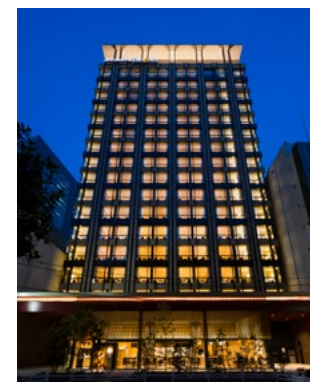






## Growth and Evolution beyond the Railway Framework

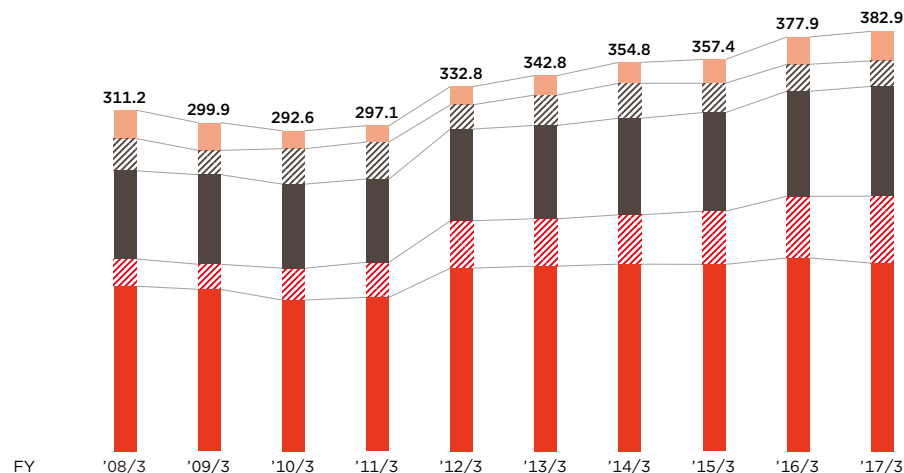
Since the Group's founding, we have strived in earnest to improve railway balances by taking on a variety of challenges aimed at enhancing both safety and services. Beyond that, we are challenging ourselves with new businesses all over Kyushu, such as station-building, condominium, hotel, retail and restaurant, elderly care, and after school childcare businesses. We are also making inroads outside Kyushu by leveraging our accumulated business expertise. Blossom Shinjuku (the interior of which is depicted on the left) was opened in Tokyo in 2014 as part of our hotel business. Its hospitable rooms and services have been highly evaluated, with the Michelin Guide Tokyo awarding it two pavilions in its hotels section for three consecutive years. We are also expanding overseas. The Group-operated Japanese food chain Akasaka-Umaya opened a branch in Shanghai in 2012. Going forward, we will continue to challenge ourselves by promoting new businesses and expanding existing ones to develop beyond the railway business.





# FINANCIAL HIGHLIGHTS

**Operating Revenues** (Billions of yen)



Transportation Group  
¥171.6 billion 45%

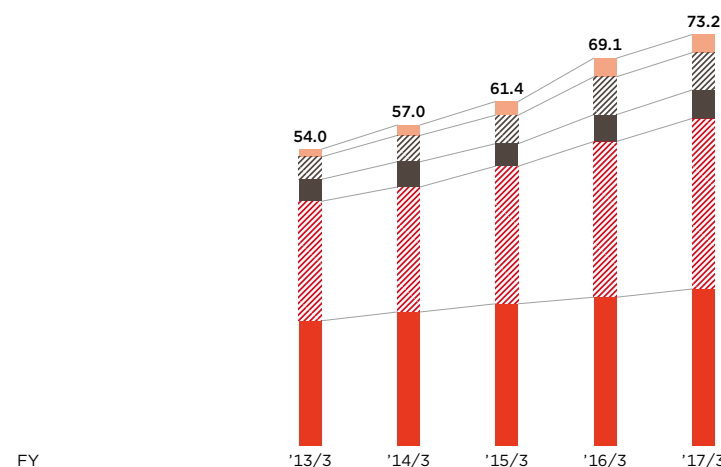
Real Estate Group  
¥60.9 billion 16%

Retail and Restaurant Group  
¥100.1 billion 26%

Construction Group  
¥23.2 billion 6%

Other Group  
¥26.9 billion 7%

**EBITDA** (Billions of yen)



Transportation Group  
¥28.5 billion 38%

Real Estate Group  
¥31.1 billion 42%

Retail and Restaurant Group  
¥5.1 billion 7%

Construction Group  
¥6.7 billion 9%

Other Group  
¥3.3 billion 4%

**Notes:**

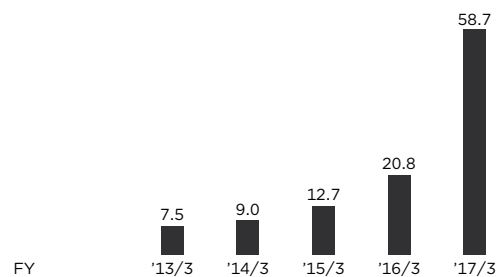
- Operating revenues by segment are attributable to external customers, and EBITDA by segment is before intersegment eliminations.
- EBITDA for FY2016/3 and previous fiscal years comprises operating income + cost of depreciation + earnings from use of the Management Stabilization Fund, while EBITDA for FY2017/3 comprises operating income + cost of depreciation.
- For the year ended March 31, 2013, adjustments for expenses related to seconded employees were included in other expenses. However, due to a change in our secondment policy during the year ended March 31, 2014, beginning in the year ended March 31, 2014, adjustments for expenses related to seconded employees have been included in operating expenses. Our consolidated and operating income (losses) and EBITDA for the year ended March 31, 2013 have been calculated by adding adjustments for expenses related to seconded employees to operating expenses.
- Each percentage, which is indicated by the percent sign (%), is the percentage of the total accounted for by each business segment.



## FINANCIAL HIGHLIGHTS

### Operating Income

■ Operating income (Billions of yen)



### Net Income Attributable to Owners of the Parent

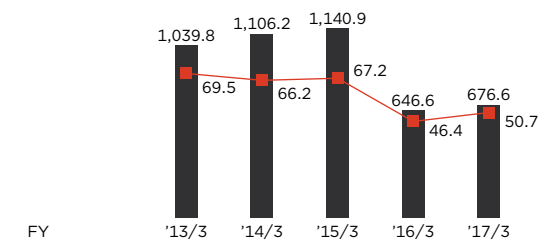
■ Net income attributable to owners of the parent (Billions of yen)



\* On March 31, 2016, the Management Stabilization Fund was terminated. Consequently, an impairment loss of ¥521.5 billion was recorded on railway-related fixed assets and other assets for the year ended on the same date.

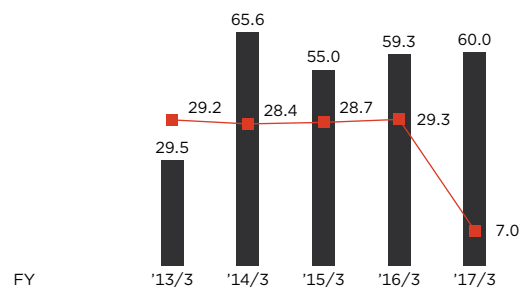
### Total Assets / Equity Ratio

■ Total assets (Billions of yen)  
■ Equity ratio (%)



### Capital Investment Amounts / Depreciation Costs (Non-consolidated)

■ Capital investment amounts (Billions of yen)  
■ Depreciation costs (Billions of yen)



### Dividend per Share / Dividend Payout Ratio

■ Dividend per share (Yen)  
■ Dividend payout ratio (%)





## TO OUR STAKEHOLDERS

# Becoming the Company We Aim to Be, Together with You

JR Kyushu was listed on the Tokyo and Fukuoka stock exchanges in October 2016. Through the listing, the Japan Railway Construction and Technology Agency sold all of its shares, completing the privatization of Japan's railway system. In April 2017, we celebrated the 30th anniversary of our establishment, and we are extremely pleased to have reached this important milestone, as this was the goal we had been striving toward since our foundation.

While passenger safety remains our number one priority, we have recently made significant strides in improving our levels of service and our profitability. Furthermore, we have taken on the challenging task of developing new businesses and turning them into mainstays, such as our railway business.

In my opinion, the Company's growth to date as well as its public listing are founded upon our time-honored stance of embracing challenges. However, that is not the only reason. I would like to thank all of our stakeholders, whose

wholehearted understanding and support of the Company's stance and initiatives have made our success thus far possible. As such, I would like to once again express my sincere gratitude to all of those involved with the JR Kyushu Group.

However, the listing of our shares on public exchanges is not the end of our journey. It is just the next step toward achieving further growth. In order to become a corporate group that invigorates Kyushu, Japan, and Greater Asia with safety and service as its foundation, we will leverage the collective strengths of the Group and continue to abide by the three pillars that form our code of conduct: Integrity, Growth and Evolution, and Local Community Invigoration. I would like to ask for the continued understanding and support of all of our stakeholders as we continue our journey.



*Koji karaike.*

**Koji Karaike**  
Chairman



*Toshihiko Aoyagi*

**Toshihiko Aoyagi**  
President



## INTERVIEW WITH THE PRESIDENT



**Toshihiko Aoyagi**  
President

**“ We are aiming to be a kind and robust corporate group involved in comprehensive city-building. ”**

**Q1** Thirty years have passed since the foundation of Kyushu Railway Company. First of all, please explain the history of the Company's railway business.

Kyushu Railway Company is one of the six passenger railway companies that were founded through the breakup and privatization of Japanese National Railways. Among those six, we started as the railway company based in the region known as Kyushu, and it can be said that the business environment there for operating a railway business was challenging.

From that time, in such areas as the Tokyo metropolitan area, there were many people who used railways as their daily means of transportation, and railways were something familiar to them. In Kyushu, however, traveling by an owner-driven car or a bus was more familiar, and among the local people, railways were an unimportant means of transportation. For that reason, it was difficult to ensure a profit only by running a railway system safely and stably, and we had to focus on how to increase the attractiveness of railways and get local people to ride them.



In particular, to begin with, we set about making improvements to railway functionality. While putting a priority on safety, ahead of the other JR companies, we promoted initiatives for increasing the ease of boarding and the ease of use, such as putting trains on faster tracks, increasing the number of trains, and replacing and refurbishing cars. On the other hand, to increase business efficiency, which had been an issue since the days of Japanese National Railways, we moved ahead with business reorganization, and we carried out a drastic improvement in efficiency by, for example, actively striving to improve the work system and introduce computer systems.

The next issue that we worked on was not just the attractiveness of railways as a means of transportation but their attractiveness as vehicles. By, for instance, introducing new train cars that customers would really want to ride in and having train attendants provide services, we aggressively implemented initiatives to add value to railway riding itself. In this way, from the perspectives of a strategy to appeal to the reasoning power of customers and a strategy to appeal to customers' sensibilities, we implemented a variety of initiatives to create railway charm.

In addition, in 2004, the Kyushu Shinkansen—which would become a new core of our railway business—was partly opened, and the entire line was opened in 2011. With the opening of the entire line, I think that the solid foundation for increasing the attractiveness of our entire railway business was put in place. Making full use of the Shinkansen, we focused on the question of how to properly connect the Shinkansen with the network of old railway lines.

**“We have repeated a trial and error process in order to have local people ride our trains.”**

Through these initiatives, I feel that our customers' impressions of our railway business changed significantly. For example, we now classify tourist trains that carry designs and stories tailored to the region as “D&S Trains” (Design & Story Trains), and since highly individualistic trains with excellent design quality have been running, people started to visit Kyushu from all over Japan with the sole purpose of riding those trains. Furthermore, “Seven Stars in Kyushu,” the first cruise train in Japan, which started running in 2013, is being used by many customers from overseas. Since the initial stages after the Company was inaugurated, we have repeated a trial and error process in order to have local people ride our trains, and I am very pleased that the process has, as previously described, been very fruitful.

**Q2** At present, businesses other than the railway business account for more than half of consolidated operating revenues. Could you please give us your ideas about the histories of those businesses and about the primary factors that explain the growth in the non-railway businesses thus far.

In the beginning, we started by working on businesses closely connected with railways, which means that, for example, we opened restaurants on station premises. However, unlike large urban areas such as the Tokyo metropolitan area, because there were few people who were themselves users of railways, we had to establish core businesses other than the railway business at an early stage, and we thus took on the challenge of a wide variety of businesses. Among them, the condominium business and the station building business, which are now the drivers of our growth, stood out from the rest and increased their presence. For instance, in the beginning, annual operating revenues in the condominium business were roughly several hundreds of millions of yen, but with revenues exceeding ¥20.0 billion in the previous fiscal year, our condominium business has grown to the point where it now boasts top-class results in Kyushu. In addition, we were able to establish the retail business and the restaurant business as our own areas of expertise.

As for the factors that explain the growth in the non-railway businesses, first of all, our seriousness was much higher than that of the other JR companies. When we were founding the Company, the Management Stabilization Fund was created. The purpose



was to cover the annual losses of almost ¥30.0 billion that arose in the railway business at the time with the investment income from the fund. However, due to changes in the investment environment, with the investment income falling rapidly, it became difficult to cover the losses with just that income, and ensuring income from non-railway businesses became an urgent issue.

Next, in my opinion, when we were starting new businesses, it was good that we fixated on venturing into them ourselves. Although it was possible for us to entrust other companies with the business operations themselves, in that case, I think that subsequent sustainable development would have been difficult. I recognize that the very reason for the growth we have today is that, with the strong feeling that the businesses were our own, we strived to develop human resources and accumulate know-how.

Finally, more than anything else, there was the brand that we had built up in railways. Even in the non-railway businesses, we quickly had customers feel comfortable because of our carrying out the operations, and in the case of the businesses done along the lines, railway users contributed to attracting customers, so those businesses became engines of growth. In my view, with the value of the railways and the number of users both increasing with the development of the non-railway businesses, we have been able to successfully exploit the synergies between the railway business and the non-railway businesses.

**“We have been able to successfully exploit the synergies between the railway business and the non-railway businesses.”**

**Q3** Next, please explain the orientation of the JR Kyushu Group Medium-Term Business Plan 2016–2018, which was established in May 2016 and ends in FY2019/3.

First of all, regarding the direction that we are taking, there is no change in our intention to make progress toward “what the JR Kyushu Group aims to be,” which is “a corporate group that invigorates Kyushu, Japan, and Greater Asia with safety and service as its foundation.” Furthermore, there is also no change in the three pillars that form the JR Kyushu Group’s code of conduct: Integrity, Growth and Evolution, and Local Community Invigoration.

Meanwhile, in the next decade, large-scale development projects—particularly the opening of the Kyushu Shinkansen West Kyushu Route and the development of the areas surrounding Kumamoto Station and Nagasaki Station, which will be the key to the future revitalization of Kyushu—are lined up. Under such circumstances, in anticipation of these future visions, we regard the period of the JR Kyushu Group Medium-Term Business Plan 2016–2018 (hereinafter, the “Medium-Term Plan”) as a time for resolutely facing the challenge of “growth and evolution” and further accelerating the construction of a strong business foundation.

In the Medium-Term Plan, we are aiming to be “a kind and robust corporate group involved in comprehensive city-building (community enhancement and revitalization).” The phrase “kind and robust” expresses the idea of being undiscouraged by various adversities, possessing a strong business foundation that enables us to sustainably carry out competitive business development, and wanting to contribute to all the persons encompassed by the JR Kyushu Group, which means customers, local communities, employees, and shareholders. Furthermore, the phrase “aiming to be a corporate group involved in comprehensive city-building” does not simply mean *developing* commercial facilities and residential facilities. From the perspectives of both physical infrastructure and lifestyle concerns, it calls for the entire JR Kyushu Group to work to revitalize communities, create innovative ways to enliven them, and raise the value of the towns that it is involved with while invigorating them.

## INTERVIEW WITH THE PRESIDENT

Finally, in October 2016, Kyushu Railway Company listed its shares on the Tokyo Stock Exchange and the Fukuoka Stock Exchange. As a result, I feel confident that we can carry out business development that is even bolder and speedier than before, and I think that the Medium-Term Plan will be an important turning point at which the JR Kyushu Group undergoes a big change.

**Q4** Regarding the progress made in the first fiscal year of the Medium-Term Plan, to begin with, could you give us your evaluation of the earnings results?

In the lead-up to our initial public offering, Kyushu Railway Company was excluded from application of what is commonly referred to as the JR Companies Act, and in the process, the remaining amount of the Management Stabilization Fund was terminated. In other words, it became expected that, without relying on gains from the fund, we would carry out independent self-management as an unconstrained company. On that premise, in the Medium-Term Plan, we have set operating revenues of ¥400.0 billion and EBITDA of ¥78.0 billion as numerical targets for FY2019/3, the last fiscal year of the plan. Through initiatives to achieve the targets set forth in the Medium-Term Plan, we will aim for an even stronger management culture.

In FY2017/3, the first fiscal year of the Medium-Term Plan, on a year-on-year basis, operating revenues increased 1.3%, to ¥382.9 billion, and EBITDA increased 5.9%, to ¥73.2 billion. The Kumamoto earthquakes occurred in April 2016, and due to the

damage that our railway facilities suffered, railway transportation revenues decreased from the previous fiscal year. Under such circumstances, since we were able to not only increase our operating revenues but also record an all-time high, I praise our having been able to produce results that can let us foresee our achievement of the targets.

As for the primary factors, the first one that can be cited is that the non-railway businesses recorded strong results. Although the earthquakes had an impact on those businesses as well, condominium sales revenues increased on sales of condominiums in MJR Ropponmatsu, and due to our actively opening up drugstores and convenience stores, revenues from the retail and restaurant businesses also increased. In addition, because we carried out recovery work in a prompt manner in the railway business, we were able to keep the impact of the earthquakes to a minimum. Regarding the Kyushu Shinkansen, although there was damage including a derailment right after an earthquake, by making concerted efforts, we finished repairs in less than two weeks.

By overcoming the major event of the earthquakes, we were reliably able to ensure revenues and profits, and I strongly feel that we were able to take the next step toward achieving the targets.

**Q5** Please explain the progress that has been made in each of the three key strategies set forth in the Medium-Term Plan.

### **Build robust railways that provide the foundation for all our businesses**

The region known as Kyushu is an area inside Japan that has many natural disasters, and it can be said that the occurrence of disasters is the greatest risk for us as a railway company. In just the past 30 years, we have suffered damage countless times. In those circumstances, we have made ceaseless efforts aimed at constructing railways that can withstand natural disasters, and I think that our early recovery from the recent major earthquakes in Kumamoto was realized as a result of the experience that we had accumulated until then. In order for Kyushu Railway Company to carry out stable management, a fundamental assumption is that it can continue to operate its railways stably, and I would like us to continue without any change to build up railways that have resistance to disasters.



In addition, the phrase “build robust railways” does not merely express the idea of being resistant to natural disasters. It also includes the meaning that, in any business environment, we will make railways that can be used by a great number of customers. At present, with the population of Japan continuing to fall, I think that knowing such things as how to bring in inbound customers and how to use the Internet to put in place an access-friendly environment for customers is required.

In regard to Internet reservations, the number of reservations in FY2017/3 increased 14.2% from the previous fiscal year, surpassing the two million mark. Nonetheless, for the Shinkansen, we still see room for improvement in the ratio of Internet reservations to the total number of reservations. Considering convenience for customers, the pattern of having them buy tickets at ticket offices and then board trains is inefficient. We would like to establish a scheme whereby customers can get reservations whenever it occurs to them and then, if they go to a station, immediately receive their tickets and board their trains. Furthermore, by making good use of Internet reservations, we can implement yield management to increase profitability, so I suspect that the Internet will become a future infrastructure for our business strategy. We are now really putting a lot of work into this.

### Actively participate in city-building in the Kyushu area

In our efforts for city-building in Kyushu, first of all, we opened the JRJP Hakata Building in April 2016. This building, built by us in partnership with Japan Post Co., Ltd., connects directly with Hakata Station, is a top-class office building in Kyushu, and has commercial facilities inside it. Operating revenues in the first fiscal year were good,

“**We are actively taking on challenges in businesses in which we have not yet really engaged.**”

and the result exceeded the figure in our plan. Additionally, along with HAKATA KITTE, which is operated by Japan Post Co., Ltd., and opened at around the same time as JRJP Hakata Building, JRJP Hakata Building has made the attractiveness of the area surrounding Hakata Station even better and has also contributed to increasing the operating revenues of JR Hakata City, which is operated by the JR Kyushu Group, and to increasing the number of railway users.

Next, the redevelopment of the Ropponmatsu area, which we are aiming to see open in fall 2017, is the first large-scale development project that we are carrying out downtown far from any area along our railway lines. As for the condominiums in MJR Ropponmatsu, we started the handovers in March 2017 and completed all of them in April. We will continue to steadily make preparations for the opening. We put restaurants and the like into MJR Ropponmatsu, and just by doing that, I feel that the atmosphere of Ropponmatsu changed dramatically. I have a feeling that, if we reach the full opening without a hitch, a truly new town will come into existence. Together with the local residents, I would like to liven up the atmosphere and make Ropponmatsu a great town. In the future as well, without limiting ourselves to areas along our railway lines, we will actively engage in city-building for projects that not only contribute to our company's growth but also lead to improvements in the attractiveness of local communities.

### Take on the challenges of new businesses and expanding outside the Kyushu area

In the businesses that have been our specialties so far, we are taking action to expand outward from our railway lines. For example, in the hotel business, in Tokyo in 2014, we opened “JR Kyushu Hotel Blossom Shinjuku,” and in June 2017, we were able to open “JR Kyushu Hotel Blossom Naha” in Okinawa. Overseas, we already operate restaurants in Shanghai, China, and in May 2017, we established an office in Bangkok, Thailand. In order for us to bring businesses in Southeast Asia to fruition in the future, we will implement such full-scale activities as information collection for studying real estate development projects for properties including condominiums and hotels.

Last, we are actively taking on challenges in businesses in which we have not yet really engaged. So far, we have, for example, taken up agriculture and entered the

education sector in such fields as after-school care for children, but we have no intention of changing our attitude toward working on new projects. Furthermore, if they will help revitalize Kyushu, without being hung up by the established framework, I want us to venture into a variety of businesses.

**Q6** What do you think are the important factors for JR Kyushu to achieve sustainable growth?

I think that, in the same way as in the past 30 years, while always avoiding growing sluggish on current conditions and always being willing to change, it is important for us to have courage and boldness in resolutely continuing to take on challenges. However, in the future, it is expected that the management environment will change at a dizzying pace, so it is necessary for us to face management with more speediness. In that sense, I think that the listing of shares was a big step for our further growth, and with me at the forefront, I will inspire all the employees in the JR Kyushu Group with the feeling of “resolutely continuing to take on challenges” and thereby accelerate our “growth and evolution.”

Next, the Company’s operations are materialized through synergies between the railway business and the non-railway businesses, and the source of those synergies is the vitality of Kyushu. Without a Kyushu that has vitality, there can be no sustainable growth for the JR Kyushu Group. For instance, in our station building business, we are keeping in mind the idea of revitalizing towns. With large numbers of people visiting

**“Without a Kyushu that has vitality, there can be no sustainable growth for the JR Kyushu Group.”**

station buildings, the towns will become lively. Then, if the towns become lively, even more people will visit them, the revenues from the station buildings will increase, and there will also be a rise in the number of railway users. Our station building business has developed in that way.

We have been very thankful to Kyushu for its support over the past 30 years, and in the future as well, I really want the JR Kyushu Group and the local people to join together and have Kyushu be a place characterized by vitality. By doing so, I am certain that a vigorous JR Kyushu Group can continue to be active for a long time to come.

**Q7** In the capital markets, the concept of ESG (environmental, social and governance) has been getting increased attention as something that supports sustainable growth, so please tell us about initiatives taken by JR Kyushu.

On the environmental front, trains themselves are more environmentally friendly vehicles than other vehicles, but I think there are still things that we can do. By implementing not only conventional energy-saving initiatives but also actively and systematically promoting technological innovation, we will contribute further to achieving a low-carbon society. In October 2016, after a development period of about five years, Japan’s first AC electrified dual energy charge train started commercial service.

On the social front, as I mentioned above, revitalization of local communities has a strong relationship with the Company’s businesses. We are implementing initiatives in various forms for that purpose, and when we undertake them, I believe that what is most important is to involve local people and carry them out together. For example, in the case of Kawasemi Yamasemi, a D&S Train of ours that started running in March 2017, by talking with local people beginning in the train production stage, we developed ideas about what sort of train would attract customers if we built it and what we should do to convey the attractiveness of the areas near the railway lines. In the way that I just described, I would like us to be a company that grows by always communicating with local people.



On the governance front, I understand that, because we listed our shares, we will have to have a higher awareness of corporate governance than ever before. By, for example, electing three outside directors, we have technically put in place the necessary structure, but in order for this structure to have not only form but also more effectiveness, we will continuously make efforts to strengthen our corporate governance. On the issue of the effectiveness of the Board of Directors, active and full discussions are being held, and we have received from the outside directors numerous valuable opinions that we could not have conceived of on our own. Finally, as for opinions obtained through communication with shareholders and investors, by actively using them in management through, for example, reports made at Board of Directors' meetings, we will increase medium- to long-term corporate value.

**Q8** Last, please tell us about the basic policy on shareholder returns and give a message to the shareholders and investors.


Kyushu Railway Company regards returning profits to shareholders as an important management policy, and its basic policy is to make dividend payments in a stable and continuous manner in accordance with operating results. Regarding cash dividends, while paying attention to maintaining adequate internal reserves, in order for us to

realize steady shareholder returns, until FY2019/3, we will aim to pay stable dividends per share by targeting a consolidated dividend payout ratio of approximately 30%. However, in the case of the dividends in FY2017/3, taking into account that the period from the listing of shares until the record date of the year-end dividend was less than six months, we set a target of approximately 15% for the consolidated dividend payout ratio. Based on this method, taking into account our operating results in the fiscal year, we set the dividend for FY2017/3 at ¥38.50 per share. Furthermore, in the next fiscal year, in conformity with the aforementioned method, we plan to pay a total annual dividend of ¥78 per share. I would like to note that, in order to build up safety, which is the foundation of all of our businesses, we will allocate our internal reserves to investments for maintaining and upgrading mainly our railway facilities as well as to growth investments for maintaining our construction of a strong business foundation.

As a result of our recent listing of shares, I have felt in my bones that investors' expectations for the people of JR Kyushu are extremely high. I understand that how to meet those expectations is an important task for me as president. I want to meet the expectations of our shareholders and investors by, first of all, achieving the numerical targets set forth in the Medium-Term Plan and making preparations for sustainable growth after the targets are achieved.

Taking the listing of shares as an opportunity, we intend to move with greater speed to not only continue resolutely taking on the challenge of achieving "growth and evolution" but also aim to be "a corporate group engaged in comprehensive city-building." Thus, in the future, I would like to ask our shareholders and investors for even greater support and understanding of the Company's businesses.

August 2017



Toshihiko Aoyagi  
President

**“Taking the listing of shares as an opportunity, we intend to move with greater speed.”**

## REVIEW OF OPERATIONS



# TRANSPORTATION GROUP

## ■ FY2017/3 Results

Operating Revenues

¥176.4billion 2.5% 

EBITDA

¥28.5billion 5.7% 

Operating revenues in the Transportation segment were ¥176.4 billion, a decrease of ¥4.5 billion, or 2.5%, compared with the previous fiscal year. Operating income came to ¥25.7 billion (compared with operating loss of ¥10.5 billion in the previous fiscal year), and EBITDA was ¥28.5 billion, an increase of ¥1.5 billion, or 5.7%. While operating revenues decreased due to such factors as the Kumamoto earthquakes and the absence of the impact of brisk travel during Silver Week (a series of consecutive holidays in September), both operating income and EBITDA increased as a result of lower operating expenses and other developments.

Railway transportation revenues were ¥146.4 billion.

## Notes:

1. Operating revenues, operating income, and EBITDA are numerical values before eliminating intersegment transactions.
2. Transportation Group EBITDA for FY2016/3 and previous fiscal years comprises operating income + cost of depreciation + earnings from use of the Management Stabilization Fund, while EBITDA for FY2017/3 comprises operating income + cost of depreciation.
3. For the year ended March 31, 2013, adjustments for expenses related to seconded employees were included in other expenses. However, due to a change in our secondment policy during the year ended March 31, 2014, beginning in the year ended March 31, 2014, adjustments for expenses related to seconded employees have been included in operating expenses. Transportation Group operating income (losses) and EBITDA for the year ended March 31, 2013 have been calculated by adding adjustments for expenses relating to seconded employees to operating expenses.

### Segment Overview

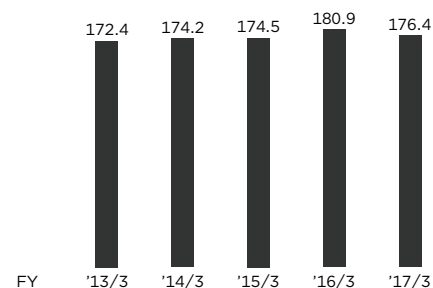
Our Transportation segment consists mainly of our operation of a network of railway lines constituting key commuter lines for the Kyushu regional area covering a total length of 2,273.0 operating kilometers (including 288.9 operating kilometers of Shinkansen tracks leased from JRTT) that connects the entirety of the island of Kyushu and all seven of its prefectures as well as a number of dedicated sightseeing trains and tour experiences. The business also includes long-distance and local bus operations and hydrofoil ferry services to South Korea.

### Consolidated Subsidiaries (as of May 31, 2017)

- Holding Company for Houhi Main Line
- JR Kyushu Bus Company
- JR Kyushu Jet Ferry Inc
- JR Kyushu-Rent-A-Car&Parking. Co., Ltd.
- JR Kyushu Maintenance Co., Ltd.
- JR Kyushu Tetsudou Eigyou Co., Ltd.
- JR Kyushu Linen Co., Ltd

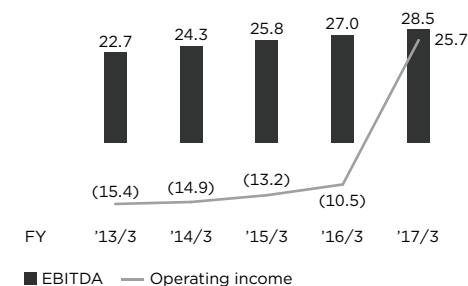
### Operating Revenues

(Billions of yen)



### EBITDA / Operating Income

(Billions of yen)



## REVIEW OF OPERATIONS

### TRANSPORTATION GROUP

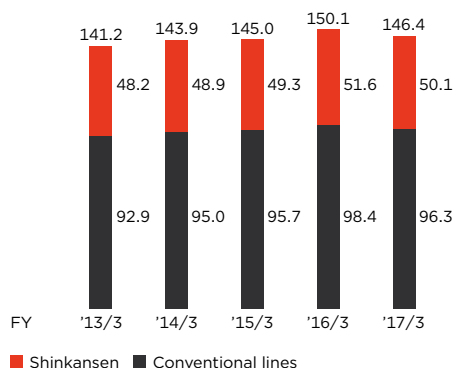
#### FY2017/3 Initiatives

In the railway business, we continued to develop operations founded on safety and service quality. At the same time, we fully utilized our network centered on the Kyushu Shinkansen to deploy sales measures from the customer's perspective in order to secure profits.

We promoted sales of all our planned tickets with the purpose of encouraging the use of railways, primarily the Kyushu Shinkansen, which celebrated its fifth anniversary. At the same time, we implemented various campaigns aimed at transporting passengers to target areas. Furthermore, not only did we work to improve the convenience of our Internet Reservation Service, we also made efforts to communicate information on and encourage sales of the "JR Kyushu Rail Pass," a mainstay

#### Railway Transportation Revenues

(Billions of yen)



product geared toward customers from overseas, in a manner that catered to specific countries and regions. In addition, to restore demand for tourism, which faced tough conditions after the occurrence of the 2016 Kumamoto earthquakes, we undertook initiatives to boost the recognition level of Kyushu-based brands and to encourage visitors to Kyushu.

In our travel business, we have rolled out a variety of products, including products for domestic travel via railways centered on Kyushu, an area of strength for the Company, products for travel to and from South Korea that make use of the hydrofoil ferry service Beetle, and products for overseas travel that leverage our alliance with JTB Corporation. We also made every effort to promote sales of products utilizing government assistance programs that aim to help promptly restore demand for tourism in Kyushu, which has been negatively impacted by the 2016 Kumamoto earthquakes. In our passenger ship business, we promoted efforts to provide high-quality transportation services in such ways as renovating one of our Beetle hydrofoil ferries. In our bus business, we commenced operations of new high-speed bus routes, enhanced our lineup of services, and developed new routes for regular tour buses. In these ways, we worked to secure profits.

#### Promoting Use of Our Internet Reservation Service

In order to improve profitability, we are promoting use of our Internet Reservation Service as part of yield management in the railway business. In FY2017/3, we not only introduced services in cooperation with train transfer search engines but also worked to expand our Internet-only product offerings. Furthermore, we have been focusing on advertising activities, such television commercials, in addition to flexible pricing of Internet reservation products. In May 2017, we launched a service that accepts payments through convenience stores and

other means as well as online payments via credit cards, as employed by the previous service.



Increased advertising activities

#### Introducing Smart Support Station

We are pursuing technological innovations and efficient business operations so that we can respond more flexibly to the continuously changing business environment and diversifying customer needs in the railway business. One way we are striving to achieve this is by introducing Smart Support Station, a method enabling support center operators to offer guidance to customers through intercoms installed in stations

where personnel have not been placed. We are also establishing a system to designate a corresponding support staff member to each station, as needed, and that monitors the safety of customers through the installation of multiple cameras in every station. Moving forward, we will continue to improve customer safety and service while taking on technological innovations and working toward efficient business operations.



# REAL ESTATE GROUP

## ■ FY2017/3 Results

Operating Revenues

¥67.4billion 8.8% 

EBITDA

¥31.1billion 9.6% 

Operating revenues in the Real Estate segment were ¥67.4 billion, an increase of ¥5.4 billion, or 8.8%, compared with the previous fiscal year. Operating income came to ¥22.6 billion, an increase of ¥2.2 billion, or 10.9%, while EBITDA was ¥31.1 billion, up ¥2.7 billion, or 9.6%. The reasons for the increases in operating revenues, operating income, and EBITDA were the rise in rent revenues that followed the opening of the JRJP Hakata Building and the start of move-ins at rental condominiums, in addition to the increase in condominium sales that followed the turnover of MJR Ropponmatsu and other condominiums.

Our real estate lease business recorded ¥46.3 billion in operating revenues before intersegment eliminations, operating income of ¥19.7 billion, and EBITDA of ¥28.2 billion.

## Notes:

1. Operating revenues, operating income, and EBITDA are numerical values before eliminating intersegment transactions.
2. Real Estate Group EBITDA comprises operating income + cost of depreciation.
3. For the year ended March 31, 2013, adjustments for expenses related to seconded employees were included in other expenses. However, due to a change in our secondment policy during the year ended March 31, 2014, beginning in the year ended March 31, 2014, adjustments for expenses related to seconded employees have been included in operating expenses. Real Estate Group operating income (losses) and EBITDA for the year ended March 31, 2013 have been calculated by adding adjustments for expenses relating to seconded employees to operating expenses.

### Segment Overview

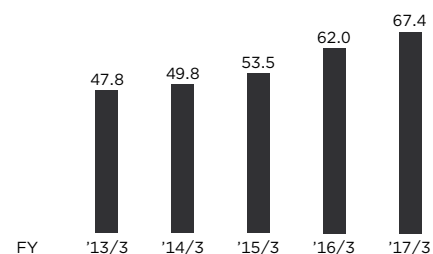
Our Real Estate segment consists of dedicated station buildings connected to our primary railway stations throughout Kyushu and the leasing of commercial retail space located within such complexes and office space in office buildings, the leasing of residential apartments through our RJR brand and the sale of condominiums through our MJR brand. Our principal real estate holdings include those in highly desirable areas of the major city areas of Kyushu, such as the Hakata district of Fukuoka.

### Consolidated Subsidiaries (as of May 31, 2017)

- JR Hakata City Co., Ltd.
- Kokura Terminal Building Inc.
- Nagasaki Terminal Building Inc.
- JR Oita City, Inc.
- Kagoshima Terminal Building Inc.
- JR Kyushu Building Management Co. Ltd.

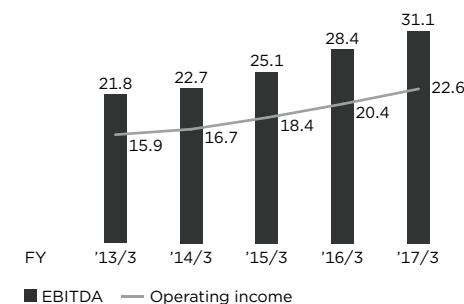
### Operating Revenues

(Billions of yen)



### EBITDA / Operating Income

(Billions of yen)



## REVIEW OF OPERATIONS

### REAL ESTATE GROUP

#### FY2017/3 Initiatives

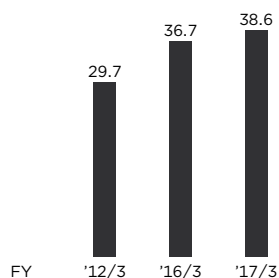
Our real estate lease business centers on commercial facilities, such as station buildings as well as offices and apartments, primarily in the Kyushu area.

In our station building business, we are promoting attractive and lively city-building centered on train stations and rooted in local communities. Also, we are maximizing synergistic effects with the railway business with the aim of improving the value of our stations and station buildings. In FY2017/3, we opened the JRJP Hakata Building in April 2016 and worked to further revitalize the areas surrounding Hakata Station, including JR Hakata City. We also made renovations at Amu Plaza locations and actively held events at station buildings. In these ways, we made concerted efforts to secure profits.

For our apartment business, we are working to secure stable profits by promoting the development of new apartment rentals. At the same time, we aim to actively develop the condominium sales business and expand our market share. During FY2017/3, in addition to acquiring an office building in the Tokyo metropolitan area, we commenced move-ins at RJR Precia Hakata. In the real estate sales business, such buildings as MJR Ropponmatsu were allocated for revenues. The sales of units, including MJR Akasaka Tower and MJR the Garden Oe, were also undertaken.

#### Station Building Business Revenues

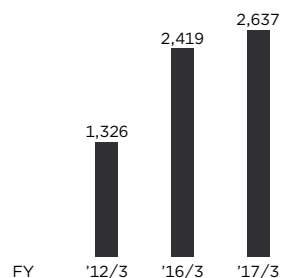
(Billions of yen)



Note: Figures above are the total of business revenues from six station building business subsidiaries and the JRJP Hakata Building.

#### Number of Units at Rental Apartments (Aggregate)

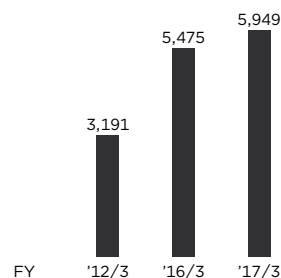
(Units)



Note: Figures are as of March 31 of each fiscal year.

#### Number of Sold Condominiums (Aggregate)

(Condominiums)



Note: Figures are as of March 31 of each fiscal year.

#### Opening of JRJP Hakata Building

The JRJP Hakata Building, a joint construction project by JR Kyushu and JAPAN POST Co., Ltd., opened in April 2016. This office building is located next to JR Hakata Station and is one of the largest in Kyushu, with 44,000 m<sup>2</sup> of total floor space. It was built for commercial facilities on the B1, 1st and 2nd floors, and with a 1st floor plaza on the south side. This building, together with the surrounding buildings, makes the location it occupies a more bustling and convenient urban area. In the first fiscal year after opening, sales from

restaurants increased steadily, with the whole project getting off to a good start.



Exterior of JRJP Hakata Building

#### Opening of Ropponmatsu Development (East Side) in Fall 2017

The redevelopment of Ropponmatsu Campus, which we acquired in 2014, is proceeding, with plans to open in the fall of 2017. This project is being developed outside the vicinity of the railways we operate and comprises a building site divided into an east and west side. The east side includes commercial facilities, a graduate school, a science museum, and a fee-based residential long-term care facility that we manage. The west side consists of MJR Ropponmatsu, a condominium complex with 351 units for sale. Unit transfers began in March 2017 and finished in April. Moving forward, we will become

more actively involved in urban development beyond the confines of JR Kyushu railway lines, which will contribute to the growth of the Company and heighten regional appeal.



Artistic rendering of Ropponmatsu Development



# RETAIL AND RESTAURANT GROUP

## ■ FY2017/3 Results and Initiatives

Operating Revenues

¥100.4billion 4.4% 

EBITDA

¥5.1billion 5.5% 

Operating revenues in the Retail and Restaurant segment were ¥100.4 billion, an increase of ¥4.2 billion, or 4.4%, compared with the previous fiscal year. Operating income was ¥3.4 billion, an increase of 2.2%, while EBITDA came to ¥5.1 billion, up ¥0.2 billion, or 5.5%.

In the retail business, we worked to open new convenience stores and drugstores. In the restaurant business, we made efforts to expand profits through such means as launching a pancake restaurant in a facility opened near Hakata Station.

In the agriculture business, we continued efforts targeting the integration of agriculture, processing, and sales by opening new stores. Furthermore, although some stores were shut down due to the 2016 Kumamoto earthquakes, all stores were reopened by September 2016.

Notes:

1. Operating revenues, operating income, and EBITDA are numerical values before eliminating intersegment transactions.

2. Retail and Restaurant Group EBITDA comprises operating income + cost of depreciation.

### Segment Overview

Our Retail and Restaurant segment consists mainly of the operation of Drug Eleven branded drugstores, FamilyMart branded convenience store franchises, kiosk stands, fast food chains and restaurants, located throughout Kyushu, Okinawa and Tokyo (and in Shanghai, China) both in and around our railway stations and other attractive urban locations.

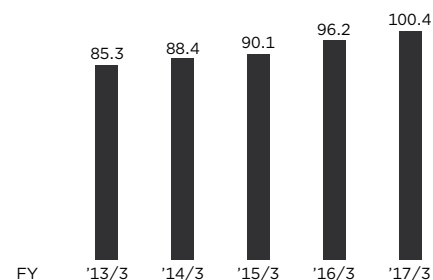
### Consolidated Subsidiaries (as of May 31, 2017)

- JR Kyushu Retail, Inc.
- JR KYUSHU DRUG ELEVEN CO., LTD.
- JR Kyushu Food Service Inc.
- JR Kyushu Fast Foods Inc
- Inc Train D'or
- Buntetsu Kaihatsu Co., Ltd.\*
- Shanghai JR Kyushu Food Service Inc.
- JR Kyushu Farm. Co., Ltd.

\* The company was liquidated on April 1, 2017.

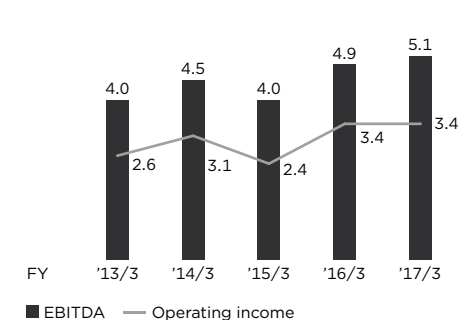
### Operating Revenues

(Billions of yen)



### EBITDA / Operating Income

(Billions of yen)



# CONSTRUCTION GROUP

## ■ FY2017/3 Results and Initiatives

Operating Revenues

¥79.3billion 10.3% ▼

EBITDA

¥6.7billion 1.7% ▼

Operating revenues in the Construction segment were ¥79.3 billion, a decrease of ¥9.0 billion, or 10.3%, compared with the previous fiscal year, due to a decline in the construction of elevated structures. Operating income was ¥5.9 billion, down ¥0.1 billion, or 2.5%, and EBITDA came to ¥6.7 billion, a decline of ¥0.1 billion, or 1.7%.

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.

Notes:

1. Operating revenues, operating income, and EBITDA are numerical values before eliminating intersegment transactions.
2. Construction Group EBITDA comprises operating income + cost of depreciation.

### Segment Overview

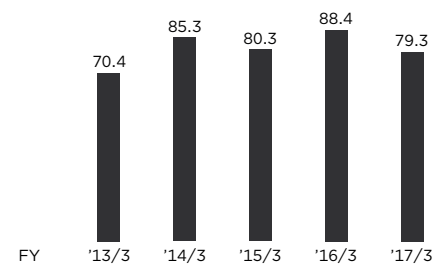
Our Construction segment provides comprehensive services that include the design, planning and construction for a variety of railway and civil engineering projects. Our construction business complements our railway business through its involvement in projects including the upgrade of our railway network, as well as working on other railway construction throughout Japan.

### Consolidated Subsidiaries (as of May 31, 2017)

- KYUTETSU CORPORATION
- Sanki Construction Co., Ltd.
- JR Kyushu Housing Company
- KSK. Ltd.
- Kyushu Electric System Company
- JR Kyushu Consultants Company

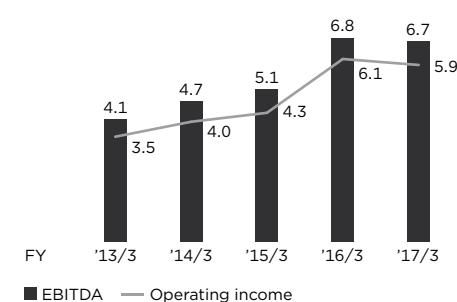
### Operating Revenues

(Billions of yen)



### EBITDA / Operating income

(Billions of yen)



# OTHER GROUP

## ■ FY2017/3 Results and Initiatives

Operating Revenues

¥60.9billion 4.9% 

EBITDA

¥3.3billion 1.3% 

Operating revenues in the Other segment were ¥60.9 billion, an increase of ¥2.8 billion, or 4.9%, compared with the previous fiscal year. Operating income came to ¥2.5 billion, an increase of ¥43 million, or 1.7%, while EBITDA was ¥3.3 billion, down ¥45 million, or 1.3%.

In the hotel business, we undertook initiatives to improve our services with the aim of having our hotels be continuously selected by customers. At the same time, we worked to secure profits by leveraging government assistance programs that aim to help promptly restore demand for tourism

in Kyushu, which has been negatively impacted by the 2016 Kumamoto earthquakes. In the seniors business, we opened the residence-style private retirement home SJR Oita.

Notes:

1. Operating revenues, operating income, and EBITDA are numerical values before eliminating intersegment transactions.
2. Other Group EBITDA comprises operating income + cost of depreciation.
3. For the years ended March 31, 2013, adjustments for expenses related to seconded employees were included in other expenses. However, due to a change in our secondment policy during the year ended March 31, 2014, beginning in the year ended March 31, 2014, adjustments for expenses related to seconded employees have been included in operating expenses. Other Group operating income (losses) and EBITDA for the years ended March 31, 2013 have been calculated by adding adjustments for expenses relating to seconded employees to operating expenses.

### Segment Overview

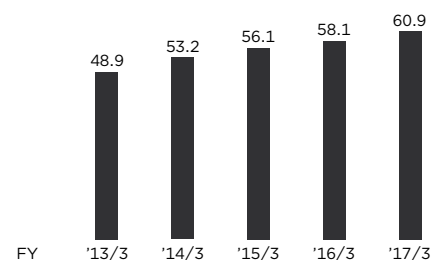
Our Other segment consists mainly of our hotel operations in Japan, but also includes a trading company, an advertising agency and nursing homes. Our hotels are located across Kyushu with one hotel in the central Shinjuku district of Tokyo. Our hotel properties enjoy occupancy rates higher than the average hotel in Kyushu and have been a stable source of cash flow and a growing source of revenue.

### Consolidated Subsidiaries (as of May 31, 2017)

- JR Kyushu Huis Ten Bosch Hotel Co., Ltd.
- JR Kyushu Hotels Inc.
- JR Kyushu Resort Development Co., Ltd.
- JR Kyushu Agency Co., Ltd.
- JR Kyushu Financial Management Company
- JR Kyushu Senior Life Support, Inc.
- JR Kyushu Trading Co., Ltd.
- JR Kyushu System Solutions Inc.
- JR Kyushu Life Service Co., Ltd.
- Oyama Yumekobo, Inc.

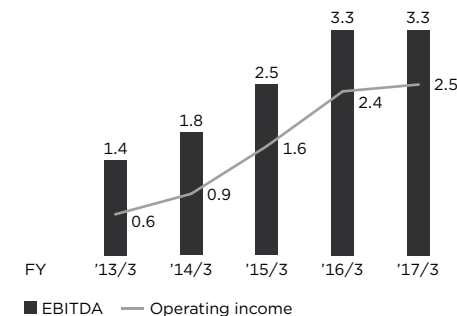
### Operating Revenues

(Billions of yen)



### EBITDA / Operating income

(Billions of yen)





## ESG SECTION

## SAFETY

**Policy on Ensuring Railway Safety**

Kyushu Railway Company establishes a Medium-Term Safety Plan in order to ensure the safety of its railways. In the safety plan (2012–2016), we set forth the goals of “eradicating accidents that could result in the deaths or injuries of customers or in the deaths of employees,” “eradicating, to achieve the preceding goal, dangerous accidents and events that threaten to have such an impact,” and, finally, “reducing other accidents and events.” In order to achieve those goals, we established an action plan that contains five major items—“improvement of the safety management

system,” “development of human resources who support safety,” “improving, maintaining, and upgrading facilities and the like to ensure safety,” “strengthening disaster-damage prevention measures,” and “initiatives for stable transportation”—and we implemented initiatives in line with the action plan.

In the future, in accordance with the safety plan, we will formulate a basic policy on safety each fiscal year, and by reliably implementing initiatives in line with the policy, we will build up more reliable safety.

**Safety Control Structure**

With proactive involvement by top management, we have established safety management regulations for the purpose of establishing a safety control structure and maintaining and improving transportation safety. In addition, by appropriately operating a PDCA cycle for safety control and implementing such activities as safety audits and safety checks, we carry out checks of our internal safety control structure and thus strive to further ensure safety.

**Safety Promotion Committee**

At the Head Office, meetings of the Corporate Safety Promotion Committee, whose purpose is to carry out deliberations on implementing measures for preventing railway accidents, transport disorders, and work-related accidents and to share safety-related information, are held on a monthly basis. Matters, such as measures and information, that are adopted by the committee are disseminated mainly through Safety Promotion Committee meetings held in each area of Kyushu and Safety Promotion Committee meetings held in each department. Furthermore, in order that the whole JR Kyushu Group works to ensure safety, these Safety Promotion Committee meetings are attended by persons in charge of safety at JR Kyushu Group companies, and measures and safety-related information that are adopted are disseminated to Group companies.

Action Plan for the Medium-Term Safety Plan	FY2016/3 Priority Action Items
<b>Improvement of the safety management system</b> 1) Smooth implementation of a PDCA cycle that includes safety audits, safety checks, and full safety checks 2) Initiatives for the whole JR Kyushu Group that include safety conferences, safety discussion gatherings, and meetings and trainings in each department 3) Reduction of potential risks by promptly responding to views expressed by employees about safety	<ul style="list-style-type: none"> <li>• Improvement of education for transportation safety management and work safety and health management</li> <li>• Enhancement of the safety control structure that includes the JR Kyushu Group</li> </ul>
<b>Development of human resources who support safety</b> 1) Implementation of study trainings at the Safety Promotion Building and follow-ups at each workplace 2) Various study trainings and applied education and trainings; on-site tours of safety promotion projects and technical guidance projects; and various abnormal-event response trainings 3) Establishment of risk management, and educational materials-based education to prevent work-related accidents	<ul style="list-style-type: none"> <li>• Improvement of safety education</li> <li>• Improvement of training to increase capabilities to respond when accidents and disasters occur</li> <li>• Promotion of measures to reduce incidents and operation errors</li> </ul>
<b>Improving, maintaining, and upgrading facilities and the like to ensure safety</b> 1) Development of facilities that provide back-ups in the event of human errors and thereby increase the degree of safety 2) Prevention of dangerous events involving train cars and facilities 3) Initiatives to reduce railway accidents	<ul style="list-style-type: none"> <li>• Promotion of measures to prevent railway accidents</li> <li>• Inculcation of repair management based on the results and cycles of train car and facility checks</li> </ul>
<b>Strengthening disaster-damage prevention measures</b> 1) Earthquake and tsunami measures 2) Promotion of measures to prevent fallen rocks, trees, bamboo, and other fallen objects 3) Strengthening of measures to prevent damage caused by rainfall on Shinkansen tunnel openings and urban areas with the network of old railway lines 4) Measures to prevent damage by animals (deer), such as expansion of fence installations to prevent intrusions by deer and implementation of effective cautious operation 5) Emergency alerts in accordance with the level of railway terrorism crisis management	<ul style="list-style-type: none"> <li>• Promotion of earthquake and tsunami measures</li> <li>• Promotion of disaster-damage prevention measures in anticipation of such events as torrential rain and very heavy snowfall</li> <li>• Promotion of measures to prevent fallen rocks and trees</li> </ul>
<b>Initiatives for stable transportation</b> 1) Carrying out refurbishment work on train cars, engine replacement for internal-combustion engine cars, etc. 2) Taking measures to prevent shelling, including planned rail replacement and rail resurfacing 3) Introducing multiple train detectors for track circuit devices, taking measures to prevent cable damage, and carrying out planned facility upgrades for interlocking devices and the like 4) Carrying out breakdown prevention measures, such as planned upgrades of railway facilities and equipment and planned replacement of obsolete equipment	<ul style="list-style-type: none"> <li>• Promotion of measures to prevent breakdowns of train cars and facilities</li> <li>• Promotion of measures to prevent disasters caused by animals</li> </ul>

## ESG SECTION

### SAFETY

#### Specific Initiatives

##### Investments in Safety Facilities

Investments in safety facilities are made in a planned manner every year. The main safety investment projects in FY2016/3 were as follows. Furthermore, we made investments for maintenance and upgrades of mainly railway track facilities, electrical circuit facilities, and train cars.

##### Main Safety Investment Projects

###### Replacement of obsolete facilities

Replacement of track motor cars and upgrades of substation facilities

###### Safety and disaster-damage prevention measures

Measures to prevent falling rocks and the like, adoption of railway grade separations, and aboveground development of ATS (automatic train stop)-DK systems

###### Measures for stable transportation

Change of wooden sleepers to prestressed concrete ties, and change of crossing sleepers to synthesis ties

###### Train car projects

ATS-DK improvement work (electric trains and diesel trains)

##### Safety Promotion Campaigns

In order to ensure safety, each employee must have high safety awareness, and the company organization must have an open atmosphere in which opinions on safety can be exchanged freely. Therefore, since FY2007/3, we have been continuously carrying out safety promotion campaigns and striving to build a safety culture.

In FY2017/3, under the slogan of “accomplishing our mission by bringing out the strengths of each employee,” we carried out Safety Promotion Campaign 2016. In order to collect employee views on safety, which mean “opinions and awareness” and “unsafe incident experiences,”\* the Company built an internal network system. By disclosing and sharing that information with all employees over the internal network, we have been able to prevent accidents and risks before they materialize. Furthermore, in FY2017/3, 9,599 employee views on safety were received.

\* Incidents that did not result in serious accidents but for which accidents would not have been surprising

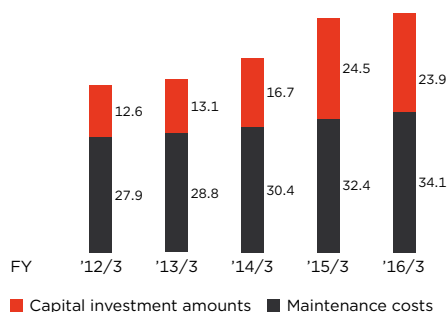
##### Education and Training

In order for the knowledge and technology necessary for each route and position level to be passed on, Kyushu Railway Company not only carries out practical education that makes use of self-study facilities and the like but also holds various competitions so that employees can take part in friendly competition with each other while having aspirations.

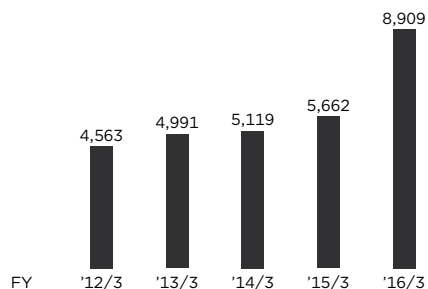
Furthermore, the Company conducts emergency response trainings that consist of comprehensive disaster-preparedness drills for the Kanmon undersea tunnel, large-scale hypothesized earthquake drills, comprehensive derailment recovery drills, tunnel evacuation guidance drills, and massive-tsunami evacuation guidance drills.

#### Expenditures on Safety

(Billions of yen)



#### Number of Employee Views on Safety



#### Shift to Automatic Train Stops

With the revision of an Ordinance of the Ministry of Land, Infrastructure, Transport, and Tourism, it became required that, if a train reaches a critical speed in a slowdown section, such as a crossing or turnout, the train be brought to a stop or slowed down by an automatic train stop (ATS). Kyushu Railway Company newly developed the safety-enhanced ATS-DK system from the conventional ATS-SK system, and it carried out work to replace ATS-SK systems

with ATS-DK systems.

At the end of FY2016/3, the replacement work for all the cars on the network of old railway lines, except the cars on the Chikuhi Line, was completed. Furthermore, the upgrade progress rate for aboveground facilities (the percentage of places that should be upgraded by June 2016) was approximately 84%, which means that the work proceeded as planned.



## ESG SECTION

### SAFETY

#### Occurrences of Railway Accidents and the Like

In FY2016/3, the number of railway accidents that occurred was 38, the third lowest number ever. In particular, for the first time since FY2012/3, the number of train accidents was zero. Furthermore, there were six cases, referred to as “incidents,” of situations recognized as having a risk that a railway accident would occur.

In addition, there were 262 cases of transport disorders. Transport disorders mean cases where, for causes other than railway accidents, train service was suspended, a passenger train was delayed for 30 minutes or more, or a train other than a passenger

train was delayed for an hour or more. There were 124 cases that resulted mainly from disasters involving rainfall, strong wind, or earthquakes, 78 cases that resulted from persons moving onto the tracks or other causes not due to the Company, and 60 cases that were due to causes directly resulting from the Company, such as railway personnel or train cars and facilities.

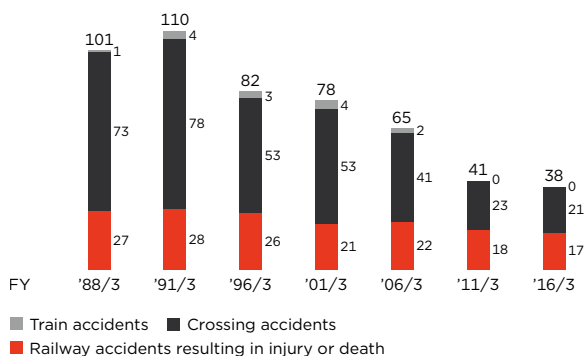
#### Antiterrorism Measures

In accordance with guidance from the Ministry of Land, Infrastructure, Transport, and Tourism and other government entities, Kyushu Railway Company remains vigilant against terrorism.

Specifically, in addition to taking such measures as increasing security patrols by our own employees or others, installing security cameras, and making trash cans transparent, with broadcasts, in-car telops, and posters, we have been asking for customers to cooperate by reporting whenever they discover any suspicious objects on station premises or inside train cars.

Also, every year in various locations, to increase cooperation with police departments and fire departments, we have been carrying out—jointly with the relevant departments—terrorism response trainings for such situations as coping with suspicious objects and aiding injured persons.

#### Railway Accident Occurrences



Train accidents: Train collision accidents, train derailment accidents, train fire accidents  
 Crossing accidents: On a railway crossing, a train or train car collides with a person, motor vehicle, etc., or the train or train car comes into contact with them.  
 Railway accidents resulting in injury or death: Cases where an injury or death results from operation of a train or train car

#### Utilization of Training Lines

On the Higashi-Kokura training line, we have set up a variety of facilities, including a training room where lectures are given, training railway tracks that extend to a total length of approximately 600 meters, and electrical equipment, and in the employee training center, we are carrying out practical education and emergency response trainings. In addition, in March 2016, another training room was completed.



Higashi-Kokura training line

#### Implementation of Study Training at the Safety Promotion Building

The Safety Promotion Building was completed in January 2011. It is based on the principle of providing education for understanding the meaning of basic operations and safety measures without losing the substance of the lessons learned from the past major accidents, and education for cultivating employees who can conduct themselves to ensure the safety of customers and employees. In the future, mainly through employee-participation trainings, Kyushu Railway Company will strive to develop employees who address safety even more actively.



Safety Promotion Building

## CORPORATE GOVERNANCE

### Basic Approach

The JR Kyushu Group is involved in a variety of businesses based on safety and service born of its own strengths. At its base of operations in Kyushu, the Group continues to take on the challenge of creating an invigorated Japan and greater Asia in a tireless and enthusiastic manner.

In order to realize such a Japan and greater Asia, the Company aims to be a corporation in which customers, local community members, business partners, employees and their families, and shareholders can have lasting trust. To this end, the Company is establishing and improving frameworks and systems for decisive and prompt decision-making as well as for appropriate disclosure

of information, while guaranteeing transparency and fairness in management. The Company is also further enhancing its efforts in corporate governance to realize continuous growth and long-term improvement in corporate value.

### Basic Explanation on Organizational Structure

JR Kyushu is a company with a Board of Auditors. Pursuant to the Companies Act, the Company has established the General Meeting of Shareholders, the Board of Directors, and the Board of Auditors as its corporate institutions.

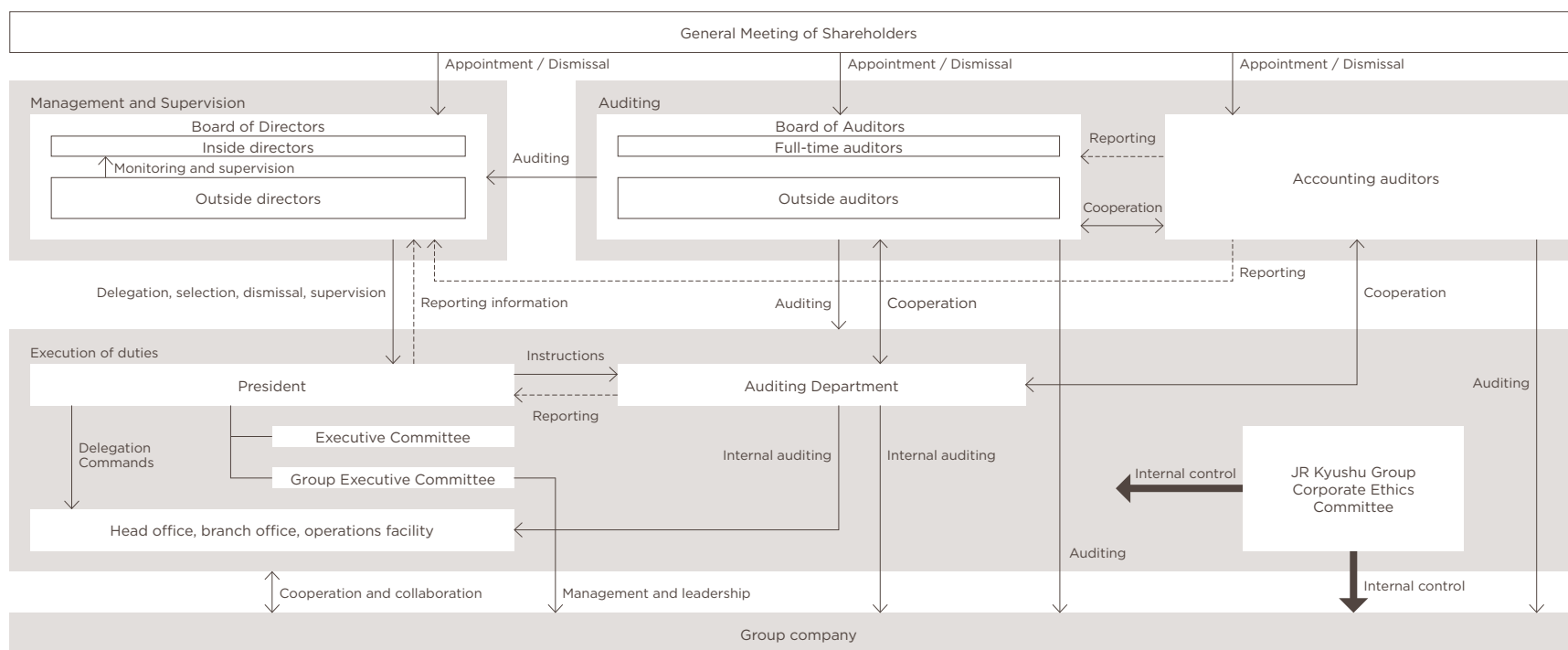
As a general rule, the Board of Directors meets once a month. At these meetings, the Board holds thorough discussions on not

only legal matters but also important matters related to management. The Board also carries out decision-making duties in a lawful and appropriate manner.

In addition, the Company has set up the Executive Committee, which comprises a full-time director from the Head Office, auditors, and heads of related business divisions. The committee discusses critical matters pertaining to business operations and works to make amendments to business management practices. As a general rule, the Executive Committee meets on a weekly basis.

The Company has also established the Group Executive Committee, at which the president serves as chairman when necessary. The Group Executive Committee holds discussions on

### Corporate Governance Structure



## ESG SECTION

### CORPORATE GOVERNANCE

important items related to each Group company. Also, the committee designates a Company director to each company within the Group and provides the necessary guidance and support so that each company can appropriately formulate and execute its business strategies.

In principle, the Board of Auditors meets once a month and holds extraordinary meetings when necessary. It receives reports on important matters related to audits and hold discussions and makes decisions regarding such matters.

The structure of the Company's corporate governance is as illustrated in the schematic diagram on page 30.

#### Internal Control Systems

In regard to internal control systems, to ensure management transparency and bolster the effectiveness of its audits, the Company has appointed outside directors and outside auditors with an abundance of external experience and knowledge. In addition, the Board of Directors has determined the Basic Policy Related to Internal Controls. To find out more about the Company's basic approach to internal control systems and the status of these systems, please refer to the Corporate Governance Report on the Company's website.

#### Audits by the Board of Auditors

Auditors attend Board of Directors' meetings and important meetings of other committees. The Board audits the business performance of directors by verifying the content of the reports it receives from directors, Company employees, and accounting auditors. The Board also audits the performance of directors through surveys of business and asset conditions conducted via visits to the head office, branch offices, other major offices, and Group companies. To serve as a contact point for outside auditors, the Company has established the Auditing Office, which is composed of three staff members. The Auditing Office oversees the convocation procedures for meetings of the Board of Auditors, creates notes of agenda items, and provides other kinds of assistance in regard to the Board's operation.

#### Relationship with Outside Directors and Outside Auditors

The Company has appointed Koji Toshima, Masayoshi Nuki, and Izumi Kuwano as outside directors as well as Eiichi Kuga, Yoshihiro Hino, and Kazuhide Ide as outside auditors. The Company expects that all six of these outside members will offer valuable opinions regarding the Company's management based on the abundance of experience and knowledge they have gained in such roles as business manager and attorney at law. Based on standards for independence regarding the selection of outside directors and outside auditors, the Company makes determinations for appointments on an individual basis to ensure that candidates have a sufficient level of independence that allows them to execute their duties from a standpoint that is independent of the Company's management. A candidate's work history and relationship with the Company are also taken into consideration.

The Company's personal, capital, and business relationships, as well as other relationships of interest, with outside directors and outside auditors are as follows.

- Outside Director Masayoshi Nuki is the chair of Kyushu Electric Power Company, with which the Company engages in transactions such as the payment of electric fees.
- Outside Director Izumi Kuwano is the president of Tamanoyou Co., Ltd., with which the Company engages in transactions including the receipt of handling fees related to the sale of travel products. Ms. Kuwano is also an outside director at Oita Bank, Ltd., with which the Company engages in transactions such as the borrowing of funds.
- Outside Auditor Kazuhide Ide is the chair of Chikuho Bank, Ltd., with which the Company engages in transactions such as the borrowing of funds.

#### Director Compensation

To ensure that a director is provided an appropriate level of compensation based on his or her role and responsibilities, the Company has in place a system that takes into account a director's motivation toward improving business performance and corporate value. When determining compensation levels, reports are made by the Compensation Advisory Committee, which comprises the president as well as outside directors, to the Board of Directors, which then decides on compensation amounts based on these reports. These amounts are held within a limit set in advance at the General Meeting of Shareholders.

Compensation to directors and auditors in FY2017/3 was as follows. Individual compensation amounts are not listed as there is no director or auditor whose individual compensation amount on a consolidated basis exceeds ¥100 million.

Category	Number of persons paid	Compensation amount
Directors (excluding outside directors)	18	¥410 million
Auditors (excluding outside auditors)	1	¥ 33 million
Outside officers	6	¥ 48 million
Total	25	¥492 million

#### Notes

1. Director compensation amounts do not include the employee portion of compensation for directors who double as employees.
2. The above amounts include compensation paid to two directors who resigned at the conclusion of the 29th Ordinary General Meeting of Shareholders held on June 21, 2016, due to the expiration of their terms of office.
3. The above amounts include an allowance for retirement benefits to directors and auditors (directors: ¥14 million; auditors: ¥0; outside directors: ¥0) totaling ¥15 million.



## ESG SECTION

### CORPORATE GOVERNANCE

#### Internal Audits

The Company has established the Auditing Department at its head office to serve as an institution for conducting internal audits. The department consists of seven members. Internal audits are carried out for the purpose of gaining an accurate understanding of the management activities of JR Kyushu and its Group companies as well as for improving operational efficiency through appropriate advice and recommendations and contributing to sound business development. Specifically, the Auditing Department carries out audits of the head office, branch offices, on-site operations, and Group companies based on auditing plans for each fiscal year. The department reports the results of these audits to the president.

#### Accounting Auditor

In regard to accounting auditors, the Company has an auditing agreement with Deloitte Touche Tohmatsu LLC. In FY2017/3, three certified public accountants conducted auditing duties for the Company. These three individuals were assisted by 15 other certified public accountants and 15 other individuals.

Additionally, compensation for accounting auditors is determined through the approval of the Board of Auditors after examining and confirming the content of the accounting auditors' auditing plan, the status of the plan's execution, and its basis for calculating the estimated compensation. The compensation paid to the certified public accountants who served as accounting auditors in FY2017/3 was as follows.

Category	Compensation based on audit and certification duties (millions of yen)	Compensation based on non-auditing duties (millions of yen)
Submitting company	¥ 71	¥24
Consolidated subsidiaries	52	-
Total	¥123	¥24

Also, the Company entrusted the creation of comfort letters, a non-auditing duty, to the certified public accountants and paid compensation accordingly.

#### Collaboration between Auditors, the Accounting Auditor, and the Auditing Department

Auditors, the accounting auditor, and the Auditing Department hold liaison meetings where opinions are exchanged regarding audit plans, the status of audit implementation, and other important matters.

#### Progress in Establishing a Risk Management Structure

The Company has put in place safety promotion committees at the head office and at each branch office. The purpose of these committees is to comprehensively examine items related to the prevention of operational accidents and work-related injuries as well as to formulate measures to prevent a reoccurrence of such events should they occur. In addition, these committees work to establish and promote appropriate and effective measures to ensure transportation safety. The Company has also established the Comprehensive Guidance Office, which operates on a 24-hour basis, thereby setting up a structure that allows for a prompt and appropriate response in the event an accident or crisis occurs.

#### Liability Limitation Agreements

In accordance with the provision of Article 427, Paragraph 1, of the Companies Act, the Company has entered into agreements with its outside directors and outside auditors that limits liability for damages under Article 423, Paragraph 1, of the Companies Act. The amount of liability for damages based on these agreements is held within the amount permissible by laws and regulations.

#### Statutory Number of Directors

As stipulated by the Articles of Incorporation, the Company's statutory number of directors is 24 or less.

#### Conditions for Director Appointment

As requirements for selecting directors, the Company's Articles of Incorporation stipulates that a minimum of one-third of the shareholders who can exercise voting rights must be in attendance at the General Meeting of Shareholders and that a majority of votes must be won. In addition, the Articles of Incorporation prohibits cumulative voting.

#### General Meeting of Shareholder Items That Can Be Decided on by the Board of Directors

As stipulated by the Articles of Incorporation, the Company may, by resolution of the Board of Directors, distribute interim dividends pursuant to Article 454, Paragraph 5, of the Companies Act to registered or recorded shareholders or registered pledgees in the register of shareholders as of the close of business on September 30 of each year.

## ESG SECTION

### CORPORATE GOVERNANCE

#### Status of Shareholdings

At the end of FY2017/3, the Company had equity holdings in 50 companies for purposes other than solely investment. The book value of these equity holdings totaled ¥9,466 million. In regard to major equity holdings within this amount, the classification of possession as well as the Company name, number of shares held, book value, and holding purpose were as follows.

Company name	Number of shares held (shares)	Book value (millions of yen)	Holding purpose
Central Japan Railway Company	108,200	¥1,962	Maintaining and strengthening relationship in the railway business
West Japan Railway Company	269,500	1,951	Maintaining and strengthening relationship in the railway business
East Japan Railway Company	196,100	1,900	Maintaining and strengthening relationship in the railway business
Kyudenko Corporation	327,400	993	Maintaining and strengthening relationship in business and regional activities of the Group
Kyushu Electric Power Co., Inc.	418,700	496	Maintaining and strengthening relationship in business and regional activities of the Group
T&D Holdings, Inc.	59,950	96	Maintaining and strengthening cooperative relationship
Nishi-Nippon Railroad Co., Ltd.	191,000	89	Maintaining and strengthening relationship in business and regional activities of the Group
StarFlyer Inc.	20,000	71	Maintaining and strengthening cooperative relationship
Fukuoka Financial Group	118,250	56	Maintaining and strengthening relationship in business and regional activities of the Group
Mizuho Financial Group	212,000	43	Maintaining and strengthening cooperative relationship
Dai-ichi Life Holdings, Inc.	9,700	19	Maintaining and strengthening cooperative relationship
Nishi-Nippon Financial Holdings, Inc.	8,493	9	Maintaining and strengthening relationship in business and regional activities of the Group
GREENLAND RESORT COMPANY LIMITED	13,200	5	Maintaining and strengthening cooperative relationship

## SOCIAL CONTRIBUTION INITIATIVES

**Regional Initiatives**

We believe the mission of a railway company is to conduct environmental development (a benefit to local areas), cultivate local traditions and cultures (together with local residents), and serve as a guide through the next stage of progress. To support the health and livelihoods of local residents, we make sure hospitals and nursing care facilities are fully stocked with medical equipment. We also hold walking and sporting events in contribution to regional development. Moreover, we feel certain that our various activities, such as managing the Kyushu Railway History Museum in order to painstakingly protect and preserve railway culture, are services that will inspire the Kyushu of the future. We will actively pursue these activities moving forward.

**Operating JR Kyushu Hospital**

We operate JR Kyushu Hospital as a comprehensive care hospital focused on acute cancer treatments. This hospital features the most advanced medical equipment, ordering systems, and electronic medical records, and offers safe and high-quality healing services in a complete medical environment. In this way, we are contributing to regional development for peace of mind.

**Hosting Discussions with Customers**

To improve services at JR Kyushu, we hold two central discussion meetings in addition to local meetings in eight regions across Kyushu for the purpose of gathering customer feedback.

**Participating in the Hakata City-Building Promotion Council**

The Hakata City-Building Promotion Council is an organization focusing on city-building in Fukuoka and that is made up of corporations, organizations, and autonomous councils based around Hakata Station and scholars and experts. JR Kyushu participates in this council in an executive capacity. The goal is to develop Hakata into an attractive locale that is great to live in, work in, and visit. To that end, we will actively collaborate with local residents on city-building efforts.

**Holding JR Kyushu Walks**

We hold JR Kyushu Walks from JR stations to places of interest around Kyushu.

**Initiatives in Support of Cultivating the Next Generation**

We actively strive to support the cultivation of the next generation through our basic policies of enabling employees to participate in both work and child-rearing and creating an organization in which all employees can work effectively.

**Receiving the Next Generation Certification Mark “Kurumin”**

We received the Ministry of Health, Labour and Welfare's next generation certification mark “Kurumin” in July 2015. The ministry uses this certification mark to acknowledge enterprises that develop action plans in support of child-rearing based on the Law for Measures to Support the Development of the Next Generation, carry out initiatives in line with such plans, and achieve results. As of this time, JR Kyushu has composed four action plans and received the “Kurumin” mark for each one. The action plan currently in progress (from April 1, 2015, to March 31, 2018) includes efforts to create a worker-friendly environment that enables employees to pursue both work and childcare. In order to shape an atmosphere where all employees can adequately display their abilities and be active in the Company, we have established the following three objectives.

**Objective 1:** Create an environment where all employees support child-rearing

**Objective 2:** Create a society that enables child-rearing

**Objective 3:** Raise the amount of employees who take childcare leave beyond the following levels

- Male employees: more than one
- Female employees: more than 75%





## ENVIRONMENTAL CONSERVATION ACTIVITIES

### Basic Policy on Environmental Conservation Activities

In accordance with the basic philosophy that “the JR Kyushu Group will make concerted efforts to implement environmental conservation and thereby contribute to the creation of a sustainable society” as well as with its three basic policies, Kyushu Railway Company has been carrying out environmental conservation activities.

In the JR Kyushu Group Medium-Term Business Plan 2016–2018, which was established in May 2016, we designated contributing to the creation of a sustainable society through environmental

#### Basic Philosophy

The JR Kyushu Group will make concerted efforts to implement environmental conservation and thereby contribute to the creation of a sustainable society.

#### Basic Philosophy

1. By introducing environmental conservation technologies and using originality and ingenuity in relation to them, we will promote efficient energy use and strive to reduce CO<sub>2</sub> emissions, which are a cause of global warming.
2. We will not only promote waste reduction and recycling and strive for efficient use of resources but also manage and dispose of environmental pollutants appropriately.
3. We will strive to provide safe and comfortable transportation so that even more customers can use environmentally friendly railways.

conservation as an important management policy, and we established “development of new, environmentally friendly train cars” and “promotion of efficient energy use” as key strategies. As the first step, after a development period of about five years, Japan’s first AC electrified dual energy charge train started commercial service in October 2016.

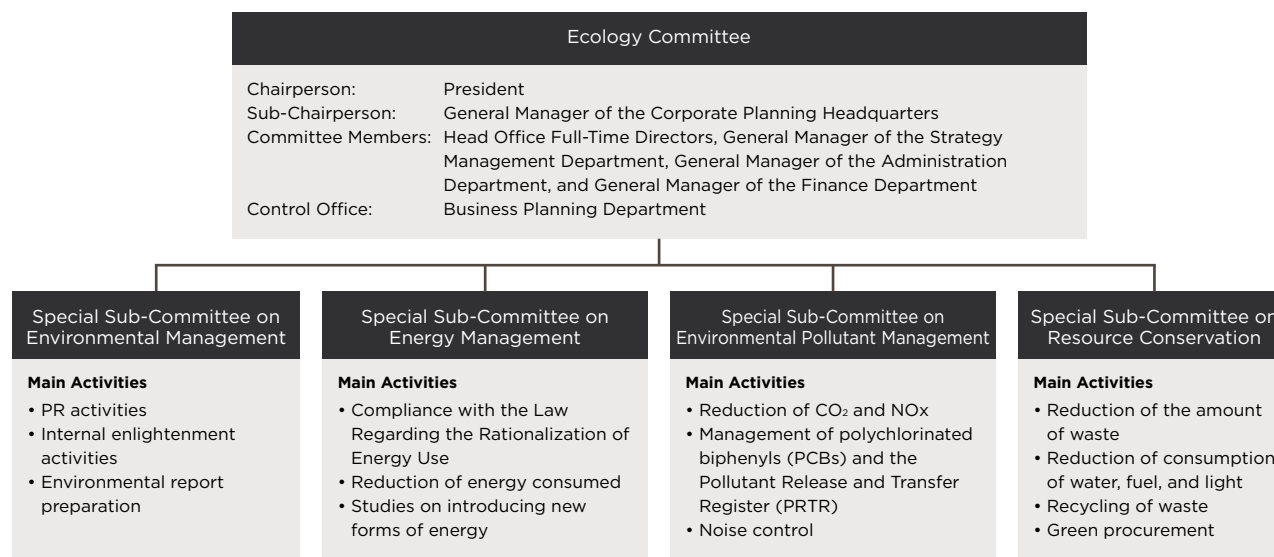
In the future, by not only promoting conventional energy-saving initiatives but also actively and systematically promoting technological innovation, we will enhance the railway characteristic of having a low environmental burden and contribute further to achieving a low-carbon society.

### Environmental Management System

Kyushu Railway Company has constructed an environmental management system and implements environmental conservation activities.

In March 1999, in order to continuously implement environmental conservation measures, we established the Ecology Committee, which is chaired by the president, as a body to deliberate and decide on necessary matters including the basic policies. In the committee, four special sub-committees have been established as bodies to plan mainly implementation programs, target setting, results reporting, and activity promotion for various environmental issues. Each sub-committee collaborates with not only internal departments but also Group companies to set forth subjects pertinent to environmental conservation and establish specific targets.

#### Ecology Committee Organizational Chart



## ESG SECTION

### ENVIRONMENTAL CONSERVATION ACTIVITIES

#### Setting Numerical Targets to Combat Global Warming

In FY2003/3, Kyushu Railway Company established the JR Kyushu Voluntary Plan as a voluntary action plan to help combat global warming, and we accomplished the targets set forth in this plan in FY2011/3.

In September 2015, we formulated the JR Kyushu Low-Carbon Society Action Plan as a set of new voluntary targets, and we have been carrying out initiatives accordingly, such as introducing energy-saving train cars, to further contribute to combating global warming.

#### JR Kyushu Low-Carbon Society Action Plan

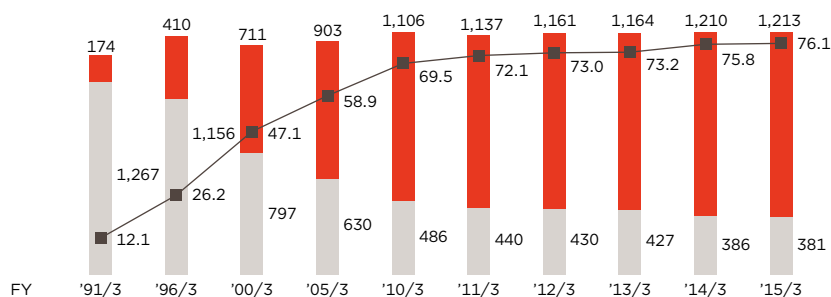
In the railway division, we intend to achieve the following two targets by FY2031/3.

- 1) Increase the rate of introduction of energy-saving train cars to 83%.
- 2) Reduce unit energy consumption to 2.5% below the level in FY2012/3.

Please note that, in accordance with such factors as future changes in the transportation system, we will revise these targets as necessary.

#### Change in Number and Percentage of Energy-Saving Train Cars

■ Energy-saving train cars ■ Non-energy-saving train cars (Number of cars)  
■ Ratio of energy-saving train cars to all train cars (%)



#### Specific Initiatives

##### ■ Introduction of Energy-Saving Train Cars

The introduction of energy-saving train cars is an initiative that Kyushu Railway Company has been constantly implementing since its establishment.

For our electric trains, we have been introducing cars that incorporate lightweight car bodies made of stainless steel and aluminum as well as VVVF inverters and regeneration brakes that use electricity efficiently. Meanwhile, for our diesel trains, we have

been introducing cars equipped with high-efficiency engines that require less fuel consumption, and we have also been replacing the engines in our existing diesel trains with high-efficiency engines. Noteworthy is the fact that all Kyushu Shinkansen cars are energy-saving cars.

In FY2016/3, the percentage of all our train cars that are energy-saving cars reached 76.1%.

In the future, we will continue to make cars that are environmentally friendly.

#### ■ Introduction of “DENCHA”: the First Dual Energy Charge Train in Japan

Inaugurated in March 2016 as an eco-friendly, “smart” next-generation train, the DENCHA dual energy charge train—which is equipped with a large-capacity storage battery—is the first AC electrified dual energy charge train in Japan. On sections of tracks with power lines, DENCHA runs in the same way as a conventional train, but on sections of tracks without such lines, it runs by using electricity stored in a storage battery. Compared with a conventional diesel train, DENCHA’s energy use (crude oil equivalent) and CO<sub>2</sub> emissions are greatly reduced, and since it is not equipped with an engine, the amount of exhaust gas discharged is zero. In October 2016, one train started

commercial service on the Chikuho Main Line (between Wakamatsu Station and Orio Station on the Wakamatsu Line), and six trains comprising 12 cars were added in March 2017.



DENCHA

## ESG SECTION

### ENVIRONMENTAL CONSERVATION ACTIVITIES

#### ■ Reduction of Unit Energy Consumption

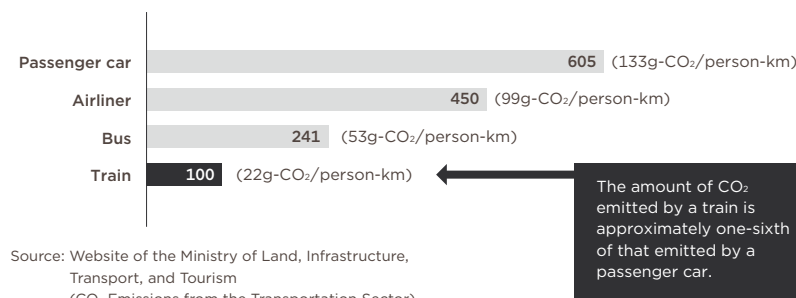
In the railway division, through initiatives including the introduction of energy-saving train cars and the introduction of LED equipment, in FY2016/3 we reduced our unit energy consumption\* by 2.2% from the level in FY2012/3.

In the future, by working on various energy-saving initiatives, we will promote more efficient business activities.

\* Unit energy consumption, an indicator that expresses energy use efficiency, is a numerical value calculated by dividing energy use by production volume, total building floor area, or some other numerical value that has a close relationship with energy consumption. In the case of passenger railway companies, unit energy consumption is calculated as the energy used in order for one car to travel one kilometer, and it is calculated by the following equation.

Unit energy consumption = energy consumption (of electricity, fuel, etc.) ÷ train running distance in kilometers

#### ■ Comparison of Amount of CO<sub>2</sub> Emitted When Carrying One Person One Kilometer (FY2015/3)



#### ■ Reduction of Construction Waste

In order to achieve a recycling-oriented society, Kyushu Railway Company promotes reducing, reusing, and recycling of waste and also implements initiatives to make effective use of resources. As a part of that effort, in construction, by studying designs and methods for limiting waste as well as ways to reuse waste, we strive to reduce the volume of waste. In addition, we are working to reduce the construction materials used in construction and to introduce materials that make it possible to limit the amount of disposed materials. Furthermore, the industrial waste that is generated is processed appropriately under the Waste Management and Public Cleansing Act.

With regard to the construction of new structures under elevated train lines, in the pile work, we use steel pipe piles in a construction method that does not use concrete or cement fluid. Thus, because there is no discharge of such industrial waste as muddy water and surplus soil, and no water contamination from cement, the method contributes to reducing the environmental burden. Furthermore, since cement mixer trucks and other construction vehicles do not need to come and go, the method also helps reduce pollution such as noise pollution and exhaust gas.

#### ■ Comparison of Electricity Consumption by Train Type (Consumption per Car, Taking the 415 Series Train as 100)

Express Trains		Control System	Breaking System	Car Body Construction
783 series	63%	Thyristor phase control	Regeneration brakes	Stainless steel car body
883 series	76%	VVVF control	Electricity-generating brakes	Stainless steel car body*
885 series	65%	VVVF control	Regeneration brakes	Aluminum car body
* Aluminum car bodies are used for some of the cars in the 883 series.				
Suburban Trains		Control System	Breaking System	Car Body Construction
811 series	70%	Thyristor phase control	Electricity-generating brakes	Stainless steel car body
813 series	77%	VVVF control	Electricity-generating brakes	Stainless steel car body
303 series	58%	VVVF control	Regeneration brakes	Stainless steel car body
815 series	58%	VVVF control	Regeneration brakes	Aluminum car body
817 series	53%	VVVF control	Regeneration brakes	Aluminum car body
305 series	51%	VVVF control	Regeneration brakes	Aluminum car body
415 series (reference)	100%	Resistance control	Electricity-generating brakes	Steel car body

Note: The values above are theoretical values, and the numerical values will vary depending on the actual conditions of train operation, such as speed and number of persons on board.

## ESG SECTION

### ENVIRONMENTAL CONSERVATION ACTIVITIES

#### ■ Management of Chemical Substances

In order to reduce the environmental burden, in accordance with laws and regulations, Kyushu Railway Company appropriately manages and disposes of chemical substances that affect the environment.

To combat CO<sub>2</sub> and NO<sub>x</sub> (nitrogen oxide), we are replacing the old engines of diesel train cars that run on diesel fuel with anti-exhaust gas engines. In this way, we are improving energy consumption efficiency and limiting emissions of CO<sub>2</sub> and NO<sub>x</sub>. By FY2016/3, 92% of our diesel trains were equipped with anti-exhaust gas engines.

#### ■ Reduction of CO<sub>2</sub> Emissions throughout the Entire Transportation System

By providing services that combine the respective characteristics of railway punctuality and automobile mobility, Kyushu Railway Company will further improve convenience for its customers and promote use of railways. In this way, we are aiming to reduce CO<sub>2</sub> emissions throughout the entire transportation system.

#### ■ Implementation of Park & Ride

Because effective use of owner-driven cars and environmentally friendly railways will lead to reductions in CO<sub>2</sub> emissions, we are promoting Park & Ride initiatives. By, for example, implementing a discount service for parking fees through interoperability with railways, we are improving convenience for our customers.

In addition, as a part of our initiatives for realizing a low-carbon society, in some parking lots we installed plug-in stations for electric vehicles.

After completing a two-year pilot project in Fukutsu City, Fukuoka Prefecture, on April 1, 2016, to ease traffic congestion, reduce CO<sub>2</sub>, and promote use of public transportation in the center of

Fukuoka City, we started regular operations of a Park & Ride system in collaboration with the local governments concerned, transportation providers, and AEON MALL Co., Ltd.



Park & Ride



# FINANCIAL SECTION

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Note: Our consolidated financial statements are prepared in accordance with Japanese GAAP, which differs in certain significant respects from accounting principles generally accepted in other countries, including U.S. GAAP and IFRS.

## FINANCIAL SECTION

# CONSOLIDATED SIX-YEAR SUMMARY

Kyushu Railway Company and Consolidated Subsidiaries  
Years ended March 31

	FY2012/3	FY2013/3	FY2014/3	FY2015/3	FY2016/3	Billions of yen FY2017/3
<b>Operating Revenues</b> .....	332.8	342.8	354.8	357.4	377.9	<b>382.9</b>
Transportation Segment* <sup>1</sup> .....	171.2	172.4	174.2	174.5	180.9	<b>176.4</b>
Real Estate Segment* <sup>1</sup> .....	47.3	47.8	49.8	53.5	62.0	<b>67.4</b>
Retail and Restaurant Segment* <sup>1</sup> .....	83.8	85.3	88.4	90.1	96.2	<b>100.4</b>
Construction Segment* <sup>1</sup> .....	64.5	70.4	85.3	80.3	88.4	<b>79.3</b>
Other Segment* <sup>1</sup> .....	47.3	48.9	53.2	56.1	58.1	<b>60.9</b>
<b>Operating Income (Loss)*<sup>2</sup></b> .....	10.0	7.5	9.0	12.7	20.8	<b>58.7</b>
Transportation Segment.....	(14.5)	(15.4)	(14.9)	(13.2)	(10.5)	<b>25.7</b>
Real Estate Segment.....	18.1	15.9	16.7	18.4	20.4	<b>22.6</b>
Retail and Restaurant Segment.....	2.4	2.6	3.1	2.4	3.4	<b>3.4</b>
Construction Segment.....	3.1	3.5	4.0	4.3	6.1	<b>5.9</b>
Other Segment.....	0.9	0.6	0.9	1.6	2.4	<b>2.5</b>
<b>EBITDA*<sup>2,*3</sup></b> .....	59.2	54.0	57.0	61.4	69.1	<b>73.2</b>
Transportation Segment* <sup>4</sup> .....	27.6	22.7	24.3	25.8	27.0	<b>28.5</b>
Real Estate Segment* <sup>4</sup> .....	23.9	21.8	22.7	25.1	28.4	<b>31.1</b>
Retail and Restaurant Segment* <sup>4</sup> .....	3.8	4.0	4.5	4.0	4.9	<b>5.1</b>
Construction Segment* <sup>4</sup> .....	3.7	4.1	4.7	5.1	6.8	<b>6.7</b>
Other Segment* <sup>4</sup> .....	1.6	1.4	1.8	2.5	3.3	<b>3.3</b>
<b>Net Income (Loss) Attributable to Owners of the Parent</b> .....	6.7	6.0	11.5	15.0	(433.0)	<b>44.7</b>
<b>Capital Investment Amounts (Non-consolidated)</b> .....	30.2	29.5	65.6	55.0	59.3	<b>60.0</b>
<b>Depreciation Costs (Non-consolidated)</b> .....	31.7	29.2	28.4	28.7	29.3	<b>7.0</b>
<b>Net Cash Provided by Operating Activities</b> .....	48.4	44.6	39.6	46.1	63.4	<b>28.5</b>
<b>Net Cash Provided by (Used in) Investing Activities</b> .....	(48.5)	(44.5)	(59.0)	(69.2)	9.0	<b>(18.3)</b>
<b>Net Cash Provided by (Used in) Financing Activities</b> .....	(0.5)	(0.9)	22.1	19.8	(40.0)	<b>(0.6)</b>
<b>Total Assets</b> .....	1,008.6	1,039.8	1,106.2	1,140.9	646.6	<b>676.6</b>
<b>Total Liabilities</b> .....	306.1	309.9	365.9	369.7	340.9	<b>328.2</b>
<b>Total Equity</b> .....	702.4	729.8	740.3	771.2	305.7	<b>348.4</b>
<b>Per Share Figures (Yen):</b>						
Net Income.....	20,938.21	18,902.29	36,145.29	46,912.53	(1,353,404.74)	<b>279.70</b>
Net Assets.....	4,348.17	4,514.46	4,578.34	4,790.51	1,876.22	<b>2144.00</b>
Dividends.....	—	—	—	—	—	<b>38.50</b>
<b>Financial Ratios (%):</b>						
Equity Ratio.....	69.0	69.5	66.2	67.2	46.4	<b>50.7</b>
Operating Income to Operating Revenues.....	3.0	2.2	2.6	3.6	5.5	<b>15.3</b>
Payout Ratio.....	—	—	—	—	—	<b>13.8</b>
<b>Others:</b>						
Number of Passengers (Millions).....	310	314	323	319	330	<b>331</b>
Number of Employees.....	16,840	16,860	16,900	16,740	16,830	<b>16,920</b>
Number of Shares Outstanding.....	320,000	320,000	320,000	320,000	320,000	<b>160,000,000</b>

\*1. Segment operating revenues, segment operating income (loss), and segment EBITDA are numerical values before eliminating intersegment transactions.

\*2. For the years ended March 31, 2012 and 2013, adjustments for expenses related to seconded employees were included in other expenses. However, due to a change in our secondment policy during the year ended March 31, 2014, beginning in the year ended March 31, 2014, adjustments for expenses related to seconded employees have been included in operating expenses. Our consolidated and segment operating income (losses) and EBITDA for the years ended March 31, 2012 and 2013 have been calculated by adding adjustments for expenses relating to seconded employees to operating expenses. The affected segments are Transportation Group, Real Estate Group, and Other Group.

\*3. Consolidated EBITDA for FY2016/3 and previous fiscal years comprises operating income + cost of depreciation + earnings from use of the Management Stabilization Fund, while EBITDA for FY2017/3 comprises operating income + cost of depreciation.

\*4. Segment EBITDA comprises operating income + cost of depreciation. Transportation Group EBITDA for FY2016/3 and previous fiscal years comprises operating income + cost of depreciation + earnings from use of the Management Stabilization Fund, while EBITDA for FY2017/3 comprises operating income + cost of depreciation.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Overview**

We conduct transportation operations in the Kyushu region of Japan, including the largest railway network in the region. We also operate a number of non-transportation businesses, including the leasing and sale of real estate, retail stores and restaurants, construction and hotels. These businesses directly or indirectly benefit from and are supported by the strength of our railway business and the strength of the JR Kyushu brand. For the year ended March 31, 2017, we recorded consolidated operating revenues of ¥382,912 million, consolidated operating income of ¥58,743 million, and consolidated net income attributable to owners of the parent of ¥44,751 million. For the same period, our consolidated EBITDA was ¥73,280 million. We categorize our business into the five reportable segments. For more information, please refer to the "Review of Operations" section.

**Results of Operations****Operating Revenues**

Operating revenues increased 1.3% from the previous consolidated fiscal year, to ¥382,912 million. The reason is that, although railway transportation revenues decreased on such factors as the Kumamoto earthquakes that occurred in 2016, mainly condominium sales and revenues from drugstores and convenience stores increased. Operating revenues in each of our main segments were reported on in the "Review of Operations" section.

**Operating Expenses**

Operating expenses decreased 9.2% from the previous consolidated fiscal year, to ¥324,169 million.

Transportation, other services and cost of sales decreased 12.4% from the previous consolidated fiscal year, to ¥235,885 million. The reason is mainly that depreciation costs decreased on the recording of an impairment loss on fixed assets for railway business in the previous consolidated fiscal year.

Selling, general and administrative expenses increased 0.6% from the previous consolidated fiscal year, to ¥88,284 million. This is mainly due to an increase in expenses associated with the opening of the JRJP Hakata Building.

**Operating Income**

Operating income increased 181.2% from the previous consolidated fiscal year, to ¥58,743 million.

Furthermore, while the ratio of operating income to operating revenues in the previous consolidated fiscal year was 5.5%, it stood at 15.3% in the consolidated fiscal year under review.

**Non-Operating Profit and Loss**

Non-operating income increased 279.3% from the previous consolidated fiscal year, to ¥2,998 million.

Non-operating expenses increased 48.4% from the previous consolidated fiscal year, to ¥1,176 million.

As for earnings from use of the Management Stabilization Fund,\* because the remaining amount of the fund was terminated in the previous consolidated fiscal year, in and after the consolidated fiscal year under review, there are no such earnings.

**Ordinary Income**

Ordinary income increased 89.1% from the previous consolidated fiscal year, to ¥60,565 million.

In addition, while the ratio of ordinary income to operating revenues in the previous consolidated fiscal year was 8.5%, it reached 15.8% in the consolidated fiscal year under review.

**Extraordinary Gains and Losses**

Extraordinary gains decreased 56.1% from the previous consolidated fiscal year, to ¥30,609 million. This was due mainly to the absence of the gain on sales of the Management Stabilization Fund\* assets that had been recorded in the previous consolidated fiscal year.

Extraordinary losses decreased 93.5% from the previous consolidated fiscal year, to ¥35,551 million. This was mainly because, although losses related especially to the Kumamoto earthquakes in 2016 were recorded, the impairment loss on fixed assets for railway business that had been recorded in the previous consolidated fiscal year was absent.

**Net Income Attributable to Owners of the Parent**

Net income attributable to owners of the parent was ¥44,751 million, versus a net loss attributable to owners of the parent of ¥433,089 million in the previous consolidated fiscal year. This is mainly due to the absence of the impairment loss on fixed assets for railway business that had been recorded in the previous consolidated fiscal year.

\* On March 31, 2016, the Management Stabilization Fund was terminated, and funds representing the principal of the Management Stabilization Fund were to be allocated for a number of specified purposes, including the prepayment of track use fees for the Kyushu Shinkansen, which occurred simultaneously with the termination of the Management Stabilization Fund. Following such termination, we recorded a significant impairment loss on our railway-related fixed assets and long-term prepaid expenses relating to Shinkansen track use fees for the year ended that date.

**Factors Affecting Revenues by Segment****Transportation Group**

## ■ Railway business

The operating revenues of our railway business consist of sales of passenger tickets (including commuter passes), including for both conventional lines and the Shinkansen. Revenues from sales of passenger tickets are generally a function of train fares and passenger volume. A base fare is required for all passenger services, while a surcharge is added to applicable fares for the use of express trains and "green car" upper-class seats. The express service surcharge is higher for the Shinkansen than for other express trains. We generally calculate our fares in proportion to travel distance under a system in which the per-kilometer fare gradually decreases as the travel distance increases. Commuter

## FINANCIAL SECTION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

passes enable the worker or student who owns the pass to take unlimited rides on a specified route for periods of one, three, or six months. The regular one-month commuter passes are sold at a discount compared with the total passenger ticket price that would be applicable if the passenger purchased two tickets per day for 30 days. Further discounts are applied for three- and six-month commuter passes.

We also offer coupon tickets for multiple rides and a variety of special tickets, such as two- and four- ticket packs provided at a discounted price sold at ticket windows and machines as well as discount tickets that are only sold via the Internet. Foreign tourists entering Japan on a short-term visitor basis are also eligible to use any of three "Rail Passes," each of which allows for unlimited use of our trains during the applicable period for the specific pass, including the use of our seat reservation system.

Passenger volume is affected by a number of factors, including economic conditions, demographics, competition with alternative modes of transportation, tourist demand, weather and natural disasters, and holidays.

#### ■ Other businesses

The operating revenues of our hydrofoil ferry and bus businesses are generally affected by similar factors as our train business, although fewer passengers use them for commuting purposes. Other businesses in the Transportation segment include car rental and temporary parking lots, the net revenues of which are primarily affected by general economic factors.

#### Real Estate Group

##### ■ Leasing business

Operating revenues from the leasing business in this segment depend primarily upon the amount of aggregate available leasable space, occupancy rates, and rent levels. Occupancy rates in our commercial, residential, and office leasing businesses are generally high, and specifically, our major station buildings have had average annual occupancy rates of close to 100%. Most of our commercial

retail leases consist of a minimum fixed amount and variable rent that correlate with the relevant tenant's revenue attributable to the relevant space that can be influenced based upon the performance of our tenants.

##### ■ Condominium sales business

Operating revenues in our condominium sales business are derived from the sale prices of our condominium units to the general public, sold under the MJR brand. We generally aim to sell all available units within a given development prior to the completion of construction. Sale prices and lead times for condominiums are affected by general economic conditions, such as the interest rate environment, governmental policy (including taxation policies), as well as the location and supply conditions in the localized housing market.

#### Retail and Restaurant Group

Operating revenues in our Retail and Restaurant segment are generally affected by the number of locations, customer volume, and average spend per customer.

Particularly for retail and restaurant locations in and around our railway network, customer volume is affected by passenger volume on our trains. Many of our offerings are designed to be both attractive to customers and conveniently located for easy access while traveling or commuting. Additionally, the general economic factors that affect customers' propensity to engage in leisure activity on our train lines generally tend to affect their inclination to shop and dine out as well. Volume is affected by competition with both regional and national chains of convenience stores, drugstores, and restaurants, in addition to free standing retail stores and restaurants. Volume is also affected by competition with other commercial facilities, such as department stores and shopping malls, which may have both retail and restaurant offerings in competition with ours.

Average spend per customer is affected by our product mix, shifts in customer preferences, and the general economic environment, influencing which products our customers purchase and how frequently they do so. Average spend is also affected by competition with other retail outlets and restaurants, particularly for leisure spending or higher-quality meals, as customers may choose between our offerings and those of our competitors based on the occasion.

#### Construction Group

Operating revenues in the Construction segment are derived from contracts with customers for the construction of railway-related projects, buildings, and other civil engineering projects, as well as consulting and other construction service contracts. Revenues from construction contracts for which the percentage of completion can be reliably estimated are recognized by the percentage-of-completion method. The percentage of completion is calculated by using the total cost incurred as a percentage of the estimated total cost. The completed-contract method is applied to construction contracts for which the percentage of completion cannot be reliably estimated.

Operating revenues from construction projects are based primarily on the contract prices and other terms of contracts we enter into with customers, either through negotiation or a bidding process. Our sales in a given fiscal period depend primarily on the size and number of projects that are currently in process or under construction during that period, and on our progress on and completion of those projects.

More than half of our operating revenues in the Construction segment are derived from transactions with Group companies. Third-party customers of the Construction segment include other railway operators and railway-related businesses, as well as other public- and private-sector customers.

Key factors that affect demand for our construction services, particularly to external customers, include investment in railway projects and general economic and market conditions.



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### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Other Segment

##### ■ Hotel Business

Our hotel business is included in our Other segment. Operating revenues in the hotel business are affected by the total number of rooms available, occupancy rates, and pricing. We monitor our hotel business by measuring average daily rate ("ADR"). We calculate ADR by dividing total room sales for a given period by the aggregate number of days per room for which each room was occupied. Because we calculate this measure based on available rooms, we do not take into account rooms that were unavailable due, for example, to renovations and other construction work.

These operational measures are affected by various factors, including general economic conditions, competitiveness compared with other hotels, and the condition of the Japanese tourism market.

In addition to the above factors, operating revenues in our hotel business are subject to seasonal fluctuations, particularly in the case of our resort hotels with respect to which demand increases significantly during the summer months.

#### Cash Flows

Net cash provided by operating activities was ¥28,580 million, down ¥34,823 million from the previous consolidated fiscal year, mainly due to an increase in income taxes paid.

Net cash used in investing activities was ¥18,366 million, compared with net cash provided by investing activities of ¥9,032 million in the previous consolidated fiscal year. This was mainly due to an increase in purchases of property, plant and equipment, and fixed assets.

Net cash used in financing activities was ¥692 million, down ¥39,316 million from the previous consolidated fiscal year. This was mainly due to a decrease in repayment of loans payable.

As a result of the factors above, from the end of the previous consolidated fiscal year, cash and cash equivalents, end of year increased ¥9,573 million, to ¥54,263 million.

#### Dividend Policy

We consider the return of profits to shareholders to be an important component of our business, and we have made the provision of stable and sustainable dividends based on our results of operations one of our key policies. In order to maintain the safety of our railway network that forms the foundation of our business, we also aim to use internal reserves of capital for capital expenditures related to the maintenance and renewal of our railway network and for growth expenditures to promote the strengthening of our business.

The payment of year-end dividends is subject to the approval of our shareholders as part of their approval at the General Meeting of Shareholders, with a record date of March 31 of each year. In addition to year-end dividends, in accordance with our Articles of Incorporation, we may make interim dividends with a record date of September 30 of each year by resolution of our Board of Directors.

In order to achieve steady shareholder returns while taking care to maintain sufficient internal reserves of capital, we are targeting a consolidated dividend payout ratio at a level of approximately 30% for each year until FY2019/3, subject to the level of our future earnings, financial condition, and other factors. Because the relevant record date is less than six months from the expected listing of our shares, we are targeting a consolidated dividend payout ratio of approximately 15% for FY2017/3. Based on this method, taking into account our operating results in the fiscal year under review, we set the dividend for FY2017/3 at ¥38.50 per share. Furthermore, in the next fiscal year, in conformity with the aforementioned method, we plan to pay a total annual dividend of ¥78 per share.

## RISK FACTORS

Of the items included in this report, those that may have a significant impact on the judgment of investors are indicated in this section. However, there may be other risk factors that are not included in this list.

Forward-looking statements in this section are based on the assessments of the JR Kyushu Group (the "Group") as of March 31, 2017.

### 1. Risk Associated with Changes in the Economy of Japan and Kyushu

The Group's operations, including transportation, construction, real estate, retail and restaurant operations, and other businesses, are mainly based in the Kyushu region of Japan. The Group's operations are therefore affected not only by the Japanese economy in general, including the planned increase in Japan's national sales tax and other economic measures implemented by the Japanese government, but also by the Kyushu region's economy (particularly Fukuoka City and other major metropolitan areas). In the Transportation Group business, employment conditions and student enrollment in Kyushu, particularly in and around Fukuoka City, could affect railway transportation revenue (commuter passes). A decline in the number of business travelers and tourists owing to a slowdown in the Japanese economy or the economy of Kyushu could affect railway transportation revenue (ordinary tickets).

In the Real Estate Group, changes in commercial facilities and residential demand, in Fukuoka City and other major metropolitan areas, interest rate levels, and monetary policy may affect rent levels, occupancy rates, and sales prices for real estate.

In addition, construction demand in Kyushu and Japan as a whole could affect Construction Group order value and consumption and business-related demand in Kyushu and Japan as a whole could affect the Group's hotel business and Retail and Restaurant Group.

Any changes in the areas above could affect the Group's businesses, earnings, and its financial condition.

### 2. Risks related to the Medium-Term Business Plan

In May 2016, the Group announced its Medium-Term Business Plan 2016–2018. The Group may not be able to achieve railway transportation revenue in line with its plans if, demand for Shinkansen or conventional lines declines more than expected owing to population decline, regulatory, economic, or other factors or if we are unable to accurately gauge and respond to customer demand. Also, if online ticket sales or yield management do not progress in line with expectations or if costs in the railway business diverge from the Group's forecast, it may not be able to achieve the goals set out in the Medium-Term Business Plan.

Also, the Group may be unable to take advantage of an increase in overseas tourists to sufficiently expand sales owing to factors related to the competitive environment or changes in customer preferences. Furthermore, the Group's real estate development projects could be unsuccessful as a result of unanticipated costs, demographic changes, or regulatory, economic, or other factors. Also, the know-how and experience accumulated by the Group might prove ineffective when extending its businesses outside of Kyushu and this could put it at a disadvantage. Such factors may result in the Group being unable to achieve the goals of the Medium-Term Business Plan. Furthermore, due to the highly interconnected nature of the Group's Transportation Group and Real Estate Group businesses, risks that adversely affect one of these businesses may also adversely affect the other.

In addition, the Group has made a number of assumptions and estimates in formulating its Medium-Term Business Plan, including estimates regarding the number of foreign tourists, the impact of the 2016 Kumamoto earthquakes, labor costs, and other expenses. In addition, all of the Group's businesses are exposed to the risks outlined in this report under the section titled Risk Factors.

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### RISK FACTORS

If the Group fails to implement any of its business initiatives, or if any of its forecasts prove inaccurate or insufficient, or if it is unable to sufficiently respond to any of the inherent risks in its businesses, it may affect the ability of the Group to achieve the goals of its Medium-Term Business Plan.

### 3. Regulatory Risks

#### Regulatory Risks in the Railway Business

We manage our railway business based on the Railway Business Act. While we are no longer subject to the Act Concerning Passenger Railway Companies and the Japan Freight Railway Company of Japan (the “JR Companies Act”), we are still required to manage operations in accordance with the Guidelines on Matters to Be Considered for the Foreseeable Future (the “Guidelines”) that are stipulated in a supplementary provision of the JR Companies Act. Please see below for details.

#### (1) Railway Business Act (Act No. 92. of 1986)

Under the Railway Business Act, we are required to obtain the permission of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) for each type of line and railway business operated (Article 3). We must also receive approval from the MLIT for the upper limit for rail fares and surcharges. We are able to set or change the fares within the approved range as long as we provide the MLIT with advance notice (Article 16). We are also required to notify the MLIT at least one year in advance regarding business suspension or withdrawal (Article 28, paragraphs 1 and 2). The Group may be prohibited from making major changes to its railway business based on the plans of the MLIT or for reasons deemed to be related to the public interest.

#### (2) Partial amendment to the JR Companies Act (2015, Law No. 36)

##### i. Exclusion from provisions of the JR Companies Act

The JR Companies Act was established in December 1986 in order to govern the investment and establishment of passenger and freight railway companies amid the privatization of Japanese National Railways and establish the purpose and scope of business operations conducted by these companies. The companies subject to the JR Companies Act were required to receive approval from the MLIT for such management decisions as the issuance of shares or the selection of a representative director. The act also establishes regulations requiring that these companies give consideration to the interests of small and medium-sized businesses.

In addition to the regulations stipulated by the Railway Business Law, the Company had been subject to government regulations under the JR Companies Act. However, with the implementation of the amended JR Companies Act on April 1, 2016, ahead of the complete privatization of the Company, the Company is no longer subject to the provisions of the JR Companies Act.

##### ii. Guidelines

Article 2 of the amended JR Companies Act enables the MLIT to issue guidelines relating to matters that should be considered for the foreseeable future (Guidelines) with respect to the management of the Company or any companies that may acquire all or a part of the railway operations of the Company as a result of mergers, etc., (new companies) as designated by the MLIT on or after the date of enactment of the amended JR Companies Act. Those guidelines were issued on December 2015 and implemented on April 1, 2016. The content of the guidelines is as follows.

- Items relating to ensuring alliances and cooperation among the companies (among the new companies or among the new companies and Hokkaido Railway Company, Shikoku Railway Company, freight companies, East Japan Railway Company, Central Japan Railway Company, West Japan Railway Company, or companies designated by the MLIT on or after the date of enactment of the amended JR Companies Act involved in the management of all or part of the former JR railway operations as a result of asset transfers, mergers, partitions, or successions (2001, Law No. 61)) with respect to the establishment of appropriate passenger fares and surcharges, the unhindered utilization of railway facilities, and other factors relating to railway operations.
- Items relating to the appropriate maintenance of railway routes currently in operation reflecting trends in transportation demand and other changes in circumstances following the restructuring of Japanese National Railways and items relating to ensuring users' convenience through the maintenance of stations and other railway facilities.
- Items stating that the new companies should avoid actions that inappropriately obstruct business activities or infringe upon the interests of small and medium-sized companies operating businesses in the operational areas of the new companies that are similar to the businesses of the new companies.

The MLIT is empowered to issue guidance and advice to the new companies on compliance with the Guidelines (supplementary provision, Article 3). If the new companies act in a manner contrary to the guidelines without justifiable reason, the MLIT can order them to take the recommended measures (supplementary provision, Article 4).

The Company operates its businesses in accordance with these guidelines and we do not expect any of these provisions to have a significant effect on our operations.

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### RISK FACTORS

#### Risks Related to the Establishment and Changes to Fares and Surcharges

The Railway Business Act requires JR Kyushu to follow certain procedures when seeking to set or change fares and surcharges. If the Company is unable to flexibly change fares and surcharges based on these procedures for any reason, its earnings could be affected. Details of these procedures are as follows.

##### (1) Procedures for approval of fares and surcharges

The Railway Business Law stipulates that railway operators are required to obtain the approval of the MLIT when setting or changing the upper limit for passenger fares and Shinkansen limited express surcharges (fares and surcharges) (Railway Business Law, Article 16, Item 1).

Railway operators may, after giving prior notification, set or change fares and surcharges within those upper limits and set or change the limited express surcharges on conventional lines and other surcharges (Railway Business Law, Article 16, Items 3 and 4).

Below, we provide a recent example of the process followed when a major private railway company received approval from the MLIT.

In order to improve the convenience of users when restructuring Japanese National Railways, a system is currently in place under which the total fares or other costs associated with customers or cargo traveling between two or more transportation providers can be decided based on contracts between the companies involved. This system generally allows for lower fares for longer travel distances. Furthermore, this system does not interfere with transportation providers' ability to establish their own pricing systems.

##### (2) The Group's stance on fare revisions

i. Except for fare revisions to reflect sales tax hikes in April 1989, April 1997, and April 2014, JR Kyushu has implemented only one fare hike since the start of operations in April 1987. This was implemented on January 10, 1996, which, on average, raised fares by 7.8%. Viewed from a broad management perspective, we believe the timely implementation of fare revisions will be necessary to secure appropriate profit levels.

ii. Our first mission is to ensure profitability and improve efficiency through streamlining measures. However, we also feel it is necessary to maintain a reasonable level of profit in order to fund future capital investment and strengthen our financial position.

iii. Capital investment has a major impact on capital costs in the railway business and we evaluate the necessity of each project while keeping in mind our mission to provide safe and reliable transport.

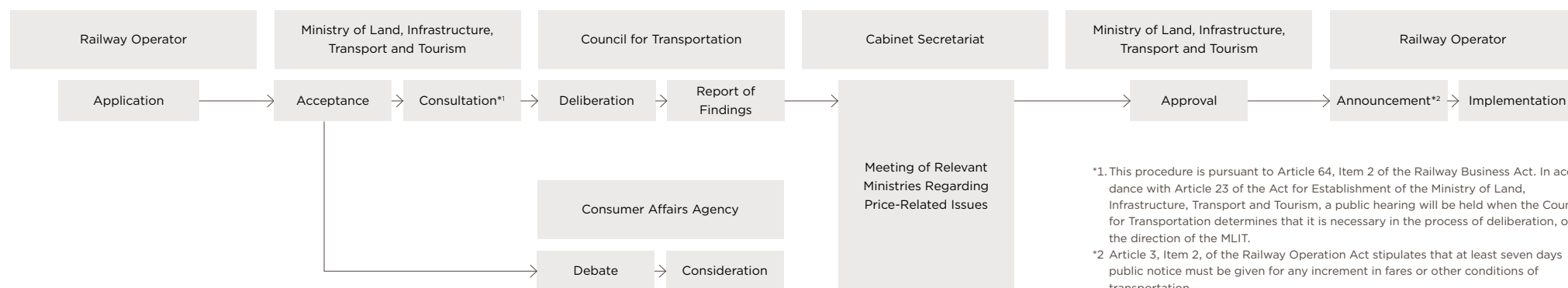
We recognize the need to conduct capital expenditure based upon clearly defined management responsibility.

##### (3) View of Ministry of Land, Infrastructure and Transport

The position of the Ministry of Land, Infrastructure and Transport regarding fare revisions is as follows.

i. The MLIT will approve applications for the revision of the upper limit of fares from railway operators after conducting inspections to determine that the fares do not exceed the sum of reasonable costs and profits (total-cost) that can be expected to be incurred through the efficient management of those companies (Railway Business Act, Article 16, Item 2).

A three-year period is stipulated for the calculation of costs.



\*1. This procedure is pursuant to Article 64, Item 2 of the Railway Business Act. In accordance with Article 23 of the Act for Establishment of the Ministry of Land, Infrastructure, Transport and Tourism, a public hearing will be held when the Council for Transportation determines that it is necessary in the process of deliberation, or at the direction of the MLIT.

\*2 Article 3, Item 2, of the Railway Operation Act stipulates that at least seven days public notice must be given for any increment in fares or other conditions of transportation.



## FINANCIAL SECTION

### RISK FACTORS

ii. Even when the railway operator operates non-railway businesses, the calculation of total-cost, which comprises reasonable costs and profits including required dividend payments to shareholders, is based on railway operations only. Further, operators are required to submit for inspection capital expenditure plans to improve transportation capabilities as a means to ease crowding of commuter transport and for other improvements of passenger services. The capital expenditures necessary for such enhancements is included in the calculation of total-cost.

• Total-Cost = Operating cost\* + Business compensation

\* With respect to comparable costs among railway operators, a "yardstick formula" is used to encourage indirect competition among operators in order to encourage enhanced management efficiency. The results of those comparisons are issued at the end of every fiscal year and form the basis for cost calculation.

iii. Business compensation is calculated based on the required dividend amount allocated to each business segment based on the ratio of fixed assets for the fiscal year in review and the dividend income target (11%) assuming a 10% dividend and interest costs on corporate bonds and borrowings.

iv. Providing that prior notification is given to the MLIT, railway operators can set or change fares and surcharges and other charges within the upper approved limits. However, the MLIT can issue directives requiring changes in fares and surcharges during specified periods if the fares and surcharges submitted are deemed to fall within the following categories (Railway Business Law, Article 16, Item 5).

- The changes would lead to unjustifiable discrimination in the treatment of certain passengers.
- There is concern that the changes would give rise to unfair competition with other railway transportation operators.

#### Regarding special tax measures

Pursuant to Article 15-2, Item 2 of the Supplementary Provisions to the Local Tax Law, the Company has been deemed eligible to reduce fixed assets used in the railway business subject to fixed asset taxes and city planning taxes to 50% of their standard tax assessment value up to FY2017/3 and, pursuant to Article 15-3, Item 1 of the Supplementary Provisions to the Local Tax Law, reduce fixed assets used in the business succeeded directly to the Company from Japanese National Railways subject to fixed asset taxes and city planning taxes to three-fifths of their standard tax assessment value up to FY2017/3 (by our calculations, this resulted in FY2016/3 tax savings of roughly ¥5.6 billion and ¥500 million, respectively). In addition, pursuant to Article 9, Item 1 of the Supplementary Provisions to the Local Tax Law, the Company has been deemed eligible for special tax measures pertaining to capital ratios related to corporate enterprise tax (by our calculations, this resulted in FY2016/3 tax savings of roughly ¥300 million).

These special tax measures were reviewed along with tax system reforms carried out in FY2017/3 and it was determined that they were to be eliminated following the implementation of interim measures. Details are as follows.

#### (1) Standards for fixed asset and city planning taxes

i. Regarding fixed asset and city planning taxes on fixed assets used in the business succeeded directly to the Company from Japanese National Railways, the tax standard will be three-fifths of their standard tax assessment value (for FY2017/3 only, this measure will be eliminated starting from FY2018/3).

ii. Interim measures related to tax standards for fixed asset and city planning taxes on fixed assets owned or leased by the Company (to be completely eliminated starting in FY2020/3)

- a. FY2017/3: reduced to 50% of standard tax assessment value
- b. FY2018/3: reduced to three-fifths of standard tax assessment value
- c. FY2019/3: reduced to three-fifths of standard tax assessment value

iii. Other necessary measures

(2) Standards for capital ratios related to corporate tax  
The following amounts can be deducted from capital, etc., for each fiscal year as shown below.

- a. FY2017/3: amount obtained by deducting capital from capital reserve
- b. FY2018/3: three-fourths of the amount obtained by adding capital to capital reserve
- c. FY2019/3: one-half of the amount obtained by adding capital to capital reserve

#### 4. Relating to the Real Estate Group

The Real Estate Group invests large sums of money in projects that require long periods of time to become profitable. Owing to external factors beyond our control, the amount of time and money required to complete these projects may increase and the expected level of earnings may not be achieved.

The Group may be forced to hold completed properties meant for sale in inventory for long periods of time, which could force it to recognize impairment losses. Also, if sales of tenants in our station building commercial facilities decline owing to deterioration in the operating environment or if the appeal of the products of our tenants declines, the portion of rent income tied to sales value could decline and this could impact the Group's earnings. In addition, declining demand could result in the loss of major tenants, higher vacancy rates, and lower rents for our rental properties, and prices of condominium could decline.

Following the completion of its real estate projects, the Group may be liable for unforeseen losses, damages, or injuries to third parties at properties it owns or costs to remedy construction defects.

Any of these risks could have a material adverse effect on the Group's businesses, earnings, and its financial condition.

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#### 5. Relating to Population Trends

The Group's main area of operations is Kyushu, where the rate of population decline is greater than in other regions of Japan and the ratio of elderly residents is expected to remain high.

Depopulation and aging of the population of Kyushu could result in a decrease in the number of commuters and travelers and this could impact the businesses, earnings, and financial position of the Transportation Group. In addition, depopulation could lead to a decline in consumption and a decline in the number of people using station building commercial facilities, drugstores, and convenience stores and a decline in the number of people renting apartments or purchasing condominiums, which could impact the Real Estate Group and the Retail and Restaurant Group businesses, earnings, and financial position of the Real Estate Group and the Retail and Restaurant Group.

#### 6. Relating to Competition

Each of the Group's businesses faces competition. The Transportation Group competes with other railway operators and other transportation service providers, including bus service operators, the regional highway network, airlines, and passenger ship operators, based on factors such as safety, fares, transit time, number of rolling stock units in service, comfort, convenience, attractiveness, brand appeal, and financing. In particular, the highway network in Kyushu is widely used and covers many of the locations serviced by the Group's Shinkansen and express trains.

The commercial real estate leasing business of the Real Estate Group competes with operators of other commercial facilities including shopping centers based on such factors as convenience, the ability to attract customers, rent and other lease terms, brand appeal, and financing. In the residential leasing and condominium businesses, the Group competes with other developers and property owners based on such factors as location, convenience, price, attractiveness, brand appeal, and financing. The Construction Group competes with other construction companies from all over

Kyushu and other regions of Japan. The Retail and Restaurant Group competes with similar retailers based on such factors as convenience, price, attractiveness of facilities, and customer satisfaction. In the Other Group, the hotel business competes with other hotel operators based on such factors as brand appeal, cost, convenience, and attractiveness of its physical locations.

If the Group is unable to remain competitive, whether due to changes in customer preferences, evolving customer needs and its ability to respond to them, changes in technology, consolidation of its competitors or other factors, its businesses, earnings, and financial position could be materially and adversely affected.

#### 7. Relating to the Group's Earnings Structure

The ratio of the Group's fixed costs—such as labor, maintenance, and depreciation costs—to net sales is high, particularly in the Transportation Group and the Real Estate Group. Also, the public nature of the Group's businesses as well as applicable regulations and other factors may significantly restrict its ability to take cost-reduction measures.

As a result, the Group's ability to increase profits in the Transportation Group by cutting costs when fixed costs are high is limited. Similarly, in its station building and real estate leasing businesses for rental apartments, operating costs generally do not necessarily decrease in line with declines in rental income. Accordingly, decreases in market rent levels or occupancy rates or the negotiation of lease terms unfavorable to the Group may therefore significantly affect operating income from such businesses.

#### 8. Relating to Growth in Electric Power Costs, Labor Costs, and Other Operating Costs

If electric power costs rise owing to rising fuel prices and other factors, this could negatively affect the Group's businesses in general, particularly the railway business. Also, the public nature of the Group's business as well as applicable regulations and other

factors may significantly restrict its ability to pass on the impact of these higher costs in the form of higher fares and it may not be able to offset such increases with earnings growth.

Many of the Group's businesses require a large labor force and, in recent years, labor costs in Japan have been increasing. Additionally, owing to the declining and aging population, the Group may also encounter a tighter supply-demand balance in the labor market in the future. As a result, it may need to offer enhanced employment conditions to secure human resources.

In the Construction Group and the Real Estate Group, construction costs have been driven up by rising construction material and labor costs and this may not only adversely impact the Group's earnings and financial position, but may also result in customers delaying capital investment, which could have an adverse impact on the earnings and financial position of companies in the Construction Group. Additionally, if it becomes difficult to pass on the impact of rising raw material costs in the Retail and Restaurant Group by raising prices of goods and services provided by the Group, or if inflation in Japan or abroad or yen depreciation results in higher costs, this could have an adverse material impact on the Group's businesses, earnings, and financial position.

#### 9. Relating to Natural Disasters and Accidents

The Group's operations are diverse in scope, but are geographically concentrated in Kyushu. The Group has substantial fixed assets such as railways, rolling stock, and real estate that could be impaired by such serious disasters as earthquakes, volcanic eruptions, tsunamis, typhoons, landslides, heavy rains, heavy snowfall, floods or pandemics; man-made disasters such as wars, acts of terrorism or armed conflict; core infrastructure failures such as power grid failures; and other localized disasters, particularly those affecting Kyushu. If this occurs, large-scale repairs of the Group's assets may be necessary or all or a portion of the Group's operations may be unable to continue to operate or may suffer extensive damage. A major disaster in Kyushu or the Fukuoka

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metropolitan area, where the Group's operations are concentrated, may result in a sizable adverse material impact on the Group's businesses, earnings, and financial position. Also, in the event of an injury, etc., to the Group's customers or other third parties as a result of such a disaster, the Group may be subject to a major lawsuit or claims may be made against it. Such a disaster could have an adverse impact on the public's perception of the safety and reliability of the Group's services or facilities, thereby damaging society's trust in the Group or having an adverse impact on demand for the Group's services.

As a result of the Kumamoto earthquakes in April 2016, all Kyushu Shinkansen operations were temporarily halted, and many of the Group's businesses were significantly disrupted, including temporary disruptions to its railway facilities and the widespread closure of stores in the Retail and Restaurant Group, and hotels in the affected areas and customer volume declined. As a result, the Group recorded ¥3,058 million in damages related to the earthquakes and also set aside ¥6,012 million in allowance for losses from the natural disaster in FY2017/3. Currently, Kyushu Shinkansen operations have returned to normal and all other operations are on a path to recovery. While management views the impact on businesses and earnings as temporary, there is still a risk that the Kumamoto earthquakes in April 2016 or other future earthquakes could delay or increase the costs of repair of the Group's facilities or to important infrastructure in the affected region and that demand from domestic and overseas travelers could decline.

In the event of a major accident on the Group's railway network, the Group may be subject to a major lawsuit by a third party or claims may be made against it. In addition, the Group could incur heavy expenses for the repair or replacement of its lines, it could lose income owing to the halt of operations, and it could suffer damage to its reputation and loss of society's trust. Due to the highly integrated structure of the Group's railway network and its Shinkansen operations, a relatively minor accident can have a wide-ranging adverse impact on railway operations

and disasters or damage affecting railway lines outside of Kyushu can also have a serious impact on the Group's railway operations, including Kyushu Shinkansen operations, thereby having an adverse impact on the Group's earnings, raising concerns regarding the Group's railway services and facilities, and possibly damaging society's trust in the Group's non-railway businesses or the value of the Group's brand.

Although the Group maintains insurance for personal and property damages, its coverage against damage or liability caused by earthquakes and other natural disasters may not be sufficient to cover all losses and damages. Damage to assets beyond the scope of this insurance or of an amount above the limits of coverage of this insurance could have an adverse material impact on the Group's businesses, earnings, and financial position.

#### 10. Relating to the Value of the Group's Assets

The Group owns a significant amount of property, plant and equipment and other fixed assets including land and other real estate. If there is a change in the operating environment or decline in profitability that leads management to believe that investments made in these fixed assets cannot be recovered, the Group would be required to recognize a loss on impairment. Also, if the assets are sold at less than book value, the Group will be required to post a loss on the sale of assets.

In the fiscal year ended March 31, 2016, the Group recorded large impairment losses attributable to assets related to the reversal of the Management Stabilization Fund. As nearly the full value of fixed assets used in the railway business was written down in connection with the reversal of the Management Stabilization Fund, management does not believe there is a high risk of further impairment losses on the railway business' fixed assets currently held by the Group. However, as the Group plans to continue to make sizable investments in the railway business, if earnings in the railway business fall below expectations, fixed assets used in the railway business could be subject to impairment losses.

While the Group will strive to remain profitable, if events like

those described above occur again, this could have an adverse material impact on the Group's businesses, earnings, and financial position.

#### 11. Relating to a Decline in the Number of Tourists

The Group's businesses and its growth strategy may be impacted by trends in the tourism market in Kyushu, including trends in the number of overseas tourists, especially those from other parts of Asia, such as South Korea, Taiwan, China, and Hong Kong. The tourism market in Kyushu may be affected by various factors including economic conditions both in Japan and overseas (especially regional economic instability in Asia), foreign exchange rates, political developments, feelings about Japan in general among potential tourists, natural disasters, abnormal or extreme weather conditions, accidents, outbreaks of infectious diseases, government promotion of tourism, and competition from other tourist destinations in Japan. If, owing to the abovementioned factors, the number of tourists in Kyushu declines, or if the Group is unable to take advantage of demand from tourists in Kyushu, this could have an adverse material impact on the Group's growth strategies, businesses, earnings, and financial position.

#### 12. Relating to New Shinkansen Lines

##### Construction Plans for New Shinkansen Lines

New Shinkansen lines are those lines based on the plan set out in the Nationwide Shinkansen Railway Development Law (1970, Law No. 71). Finalized in 1973, that plan called for the development of the Hokkaido Shinkansen line (Aomori-Sapporo), the Tohoku Shinkansen line (Morioka-Aomori), the Hokuriku Shinkansen line (Tokyo-Osaka), and the Kyushu Shinkansen line (Fukuoka-Kagoshima, Fukuoka-Nagasaki). After the privatization of Japanese National Railways in 1987, the Company was designated as the operator of the Kyushu Shinkansen line (Kagoshima Route [Fukuoka-Kagoshima], Western Kyushu Route [Fukuoka-Nagasaki])

On March 13, 2004, the Kyushu Shinkansen began servicing the route between Shin-Yatsushiro and Kagoshima Chuo, and on

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March 12, 2011, the service of this line was extended to Hakata. Roughly 38 years after the first plan was announced, it was finally possible to take the Sanyo and Kyushu Shinkansen directly from Shin Osaka to Kagoshima Chuo.

Regarding the Western Kyushu Route of the Kyushu Shinkansen, the line between Takeo Onsen and Isahaya was approved following an agreement with the government and ruling party in December 2004 stating that, "Regarding management of the parallel conventional lines, we will consider and quickly come to a conclusion on the feasibility of constructing railways in Saga Prefecture with the cooperation of Nagasaki Prefecture. Construction will begin when preparations have been completed. We plan to use free gauge train (FGT) rolling stock."

Based on the results of these studies, Saga Prefecture, Nagasaki Prefecture, and the Company reached a basic agreement on December 16, 2007, that the Company would fully manage the line between Hizen-Yamaguchi and Isahaya based on the so-called "scheme of separating infrastructure and operation." Based on this, Super Express service between Takeo Onsen and Isahaya was approved and construction began on March 26, 2008.

It was decided at the meeting of the examination committee for the development of new Shinkansen lines held on December 24, 2009, that construction should begin on the Western Kyushu Route of the Kyushu Shinkansen between Isahaya and Nagasaki after a public review held on December 24, 2009 confirmed the following five conditions: 1) there is a reasonable outlook for achieving stable revenues, 2) costs are likely to be balanced by incomes, 3) there is a reasonable prospect for achieving adequate returns on the investment, 4) JR Kyushu's partners approved JR Kyushu as an operator, and 5) agreement has been reached with relevant municipalities regarding the separation of management of parallel conventional lines. Based on the conclusion at the meeting for the operations of new Shinkansen lines held on December 26, 2011, (Confirmation by government and ruling parties) that revenues from the project would likely exceed costs on a consistent

basis, the approval of the project was granted in April 2012 at the meeting of the examination committee for the development of new Shinkansen lines since returns on the investment would exceed the required rates of return and, upon completion of approval procedures by the operator and local governments, the project was approved on June 29, 2012.

This agreement views the portion of the rail on which construction had already begun (between Takeo Onsen and Isahaya) and the new portion (between Isahaya and Nagasaki) as a single business (including double-track construction between Hizen-Yamaguchi and Takeo Onsen on the Sasebo Line) using FGT rolling stock and the target for start of operations on the portion between Isahaya and Nagasaki was established at roughly 10 years from the start of construction. Construction by the Japan Railway Construction, Transport and Technology Agency (JRTT) is ongoing.

Owing to delays in the development of FGT rolling stock, on March 29, 2016, the Company, Saga Prefecture, Nagasaki Prefecture, the ruling party Shinkansen promotion project team (Western Kyushu Route) review board, the Ministry of Land, Infrastructure and Transport, and the JRTT agreed to use full specification rolling stock on the relevant portion of the line when it is completed in 2022 and use conventional express rolling stock between Hakata and Takeo Onsen and have passengers change trains at Takeo Onsen station (FGT, see the agreement between the six parties below).

#### Cost Burden of the Development of New Shinkansen Lines

National government, local governments, and the JR Companies assume the cost of new Shinkansen lines constructed by JRTT. JR companies pay for the following two types of costs (the Company pays for the first type only).

- 1) Usage fees and other charges paid by the JR Company as the operator of the new Shinkansen lines
- 2) A portion of the transfer proceeds for existing Shinkansen facilities

In October 1997, the opening of the Takasaki-Nagano segment of the Hokuriku Shinkansen line was accompanied by new standards for the amount of usage fees paid by the JR Companies as the operator of new Shinkansen lines.

Those usage fees are now regulated by the Japan Railway Construction, Transport and Technology Agency Law (2015, Law No. 392, hereinafter, the enforcement ordinance) Article 6.

The enforcement ordinance stipulates that JRTT will calculate the amount of usage fees based on the benefits received by the operator of said Shinkansen line after opening and the sum of taxes and management fees paid by JRTT for railway facilities leased. Of those, the benefits received as the operator are calculated by comparing the estimated revenues and expenses generated by the new segment of Shinkansen line and related line segments after opening with the revenues and expenses that would likely be generated by parallel conventional lines and related line segments if the new segment of the Shinkansen line was not opened. The expected benefits are the difference between the amount that the operator of the new Shinkansen line should receive as a result of operation and the amount that would be received if the new Shinkansen line did not commence services. Specifically, expected benefits are calculated based on expected demand and expected revenues and expenses over a 30-year period after opening. Further, a part of the usage fees, which are calculated based on the expected benefits, is fixed for the 30-year period after commencing services. In addition, the taxes and maintenance fees are included in calculations of corresponding benefits as an expense of the operator of the Shinkansen line after opening.

The JRTT, which constructs the new Shinkansen line, receives construction costs and owns the facilities. After completion of construction, the Group leases these facilities and, after the start of operations, pays usage fees and other charges (please see 1) and during the construction period, the JRTT does not, in principle, directly bear the construction costs.



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Pursuant to the Amended JR Companies Act and the ministerial ordinance on the drawing down of the Management Stabilization Fund of Kyushu Railway Company (2015, MLIT ministerial ordinance 61), as the fixed portion of the lease payment for the Kyushu Shinkansen (between Shin-Yatsushiro and Kagoshima Chuo and between Hakata and Shin-Yatsushiro) for the period from April 1, 2016, until 30 years after the opening of each section of the line, the Group made a lump-sum payment of the full amount (approximately ¥220.5 billion) to the JRJT on the final day of FY2016/3.

The leasing fee for the Shinkansen facility to be paid by the Company, as the operator of the lines, to the JRJT, as the partner that carried out construction, starting from the start of operations on the Kyushu Shinkansen (Western Kyushu Route), has not yet been determined.

#### **Treatment of Conventional Lines Running Parallel to New Shinkansen Lines**

At the time of the start of operation of the Kyushu Shinkansen (Kagoshima route) between Shin-Yatsushiro and Kagoshima Chuo (March 2004), conventional lines running parallel to new Shinkansen lines (Kagoshima Main Line between Yatsushiro and Sendai) will be spun off to be managed by Hisatsu Orange Railway Co. Ltd.

In addition, the Nagasaki Main Line between Hizen-Yamaguchi and Isahaya running parallel to the Kyushu Shinkansen (Western Kyushu Route) will not be spun off, and at the time of the start of operation (FY2022), infrastructure and operation will be separated and, for a period of three years, the Group will maintain a certain level of railway service and the six partners have agreed to maintain operations for 23 years after the start of operation.

#### **The Company's Stance on Construction of New Shinkansen Lines**

Of the leasing costs mentioned in (2 on page 50), some are determined based on an estimate of revenues expected to be generated. We will be required to pay these fixed leasing costs regardless of the actual revenues generated, meaning that our results of operations may be materially and adversely affected if revenues from operations are insufficient to cover them.

The Kyushu Shinkansen (Western Kyushu Route) is expected to use FGT rolling stock. However, this FGT rolling stock technology remains under development by the JRJT. It is necessary to ensure that such technology will provide the required safety, durability, maintainability, and economic feasibility, and issues in the development of FGT rolling stock technology may materially and adversely affect plans for the Western Kyushu Route.

Also, if the start of operation is postponed owing to construction delays, or if earnings from operations are lower than expected, the Group's results of operations may be materially and adversely affected.

#### **13. Relating to Lawsuits**

Due to the nature of the Group's businesses, it is subject to risks from legal proceedings such as lawsuits from third parties and regulatory actions. If a lawsuit or other legal proceedings are brought against the Group, the resolution of such proceedings may require considerable time and money and, in the case of a major lawsuit that garners the interest of society, if the Group is forced to pay damages or in the event of an adverse judgment or an out-of-court settlement, this could have an adverse impact on society's trust in the Group, and the Group's businesses, earnings, and financial position.

#### **14. Relating to Information Technology (IT)**

The Group relies heavily on various IT systems to safely and successfully operate its various businesses, particularly the railway business. IT systems are also used by other companies to which the Group's operations are closely linked, such as other railway operators, utility providers, telecommunication service providers, and financial institutions, which the Group conducts transactions with. Any accident, damage, hacking incident, computer virus incident, human error, or malfunction involving the Group's information technology systems or IT systems of companies with which the Group conducts transactions could cause a wide range of problems including railway delays or malfunctions, failures or delays in ticketing or reservations, or increased risk of rolling stock collisions or accidents. A major malfunction in these IT systems could adversely affect its business operations and result in a reduction of its earnings and an increase in repair, replacement, and investment costs, and could have an adverse impact on the Group's safety and on society's trust in the Group, and the Group's businesses, earnings, and financial position.

#### **15. Relating to Rumors**

Reports of actual or alleged incidents involving the Group's businesses including accidents, misconduct or criminal activity, data privacy breaches, or other scandals could have a negative impact on society's trust in not only the business directly involved, but on trust in the Group as a whole and could have an adverse impact on the Group's businesses, earnings, and financial position.

Furthermore, accidents or other scandals occurring at other companies in the industries in which we operate could result in negative publicity that could harm the relevant industry as a whole and, indirectly, the reputation of the Group as a whole and the reputation of the Group's companies that operate in the relevant industry. For example, rumors and hearsay involving the Group or the industries in which we operate could be reported via media organizations or parties concerned with market, via

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postings on the Internet or social networking services, or anonymous letters or e-mails. This could have a negative impact on the Group, its products and services, the public perception of its businesses, society's trust in the Group, and the Group's businesses, earnings, and financial position.

#### 16. Relating to Protection of Personal Data

As a corporate group engaged in transportation services, construction, station building and real estate, retail and dining, and other businesses, the Group regularly collects and handles a variety of personal and company information. As such, it is responsible for protecting this information under the provisions of the Personal Information Law (2003, Law No. 57).

Leakage of personal information such as customer information, or other important information could result in claims for damages and regulatory actions and the Group may also be required to spend time and incur additional expenses to implement corrective measures. In addition, such incidents could cause the Group to lose customers by disrupting the Group's operations or have a negative impact on society's trust in the Group, and the Group's businesses, earnings, and financial position.

#### 17. Relating to Financial Assets

In accordance with the enforcement ordinance, the Group reversed its Management Stabilization Fund and holds financial assets such as Japanese bonds as a source of funds used to conduct capital investment in railway business assets in order to maintain and improve its railway network. As of the end of March 2017, over half (book value base) of these financial assets were highly liquid, but if the value of these financial assets declines due to trends in interest rates or earnings at issuers or deterioration in their condition, this could have a negative impact on the Group's businesses, earnings, and financial position.

#### 18. Relating to Third-Party Service Providers and Business Partners

The Group depends on third-party service providers in various aspects of its businesses. For example, in the Real Estate Group, it depends on subcontractors for the execution of certain aspects of construction and on third-party sales agents to manage leasing and sales of residential properties. In the Retail and Restaurant Group, it relies on third-party producers and wholesalers for procurement of raw materials. In addition, in its convenience store business, the Group relies on its franchise relationship with FamilyMart. If services performed by or materials purchased from third parties or the parties that the third parties rely on do not meet the Group's standards, problems or accidents may occur that have a sizable adverse impact on society's trust in the Group, and the Group's businesses, earnings, and financial position.

#### 19. Relating to Losses Associated with the Retirement Benefits System

Costs and obligations related to the Group's retirement benefit plans are calculated based on future retirement benefits that are calculated based on pension actuarial assumptions. However, if there is a change in the discount rate assumptions, or if actual conditions differ from assumptions owing to rapid changes in the interest rate environment or other factors, costs and obligations related to the Group's retirement benefit plans may increase. Also, if the Group's retirement benefit plans are restructured, additional obligations could result. This could have an adverse impact on the Group's businesses, earnings, and financial position.

#### 20. Relating to Environmental Regulations

The Group owns real estate mainly as part of its Transportation Group business, Real Estate business, and Other Group business. When acquiring real estate, the Group conducts environmental assessments to discover hazardous or toxic substances in the soil, groundwater, and buildings, including asbestos. However, there can be no assurance that these assessments are adequate to fully uncover the existence or prior use of all toxic substances. Under the Soil Contamination Countermeasures Act of Japan (2002, Law No. 53), a landowner is required to conduct soil contamination assessments in a variety of circumstances. When it is determined that human health is likely to be harmed due to soil contamination, the landowner may be ordered by the relevant authorities to remove the harmful substances regardless of whether the owner is responsible for or has knowledge of said contamination. The Building Standards Act (1950, Law No. 201) and the Air Pollution Control Act of Japan (1968, Law No. 97) requires the removal of, or certain other actions relating to, asbestos in connection with the demolition, renovation, and major repairs of existing buildings. The presence of hazardous or toxic substances may adversely affect the Group's ability to sell, lease, or develop the real estate or borrow using the real estate as collateral. In addition, such real estate could fall in value, and the Group might be required to incur substantial costs to remedy the underlying hazard. If actual harm to human health were to result from the presence of such substances, the Group could be liable for damages. This could have an adverse impact on the Group's businesses, earnings, and financial position.

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# CONSOLIDATED BALANCE SHEETS

Kyushu Railway Company and Consolidated Subsidiaries  
As of March 31, 2017, and 2016

	Millions of yen	
	FY2016/3	FY2017/3
<b>ASSETS</b>		
Current assets		
Cash and time deposits .....	¥ 8,673	¥ 7,337
Notes and accounts receivable-trade .....	26,472	45,843
Fares receivable .....	1,627	1,625
Securities .....	50,080	64,849
Merchandise and finished goods .....	9,244	13,945
Work in process .....	21,675	16,248
Raw materials and supplies .....	5,244	5,978
Deferred tax assets .....	6,677	5,661
Income taxes receivable .....	—	9,746
Other .....	36,180	27,403
Allowance for doubtful accounts .....	(42)	(34)
<b>Total current assets .....</b>	<b>165,833</b>	<b>198,606</b>
Non-current assets		
Property, plant and equipment		
Buildings and fixtures (net) .....	165,405	195,506
Machinery, rolling stock and vehicles (net) .....	4,213	11,794
Land .....	65,219	89,622
Construction in progress .....	33,256	21,907
Other (net) .....	6,214	7,251
<b>Net property, plant and equipment .....</b>	<b>274,308</b>	<b>326,081</b>
Intangible assets .....	6,031	5,824
Investments and other assets		
Investment securities .....	11,772	17,063
Deferred tax assets .....	61,110	58,102
Net defined benefit assets .....	500	667
Money held in trust .....	119,336	60,109
Other .....	8,227	10,610
Allowance for doubtful accounts .....	(444)	(395)
<b>Total investments and other assets .....</b>	<b>200,502</b>	<b>146,157</b>
<b>Total noncurrent assets .....</b>	<b>480,842</b>	<b>478,063</b>
<b>Total assets .....</b>	<b>¥646,676</b>	<b>¥676,669</b>

	Millions of yen	
	FY2016/3	FY2017/3
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Notes and accounts payable-trade .....	¥ 34,363	¥ 37,089
Short-term loans .....	664	490
Current portion of long-term debt .....	889	791
Payables .....	43,375	45,573
Accrued income taxes .....	22,941	3,817
Fare deposits received with regard to railway connecting services .....	1,408	1,513
Railway fares received in advance .....	5,274	5,191
Accrued bonuses .....	8,693	8,607
Other .....	28,757	31,868
<b>Total current liabilities .....</b>	<b>146,366</b>	<b>134,945</b>
Non-current liabilities		
Long-term debt .....	77,776	77,034
Allowance for safety and environmental measures .....	7,306	5,368
Allowance for earthquake-damage losses .....	—	6,012
Liability for retirement benefits .....	68,492	62,504
Asset retirement obligations .....	1,205	1,324
Other .....	39,783	41,032
<b>Total noncurrent liabilities .....</b>	<b>194,564</b>	<b>193,276</b>
<b>Total liabilities .....</b>	<b>340,931</b>	<b>328,222</b>
<b>EQUITY</b>		
Common stock		
Authorized—640,000,000 shares;		
Issued—160,000,000 shares in FY2016/3 and FY2017/3 .....	16,000	16,000
Capital surplus .....	559,735	234,263
Retained earnings (deficit) .....	(283,381)	86,987
<b>Total common stock .....</b>	<b>292,354</b>	<b>337,250</b>
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities .....	12,791	10,312
Foreign currency translation adjustments .....	145	132
Defined retirement benefit plans .....	(5,015)	(4,655)
<b>Total accumulated other comprehensive income .....</b>	<b>7,921</b>	<b>5,789</b>
Non-controlling interests .....	5,469	5,408
<b>Total equity .....</b>	<b>305,745</b>	<b>348,447</b>
<b>TOTAL LIABILITIES AND EQUITY .....</b>	<b>¥ 646,676</b>	<b>¥676,669</b>

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# CONSOLIDATED STATEMENTS OF INCOME

Kyushu Railway Company and Consolidated Subsidiaries  
Years ended March 31, 2017, and 2016

	Millions of yen	
	FY2016/3	FY2017/3
OPERATING REVENUES.....	¥ 377,989	¥382,912
OPERATING EXPENSES		
Transportation, other services and cost of sales .....	269,315	235,885
Selling, general and administrative expenses.....	87,780	88,284
Total operating expenses .....	357,096	324,169
OPERATING INCOME.....	20,893	58,743
NON-OPERATING INCOME		
Interest income.....	75	293
Dividend income .....	92	106
Gain on assets held in trust.....	—	1,699
Other .....	622	898
Total non-operating income .....	790	2,998
NON-OPERATING EXPENSES		
Interest expense.....	643	695
Fees associated with listing.....	—	286
Other .....	148	194
Total non-operating expenses.....	792	1,176
EARNINGS FROM USE OF THE MANAGEMENT STABILIZATION FUND		
Income from use of the Management Stabilization Fund		
Interest income .....	730	—
Interest on securities .....	21	—
Gain on assets held in trust.....	9,133	—
Other .....	1,587	—
Total income from use of the Management Stabilization Fund .....	11,472	—
Expenses from use of the Management Stabilization Fund.....	328	—
Total expenses from use of the Management Stabilization Fund .....	328	—
Total earnings from use of the Management Stabilization Fund .....	11,143	—
ORDINARY INCOME .....	32,035	60,565
EXTRAORDINARY GAINS		
Construction grants received.....	26,543	26,424
Gain on sales of trusts.....	—	3,014
Gain on sales of the Management Stabilization Fund assets .....	42,033	—
Other .....	1,164	1,170
Total extraordinary gains.....	69,742	30,609
EXTRAORDINARY LOSSES		
Losses from provision for cost reduction of fixed assets .....	23,981	25,275
Provision for loss on disaster .....	—	6,012
Earthquake-damage losses.....	—	3,058
Impairment loss .....	521,566	351
Other .....	670	853
Total extraordinary losses.....	546,218	35,551
INCOME BEFORE INCOME TAXES.....	(444,440)	55,623
INCOME TAXES.....	25,372	5,760
Current.....	(37,731)	4,865
Deferred.....	(12,359)	10,626
NET INCOME (LOSS).....	(432,081)	44,997
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS .....	1,007	246
NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT.....	¥(433,089)	¥ 44,751

# COMPREHENSIVE INCOME STATEMENTS

Kyushu Railway Company and Consolidated Subsidiaries  
Years ended March 31, 2017, and 2016

	Millions of yen	
	FY2016/3	FY2017/3
NET INCOME (LOSSES) .....	¥(432,081)	¥44,997
OTHER COMPREHENSIVE INCOME		
Unrealized gain on available-for-sale securities .....	12,297	(2,481)
Foreign currency translation adjustments .....	(7)	(13)
Defined retirement benefit plans.....	201	360
Total other comprehensive income.....	12,491	(2,134)
COMPREHENSIVE INCOME .....	(419,589)	42,862
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent .....	(420,611)	42,619
Non-controlling interests .....	¥ 1,021	¥ 243



## FINANCIAL SECTION

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Kyushu Railway Company and Consolidated Subsidiaries  
Years ended March 31, 2017, and 2016

### For the fiscal year ended March 31, 2016

	Shareholders' equity				The Management Stabilization Fund	Valuation difference on the Management Stabilization Fund
	Common stock	Capital surplus	Retained earnings	Total Shareholders' equity		
Balance at beginning of current year .....	¥16,000	¥171,908	¥ 149,708	¥ 337,617	¥ 387,700	¥ 45,722
Changes of items during the year ...						
Net income (loss) attributable to owners of the parent .....			(433,089)	(433,089)		
Changes in the ownership interest by purchases of shares of consolidated subsidiaries .....		126		126		
Transfers of the Management Stabilization Fund resulting for implementation of ordinances .....		387,700		387,700	(387,700)	
Net changes of items other than shareholders' equity .....						(45,722)
Total changes of items during the year .....	—	387,826	(433,089)	(45,262)	(387,700)	(45,722)
Balance at end of current year .....	¥16,000	¥559,735	¥(283,381)	¥ 292,354	¥ —	¥ —

	Accumulated other comprehensive income				Non-controlling interests	Total equity
	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current year .....	¥ 514	¥153	¥(5,224)	¥ (4,557)	¥4,754	¥ 771,236
Changes of items during the year ...						
Net income (loss) attributable to owners of the parent .....						(433,089)
Changes in the ownership interest by purchases of shares of consolidated subsidiaries .....						126
Transfers of the Management Stabilization Fund resulting for implementation of ordinances .....						—
Net changes of items other than shareholders' equity .....	12,276	(7)	209	12,478	715	(32,528)
Total changes of items during the year .....	12,276	(7)	209	12,478	715	(465,491)
Balance at end of current year .....	¥12,791	¥145	¥(5,015)	¥ 7,921	¥5,469	¥ 305,745

### For the fiscal year ended March 31, 2017

	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings	Total Shareholders' equity
Balance at beginning of current year .....	¥16,000	¥ 559,735	¥(283,381)	¥292,354
Changes of items during the year ....				
Net income attributable to owners of the parent .....			44,751	44,751
Change of scope of consolidation ...			29	29
Changes in the ownership interest by purchases of shares of consolidated subsidiaries .....		114		114
Deficit disposition .....		(325,586)	325,586	—
Net changes of items other than shareholders' equity .....				
Total changes of items during the year .....	—	(325,471)	370,368	44,896
Balance at end of current year .....	¥16,000	¥ 234,263	¥ 86,987	¥337,250

	Accumulated other comprehensive income				Non-controlling interests	Total equity
	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current year .....	¥12,791	¥145	¥(5,015)	¥ 7,921	¥5,469	¥305,745
Changes of items during the year ....						
Net income attributable to owners of the parent .....						44,751
Change of scope of consolidation ...						29
Changes in the ownership interest by purchases of shares of consolidated subsidiaries .....						114
Deficit disposition .....						—
Net changes of items other than shareholders' equity .....	(2,479)	(13)	360	(2,132)	(61)	(2,194)
Total changes of items during the year .....	(2,479)	(13)	360	(2,132)	(61)	42,702
Balance at end of current year .....	¥10,312	¥132	¥(4,655)	¥ 5,789	¥5,408	¥348,447

# FINANCIAL SECTION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Kyushu Railway Company and Consolidated Subsidiaries  
Years ended March 31, 2017, and 2016

	FY2016/3	Millions of yen FY2017/3
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (loss) before income taxes .....	¥(444,440)	<b>¥ 55,623</b>
Depreciation costs.....	37,158	<b>14,537</b>
Impairment loss .....	521,566	<b>351</b>
Gain on sales of trusts.....	—	<b>(3,014)</b>
Gain on sales of the Management Stabilization Fund assets .....	(42,033)	<b>—</b>
Losses from provision for cost reduction of fixed assets .....	23,981	<b>25,275</b>
Earthquake-damage losses.....	—	<b>3,058</b>
Increase (decrease) provision for loss on disaster .....	—	<b>6,012</b>
Increase (decrease) allowance for doubtful accounts.....	(72)	<b>(57)</b>
Increase (decrease) liability for retirement benefits .....	(4,619)	<b>(5,644)</b>
Increase (decrease) allowance for safety and environmental measures....	1,908	<b>(1,937)</b>
Interest and dividends income .....	(168)	<b>(400)</b>
Interest expense.....	643	<b>695</b>
Construction grants received.....	(26,543)	<b>(26,424)</b>
(Increase) decrease in trade receivables.....	564	<b>(19,343)</b>
(Increase) decrease in inventories .....	4,599	<b>489</b>
Increase (decrease) in trade payables .....	4,021	<b>2,750</b>
Gain on assets held in trust.....	—	<b>(1,699)</b>
Earnings from use of the Management Stabilization Fund .....	(11,143)	<b>—</b>
Fees associated with listing.....	—	<b>286</b>
Other .....	(3,951)	<b>11,596</b>
<b>Subtotal .....</b>	<b>61,472</b>	<b>62,154</b>
Proceeds from insurance income.....	—	<b>128</b>
Interest and dividends income received.....	180	<b>412</b>
Interest expense paid .....	(525)	<b>(604)</b>
Gain on assets held in trust received.....	—	<b>1,991</b>
Earnings from use of the Management Stabilization Fund received.....	12,088	<b>—</b>
Fees associated with listing paid.....	—	<b>(286)</b>
Loss on disaster paid.....	—	<b>(2,141)</b>
Income taxes paid.....	(9,811)	<b>(33,073)</b>
<b>Net cash provided by operating activities.....</b>	<b>¥ 63,404</b>	<b>¥ 28,580</b>

	FY2016/3	Millions of yen FY2017/3
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment, and intangible assets.....	¥ (86,540)	<b>¥(93,156)</b>
Purchases of marketable securities .....	(21,980)	<b>(98,890)</b>
Proceeds from redemption of marketable securities .....	8,000	<b>95,370</b>
Purchases of investment securities .....	(376)	<b>(8,866)</b>
Proceeds from sales of trusts.....	—	<b>59,160</b>
Proceeds from sales of the Management Stabilization Fund assets .....	314,579	<b>—</b>
Proceeds from construction grants received.....	15,662	<b>18,622</b>
Purchase of long-term prepaid expenses .....	(220,667)	<b>(114)</b>
Other .....	354	<b>9,506</b>
<b>Net cash provided by (used in) investing activities.....</b>	<b>9,032</b>	<b>(18,366)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in short-term loans payable .....	68	<b>(173)</b>
Proceeds from long-term loans payable .....	43,608	<b>50</b>
Repayment of long-term loans payable .....	(83,450)	<b>(889)</b>
Payments for long-term accounts payable .....	(326)	<b>(330)</b>
Proceeds from lease and guarantee deposits received .....	1,460	<b>2,075</b>
Repayments of lease and guarantee deposits received.....	(1,139)	<b>(1,149)</b>
Cash dividends paid to non-controlling shareholders.....	(30)	<b>(53)</b>
Other .....	(197)	<b>(222)</b>
<b>Net cash used in financing activities.....</b>	<b>(40,009)</b>	<b>(692)</b>
Effect of exchange rate change on cash and cash equivalents .....	(14)	<b>10</b>
<b>Net increase (decrease) in cash and cash equivalents .....</b>	<b>32,412</b>	<b>9,530</b>
Cash and cash equivalents, beginning of year.....	12,277	<b>44,690</b>
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation .....	—	<b>42</b>
<b>Cash and cash equivalents, end of year .....</b>	<b>¥ 44,690</b>	<b>¥ 54,263</b>

# CORPORATE INFORMATION

## Overview

<b>Company Name:</b>	Kyushu Railway Company
<b>Date Established:</b>	April 1, 1987
<b>Head Office</b>	3-25-21 Hakata-ekimae, Hakata-ku, Fukuoka 812-8566, Japan
<b>Capital</b>	¥16 billion



## History

### FY1950/3

- Establishes Japanese National Railways

### FY1988/3

- Establishes Kyushu Railway Company
- Launches travel business
- Establishes the current JR Kyushu Retail, Inc.
- Establishes the current JR Kyushu Tetsudou Eigyou Co., Ltd.
- Establishes the current JR Kyushu Agency Co., Ltd.

### FY1989/3

- Establishes the current JR Kyushu Financial Management Company
- Launches D&S train Yufuin no Mori train

### FY1990/3

- Adjusts fares and charges to accompany the introduction of consumption tax
- Establishes the current JR Kyushu System Solutions Inc.
- Establishes the current JR Kyushu Resort Development Co, Ltd
- Establishes the current JR Kyushu Fast Foods Inc.
- Makes the current Kyushu Electric System Company a subsidiary
- Makes the current KSK. Ltd. a subsidiary

### FY1991/3

- Establishes the current JR Kyushu Consultants Company
- Torrential rains damage the Hohi Line
- Establishes the current JR Kyushu Secom Inc.
- Establishes the current JR Kyushu Huis Ten Bosch Hotel Co., Ltd
- Starts regular Beetle 2 international hydrofoil ferry services between Fukuoka, Japan and Busan, South Korea

### FY1992/3

- Announces the medium-term business plan "Action 21" (1991-1995)
- Makes the current JRKyushu-Rent-A-Car&Parking. Co., Ltd. a subsidiary
- Makes the current JR Kyushu Trading Co., Ltd., a subsidiary
- Reopens entire Hohi Line (repaired damage caused by torrential rains in 1990)

### FY1993/3

- Establishes TRANDOR LTD.
- Launches the Tsubame limited express
- Opens the current JR Kyushu Hotel Blossom Fukuoka

### FY1994/3

- Torrential rains damage Ryugamizu Station

### FY1995/3

- Great Hanshin Earthquake occurs

### FY1996/3

- Opens the current Hotel Okura JR Huis Ten Bosch
- Establishes Kokura Terminal Building Inc.
- Adjusts fares for the first time as JR Kyushu (7.8% fare adjustment rate)
- Establishes the current JR Kyushu Food Service Inc.

### FY1997/3

- Announces the medium-term business plan "New Action 21" (1996-2000)
- Launches the Miyazaki Kuko Line

### FY1998/3

- Adjusts fares and charges to accompany the revised consumption tax rate
- Establishes Hohi Line Rapid Transit Railway Maintenance Company
- Launches general operations system
- Opens Amu Plaza Kokura in the Kokura Station building
- Derailment on the Chikuhui Line at Imajuku Station
- Makes the current JR Kyushu Maintenance Co., Ltd., a subsidiary

### FY1999/3

- Opens Station Hotel Kokura
- Establishes the Nagasaki Terminal Building Inc
- Establishes current business alliance (concludes basic agreement) between JR Kyushu Retail, Inc., and the convenience store business am/pm Japan Co., Ltd.

### FY2000/3

- Establishes the current JR Kyushu Hotels Inc.
- Launches Hohi Line between Kumamoto and Higo-Ozu
- Introduces first JR Kyushu automatic ticket gates in Minami-Fukuoka Station
- Establishes the current JR Kyushu Building Management Co., Ltd.
- Moves Fukuoka head office

## History

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### FY2001/3

- Establishes the current JR Kyushu Housing Company
- Opens Amu Plaza Nagasaki in the Nagasaki Station building
- Opens JR Kyushu Hotel Nagasaki
- Establishes the current JR Kyushu Bus Company
- Completes the general operations system JACROS

### FY2002/3

- Establishes the northern Kyushu head office, combining the Kitakyushu and Fukuoka head offices
- Announces the Medium-Term Business Plan “G-vision ‘03” (2001–2003)
- Opens JR Kyushu Hotel Kagoshima
- JR Kyushu Food Service Inc. opens Umayama in Akasaka, Tokyo
- Collision on the Kagoshima Line between Ebitsu and Kyoikudaimae

### FY2003/3

- Makes Sanki Construction Co., Ltd., a subsidiary
- Establishes JR Kyushu Life Service Co., Ltd.
- Establishes Kagoshima Terminal Building Inc.
- Makes KYUTETSU CORPORATION a subsidiary

### FY2004/3

- Surpasses two million passengers serviced on the Beetle hydrofoil ferry
- Derailment on the Nagasaki Line between Oe and Hizen-Nagata
- Launches the Kyushu Shinkansen from Shin-Yatsushiro and Kagoshima-Chuo
- Begins operating D&S trains Hayato no Kaze, Kyushu Odan Tokkyu, and Isaburo/Shinpei
- Opens JR Kyushu Hotel Kumamoto

### FY2005/3

- Announces the medium-term business plan “JR Kyushu Group Medium-Term Business Plan 2004–2006” (2004–2006)
- Opens Amu Plaza Kagoshima in the Kagoshima-Chuo Station building

### FY2006/3

- Establishes JR Kyushu Jet Ferry Inc.
- Opens JR Hotel Yakushima

### FY2007/3

- Opens private nursing home SJR Betsuin
- Surpasses 10 million passengers serviced on the Kyushu Shinkansen Tsubame

### FY2008/3

- Announces medium-term business plan “DASH 2011” (2007–2011)
- Makes the current JR KYUSHU DRUG ELEVEN CO., LTD., a subsidiary
- Opens JR Kyushu Hotel Kokura
- Makes the current JR Kyushu Linen Co., Ltd., a subsidiary

### FY2009/3

- Establishes council to promote urban development in Hakata
- Launches IC card ticketing service SUGOCA

### FY2010/3

- Begins operating D&S train SL Hitoyoshi
- Launches interoperable IC card ticketing service SUGOCA
- Begins operating D&S train Umisachi-Yamasachi

### FY2011/3

- Opens Shanghai office
- Establishes the current JR Kyushu Farm Co., Ltd.
- Establishes Shanghai JR Kyushu Food Service Inc.
- Opens JR Hakata City in Hakata Station (Amu Plaza Hakata in the Hakata Station building)
- Begins interoperation with JR Central's TOICA and JR West's ICOCA cards
- Begins operation of the entire Kyushu Shinkansen line, providing through service to the Sanyo Shinkansen line
- Begins operating D&S train Ibusuki no Tamatebako
- Great East Japan Earthquake occurs

### FY2012/3

- Begins operating D&S train Aso Boy!
- Wins awards in three categories at the Cannes Lions international advertising festival for Congratulations Kyushu! campaign celebrating the full opening of the Kyushu Shinkansen line
- Begins operating D&S train Let's Take the A-Train
- Opens JR Kyushu Hotel Miyazaki
- Opens Akasaka Umayama (Jing'an Temple) Shanghai

### FY2013/3

- Announces the medium-term business plan “Tsukuru 2016” (2012–2016)
- Surpasses 100 million visitors at JR Hakata City
- Launches Japanwide interoperable IC card transportation service

### FY2014/3

- Opens JR Kyushu Hotel Blossom Hakata Chuo
- Establishes JR kyushu Senior life support, Inc.
- Resumes operations between Miyaji and Bungo-Taketa on the Hohi Line (damaged by torrential rains in northern Kyushu in 2012)
- Begins operations of the world's first cruise train Seven Stars in Kyushu

### FY2015/3

- Adjusts fares and charges to accompany the rise in consumption tax rate
- Opens JR Kyushu Hotel Blossom Shinjuku
- Launches Smart Support Station service on the Kashii Line

### FY2016/3

- Opens after-school facility Kids JR Takatori
- Opens JR Oita City in Oita Station (Amu Plaza Oita in Oita Station building)
- Opens JR Kyushu Hotel Blossom Oita
- Opens Yaoya Kyuchan in Chihaya
- Launches D&S train Aru Ressha
- Makes Oyama Yumekobo, Inc., a subsidiary

### FY2017/3

- Revises JR Company Law
- 2016 Kumamoto earthquakes occur
- Opens JRJP Hakata Building
- Announces the medium-term business plan JR Kyushu Group Medium-Term Business Plan 2016–2018
- “Seven Stars in Kyushu” wins the first Nihon Service Award conferred by the prime minister
- Is listed on the Tokyo Stock Exchange First Section
- Launches D&S train Kawasemi Yamasemi



# ORGANIZATIONAL CHART/DIRECTORS AND CORPORATE AUDITORS

**Representative Director  
and Chairman**  
Koji Karaike

**Representative Director  
and President**  
Toshihiko Aoyagi

**Senior Managing Directors**  
Hayato Maeda  
Ryuji Tanaka

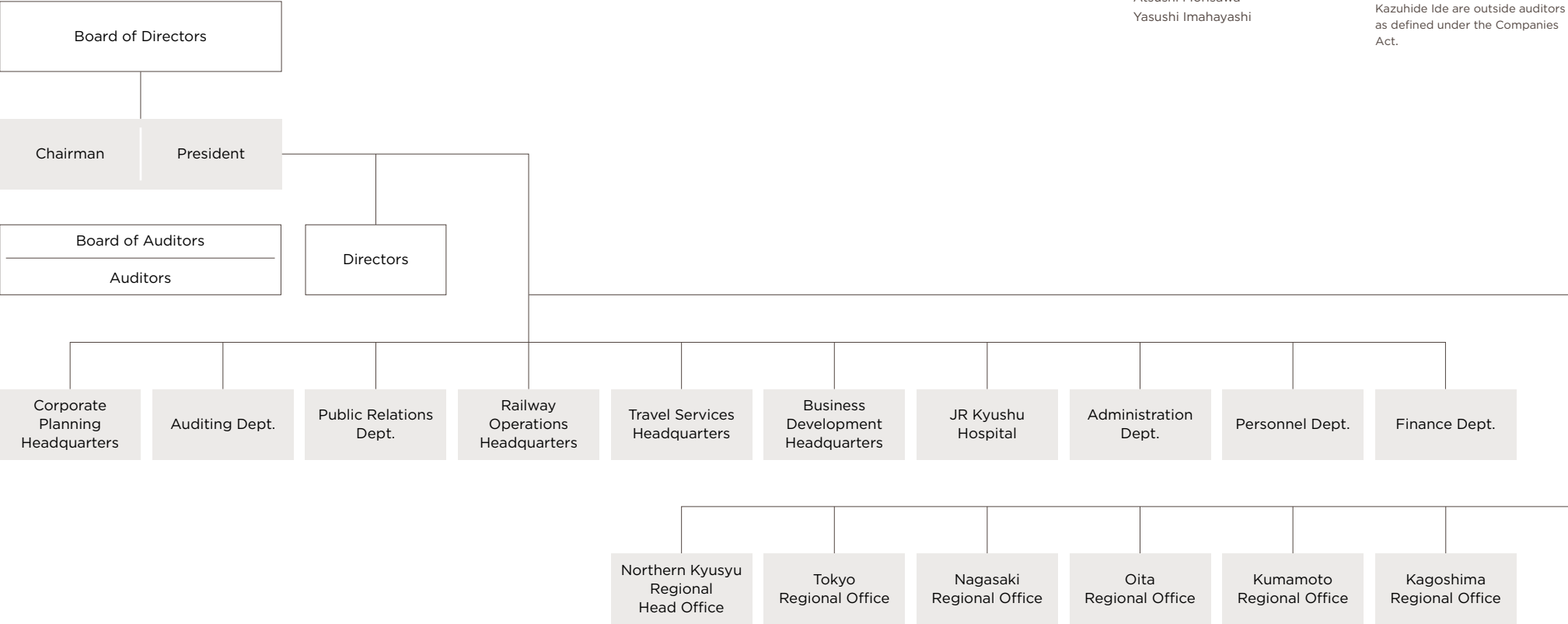
**Managing Directors**  
Yasuko Goto  
Mamoru Tsutaka  
Yoji Furumiya  
Masaya Hirokawa

**Directors**  
Osamu Kobayashi  
Tomiyuki Maekawa  
Hiroyuki Fukunaga  
Junya Matsumoto  
Takuma Matsushita  
Toshihiro Mori  
Koji Toshima\*<sup>1</sup>  
Masayoshi Nuki\*<sup>1</sup>  
Izumi Kuwano\*<sup>1</sup>  
Atsushi Morisawa  
Yasushi Imahayashi

**Auditors**  
Koji Shiroishi (Full-time)  
Eiichi Kuga\*<sup>2</sup> (Full-time)  
Yoshihiro Hino\*<sup>2</sup> (Part-time)  
Kazuhide Ide\*<sup>2</sup> (Part-time)

\*<sup>1</sup> Koji Toshima, Masayoshi Nuki,  
and Izumi Kuwano are outside  
directors as defined under the  
Companies Act.

\*<sup>2</sup> Eiichi Kuga,Yoshihiro Hino, and  
Kazuhide Ide are outside auditors  
as defined under the Companies  
Act.



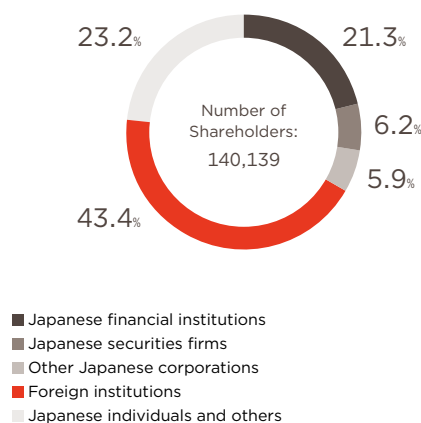
# INVESTOR INFORMATION

As of March 31, 2017

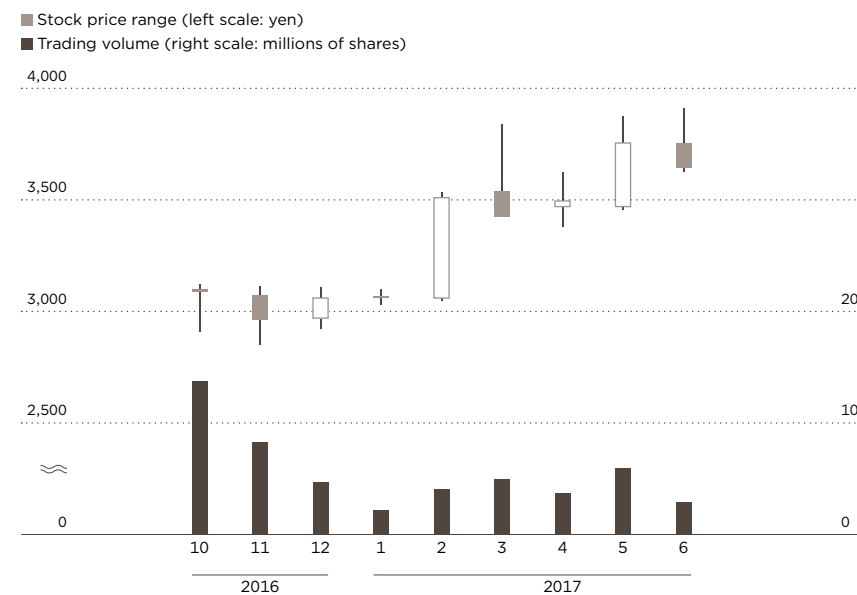
Stock Exchange Listings	Tokyo Stock Exchange, First Section Fukuoka Stock Exchange
Securities Code	9142
Business Year	April 1 to March 31 of the following year
Record Date for Voting Rights	Every March 31
Ordinary General Meeting of Shareholders	Meeting held every June
Record Date for Dividends	Year-end: Every March 31 Interim: Every September 30
Share Unit Number	100 shares
Total Number of Authorized Shares	640,000,000 shares
Total Number of Issued Shares	160,000,000 shares

Major Shareholders	% Voting rights
GOLDMAN, SACHS&CO. REG	5.73
BNYM SA/NV FOR BNYM FOR BNY GCM	4.03
CLIENT ACCOUNTS M LSCB RD	
Japan Trustee Services Bank, Ltd. (Trust Account)	3.10
UBS AG LONDON A/C IPB SEGREGATED CLIENT ACCOUNT	2.97
The Master Trust Bank of Japan, Ltd. (Trust Account)	2.90
GOVERNMENT OF NORWAY	2.21
JPMCB NA ITS LONDON CLIENTS AC	
MORGAN STANLEY AND CO INTERNATIONAL LIMITED	2.17
Taiyo Life Insurance Company	2.00
JPMorgan Securities Japan Co., Ltd.	1.90
JPLLC CLIENT SAFEKEEPING ACCOUNT	1.73

Distribution of Share Ownership by  
Type of Shareholder



Stock Price Range / Trading Volume



		2016			2017					
		Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.
JR Kyushu	High	3,120	3,115	3,110	3,100	3,535	3,840	3,625	3,875	3,910
	Low	2,908	2,851	2,922	3,030	3,050	3,425	3,380	3,455	3,625
Nikkei Average (¥)		17,425	18,308	19,114	19,041	19,119	18,909	19,197	19,651	20,033
TOPIX (Points)		1,393	1,469	1,518	1,521	1,535	1,513	1,532	1,568	1,612

Notes:

1. Based on prices on the First Section of the Tokyo Stock Exchange.
2. The closing prices for the Nikkei Index and TOPIX are recorded at the end of the period (month).

**For More Information:**

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URL: [http://www.jrkyushu.co.jp/company/ir\\_eng](http://www.jrkyushu.co.jp/company/ir_eng)