

Consolidated Financial Results
for the Nine-Month Period Ended December 31, 2017
(Japanese GAAP)

February 9, 2018

Company name: Kyushu Railway Company
 Stock exchange listings: Tokyo and Fukuoka
 Securities code: 9142
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Scheduled date for filing of quarterly report: February 13, 2018
 Scheduled date of dividend payment commencement: —
 Preparation of supplementary explanations for financial results: Yes
 Holding of a briefing on quarterly financial results: None

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

1. Consolidated Financial Results for the Nine-Month Period Ended December 31, 2017
(From April 1, 2017 to December 31, 2017)

(1) Consolidated operating results

(Percentages show year-on-year changes.)

	Operating revenues		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended December 31, 2017	295,576	12.1	51,700	11.8	54,249	13.8	39,929	18.1
December 31, 2016	263,628	—	46,252	—	47,683	—	33,819	—

(Note) Comprehensive income: Nine months ended December 31, 2017: ¥40,752 million (24.1%)
 Nine months ended December 31, 2016: ¥32,841 million (—%)

	Net income per share — basic	Net income per share — diluted
Nine months ended	Yen	Yen
December 31, 2017	249.56	—
December 31, 2016	211.37	—

(Note) On August 18, 2016, the Company conducted a stock split at a ratio of 500 shares for each share of common stock. Calculations of quarterly income per share were made under the assumption that the stock split would occur at the beginning of previous consolidated fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2017	716,501	376,748	51.8
As of March 31, 2017	676,669	348,447	50.7

(Reference) Shareholders' equity: As of December 31, 2017: ¥371,278 million
 As of March 31, 2017: ¥343,039 million

2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2017	—	0.00	—	38.50	38.50
Year ending March 31, 2018	—	39.00	—		
Year ending March 31, 2018 (Forecast)				39.00	78.00

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

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2018 (April 1, 2017 to March 31, 2018)

(Percentages show year-on-year changes.)

	Operating revenues		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	409,600	7.0	60,100	2.3	63,100	4.2	48,100	7.5	300.63

(Note) Revisions to the most recently disclosed financial forecasts: Yes

Notes

(1) Changes in significant subsidiaries during the nine months ended December 31, 2017 (changes in specified subsidiaries affecting the scope of consolidation): No

(2) Application of special accounting treatment in preparing the quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates and restatement of revisions

i Changes in accounting policies with revision of accounting standards: No

ii Changes in accounting policies other than the above: No

iii Changes in accounting estimates: No

iv Restatement of revisions: No

(4) Number of shares outstanding (common stock)

i Number of shares issued and outstanding at end of period (including treasury stock)	As of December 31, 2017	160,000,000 shares	As of March 31, 2017	160,000,000 shares
ii Number of shares of treasury stock at end of period	As of December 31, 2017	—	As of March 31, 2017	—
iii Average number of shares during the period	As of December 31, 2017	160,000,000 shares	As of December 31, 2016	160,000,000 shares

(Note) On August 18, 2016, the Company conducted a stock split at a ratio of 500 shares for each share of common stock.

Calculations for the number of shares issued and outstanding (common stock) were made under the assumption that the stock split would occur at the beginning of the previous consolidated fiscal year.

* This summary of consolidated financial results is not subject to quarterly reviews.

Explanation of Appropriate Uses of Performance Forecasts and Other Important Items

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

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Qualitative Information on Consolidated Operating Results

In the nine-month period ended December 31, 2017, Japan's economy continued on a modest growth trend amid a rise in exports and production stimulated by gradual growth in the global economy as well as the increasingly solid consumer spending arising from steady improvements in the job market and wages. Meanwhile, the trend toward recovery from the impacts of the Kumamoto earthquakes, which occurred in April 2016, continued, with overall conditions improving on the back of full-fledged restoration and reconstruction demand combined with demand in the tourism industry and other types of inbound travel demand.

Amid these conditions, the Group aims to be a kind-hearted and powerful corporate group that engages in comprehensive city-building based on the JR Kyushu Group Medium-term Management Plan 2016–2018. We have been working to further improve our services with safety as the foundation in all of our businesses and have been making efforts to increase revenues through active project development in each business. At the same time, we have been promoting more efficient business operations and intensive cost reductions.

As a result, operating revenues in the nine-month period ended December 31, 2017, increased 12.1% year on year, to ¥295,576 million. Operating income was up 11.8%, to ¥51,700 million; EBITDA rose 13.4%, to ¥64,485 million; ordinary income grew 13.8%, to ¥54,249 million; and net income attributable to owners of the parent increased 18.1%, to ¥39,929 million.

(Note) EBITDA for the consolidated period under review is the numerical value of operating income plus the cost of depreciation.

Business performance by segment is as follows.

1. Transportation Group

In the railway business, we carried out our business operations with safety and service as our foundation. At the same time, we worked to secure revenues by fully utilizing our transportation network, centered on the Kyushu Shinkansen, and implementing various management initiatives from the perspective of our customers. In terms of promoting safety, we engaged in activities under the slogan “feeling empowered to deliver the best possible performance in one's position,” in order to create a safety-oriented corporate culture for the entire JR Kyushu Group. In addition, we implemented such activities as training to prepare for massive earthquakes and comprehensive training for recovering from derailments in an effort to improve our ability to respond to abnormal conditions. For safety investments, we steadily carried out the replacement of aging facilities and, as a disaster prevention measure, enhanced our heavy rain countermeasures. At the same time, we continued efforts to set up Shinkansen derailment prevention guards. Furthermore, in November 2017, we commenced demonstration tests for lightweight platform screen doors at Kyudai-Gakkentoshi Station on the Chikuh Line. In regard to services, we promoted initiatives to welcome customers by exercising the 5S (sort, set in order, shine, standardize, sustain) methodology as a basic part of daily operations and the foundation for all our services, and made conscious efforts to greet customers with a smile and in a manner that leaves an impression on them.

From the perspective of marketing, we promoted sales of all our products with the purpose of encouraging the use of railways, primarily the Kyushu Shinkansen. Such products included the discount ticket campaign “Kyushu Shinkansen Nimai Kippu,” which involves train coupon books,

and the Shinkansen commuter pass “Shinkansen Excel Pass.” At the same time, we carried out the “GO! GO!! Kiss-My Kumamoto Oita” campaign. As for our “JR Kyushu Internet Reservation Service,” we enhanced our lineup of products available only online and worked to improve the service’s convenience through collaboration with train transfer search engines, integration with our point system *JR Kyupo*, and other means. In addition, we promoted sales through the “Internet Reservations for Trains Too!” campaign. Also, we undertook initiatives to boost the recognition level of Kyushu-based brands and to encourage visitors to Kyushu. These initiatives included the cruise train “Seven Stars in Kyushu” as well as the Kawasemi Yamasemi special express train, which commenced service in March 2017, and 10 other “Design & Story” trains, in addition to the promotion of Kyushu’s natural environment, food, hot springs, and historical culture and the hospitality of local community members. Furthermore, we cooperated with local community members to establish attractive walking courses for our “Station Manager Recommends JR Kyushu Walking” initiative, which aims to invigorate local communities in Kyushu. A large number of customers took part in this initiative. Moreover, through the introduction of a web sales system, we commenced direct sales of the “JR Kyushu Rail Pass,” a mainstay product geared toward customers from overseas, and launched an advanced seat reservation service. In addition, we communicated information on and encouraged sales of the pass in a manner that catered to specific countries and regions, primarily South Korea, Taiwan, Hong Kong, China, and Thailand.

Turning to transportation, we implemented detailed transportation-oriented initiatives, including increasing the number of trains to bolster our transportation capacity. We also made concerted efforts to establish an efficient transportation organization that meets the demand for each train line. At the same time, we promoted the use of our railways by further enhancing our transportation network, which is centered on the Kyushu Shinkansen. Also, due to the impacts of heavy rain that occurred in northern Kyushu in July 2017 and typhoon No. 18 that struck in September of the same year, railway facilities of the Kyudai Main Line, the Hitahikosan Line, the Nippo Main Line, and other lines sustained damage, and we are currently implementing substitute forms of transportation on certain sections of these lines. Train service on the Nippo Main Line between Usuki Station and Saiki Station resumed in December 2017. Moreover, with regard to operations between Higo-Ozu Station and Aso Station on the Hohi Main Line, which were suspended due to the impacts of the 2016 Kumamoto earthquakes, centered on the Houhi Main Line Repair Office established in April 2017, we are making coordinated efforts with relevant organizations to help advance erosion control, reforestation, and road repair measures of the central and local governments.

In our travel business, we enhanced our lineups of products for domestic travel via railways centered on Kyushu, an area of strength for the Company, as well as products sold online. In addition, we promoted sales of 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.

In our passenger ship business, we renovated our Beetle hydrofoil ferries to provide service on routes between Fukuoka and Busan as well as between Tsushima and Busan. Through such initiatives, we sought to provide high-quality transportation services.

For our bus business, we introduced Internet-exclusive discount tickets through our “JR Kyushu Internet Reservation Service” for the high-speed bus B&S Miyazaki, which connects with the Kyushu Shinkansen, thereby improving convenience levels for our customers. In addition, we endeavored to secure earnings through such means as rolling out limited-time discount campaigns for our other high-speed bus routes.

As a result of the above efforts, the Transportation Group recorded operating revenues of ¥135,352 million, up 5.0% year on year; operating income of ¥27,496 million, up 8.4%; and EBITDA of ¥31,177 million, up 14.3%.

2. Construction Group

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

As a result, the Construction Group recorded operating revenues of ¥46,209 million, up 8.0% year on year; operating income of ¥1,544 million, down 19.0%; and EBITDA of ¥2,145 million, down 14.7%.

3. Real Estate Group

As for the real estate lease business, in 2017 we made renovations to Amu Plaza Kokura, Amu Plaza Nagasaki, and Amu Plaza Kagoshima in April, June, and July, respectively. We also proactively held events at various station buildings as we sought to secure earnings. At the same time, in September, we opened Ropponmatsu 421, promoting the development of an attractive downtown area through collaboration with local communities that helped create a lively atmosphere. Moreover, rental units at RJR Precia Hakata were made available for move-in in February 2017 and we acquired Higashi Jujo Rental Apartments in June. In the real estate sale business, sales were recorded from MJR Akasaka Tower and we sought to promote sales of MJR the Garden Oe and MJR the Garden Kagoshima-Chuo.

As a result, the Real Estate Group posted operating revenues of ¥53,658 million, up 47.7% year on year; operating income of ¥18,846 million, up 21.7%; and EBITDA of ¥25,404 million, up 16.6%.

4. Retail and Restaurant Group

Turning to our retail and restaurant business, in 2017 we opened our first drug store in Tokyo in July. Additionally, we opened our first café in Osaka in August as well as a *tonkatsu* pork cutlet restaurant in Fukuoka in December, which represents a new area of business for the Company. In these ways, we actively opened new stores to grow profits. In the agriculture business, we made efforts to expand profits through the opening of Yaoya Kyuchan, which sells fresh vegetables grown in Kyushu, at Ropponmatsu 421 in September.

As a result, the Retail and Restaurant Group recorded operating revenues of ¥77,525 million, up 2.7% year on year; operating income of ¥2,789 million, up 11.2%; and EBITDA of ¥4,023 million, up 6.4%.

5. Other Groups

In the hotel business, we made concerted efforts to expand our business in each area of operation and improve profits in such ways as opening JR Kyushu Hotel Blossom Naha in June 2017, our first hotel in Okinawa, and successfully unveiled Okuhita Onsen UMEHIBIKI in November of the same year. In the seniors business, we opened SJR Ropponmatsu, our fifth residence-style private retirement home, in September 2017 with the aim of having our facilities be continuously selected by our customers. In doing so, we worked to enhance our services.

As a result, Other Groups posted operating revenues of ¥43,031 million, down 3.4% year on year; operating income of ¥1,457 million, down 20.6%; and EBITDA of ¥2,302 million, down 5.4%.

(Note) Segment EBITDA is the numerical value (before elimination of transactions between segments) of operating income for each segment plus the cost of depreciation.

(2) Qualitative Information on Consolidated Financial Position

Total assets as of December 31, 2017, increased 5.9% compared with the previous fiscal year-end, to ¥716,501 million. Current assets decreased 1.8%, to ¥195,088 million, following the collection of notes and accounts receivable–trade. Non-current assets increased 9.1%, to ¥521,413 million, due to the acquisition of property, plant and equipment.

Meanwhile, total liabilities increased 3.5% compared with the previous fiscal year-end, to ¥339,753 million. Current liabilities rose 3.8%, to ¥140,080 million, due to an increase in advance payments for construction work. Non-current liabilities were up 3.3%, to ¥199,672 million, as a result of an increase in provision for loss on disaster and other factors.

Furthermore, total equity increased 8.1% compared with the previous fiscal year-end, to ¥376,748 million, due to increases in retained earnings and other factors.

(3) Qualitative Information on Consolidated Performance Outlook

In regard to our full-year forecasts for the fiscal year ending March 31, 2018, we have made upward revisions to the forecasts for operating revenues, operating income, ordinary income and net income attributable to owners of the parent, which were announced on November 9, 2017, in light of the performance of each segment in the third quarter.

Consolidated Forecasts for the Fiscal Year Ending March 31, 2018

Operating revenues	¥409.6 billion (YoY increase of 7.0%)
Operating income	¥60.1 billion (YoY increase of 2.3%)
Ordinary income	¥63.1 billion (YoY increase of 4.2%)
Net income attributable to owners of the parent	¥48.1 billion (YoY increase of 7.5%)
EBITDA	¥77.9 billion (YoY increase of 6.3%)

Forecasts for operating revenues, operating income, and EBITDA by segment are as follows.

(Millions of yen)

	Year ending March 31, 2018 (forecast)			Year ended March 31, 2017 (results)		
	Operating revenues	Operating income	EBITDA	Operating revenues	Operating income	EBITDA
Transportation	182,700	27,800	32,900	176,407	25,719	28,537
Construction	87,000	5,100	5,800	79,329	5,951	6,776
Real Estate	68,700	22,800	31,800	67,475	22,658	31,149
Retail and Restaurant	102,900	3,400	5,200	100,477	3,475	5,189
Other	66,900	1,800	3,300	60,938	2,542	3,348

Note: Caterpillar Kyushu Ltd. is included in "Other."

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

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Consolidated Balance Sheets

(Millions of Yen)

	FY 2017/3 (As of March 31, 2017)	FY 2018/3, Third Quarter (As of December 31, 2017)
ASSETS		
Current assets		
Cash and time deposits	7,337	16,597
Notes and accounts receivable–trade	45,843	35,414
Fares receivable	1,625	1,989
Securities	64,849	66,461
Merchandise and finished goods	13,945	13,200
Work in process	16,248	31,655
Raw materials and supplies	5,978	7,487
Deferred tax assets	5,661	3,816
Income taxes receivable	9,746	—
Other	27,403	18,587
Allowance for doubtful accounts	(34)	(120)
Total current assets	198,606	195,088
Non-current assets		
Property, plant and equipment		
Buildings and fixtures (net)	195,506	208,116
Machinery, rolling stock and vehicles (net)	11,794	16,763
Land	89,622	98,819
Construction in progress	21,907	28,487
Other (net)	7,251	16,384
Net property, plant and equipment	326,081	368,572
Intangible assets	5,824	5,697
Investments and other assets		
Investment securities	17,063	23,982
Deferred tax assets	58,102	55,206
Net defined benefit assets	667	761
Money held in trust	60,109	56,341
Other	10,610	11,559
Allowance for doubtful accounts	(395)	(708)
Total investments and other assets	146,157	147,143
Total noncurrent assets	478,063	521,413
Total assets	676,669	716,501

(Millions of Yen)

	FY 2017/3 (As of March 31, 2017)	FY 2018/3, Third Quarter (As of December 31, 2017)
LIABILITIES AND EQUITY		
Current liabilities		
Notes and accounts payable–trade	37,089	29,364
Short-term loans	490	5,566
Current portion of long-term debt	791	793
Payables	45,573	36,481
Accrued income taxes	3,817	5,577
Fare deposits received with regard to railway connecting services	1,513	1,284
Railway fares received in advance	5,191	5,839
Accrued bonuses	8,607	4,597
Other	31,868	50,573
Total current liabilities	134,945	140,080
Non-current liabilities		
Long-term debt	77,034	76,445
Allowance for safety and environmental measures	5,368	5,318
Allowance for disaster-damage losses	6,012	8,417
Liability for retirement benefits	62,504	58,655
Asset retirement obligations	1,324	1,525
Other	41,032	49,310
Total noncurrent liabilities	193,276	199,672
Total liabilities	328,222	339,753
EQUITY		
Common stock		
authorized, 640,000,000 shares; issued, 160,000,000 shares in 2016, 2015 and 2014	16,000	16,000
Capital surplus	234,263	234,270
Retained earnings (Deficit)	86,987	114,516
Total common stock	337,250	364,786
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	10,312	10,493
Foreign currency translation adjustments	132	133
Defined retirement benefit plans	(4,655)	(4,134)
Total accumulated other comprehensive income	5,789	6,492
Non-controlling interests	5,408	5,469
Total equity	348,447	376,748
TOTAL LIABILITIES AND EQUITY	676,669	716,501

(2) Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Income Statements

Consolidated Cumulative Third Quarter

(Millions of Yen)

	FY 2017/3, Third Quarter (Nine months ended December 31, 2016)	FY 2018/3, Third Quarter (Nine months ended December 31, 2017)
OPERATING REVENUES	263,628	295,576
OPERATING EXPENSES		
Transportation, other services and cost of sales	152,450	174,662
Selling, general and administrative expenses	64,926	69,212
Total operating expenses	217,376	243,875
OPERATING INCOME	46,252	51,700
NON-OPERATING INCOME		
Interest income	239	41
Dividend income	106	304
Gain on assets held in trust	1,375	1,440
Gains on investment securities	274	822
Other	383	527
Total non-operating income	2,378	3,136
NON-OPERATING EXPENSES		
Interest expense	513	507
Costs related to stock listings	284	—
Other	148	81
Total non-operating expenses	946	588
ORDINARY INCOME	47,683	54,249
EXTRAORDINARY GAINS		
Gain on negative goodwill	—	915
Construction grants received	744	822
Gain on sales of trusts	3,014	—
Other	597	533
Total extraordinary gains	4,356	2,271
EXTRAORDINARY LOSSES		
Provision for loss on disaster	7,383	3,657
Disaster-damage losses	1,804	366
Losses from provision for cost reduction of fixed assets	148	757
Other	446	442
Total extraordinary losses	9,782	5,223
INCOME BEFORE INCOME TAXES	42,258	51,296
INCOME TAXES		
Current	2,918	6,761
Deferred	5,481	4,529
Total income taxes	8,400	11,291
NET INCOME	33,857	40,004
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	38	75
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	33,819	39,929

Quarterly Consolidated Comprehensive Income Statements
Consolidated Cumulative Third Quarter

(Millions of Yen)

	FY 2017/3, Third Quarter (Nine months ended December 31, 2016)	FY 2018/3, Third Quarter (Nine months ended December 31, 2017)
NET INCOME	33,857	40,004
OTHER COMPREHENSIVE INCOME		
Unrealized gain on available-for-sale securities	(1,528)	221
Foreign currency translation adjustments	(24)	1
Defined retirement benefit plans	536	525
Total other comprehensive income	(1,016)	748
COMPREHENSIVE INCOME	32,841	40,752
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent	32,810	40,632
Non-controlling interests	30	120

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

None

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

None

(Segment Information)

FY 2017/3, Third Quarter (Nine-Month Period Ended December 31, 2016)

Information Related to Operating Revenues and Income by Segment

Millions of Yen

	Reportable Segment				Others (Note 1)	Total	Adjustment (Note 2)	Quarterly Consolidated Statements of Income (Note 3)
	Transportation	Construction	Real Estate	Retail and Restaurant				
Operating Revenues								
Outside Customers	125,386	11,043	31,809	75,194	20,194	263,628	—	263,628
Inside Group	3,545	31,738	4,517	263	24,370	64,435	(64,435)	—
Total	128,931	42,781	36,327	75,458	44,564	328,063	(64,435)	263,628
Segment income (loss)	25,357	1,906	15,491	2,508	1,836	47,100	(847)	46,252

(Notes) 1. "Others" represents categories of business that are not included in reportable segments and includes hotel operations.

2. The ¥847 million deduction from segment income reflects the elimination of intersegment transactions.

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

FY 2018/3, Third Quarter (Nine-Month Period Ended December 31, 2017)

Information Related to Operating Revenues and Income by Segment

Millions of Yen

	Reportable Segment				Others (Note 1)	Total	Adjustment (Note 2)	Quarterly Consolidated Statements of Income (Note 3)
	Transportation	Construction	Real Estate	Retail and Restaurant				
Operating Revenues								
Outside Customers	131,629	15,290	48,914	77,295	22,447	295,576	—	295,576
Inside Group	3,722	30,919	4,744	230	20,583	60,200	(60,200)	—
Total	135,352	46,209	53,658	77,525	43,031	355,777	(60,200)	295,576
Segment income (loss)	27,496	1,544	18,846	2,789	1,457	52,134	(434)	51,700

(Notes) 1. "Others" represents categories of business that are not included in reportable segments and includes hotel operations.

2. The ¥434 million deduction from segment income reflects the elimination of intersegment transactions.

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

(Significant Subsequent Events)

None

(Additional Information)

(Damage Caused by Heavy Rain in Northern Kyushu and Typhoon No. 18)

Damage was sustained by railway facilities due to heavy rain in northern Kyushu in July and typhoon No. 18 in September. Under extraordinary losses in the consolidated income statements for the third quarter, the repair and other expenses that were incurred in the quarter as a result of these disasters were recorded as disaster-damage losses. In addition, the repair and other expenses that we expect to incur due to these disasters from the fourth quarter onward were recorded as provision for loss on disaster based on rational estimations of their amounts.

However, recovery and other expenses for which amount estimations cannot be rationally made at this time are not included in provision for loss on disaster.