



Opinions of Kyushu Railway Company's Board of Directors on Shareholder Proposals (Supplemental Material)

May 2020

Kyushu Railway Company



KYUSHU RAILWAY COMPANY



Table of Contents



1. Content of Shareholder Proposals and Opinions of Kyushu Railway Company's Board of Directors
2. The Shareholder Proposal to Amend the Articles of Incorporation
3. The Shareholder Proposals to Elect Directors

1 . Content of Shareholder Proposals and Opinions of Kyushu Railway Company's Board of Directors

Overview of Content of Shareholder Proposals and Opinions of Kyushu Railway Company's Board of Directors



- Received the shareholder proposals to have the items added to the agenda at JR Kyushu's 33rd general meeting of shareholders to be held on June 23, 2020.
- JR Kyushu's Board of Directors passed a resolution to oppose the shareholder proposals as a result of thorough consideration.

Overview of Shareholder Proposals

Opinions of the Board of Directors

The Shareholder Proposal to Amend the Articles of Incorporation

Proposes to insert the following paragraph (partial excerpt) as a new article into the current Articles of Incorporation

- "The Company shall disclose its Revenues, EBITDA, Net Operating Income and appraised cap rates for each of the Company's commercial and residential real estate assets"

Opposes this Shareholder Proposal to Amend the Articles of Incorporation

- The data that the proposal seeks are not the best indicators of the underlying conditions of JR Kyushu Group's real estate business
- In light of the mission of JR Kyushu Group, JR Kyushu believes the article sought to be included by the proposal is inappropriate as the basic set of rules governing JR Kyushu

The Shareholder Proposals to Elect Three Directors

Propose to elect the following three candidates as directors (not as audit and supervisory committee members)

1. Ms. Fumiyo Takei
2. Mr. Daizo Motoyoshi
3. Ms. Yoshiko Nagao

Opposes this Shareholder Proposal to Elect Directors

- Based on adequacy of the New Board of Directors proposed by JR Kyushu, and Suitability in View of the JR Kyushu Group's Current Conditions, JR Kyushu's Nomination and Compensation Advisory Committee and Board of Directors have decided that the New Board of Directors proposed by JR Kyushu is the best, and there is no need to elect any of the three candidates named in the proposal

JR Kyushu Group's Basic Principle



JR Kyushu Group's Basic Principle

JR Kyushu Group's mission is to operate sustainable businesses primarily in the Kyushu region, by conducting the railway business and other transportation services, along with operations in real estate, hotels, distribution, restaurants, and construction

2030 Long-Term Vision

JR Kyushu Group will contribute to the sustainable development of Kyushu region through city-building initiatives that leverage the distinctive characteristics of local communities, centered on safe and secure mobility services

Medium-Term Business Plan Theme

- Strengthen the earnings potential of the mainstay railway business and the real estate business, which focuses on the strategic city-building initiatives in the regions
- Effectively allocate business resources in order to form a strategic business portfolio

Based on this basic principle, JR Kyushu Group is constantly examining ways to enhance information disclosure while taking into account the opinions of its shareholders and investors to further increase corporate value of JR Kyushu Group

2. The Shareholder Proposal to Amend the Articles of Incorporation

Opinions of JR Kyushu's Board of Directors regarding the Shareholder Proposals to Amend the Articles of Incorporation



Summary of the Shareholder Proposal to Amend the Articles of Incorporation

- Proposes to insert the following paragraph (partial excerpt) as a new article into the current Articles of Incorporation

“The Company shall disclose its Revenues, EBITDA, Net Operating Income and appraised cap rates for each of the Company’s commercial and residential real estate assets”

Opinion of JR Kyushu's Board of Directors

- Opposes this Shareholder Proposal to Amend the Articles of Incorporation

Reasons for Opposition

- JR Kyushu's Board of Directors is keenly aware of the importance of disclosing information to its shareholders and investors, and is constantly examining ways to enhance information disclosure of the real estate business
- The disclosures sought in the proposal presume JR Kyushu Group's real estate business has an earnings structure like that of a real estate investment trust (REIT), which is an independent earning business entity. It does not take into account the fact that JR Kyushu Group's real estate business is heavily weighted toward station building operations, which are operated integrally with its railway business
- The financial data and appraised cap rates for each individual property that the proposal seeks are not the best indicators of the underlying conditions of JR Kyushu Group's real estate business, which is managed to create synergies with its railway business and other operations
- At their core, the Articles of Incorporation are a basic set of rules governing the organization and activities of a company. In light of the mission of JR Kyushu Group, JR Kyushu believes the article sought to be included by the proposal is inappropriate as the basic set of rules governing JR Kyushu

Development and Improvement of Information Disclosure



- JR Kyushu's Board of Directors is keenly aware of the importance of disclosing information to its shareholders and investors
- JR Kyushu has been improving information disclosure while taking into account the opinions of its shareholders and investors, as well as the external environment and business conditions in the real estate business

Recent Development

FY2018

March 2019

Redefined Segment Classifications with the Intention of Clarifying the Measures for Real Estate Business

Redefined segment classifications, creating the Real Estate and Hotels segment, and improved the following disclosure

- Improved disclosures to better reflect the true nature of operations by breaking out results and earnings estimates for the Real Estate and Hotels segment into three sub-segments (real estate leasing, real estate sales, and hotels) due to the different earnings structures of businesses within the segment
- Explained JR Kyushu's thoughts regarding expected returns on growth investments in the real estate business, divided into three categories in the context of the JR Kyushu Group's growth strategy
- Published documents about the JR Kyushu Group's track record in fostering communities centered on station building redevelopment

FY2019

November 2019

Disclosed Key Data for Sub-segments

Disclosed key data for sub-segments, such as occupancy rates and average daily rates (ADR) in the hotels business, and occupancy rates for rental apartments

(Reference) November 2019

Clarified JR Kyushu's Financial Strategy

Admitted its status of capital heavy balance sheet structure and improved disclosure regarding financial strategy to achieve optimal capital structure

We will constantly examine ways to enhance information disclosure while taking into account the opinions of its shareholders and investors

3. The Shareholder Proposals to Elect Directors

Opinions of JR Kyushu's Board of Directors regarding the Shareholder Proposals to Elect Directors



Summary of the Shareholder Proposals to Elect Directors

- Propose to elect the following three candidates as directors (not as audit and supervisory committee members)
 1. Ms. Fumiyo Takei
 2. Mr. Daizo Motoyoshi
 3. Ms. Yoshiko Nagao

Opinion of JR Kyushu's Board of Directors

- The Board of Directors opposes this Shareholder Proposal to Elect Directors

Reason for Opposition

- For the reasons explained below, JR Kyushu's Nomination and Compensation Advisory Committee and Board of Directors have decided that the New Board of Directors proposed by JR Kyushu is the best, and there is no need to elect any of the three candidates named in the proposal

[Adequacy of New Board of Directors Proposed by JR Kyushu]

- The independence and diversity of the Board of Directors will enable highly effective supervisory functions with the necessary skillsets (a majority of independent outside directors and multiple female directors)

[Suitability in View of JR Kyushu Group's Current Conditions]

JR Kyushu Group's businesses have been significantly impacted by the COVID 19 pandemic

- JR Kyushu has devoted most of its attention to the management (operations) of its existing businesses
 - The careers, experience, and expertise of the three candidates for outside director named in the proposal do not align well with the current business conditions
- It is not the appropriate time to sharply increase the ratio of newly appointed directors on the Board of Directors

Development of Corporate Governance



- Since its IPO, JR Kyushu has taken many actions to establish an optimal governance structure

	FY2017	FY2018	FY2019
Governance			
Organization	Company with Auditors	Shifted to a Company with Audit and Supervisory Committee	
Committee		Established the Nomination and Compensation Advisory Committee Assigned an outside director as chairman	
Separation of Supervision & Execution		Introduced Executive Officer System	
Board of Directors			
Number of Directors	19	13	15 Clarified the position of CFO
Outside Directors (# of Directors/%)	3/15.8%	6/46.2%	8/53.3% Added Outside Directors with Expertise in Real Estate, IR/Finance
Female Directors (# of Directors/%)	2/10.5%	2/15.4%	1/6.7%
Compensation			
			Performance-based Compensation Plan Introduced "Board Benefit Trust"
Board Effectiveness Evaluation			
		Introduced Board Effectiveness Evaluation by the Third-Party Organization	
External Communication by Outside Directors			
		Mr. Asatsuma held a meeting for shareholders and investors	

Sophistication of governance has always been an important management issue and JR Kyushu continues to improve and strengthen the governance

Developments of Financial Strategy since the Last AGM



- Considering the inefficiency in balance sheet structure and the results of the last annual general meeting of shareholders held in June 2019, JR Kyushu took the following actions to reflect the opinions of its shareholders and investors

Further Improvement of Corporate Governance

- Clarified the position of CFO (Chief Financial Officer) (June 2019)
- Appointed Additional outside director with knowledge of finance / IR and real estate (June 2019)

Enhancement of Financial Strategy

- Announced "Revision of Shareholder Return Policy" and "Share Repurchases" at the earnings release for the second quarter of the fiscal year ended March 31, 2020 (November 2019)
- Issued JPY 20 billion of corporate bonds in December 2019 (JPY 10 billion of 10 year bond and JPY 10 billion of 20 year bond)

Review of Business Portfolio

- Reviewed its business portfolio in consideration of future potential and profitability
- Projects Executed in FY20.3: Sale of leasing business (August 2019), sale of hospital business (October 2019), acquisition of Manbo Corp. (food processing for souvenirs) (December 2019), sale of 51% of JR Kyushu Drug Eleven Co., Ltd. (drug store) stock (April 2020)

Discussions of Nomination and Compensation Advisory Committee and Skillsets



Summary of Nomination and Compensation Advisory Committee

- JR Kyushu has established highly independent Nomination and Compensation Advisory Committee chaired by an independent outside director with a total of eight independent outside directors and one inside director as members

Discussion and Recommendation of Nomination and Compensation Advisory Committee

- The Committee discussed the skillsets of the Board of Directors necessary for increasing corporate value over the medium and long term
 - The Committee has decided that JR Kyushu should keep the existing structure of the Board of Directors and increase capable personnel who can promote ESG management and diversity
- The Committee has deliberated multiple times the qualifications, experience, and expertise of the current directors and new candidates for outside director, including the three candidates named in the proposal
- The Committee has submitted its recommendation that the best candidates for the position of director are those candidates named in JR Kyushu's proposal to elect directors, which includes Ms. Kuniko Muramatsu, who is a new candidate for independent outside director with experience in corporate management, expertise in ESG management, and experience as an outside director of a publicly traded company

Decision of Board of Directors based on the Recommendation from the Committee

- In light of the recommendation, JR Kyushu's Board of Directors has decided to propose the Company's candidates at the Annual General Meeting of Shareholders

Building an Optimal Governance Structure



- The Nomination and Compensation Advisory Committee considers the following for the structure of the Board of Directors

Further reinforcement of ESG, including the diversity

The skillsets of the Board of Directors necessary for increasing corporate value over the medium and long term

Optimal Board Structure = The Existing Board Structure + Personnel who can promote ESG management and diversity

Current Corporate Governance

- Company with Audit and Supervisory Committee
- Nomination and Compensation Advisory Committee (Chairman = Outside Director)
- Executive Officer System
- Number of Board of Directors 15
- Number of Outside Directors 8/53.3%
- Number of Female Directors 1/6.7%
- Number of Outside Directors by Skillsets (A director with multiple skill sets count as one in each area)
 - Real Estate · Community Development 2
 - ESG · Sustainability 1
 - Corporate Management 6
 - Legal · Risk Management 3
 - Finance, M&A, Fundraising 2
 - Human Resources · Compensation 2

Corporate Governance after 33rd AGM

- Company with Audit and Supervisory Committee
- Nomination and Compensation Advisory Committee (Chairman = Outside Director)
- Executive Officer System
- Number of Board of Directors 15
- Number of Outside Directors 8/53.3%
- Number of Female Directors 2/13.3%
- Number of Outside Directors by Skillsets (A director with multiple skill sets count as one in each area)
 - Real Estate · Community Development 2
 - ESG · Sustainability 2
 - Corporate Management 6
 - Legal · Risk Management 4
 - Finance, M&A, Fundraising 2
 - Human Resources · Compensation 3



Expected Board Members



Directors (Except for Directors of Audit & Supervisory Committee)

Directors of Audit & Supervisory Committee



Representative Director,
Chairman and Corporate
Officer
Koji Karaike



Representative Director,
President and Corporate
Officer
Toshihiko Aoyagi



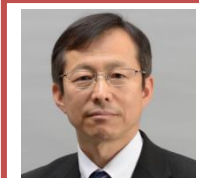
Director and Senior Managing
Corporate Officer
Ryuji Tanaka



Director and Senior Managing
Corporate Officer
Yoji Furumiya



Director and Managing
Corporate Officer
Toshihiro Mori



Director and Managing
Corporate Officer
Hiroyuki Fukunaga



Director of Audit &
Supervisory Committee
Masaya Hirokawa



Director of Audit &
Supervisory Committee
Eilchi Kuga



Director
Masayoshi Nuki



Director
Izumi Kuwano



Director
Toshihide Ichikawa



Director
Shinji Asatsuma



Director
Kuniko Muramatsu



Director of Audit &
Supervisory Committee
Kazuhide Ide

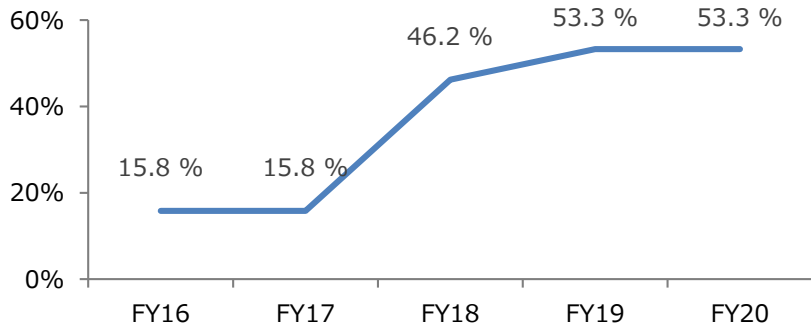


Director of Audit &
Supervisory Committee
Yasunori Eto

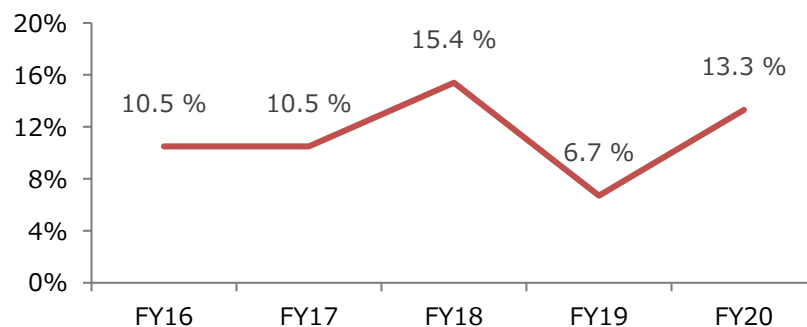
Independent Outside Directors

: New Director

Outside Directors (%)



Female Directors (%)



Skillsets of Expected Board Members



Name	Current Title	Expertise which the Company expects to each candidate for director						
		Railway and mobility services	Real estate and community development	ESG and sustainability	Corporate management	Legal and risk management	Finance, M&A and fundraising	Human resources and compensation
Koji Karaike	Chairman and Corporate Officer		●		●			
Toshihiko Aoyagi	President and Corporate Officer	●		●	●			●
Ryuji Tanaka	Senior Managing Corporate Officer		●					
Yoji Furumiya	Senior Managing Corporate Officer	●				●		
Toshihiro Mori	Managing Corporate Officer	●		●			●	
Hiroyuki Fukunaga	Senior Corporate Officer	●						
Masayoshi Nuki	(Senior Executive Adviser, Kyushu Electric Power Company)			●	●			●
Izumi Kuwano (Female)	(President, Tamanoyu)		●		●			
Toshihide Ichikawa	(Advisor, Mitsui Fudosan)		●		●			●
Shinji Asatsuma	(-)				●	●	●	
Kuniko Muramatsu (Female)	(Representative Director and President of Wellness Systems Institute)			●	●	●		●
Masaya Hirokawa*							●	●
Eiichi Kuga*	Chairman of Audit and Supervisory Committee					●		
Kazuhide Ide*	(Counselor, The Chikuho Bank)				●		●	
Yasunori Eto*	(Attorney at law, Hino Sogo Law Office)					●		

* Director of Audit and Supervisory Committee

Note: Highlighted directors are independent outside officers

Past Incidents cited by Proposing Shareholder



Misconduct at JR Kyushu Housing Company (September 2018)

- Employees of JR Kyushu Housing are alleged to have taken part in the conclusion and execution of construction contracts based on housing sales contracts by encouraging facility owners to falsify documents to be submitted to financial institutions with regard to housing loans. Through this falsification, employees allegedly would have facility owners apply for loans based on a construction contracting amounts that exceed the actual amounts to receive excessive loans from financial institutions.
- Established the Third-Party Committee, and conducted an investigation
 - Out of 71 cases investigated, 55 cases were confirmed to be inappropriate loan applications
 - Cause of the issues thought to be rooted in a lack compliance awareness, warped customer-first mentality, unreliable and insufficient management system, and the pressure felt to achieve targets
- In response to this incident, JR Kyushu is working to improve and strengthen group governance. In particular, enhance internal audit by allocating resources based on risks, develop and execute internal audit plans for each group companies, and strengthen compliance trainings

Lawsuit against Estate One (January 2019)

- JR Kyushu Housing filed a lawsuit against Estate One, a real estate developer, in the Fukuoka District Court for payments of a part of the orders received from Estate One for condominium construction work (9 buildings in total) and the additional works related to the project during the period from May 2017 to March 2018 (won the case in March 2020)
- In response to this incident, JR Kyushu Housing reviewed its business management rules and re-established its business flows, including its customer examination process

Duties that the JR Kyushu Group Must Fulfill Now



We will work together with stakeholders to overcome COVID 19 and fulfill our social duty as a mobility services company in Kyushu.

Society

- Maintaining transportation network as social infrastructure
- Suspending operation of all conventional line limited express trains during the Golden Week holiday period with the objective of preventing the spread of infection resulting from travel between prefectures.
- Exercising self-restraint in regard to events held by the JR Kyushu Group.
- Implementing temporary closure or reduced operating hours at certain station buildings, hotels, etc.

Customers Business partners

- Frequent cleaning and disinfecting of railway facilities, station buildings, hotels, and other facilities.
- Implementing measures to support station building tenants, such as offering reduced rent payments and delaying payment timing.

Employees

- Providing information, such as comments from Company leaders to employees.
- Implementing short-term employment adjustments, such as temporary leave, while remaining committed to maintaining employment.
- Utilizing staggered commuting times and teleworking, with the objective of securing the safety of employees and their family members.

Shareholders

- Advancing measures to maintain corporate value, with the highest priority on securing liquidity at hand.

Forward-Looking Statements



These materials contain forward-looking statements concerning business forecasts, targets, etc. of the JR Kyushu Group.

The Company decided on these forward-looking statements based on the available information, as well as Company estimates and assumptions, at the time these materials were created. Please note that actual performance may vary greatly depending on the impact of various factors such as the economic environment in Kyushu as well as greater Japan and overseas, the condition of the real estate market, the progress of each individual project, changes in laws and regulations, and a wide range of other risks.

IR materials can be viewed on our corporate website:

http://www.jrkyushu.co.jp/company/ir_eng/library/earnings/