



(Translation)

June 10, 2020

To Our Shareholders:

Kyushu Railway Company
Toshihiko Aoyagi
President and CEO

Our View on the Report Issued by Proxy Advisory Firm (ISS)

We would like to inform you of our view on the report published by proxy advisory firm Institutional Shareholder Services Inc. (“ISS”) regarding the Agenda Items at our 33rd annual general meeting of shareholders to be held on June 23, 2020.

Please kindly review the following supplementary explanations for the Agenda Items in question, and we would appreciate your kind understanding and support.

For the election of directors (excluding directors who are members of Audit and Supervisory Committee), ISS opposed to a candidate for director proposed by the Company and supported two candidates for director in the shareholder proposal. However, ISS, in their analysis and reasons for recommendations, has expressed positive views to our initiatives made on governance and capital allocation, and ISS looks forward to further measures by the Company. Moreover, ISS opposed to the shareholder proposal in Agenda Item No. 4 (Amendment to Articles of Incorporation regarding Disclosure of Revenues, EBITDA, Net Operating Income and appraised cap rates for each of the Company’s commercial and residential real estate assets), which we consider as a proof that ISS has supported our measures taken to improve the disclosures to date. For more information on the Company’s initiatives on improving governance and capital allocation, please refer to the press releases “Notice Regarding Opinions of Kyushu Railway Company’s Board of Directors on Shareholder Proposals” announced as of May 11, 2020 and “Opinions of Kyushu Railway Company’s Board of Directors on Shareholder Proposals (Supplemental Material)” announced as of May 18, 2020.

In terms of capital strategy, as emphasized by ISS in its report, and also frequently communicated to us by our shareholders and investors, the Company recognizes that improvement to the balance sheet (capital structure) is a major agenda for management, and therefore, the Company has taken proactive measures as outlined in the aforementioned press releases. Furthermore, the COVID-19 pandemic is currently severely affecting our Group



businesses, with monthly operating cash flow turning sharply to negative, leading to the increase in debt-equity ratio faster than we initially expected. Despite these severe circumstances, the Company has stood by its initial year-end dividend forecast for the fiscal year ended March 31, 2020 of ¥46.5 per share (with the interim dividend of ¥46.5, a total annual dividend of ¥93). Including the share buyback that was already implemented, this constitutes a total payout ratio of 78.6% for the fiscal year. The Company will keep close watch on circumstances going forward, and depending on the balance sheet structure at the time, the Company will examine and implement further capital strategy, including return to shareholders, to further improve our corporate value.

In terms of the proposed candidates, the Company selected its candidates with an emphasis on the appropriate “composition” of the Board of Directors that warrants to take measures for further improvements, and we believe that ISS’s fundamental view is in accord with the Company’s approach. Also, ISS’s recommendation to support our candidate Ms. Kuniko Muramatsu proves that ISS shares the same view with our Nomination and Compensation Advisory Committee, and Board of Directors for the need to increase capable personnel who can promote ESG management and diversity.

Nonetheless, the Company also believes that the composition of the Board of Directors recommended by ISS is not optimal from the perspective of improving corporate value, to promote continuous changes going forward and to appropriately manage the challenging business environment currently experiencing due to the COVID-19 pandemic. Following is a further explanation of the Company’s view with respect to the points where the Company’s and ISS’s view differ.

Opinion of the Company on Agenda Item No. 2: Election of Director (Ms. Izumi Kuwano) who is not a Member of Audit and Supervisory Committee

ISS supported the election of directors Ms. Fumiyo Takei in Agenda Item No. 5 and Mr. Daizo Motoyoshi in Agenda Item No. 6 of the shareholder proposal, while opposed to the election of Ms. Izumi Kuwano in Agenda Item No. 2 (Company’s Proposal). However, we understand that ISS opposed to Ms. Kuwano with no strong reasons, but merely because the election of the two candidates in the shareholder proposal plus the candidates proposed by the Company would bring the total number of directors to 13, exceeding the total permitted number of 12 directors (excluding directors who are members of Audit and Supervisory Committee) as stated in the Company’s Articles of Incorporation. Other than Ms. Kuwano and Mr. Ide (please see below), ISS supported all of other Company’s candidates.

We find it difficult to understand ISS’s decision to oppose Ms. Kuwano. ISS pointed Ms. Kuwano’s tenure as one of the reasons for its decision, but Ms. Kuwano’s tenure as outside director at the Company is only six years, which is not long compared to tenures for outside

directors in general. Also, she is not even the longest tenure among the Company's outside director candidates. If the election of the two candidates in the shareholder proposal were approved and Ms. Kuwano were rejected as recommended by ISS, it would lead to an unbalanced board composition in terms of tenure of each board members (the tenure for outside director candidates (excluding directors who are members of Audit and Supervisory Committee) other than Ms. Kuwano are: one member with seven years, two members with one year, and three are new members), resulting in majority of the outside directors being on short tenures. At the same time, and as admitted by ISS, none of the candidates in the shareholder proposal have experience as outside director in a listed company, which we see as a major concern with respect to the properness of experience and effectiveness of the oversight capability of the Board of Directors. Furthermore, Ms. Kuwano is a female candidate, which helps improve gender diversity of the Board of Directors.

The Company believes that Ms. Kuwano's various remarks on community development are indispensable when considering the Company's long-term strategy, of which "city-building (community development)" is a key element. Ms. Kuwano has been involved in attracting inbound tourism and regional development over many years through experience at Kabushiki Kaisha Tamanoyu and The Oita Bank, Ltd., and as chairperson of the Yufuin-Onsen Tourism Association among others, and is especially knowledgeable about community development for tourist resort revitalization in the Kyushu region. Given the challenging business environment amid the COVID-19 pandemic, Ms. Kuwano's deep understanding of the Company's business and the Kyushu region is an extremely valuable skill set for the Company.

Opinion of the Company on Agenda Item No. 3: Election of Director (Mr. Kazuhide Ide) who is a Member of Audit and Supervisory Committee

ISS also opposed to the election of director candidate Mr. Kazuhide Ide in Agenda Item No. 3 (Company's Proposal). ISS pointed out that Mr. Ide contravenes ISS's independence criteria because Mr. Ide is a former executive director of The Dai-ichi Kangyo Bank, Limited, which is now a part of Mizuho Financial Group, Inc., and the Company owns shares of Mizuho Financial Group, Inc. as shares held for purposes other than pure investment, according to the Company's Annual Securities Report for the fiscal year ended March 2019. However, Mr. Ide resigned as director of The Dai-ichi Kangyo Bank, Limited in 1997, which was 18 years before he became a director of the Company in 2015, and 23 years in total have passed since his resignation. The Company owns 212,000 shares in Mizuho Financial Group, Inc. as of the end of March 2019 (voting ratio of less than 0.001%, valued at ¥36,000,000 based on the amount reported on the balance sheet), which can be considered immaterial. Therefore, the Company believes that Mr. Ide is sufficiently independent as an outside director.



Opinion of the Company on Agenda Item No. 5 (Ms. Fumiyo Takei) and Agenda Item No. 6 (Mr. Daizo Motoyoshi)

ISS supported the election of directors in Agenda Item No. 5 (Ms. Fumiyo Takei) and Agenda Item No. 6 (Mr. Daizo Motoyoshi) of the shareholder proposal. This appears to be due to the real estate investment and financing experience of Ms. Takei and the portfolio management experience of Mr. Motoyoshi.

The Company believes its sustainability relies heavily on measures to increase population along the railway lines, namely “city-building (community development),” and for this reason, the Company places particular emphasis on real estate “development” skills within the Company’s Board of Directors. Given the Company’s significant curtailment of new investments, real estate “investment” skills are not necessarily in line with what the Company expects at this point in time.

The same applies to financing skills. Although the impact of the COVID-19 pandemic has increased the importance of short-term financing, the current Board of Directors has had no issues raising short-term finance, so this is not a skill sought by the current Board of Directors.

Further, the Company recognizes, and therefore the Company emphasizes, that communication with shareholder and investor is one of the key measures for improving the Company’s corporate value. For this reason, Mr. Shinji Asatsuma was elected as an outside director at last year’s annual general meeting of shareholders. Mr. Asatsuma has been offering great advices on shareholder and investor relation matters in general, and on financial strategy to the Company.

In addition to the above, the Company believes that now is not the best time to significantly increase the proportion of new directors on the Board of Directors given the current business environment. To reinforce what we stated above, if the election of the two candidates in the shareholder proposal were approved while Ms. Kuwano were rejected as recommended by ISS, it would lead to an unbalanced board composition in terms of tenure of each board members (the tenure for outside director candidates (excluding directors who are members of Audit and Supervisory Committee) other than Ms. Kuwano are: one member with seven years, two members with one year, and three are new members), resulting in majority of the outside directors being on short tenures. At the same time, and as admitted by ISS, none of the candidates in the shareholder proposal have experience as outside director in a listed company, which we see as a major concern with respect to properness of experience and effectiveness of oversight capability of the Board of Directors. For this reason, the Company questions whether ISS’s recommendation to oppose Ms. Kuwano and to support the two candidates of the shareholder proposal would contribute to improving the Company’s corporate value.

Moreover, in the selection process for candidates proposed by the Company, the Company asked questions, such as “What are the issues faced by the Company and what measures



should we take to resolve them, and how can you (the candidate) contribute to the Company?” in order to determine the suitability of each candidate. Please kindly note that the Company finalized its proposal and opposed to the shareholder proposal, considering each candidate’s answer to these questions, and analyzing the suitability of each candidate that cannot be judged only from their resumes. The Company’s proposal was finalized by a decision of the Board of Directors based on the recommendation from the Nomination and Compensation Advisory Committee. The Nomination and Compensation Advisory Committee is chaired by an independent outside director and is made up of eight independent outside directors and one inside director, ensuring an extremely high degree of independence.

We ask for your understanding and kind support in considering the above matters and when exercising your voting rights.