(Translation)

Matters Not Included in Physical Documents That Are Provided to Shareholders Who Requested Provision of Physical Documents Pursuant to Laws, Regulations, and the Company's Articles of Incorporation

36th Fiscal Year (April 1, 2022 to March 31, 2023)
Systems for Ensuring the Appropriateness of Business Activities and the Operation Status of the Systems
Consolidated Statements of Changes in Net Assets
Notes to Consolidated Financial Statements
Non-Consolidated Statements of Changes in Net Assets
Notes to Non-Consolidated Financial Statements

Kyushu Railway Company

Description of the aforementioned matters in physical documents that are provided to shareholders who requested provision of physical documents is omitted pursuant to laws, regulations, and the Company's Articles of Incorporation.

6 Systems for Ensuring the Appropriateness of Business Activities and the Operation Status of the Systems

The Board of Directors resolved the following with regard to the system for ensuring that the business execution of Directors of the Company and Group companies complies with laws, regulations and the Articles of Incorporation, and other systems for ensuring the appropriateness of operations.

(1) System for Ensuring the Business Execution of Directors and Employees of the Company and Group Companies Complies with Laws, Regulations, and the Articles of Incorporation

The Company has formulated the JR Kyushu Group's Code of Ethics to serve as a standard that works to reinforce corporate ethics with each officer (including Corporate Officers, which includes Senior Corporate Officers; the same applies hereinafter) and employee of the Company and Group companies and ensure compliance with laws and regulations. The Administration Department has been put in charge of implementing this code group-wide and also carries out employee training and other initiatives. In addition, the Audit and Supervisory Committee conducts audits and other tasks with respect to the Company's Directors, while the Auditing Department, which acts as the internal audit function, audits the status of compliance with laws and regulations among employees of the Company and Group companies, and reports regularly to the Board of Directors and the Audit and Supervisory Committee.

(2) System for Storing and Managing Information Related to the Business Execution of Directors of the Company

In accordance with regulations for the management of written documents, information related to the business execution of the Company's Directors is recorded in written documents and through an electromagnetic medium (hereinafter, "documents, etc.," collectively) is then stored. The documents, etc., can be viewed at any time by the Company's Directors.

(3) Regulations and Other Systems for Managing the Risk of Loss at the Company and Group Companies

Securing railway safety is the most important management issue for the Company. In accordance with safety management regulations created based on the revised Railway Business Act, which was enacted in October 2006, the Company has established a safety management system and works to ensure, maintain, and improve transportation safety. Safety promotion committees have been established at the head office. These committees carry out initiatives toward preventing operational accidents and work-related injuries. Through training and other methods, these committees make thorough efforts to ensure the Company can make prompt responses in the event of large-scale accidents or natural disasters. For risks that would have a significant impact on the Company's business operations, the

Company will establish regulations at each division that oversees operations and put in place crisis management systems in order to ensure that an appropriate response is made in the event an issue arises.

The Company has established the Group Executive Committee, which oversees the management of Group companies. The Group Executive Committee is made up of mainly the Company's Corporate Officers. The Committee ensures that systems are in place that allow for management to be conducted in an appropriate manner. In addition, the Committee supervises and monitors the management of Group companies by holding discussions on key management issues for the JR Kyushu Group based on regulations for business administration at affiliated companies. Furthermore, in addition to establishing relevant departments and designating officers to help support and oversee Group management, the Company works to improve its governance by assigning its officers and employees to work as part-time directors and part-time auditors at Group companies.

(4) Systems for Ensuring Effective Business Execution by Directors of the Company and Group Companies

The Company's Board of Directors delegates a portion of authority to the Directors for execution of important operations when necessary on the basis of the Articles of Incorporation and resolutions of the Board of Directors. Meanwhile, the Company's Board of Directors also determines the area in charge undertaken by each Corporate Officer, and ensures that systems are in place to allow each Director and Corporate Officer to perform his or her assigned work in an efficient manner. In addition, the Company clarifies the authority and responsibilities of each Director, Corporate Officer and employee through the Guidelines on Administrative Authorities, thereby securing an effective system for business execution.

For Group companies, the Company ensures an effective system for business execution through the establishment of regulations related to the division concerning segregation of duties, the chain of command, authority, decision making, and other organizational matters.

(5) Systems for Ensuring the Appropriateness of Business Activities at the Company and Group Companies

In order to establish corporate ethics and reinforce compliance with laws and regulations, the Company and Group companies have formulated the JR Kyushu Group's Code of Ethics and established the JR Kyushu Group Corporate Ethics Committee, which deliberates issues related to corporate ethics and compliance. Furthermore, the Company operates the JR Kyushu Group Corporate Ethics Hotline (hereinafter, "the Corporate Ethics Hotline"), which serves as a means for employees of the Company or Group companies, as well as employees of business partners, to directly provide information regarding actions that may potentially be in violation of laws and regulations. The Company and Group companies maintain a resolute attitude toward antisocial forces, such as crime syndicates, companies affiliated with crime syndicates, and corporate extortionists, and rejects any kind of relationship with such organizations.

(6) Systems for Reporting to the Company Facts Pertaining to Business Execution of Group Company Directors and Employees

The Company has provided regulations for business administration at affiliated companies. Group executive strategy and other crucial items are communicated through review and reporting systems for the Group Executive Committee, which comprises mainly the Company's Corporate Officers. Moreover, the Company ensures a system for regular reporting on Group companies' operating results and financial conditions.

(7) Items Regarding Employees Who Are to Assist with the Duties of the Company's Audit and Supervisory Committee

The Company's Audit and Supervisory Committee Members have the authority to instruct Audit and Supervisory Committee Office employees on items necessary to activities of the Audit and Supervisory Committee.

In addition, Audit and Supervisory Committee Office employees will not receive guidance from Directors (excluding Directors who are Audit and Supervisory Committee Members) or others with regard to those instructions.

(8) Systems for Reporting to Audit and Supervisory Committee by Directors and Employees of the Company and Group Companies

The Company ensures a system for Company and Group companies' Directors, Corporate Officers, and employees, etc. to promptly report conduct to Audit and Supervisory Committee that may be in violation of laws, etc., or behavior that will have a major impact on the Company or Group companies. Moreover, matters provided for in laws and regulations, the implementation status of internal audits and the contents of messages provided through the Corporate Ethics Hotline are regularly reported to Audit and Supervisory Committee, as stipulated by law.

Regarding the Corporate Ethics Hotline, the privacy of persons making reports will be strictly observed, and that such persons will not be treated adversely by reason of the report or consultation to the Hotline.

(9) Items Regarding Policy on Prepayment of Fees or Reimbursement Procedures and Costs or Discharge of Debt for Performance of Duties by the Company's Audit and Supervisory Committee Members

The Company secures a budget for views related to the execution of audits on a yearly basis.

(10) Other Systems for Securing Effective Auditing by Audit and Supervisory Committee

The Company's Audit and Supervisory Committee conducts regular roundtable discussions with the Representative Directors and outside Directors (excluding Directors who are Audit and Supervisory Committee Members). Moreover, Audit and Supervisory Committee regularly conduct roundtable discussions with the Internal Audit Department, accounting auditors, and Group company auditors, thus strengthening cooperation.

The overview of the operation status of the systems for ensuring the appropriateness of business activities is as follows.

(1) Initiatives for Establishing Corporate Ethics and Reinforcing Compliance with Laws and Regulations

1 At the JR Kyushu Group Corporate Ethics Committee, the status of initiatives regarding corporate ethics in the Group, the operation status of the Corporate Ethics Hotline, etc. were reported.

2 The Company provided training and education on compliance with laws and regulations for officers and employees of the Company and Group companies.
In addition, the Company conducted a survey in the Company in order to ascertain employee awareness of corporate ethics.

3 In order to eliminate any relationship with anti-social forces, the Company worked to include exclusion clauses in contracts, etc. and conduct thorough credit investigations.

(2) Initiatives for Ensuring the Appropriateness and Effectiveness of the Business Execution of Directors and Employees

1 Minutes of meetings of the Board of Directors and documents, etc. related to the business execution of Directors were recorded and stored appropriately in accordance with laws, regulations, etc.

2 In order to secure the effectiveness of the Board of Directors, the Company carried out an investigation using questionnaires for the Directors to analyze and evaluate that effectiveness. The results of the investigation were reported to the Board of Directors, the related issues were shared among them, and various improvements were made based on the investigation results.

3 The Auditing Department conducts internal audits of the Company and Group companies and reports the results of the audits to the Board of Directors and the Audit and Supervisory Committee.

4 The Company made partial changes to the organization to secure a more effective system for business execution.

(3) Initiatives for Managing the Risk of Loss

1 The Safety Promotion Committee established measures for preventing the occurrence and recurrence of railway accidents, transport disruptions, etc. The Safety Promotion Committee also ensured that the measures are disseminated to Group companies, and strongly promoted the measures to unite the entire Group.

2 The Company conducted audits, etc. in regard to a safety control structure through the Audit and Supervisory Committee and Safety Management Department.

3 The Group Executive Committee held appropriate discussions and issued reports on important matters related to Group management. The Group Executive Committee also reported the operating results of Group Companies and other information to the Company’s Board of Directors.

(4) Initiatives for Securing Effective Auditing by the Audit and Supervisory Committee

1 The Company secured a budget for expenses deemed necessary for the execution of duties by Audit and Supervisory Committee Members.

2 The Audit and Supervisory Committee regularly exchanged opinions with Representative Directors and outside Directors (excluding Directors who are Audit and Supervisory Committee Members).

3 The Audit and Supervisory Committee regularly received reports from the Auditing Department on the status of internal audits and other matters, as well as regularly exchanged opinions with accounting auditors and Group company auditors on the status of audits, issues, etc.

Consolidated Statements of Changes in Net Assets
(From April 1, 2022 to March 31, 2023)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of current period	16,000	225,847	147,941	(591)	389,198
Changes during current period					
Dividends of surplus			(14,629)		(14,629)
Net income attributable to owners of the parent			31,166		31,166
Purchase of treasury shares				(0)	(0)
Disposal of treasury stock				7	7
Purchase of shares of consolidated subsidiaries		(33)			(33)
Net changes in items other than shareholders' equity during current period					
Total changes during current period	–	(33)	16,537	7	16,511
Balance at the end of current period	16,000	225,814	164,479	(584)	405,709

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	4,781	(441)	(5,206)	(866)	692	389,024
Changes during current period						
Dividends of surplus						(14,629)
Net income attributable to owners of the parent						31,166
Purchase of treasury shares						(0)
Disposal of treasury stock						7
Purchase of shares of consolidated subsidiaries						(33)
Net changes in items other than shareholders' equity during current period	(218)	239	1,189	1,209	104	1,314
Total changes during current period	(218)	239	1,189	1,209	104	17,825
Balance at the end of current period	4,562	(201)	(4,017)	343	797	406,850

(Note) The above figures are rounded down to the nearest ¥1 million.

Notes to Consolidated Financial Statements

I Notes on Important Matters for Basis of Presentation of Consolidated Financial Statements

1. Scope of consolidation

(1) The scope of consolidation includes 46 companies including significant subsidiaries indicated in "(8) Major parent companies and subsidiaries" of the Business Report.

The newly founded JR Kyushu Regional Design Co., Ltd. (founded on October 6, 2022) and JR Kyushu Hotel Management Co., Ltd. (founded on January 23, 2023) are included in the scope of consolidation from the fiscal year ended March 31, 2023.

(2) Names of major non-consolidated subsidiaries

Names of main non-consolidated subsidiaries: 13 companies, including Kyutetsu Built Co., Ltd.

Reasons for excluding from the scope of consolidation

All of the non-consolidated subsidiaries are small in scale, and their total assets, operating revenue, net income (multiplied by the Company's ownership percentage) and retained earnings (multiplied by the Company's ownership percentage) do not have a material effect on the consolidated financial statements and have therefore been excluded from the scope of consolidation.

2. Application of equity method

(1) There are no non-consolidated subsidiaries accounted for under the equity method.

(2) There are four affiliates, including JR Kyushu Secom Inc., accounted for under the equity method.

(3) Kyutetsu Built Co., Ltd. and other non-consolidated subsidiaries not accounted for under the equity method, and Hakata Station Building Co., Ltd. and other affiliates are excluded from the scope of applying the equity method as they will have minimal impact on net income (multiplied by the Company's ownership percentage) and retained earnings (multiplied by the Company's ownership percentage) and are not material as a whole.

(4) Special notes on application of equity method

Among those affiliates to which the equity method is applied whose fiscal year-end and consolidated fiscal year-end differ, the non-consolidated financial statements of the most recent fiscal year of each subsidiary are used.

3. Fiscal years of consolidated subsidiaries

Of the consolidated subsidiaries, the fiscal year-end of Manbou Corp. is the end of February, and the fiscal year-end of JR Kyushu Capital Management (Thailand) Co., Ltd., JR Kyushu Business Development (Thailand) Co., Ltd., and JR Kyushu Corporate Investment LLC. is the end of December. The consolidated financial statements of these subsidiaries were prepared using the non-consolidated financial statements dated as of those dates. However, the adjustments needed for consolidation were made for all the important transactions between consolidated companies that took place between those dates and the consolidated fiscal year-end.

4. Accounting policies

(1) Basis and method of valuation of significant assets

(i) Securities

Held-to-maturity debt securities: Stated at amortized cost (straight-line method).

Other securities (including money held in trust): Those other than “shares etc. without market value” are stated at fair value (Unrealized gains and losses are included in a separate component of net assets, and cost of sales is determined based on the moving-average method.) Shares etc. without market value are stated at cost, determined by the moving-average method.

Investments in limited liability investment partnerships and similar investments (defined as securities in Article 2, paragraph (2) of the Financial Instruments and Exchange Act (Act No. 25 of April 13, 1948)) are measured at net amounts equivalent to the equity interest in the partnerships based on their latest available financial statements whose reporting date is stipulated in the partnership agreement.

(ii) Derivatives

Stated at fair value.

(iii) Inventories

The cost method (method to write down book value due to lower profitability) is adopted as the basis of valuation.

Merchandise: Stated mainly using the specific identification method.

Real estate for sale: Stated using the specific identification method.

Real estate for sale in process: Stated using the specific identification method.

Supplies: Stated mainly using the moving-average method.

Other: Stated mainly using the last purchase price method.

(2) Depreciation method for significant depreciable assets

(i) Property, plant and equipment (excluding lease assets)

Stated mainly using the straight-line method. However, the following assets are stated using the following methods.

Replacement assets of fixed assets for railway business: Stated using the replacement method.

(ii) Intangible assets (excluding lease assets)

Software: Stated using the straight-line method. The amortization period of internal-use software is the internal useful life (five years).

Other intangible assets: Stated using the straight-line method.

(iii) Lease assets

Lease assets in finance lease transactions that do not transfer ownership: Depreciated using the straight-line method with the lease term as the useful life and a residual value of zero.

(iv) Long-term prepaid expenses: Stated using the straight-line method.

(3) Accounting standards for significant allowances

(i) Allowance for doubtful accounts

To prepare for losses from bad debt, an estimated uncollectible amount is provided at the amount estimated by either using the historical rate of credit loss in the case of general receivables, or based on individual consideration of collectibility in the case of specific receivables such as highly doubtful receivables.

(ii) Accrued bonuses

To prepare for the payment of employee bonuses, the estimated amount to be paid is stated.

(iii) Allowance for safety and environmental measures

To prepare for the expenses for safety and environmental measures, repairs, etc. for railway facilities, etc. to ensure safe railway operations, the estimated costs are stated.

(iv) Provision for loss on disaster

To prepare for disaster recover expenses, etc., the estimated costs are stated.

(4) Accounting method for retirement benefits

(i) Method of attributing projected retirement benefits to periods

When calculating retirement benefit obligations, the benefit formula method is used to attribute the projected retirement benefits to the period until the end of the current fiscal year.

(ii) Method of amortization of actuarial gain or loss and past service cost

Actuarial gain or loss is mainly amortized on a straight-line basis over periods (12 years) within the average remaining years of service of the employees in the year following the year in which the gain/loss was incurred.

Past service cost is mainly amortized on a straight-line basis over periods (19 years) within the average remaining years of service of the employees.

(5) Accounting standards for significant revenue and expenses

The main obligations in the Group's major businesses and the usual points in time at which revenue is recognized are as follows. Furthermore, among the obligations under contracts with customers in each business, for transactions in which the Group's role in providing goods or services to customers is that of an agent, revenue is recognized at the net amount received from customers with the amount paid to suppliers deducted.

(i) Transportation Group

In the transportation business, the main obligation is providing transportation services based on transportation contracts with customers.

Regarding commuter passes, obligations are considered to be fulfilled once the expiration date of a commuter pass has passed, and revenue is recognized over a certain period of time.

Regarding tickets other than commuter passes, obligations are considered to be fulfilled from the point when a transportation service is provided by use of the ticket, and revenue is recognized at one point in time.

In addition, compensation for transportation-service-related transactions is generally received in advance.

(ii) Real Estate and Hotels Group

In the real estate lease business, the Company primarily manages and operates commercial facilities, offices, and apartment buildings, and leases these units based on building lease agreements and other agreements. Regarding building lease agreements and other agreements, revenue is recognized in the scope of the agreement period based on the "Accounting Standard for Lease Transactions."

In the real estate sale business, the Company primarily sells condominiums and has obligations to deliver condominiums based on real estate sales agreements with customers. These obligations are considered to be fulfilled when control of the relevant property is transferred to the customer, and revenue is recognized from the point in time when the condominium was delivered.

In the hotel business, the main obligation is providing accommodation services based on accommodation agreements with customers. These obligations are considered to be fulfilled when accommodation service is provided to the customer, and revenue is recognized at one point in time.

(iii) Retail and Restaurant Group

In the retail and restaurant business, the Company primarily sell products in stores and has obligations to deliver products based on sales contracts with customers. These obligations are considered to be fulfilled at the point when the product is sold and control of said product is transferred to the customer, and revenue is recognized at the point in time when the product is delivered.

(iv) Construction Group

In the construction business, the main obligation is conducting civil engineering and building work and the like based on contract work agreements with customers.

Under contract work agreements, obligations are considered to be fulfilled over a certain period of time, the degree of progress toward fulfillment of the obligations is estimated, and revenue is recognized over a certain period of time based on the degree of progress. The method for estimating degree of progress is calculated as the ratio of costs incurred to the estimated total cost. For contracts under which the degree of progress cannot be reasonably estimated, revenue is recognized in an amount equal to the portion of the costs incurred that is expected to be recovered.

(v) Business Service Group

In the construction machinery sales business, the Company primarily sells construction machinery, and has obligations to deliver construction machinery based on sales contracts with customers. These obligations are considered to be fulfilled when control of said construction machinery is transferred to the customer, which is when the construction machinery is delivered, and revenue is recognized at the point in time when the construction machinery is delivered.

(6) Treatment of construction grants

The Company receives construction grants from municipal governments and others to aid in construction and improvement of railways and other properties, such as construction of elevated railway tracks for grade separation and construction for widening railway crossings.

Such construction grants are recognized by deducting the amount equivalent to the contribution for construction received mainly at the completion of the construction directly from the acquisition cost of the fixed assets.

In the consolidated statements of income, the construction grants received are recognized in extraordinary gains, and the amount deducted directly from the acquisition cost of the fixed assets is recognized in extraordinary losses as losses from provision for cost reduction of fixed assets.

(7) Amortization of goodwill and negative goodwill

Goodwill and negative goodwill (arising from transactions that occurred on or before March 31, 2010) are amortized using the straight-line method, mostly over 20 years.

(8) Adoption of the group tax sharing system

The Company and some consolidated subsidiaries in Japan are applying the group tax sharing system from the fiscal year ended March 31, 2023.

(9) Adoption of the tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

Due to the application of the group tax sharing system, the accounting processing and disclosures for income taxes and local corporation tax, as well as the tax effect accounting of the Company and some consolidated subsidiaries in Japan are in accordance with the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System (ASBJ PITF No. 42, August 12, 2021, hereinafter "ASBJ PITF No. 42").

In addition, pursuant to the provision of paragraph 32-1 of ASBJ PITF No. 42, the Company and some consolidated subsidiaries in Japan assume that there is no effect of the changes in accounting policies in accordance with the application of ASBJ PITF No. 42.

II Notes on Changes in Accounting Policies

(Adoption of the Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company adopted the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021, hereinafter "Implementation Guidance on Accounting Standard for Fair Value Measurement") from the beginning of the fiscal year ended March 31, 2023. The Company will apply new accounting policies established in the Implementation Guidance on Accounting Standard for Fair Value Measurement prospectively in accordance with transitional treatment established in Paragraph 27-2 of the said Implementation Guidance.

Accordingly, for certain investment trusts for which acquisition cost was recorded on the Consolidated Balance Sheet as securities for which it is extremely difficult to determine their fair values, calculations are now based on the fair value method. Their application had no impact on the consolidated financial statements.

III Notes on Changes in Presentation

(Consolidated statements of income)

(i) Gains on investment securities

"Gains on investment securities" (¥533 million in the previous fiscal year), which was previously included in "Other" under non-operating income, is listed separately from the fiscal year under review due to its increased monetary significance with respect to non-operating income.

(ii) Foreign exchange gains

"Foreign exchange gains" (¥324 million in the previous fiscal year), which was previously included in "Other" under non-operating income, is listed separately from the fiscal year under review due to its increased monetary significance with respect to non-operating income.

(iii) Subsidies for employment adjustment

"Subsidies for employment adjustment" (¥1,921 million in the previous fiscal year), which was previously listed separately under non-operating income, is listed as "Other" from the fiscal year under review due to its diminished monetary significance with respect to non-operating income.

(iv) Assistance fund for preventing infection spread

"Assistance fund for preventing infection spread" (¥1,100 million in the previous fiscal year), which was previously listed separately under non-operating income, is listed as "Other" from the fiscal year under review due to its diminished monetary significance with respect to non-operating income.

(v) Loss on valuation of derivatives

"Loss on valuation of derivatives" (¥192 million in the previous fiscal year), which was previously included in "Other" under non-operating expenses, is listed separately from the fiscal year under review due to its increased monetary significance with respect to non-operating expenses.

IV Notes on Accounting Estimates

1. Recoverability of deferred tax assets

(1) Amount of deferred tax assets stated in the consolidated financial statements for the fiscal year under review: ¥55,512 million

(2) Information on the nature of significant accounting estimates related to the identified items

(i) Calculation method

The Group recognizes deferred tax assets for tax loss carryforwards and deductible temporary differences to the extent that they are expected to reduce future tax liabilities after estimating future taxable income based on earning capability and tax planning.

(ii) Key assumptions

The Group estimates the amount of future taxable income based on earning capability and tax planning, mainly based on its business plans.

Our Group's results have been affected by COVID-19 in each business group, in particular, Transportation and Real Estate and Hotels. For this reason, based on the information available at the time of creating the consolidated financial statements, and considering factors such as income trends under the circumstances, the Group assumes that the pandemic will have a continuous impact for a certain period of time based on the information currently available.

(iii) Impact on the next fiscal year's consolidated financial statements

Deferred tax assets are primarily attributable to the impairment loss of the non-current assets of the Company's railway business, the recovery of which heavily depends on future taxable income.

Since there are many uncertainties regarding the estimation of demand recovery from the COVID-19 pandemic, changes in the timing and amount of taxable income and changes to the effective tax rate due to tax reforms could have a significant impact on the consolidated financial statements for the next fiscal year and thereafter.

2. Impairment loss on non-current assets

(1) Amount of non-current assets recorded in the consolidated financial statements for the fiscal year under review:

Property, plant and equipment	¥632,205 million
Intangible assets	¥6,203 million

(2) Information on the nature of significant accounting estimates related to the identified items

(i) Calculation method

The Group assesses whether there is any indication of impairment on assets and asset groups. If there is an indication for the possibility of an impairment loss, then impairment loss will be tested based on the undiscounted future cash flows of the asset or asset group concerned. When it is judged that assets or asset groups should have impairment losses recognized, their carrying value is reduced to the recoverable amount and the amount of the reduction is recorded as an impairment loss.

(ii) Key assumptions

For the testing of impairment loss on non-current assets, certain assumptions are made including future cash flows, discount rates, etc.

Our Group's results have been affected by COVID-19 in each business group, in particular, Transportation and Real Estate and Hotels. For this reason, based on the information available at the time of creating the consolidated financial statements, and considering factors such as income trends under the circumstances, the Group assumes that the pandemic will have a continuous impact for a certain period of time based on the information currently available.

(iii) Impact on next fiscal year's consolidated financial statements

Since there are many uncertainties regarding the estimation of demand recovery from the COVID-19 pandemic, differences between future cash flows and their estimated amounts could have a significant impact on the consolidated financial statements for the next fiscal year and thereafter.

3. Provision for loss on disaster

(1) Amount of provision for loss on disaster recorded in the consolidated financial statements for the fiscal year under review: ¥809 million

(2) Information on the nature of significant accounting estimates related to the identified items

(i) Calculation method

If the Group suffers damage due to a disaster, a provision for loss on disaster is recorded, in accordance with the extent of damage, for the expenses, etc., expected to be incurred for restoration in the next fiscal year and thereafter.

(ii) Key assumptions

In estimating provision for loss on disaster, the Group estimates for the recovery plans and construction, etc., in accordance with the extent of damage based on actual results for restoration of damage required in past disasters.

(iii) Impact on next year's consolidated financial statements

With regard to disaster recovery work, any significant changes in the estimates for the recovery plan and construction could have a significant impact on the consolidated financial statements for the next fiscal year and thereafter.

(3) Provision for loss on disaster that cannot be rationally estimated

Due to heavy rain in July 2020, train services have been suspended on the Hisatsu line in Kyushu between Yatsushiro and Yoshimatsu stations (86.8 km operating distance). The majority of the line in the section was laid along the Kuma River, and the impact of the torrential rain has caused damages in over 400 places, including railroad disasters and bridges being washed away. Regarding the restoration policy for the Hisatsu line, the "Council for Studying Issues of the JR Hisatsu Line" was established in March 2022 under the auspices of the Ministry of Land, Infrastructure, Transport and Tourism and the Kumamoto Prefectural Government. Discussions at the Council is proceeding with the Company as a participant. Although there is a possibility the Group will incur expenses as a result of future Council studies, it is difficult to estimate the amount reasonably at this point in time. Therefore, in the fiscal year under review, the Group has not recorded possible expenses that may be incurred in provision for loss on disaster.

V Additional Information

(Board Benefit Trust (BBT))

The Company introduced a share-based remuneration plan called the "Board Benefit Trust (BBT)" (the "Plan") for the Company's Directors (excluding outside Directors and Directors who are Audit and Supervisory Committee Members) and its Senior Corporate Officers (the "Directors, etc.").

(i) Overview of transactions

The Plan is a share-based remuneration plan under which the Company's shares are acquired through a trust using money contributed by the Company as the financial funds, and the Directors, etc. are provided with the Company's shares and an amount of money equivalent to the market value of the Company's shares (the "Company's Shares, etc.") through the trust in accordance with the Rules on Provision of Shares to Officers established by the Company.

The Directors, etc. shall receive the Company's Shares, etc. upon their retirement from office, in principle.

(ii) Shares of the Company remaining in the Trust

The shares of the Company remaining in the trust are recognized as treasury stock under equity at the book value in the trust (excluding incidental expenses). The book value of said treasury stock at the end of the fiscal year under review was ¥583 million and the number of shares was 181,400 shares.

VI Notes to Consolidated Balance Sheet

1. Pledged assets and secured liabilities

(1) Pledged assets

Securities	¥22 million
Merchandise and finished goods	¥110 million
Investment securities	¥81 million
Other (investments and other assets)	¥229 million
Total:	¥444 million

A portion of the above securities, investment securities and other (investments and other assets) are deposited to the Fukuoka Legal Affairs Bureau as a warranty against defects on housing construction in accordance with the Act for Secure Execution of Defect Housing Warranty Liability.

(2) Secured liabilities

Notes and accounts payable–trade	¥55 million
Payables	¥5 million
Total:	¥61 million

2. Accumulated depreciation of property, plant and equipment ¥774,514 million

3. Reduction entry due to construction grants received in fixed assets (cumulative)
¥423,116 million

VII Notes to Consolidated Statement of Income

Impairment loss

The Group determines the asset groups by each business or property based on the classifications in managerial accounting. For railway business assets, the Group identifies entire railway lines as a single asset group because the railway network generates cash flows as a whole. In addition, the Group identifies idle assets that are not expected to be used in the future as separate asset groups. As a result, for discontinued businesses and assets that were determined to be disposed of or for which the recoverable amounts have declined to a lower level than originally expected, the book value under non-current assets is reduced to the recoverable amount and the amount of the reduction in the current fiscal year is recognized as "impairment loss" (¥3,322 million) under extraordinary losses.

(Millions of Yen)

Major applications		Type	Place	Amount
Rental assets	8	Land, buildings, and fixtures etc.	Fukuoka Prefecture, etc.	2,079
Retail stores, etc.	69	Buildings and fixtures, etc.	Fukuoka Prefecture, etc.	1,231
Idle assets	1	Buildings	Oita Prefecture	11
Total				3,322

The recoverable amounts of these asset groups are calculated based on net sale value or value in use. If the recoverable amount is calculated using value in use, the future cash flows are determined using a discount rate of 4.0%. In addition, if the recoverable amount is calculated using net sale value, the property tax-appraised value of non-current assets is determined based on reasonable adjustments, etc.

VIII Notes to Consolidated Statements of Changes in Net Assets

1. Class and total number of shares outstanding as of the end of the fiscal year under review

   Common stock 157,301,600 shares

2. Dividends

(1) Dividends paid

Resolution	Class of shares	Total dividend amount (millions of yen)	Dividends per share (yen)	Record date	Effective date
Annual General Meeting of Shareholders held on June 23, 2022	Common stock	14,629	93.0	March 31, 2022	June 24, 2022

Note: The total amount of dividends includes ¥17 million in dividends for the shares of the

Company's stock held by the trust as trust assets of the Board Benefit Trust (BBT).

(2) Among the dividends whose record date falls within the fiscal year under review, those whose effective date will fall within the next fiscal year

Resolution (scheduled)	Class of shares	Total dividend amount (millions of yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
Annual General Meeting of Shareholders held on June 23, 2023	Common stock	14,629	Retained earnings	93.0	March 31, 2023	June 26, 2023

Note: The total amount of dividends includes ¥16 million in dividends for the shares of the Company's stock held by the trust as trust assets of the Board Benefit Trust (BBT).

IX Notes on Financial Instruments

1. Status of financial instruments

The Group invests in securities, etc. and raises funds via issuance of bonds and borrowings from banks and other financial institutions.

Customer credit risk associated with notes and accounts receivable – trade, and contract assets is managed under appropriate credit control policies. Investment securities are mainly stocks, and the Group checks the fair values of listed shares on a quarterly basis.

Commercial papers, bonds and borrowings are used for working capital (mainly short term) and capital expenditures (long term).

The Group executes derivative transactions in accordance with internal regulations and within the scope necessary for the underlying transactions, and does not engage in speculative transactions.

2. Fair value of financial instruments

The carrying amounts in the Consolidated Balance Sheets, fair values and unrealized gains and losses as of March 31, 2023 are as follows.

(Millions of Yen)

		Carrying amount(*1)	Fair value(*1)	Unrealized gain/(loss)
(1)	Investment securities	31,976	31,981	5
(2)	Bonds	(145,000)	(138,625)	6,375
(3)	Long-term debt	(184,618)	(182,590)	2,027
(4)	Derivative transactions(*3)	(760)	(760)	–

(*1) Amounts shown in parentheses are net liabilities.

(*2) Regarding "Cash and deposits," "Notes and accounts receivable – trade, and contract assets," "Fares receivable," "securities," "Notes and accounts payable – trade," "Short-term loans," "Commercial paper," "Payable," "Accrued income taxes," and "Fare deposits received with regard to railway connecting services," as these items are settled within a short period of time and the fair values are approximately equal to the carrying amounts, the notes have been omitted.

(*3) Assets and liabilities from derivative transactions are net. Amounts shown in parentheses are net liabilities.

(*4) Investments in unlisted equity securities, etc. (carrying amount: ¥10,424 million) and investments in partnerships (carrying amount: ¥7,979 million) were not included in "(1) Investment securities" because they do not have market prices.

3. Matters pertaining to the breakdown of fair value of financial instruments by level and others

The fair value of financial instruments is classified into the following three levels according to the observability and materiality of the inputs used to calculate fair value.

Level 1 fair value:	The fair value calculated based on (unadjusted) quoted prices in active markets for identical assets or liabilities
Level 2 fair value:	The fair value calculated using inputs other than those included within Level 1 that are either directly or indirectly observable
Level 3 fair value:	The fair value calculated using key unobservable inputs

When multiple inputs that have a significant impact on the calculation of fair value are used, fair value is classified as the level with the lowest priority for fair value calculation among the levels to which each of the inputs is associated.

(1) Financial assets and financial liabilities for which fair value is recorded on the Consolidated Balance Sheets

(Millions of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Shares	27,453	–	–	27,453
Bonds	81	1,855	–	1,937
Other	77	–	–	77
Total Assets	27,612	1,855	–	29,467
Derivative transactions				
Currency related	–	760	–	760
Total liabilities	–	760	–	760

(Note) Of investment securities, investment trusts to which the treatment in Paragraphs 9-24 of the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021) is applied are not included in the above table. The amount of such investment trusts in the consolidated balance sheet was ¥1,792 million.

(2) Financial assets and financial liabilities for which fair value is not recorded on the Consolidated Balance Sheets

(Millions of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Held-to-maturity debt securities				
Government bonds, local government bonds, etc.	327	394	–	721
Total Assets	327	394	–	721
Bonds	–	138,625	–	138,625
Long-term debt	–	182,590	–	182,590
Total liabilities	–	321,215	–	321,215

(Note) Explanation of evaluation techniques and inputs used to calculate fair value

(i) Investment securities

Stocks and other similar instruments are classified as Level 1 as their fair value is the unadjusted quoted price in active markets. For debt securities, the fair value is the unadjusted quoted price in active markets, or the price quoted by the transacting financial institutions, and these are primarily classified as Level 1 for government bonds and Level 2 for all other debt securities.

(ii) Bonds (including bonds current portion of bonds)

Regarding bonds, while fair value is the unadjusted quoted price, the frequency of market transactions is low and this cannot be considered as a quoted price in active markets, so they are classified as Level 2.

(iii) Long-term debt (including current portion of long-term debt)

Regarding Long-term debt, since the fair value is the present value of the total amount of principal and interest payment discounted by the interest rate expected to be applied for a similar new loan, it is classified as Level 2.

(iv) Derivative transactions

Derivative transactions are classified as Level 2 as their fair value is based on prices and other information provided by transacting financial institutions.

X Notes on Rental Properties

1. Status of rental properties

The Company and some of its subsidiaries own commercial buildings for rent.

2. Fair value of investment and rental properties

(Millions of Yen)

Carrying amount	Fair value
293,891	405,999

(Notes)

1 The carrying amount is the acquisition cost less accumulated depreciation.

2 For the fair values at the end of the fiscal year under review, the amounts for significant properties are calculated by the Company based on Real Estate Appraisal Standards, etc., and the amounts for other properties are calculated by the Company based on certain appraisal values and indicators that are considered to appropriately reflect market prices.

3 Assets under construction or development are not included in the above table because it is extremely difficult to determine their fair values.

XI Notes on Revenue Recognition

1. Information breaking down revenue from contracts with customers

(Millions of Yen)

	Reportable segment					
	Transportation			Real Estate and Hotels		
	Commuter	Non-Commuter	Other	Real estate lease business	Real estate sale business	Hotels
Revenue from contracts with customers	29,093	92,351	10,934	26,318	43,589	16,911
Revenue from other sources	–	–	1,179	31,950	–	–
Sales to external customers	29,093	92,351	12,114	58,269	43,589	16,911

(Millions of Yen)

	Reportable segment			Total
	Retail and Restaurant	Construction	Business Service	
Revenue from contracts with customers	54,372	35,631	36,107	345,309
Revenue from other sources	108	425	4,269	37,933
Sales to external customers	54,480	36,056	40,376	383,242

2. Information fundamental to understanding revenue from contracts with customers

Information fundamental to understanding revenue is as described in “(5) Accounting standards for significant revenue and expenses” under “4. Accounting policies” in “I Notes on Important Matters for Basis of Presentation of Consolidated Financial Statements.”

3. Information pertaining to the relationship between fulfillment of obligations based on contracts with customers and cash flows resulting from such contracts, as well as the amounts and timing of revenue from contracts with customers that existed at the end of the fiscal year ended March 31, 2023, which is expected to be recognized in or after the fiscal year ending March 31, 2024

(1) Balance, etc. of contract assets and Contract liabilities

(Millions of Yen)

	Balance at beginning of the fiscal year ended March 31, 2023	Balance at end of period of the fiscal year ended March 31, 2023
Receivables from contracts with customers	29,327	39,270
Contract assets	12,290	6,288
Contract liabilities	15,929	19,409

Contract assets primarily pertain to contract construction work agreements in the construction industry for which progress has been made on the contracted construction work as of the final day of the fiscal year but for which rights to claim compensation are unclaimed. Contract assets are transferred to Receivables from contracts with customers when the right to compensation becomes unconditional.

Contract liabilities primarily pertain to railway fares received in advance, advances received of sales proceeds in the real estate sale business, and advances received of lump-sum payments paid when moving into a fee-based nursing home in the senior citizen business. Contract liabilities are reversed upon recognition of revenue.

Of the revenue recognized in the fiscal year ended March 31, 2023, the amount included in the balance of Contract liabilities at the beginning of the period is ¥11,447 million.

(2) Transaction price allocated to remaining obligations

The Company and consolidated subsidiaries apply a practical expedient method in noting the transaction prices allocated to remaining obligations, and contracts having an initial estimated contract period of one year or less are not included in the scope for notes. The total amount of transaction prices allocated to remaining obligations and the estimated periods for recognizing revenue are as follows.

(Millions of Yen)

	Fiscal year ended March 31, 2023
1 year or less	41,993
Over 1 year, but not more than 2 years	14,150
Over 2 years, but not more than 3 years	3,767
Over 3 years	5,183
Total	65,095

XII Notes on Per Share Information

1. Net assets per share ¥2,584.35
2. Net income per share ¥198.36

(Note) When calculating net assets per share, the Company's shares remaining in the Board Benefit Trust (BBT) recognized as treasury stock under shareholders' equity are included in the treasury stock excluded from the number of shares issued and outstanding at end of period (181,400 shares at the end of the fiscal year under review).

In addition, when calculating net income per share, the shares are included in the treasury stock excluded from the average number of shares during the period (181,975 shares for the fiscal year under review).

XIII Significant Subsequent Events

[Transfer of shares in equity-method affiliate]

At a meeting of the Board of Directors held on April 28, 2023, the Company resolved to transfer all its shares in Drug Eleven Co., Ltd. (hereinafter referred to as the "Transferred Company"), an equity-method affiliate of the Company, to the Tsuruha Group (hereinafter referred to as the "Transfer"). On the same day, the Company executed a share transfer agreement with TSURUHA Holdings, Inc. (hereinafter referred to as "Tsuruha HD"), and, of the Transferred Company's shares, decided to transfer 1,558,327 shares directly to Tsuruha HD and 1,000,000 shares accompanying the acquisition of treasury stock by the Transferred Company.

Accompanying the Transfer, the Transferred Company will be excluded from the Company's equity-method affiliates.

(1) Name of transfer partner company

Drug Eleven Co., Ltd.

TSURUHA Holdings, Inc.

(2) Name, business and description of company to be transferred, and its business relationship with JR Kyushu

Name: Drug Eleven Co., Ltd.

Business activities: Retail sales of pharmaceuticals, cosmetics, daily-use items, etc.; dispensing pharmacy operations

Business relationship between the company concerned and the Company: Drug Eleven has lease contracts, etc., with JR Kyushu

(3) Reason for transfer

In May 2020, the Company transferred 51% of its shares in the Transferred Company to the Tsuruha Group, which operates drugstores and dispensing pharmacies nationwide, in order to further grow the business of the Transferred Company, which had been a wholly owned subsidiary, and increase its business value. As an equity-method affiliate of the Company, the Transferred Company has worked to expand its business scale and improve profitability, while utilizing the business know-how and other management resources of the Tsuruha Group.

Meanwhile, the drugstore industry continues to face a challenging management environment, with new store openings by competitors beyond industry and business categories, entry into new areas to expand trade areas, expansion of scale through M&A, competition from other industries that are becoming more homogeneous, and the narrowing of trade areas resulting from these factors.

Under these circumstances, after much consideration, we have determined that the best way for the Transferred Company to further grow its business and increase corporate value is to operate it as a wholly owned subsidiary of Tsuruha HD, and have therefore decided to execute the share transfer to the Tsuruha Group.

(4) Effective date of share transfer

Share transfer to the Transferred Company: May 30, 2023 (planned)

Share transfer to Tsuruha HD: May 31, 2023 (planned)

(5) Number of transferred shares, status of shareholding before and after the transfer, transfer price and gain on transfer

①Number of transferred shares and status of shareholding before and after the transfer

(i) Number of shares owned before transfer: 2,558,327 shares (Ratio of voting rights: 49.0%)

(ii) Number of transferred shares: 1,000,000 shares to the Transferred Company
1,558,327 shares to Tsuruha HD

(iii) Number of shares owned after transfer: 0 share (Ratio of voting rights: 0%)

②Transfer price: 11.7 billion yen

③Gain on transfer: The Company expects to recognize approximately 7.0 billion yen as extraordinary gains in the fiscal year ending March 31, 2024.

Non-Consolidated Statements of Changes in Net Assets

(From April 1, 2022 to March 31, 2023)

(Millions of yen)

	Shareholders' equity						
	Share capital	Capital surplus			Retained earnings		
					Other retained earnings		
		Legal capital surplus	Other capital surplus	Total capital surplus	Reserve for tax purpose reduction entry of non-current assets	Retained earnings brought forward	Total retained earnings
Balance at beginning of period	16,000	171,908	52,113	224,022	7,686	78,552	86,238
Changes during current period							
Dividends of surplus						(14,629)	(14,629)
Net income						25,408	25,408
Provision of reserve for tax purpose reduction entry of non-current assets					3,503	(3,503)	–
Purchase of treasury shares							
Disposal of treasury stock							
Net changes in items other than shareholders' equity during current period							
Total changes during current period	–	–	–	–	3,503	7,276	10,779
Balance at end of period	16,000	171,908	52,113	224,022	11,190	85,828	97,018

	Shareholders’ equity		Valuation and translation adjustments	Total net assets
	Treasury shares	Total shareholders’ equity	Valuation difference on available-for-sale securities	
Balance at beginning of period	(591)	325,669	4,323	329,993
Changes during current period				
Dividends of surplus		(14,629)		(14,629)
Net income		25,408		25,408
Provision of reserve for tax purpose reduction entry of non-current assets		–		–
Purchase of treasury shares	(0)	(0)		(0)
Disposal of treasury stock	7	7		7
Net changes in items other than shareholders’ equity during current period			(831)	(831)
Total changes during current period	7	10,786	(831)	9,955
Balance at end of period	(584)	336,456	3,492	339,948

(Note) The above figures are rounded down to the nearest ¥1 million.

Notes to Non-Consolidated Financial Statements

I Notes on Significant Accounting Policies

1. Basis and method of valuation of securities

(1) Shares in subsidiaries or affiliates: Stated at cost using the moving average method.

(2) Other securities (including money held in trust): Those other than “shares etc. without market value” are stated at fair value (Unrealized gains and losses are included in a separate component of net assets, and cost of sales is determined based on the moving-average method.) Shares etc. without market value are stated at cost, determined by the moving-average method.

Investments in limited liability investment partnerships and similar investments (defined as securities in Article 2, paragraph (2) of the Financial Instruments and Exchange Act (Act No. 25 of April 13, 1948)) are measured at net amounts equivalent to the equity interest in the partnerships based on their latest available financial statements whose reporting date is stipulated in the partnership agreement.

2. Basis and method of valuation of inventories

The cost method (method to write down book value due to lower profitability) is adopted as the basis of valuation.

(1) Real estate for sale: Stated using the specific identification method.

(2) Real estate for sale in process: Stated using the specific identification method.

(3) Supplies: Stated using the moving-average method.

3. Depreciation method for non-current assets

(1) Property, plant and equipment (excluding lease assets)

Stated mainly using the straight-line method. However, the following assets are stated using the following methods.

Replacement assets of fixed assets for railway business: Stated using the replacement method.

(2) Intangible assets (excluding lease assets)

Software: Stated using the straight-line method. The amortization period of internal-use software is the internal useful life (five years).

Other intangible assets: Stated using the straight-line method.

(3) Lease assets

Lease assets in finance lease transactions that do not transfer ownership: Depreciated using the straight-line method with the lease term as the useful life and a residual value of zero.

(4) Long-term prepaid expenses: Stated using the straight-line method.

4. Accounting standards for allowances

(1) Allowance for doubtful accounts

To prepare for losses from bad debt, an estimated uncollectible amount is provided at the amount estimated by either using the historical rate of credit loss in the case of general receivables, or based on individual consideration of collectibility in the case of specific receivables such as highly doubtful receivables.

(2) Accrued bonuses

To prepare for the payment of employee bonuses, the estimated amount to be paid is stated.

(3) Allowance for retirement benefits

To prepare for payment of employees' retirement benefits, the allowance for retirement benefits is stated according to such liability for retirement benefits as was estimated at the end of the fiscal year under review.

The term attribution method for estimated retirement benefits is based on the benefit formula method. Any actuarial gain or loss is accounted for as cost from the fiscal year following the occurrence in an amount prorated using the straight-line method over a given number of years (12 years) within average remaining employee service years at the time of the occurrence in the fiscal year.

(4) Allowance for safety and environmental measures

To prepare for the expenses for safety and environmental measures, repairs, etc. for railway facilities, etc. to ensure safe railway operations, the estimated costs are stated.

(5) Provision for loss on disaster

To prepare for disaster recover expenses, etc., the estimated costs are stated.

(6) Provision for guarantee obligations

To prepare for loss on debt guarantees for subsidiaries and affiliated companies, an amount deemed to be required individually is stated.

5. Accounting standards for significant revenue and expenses

The main obligations in the Company's major businesses and the usual points in time at which revenue is recognized are as follows. Furthermore, among the obligations under contracts with customers in each business, for transactions in which the Company's role in providing goods or services to customers is that of an agent, revenue is recognized at the net amount received from customers with the amount paid to suppliers deducted.

(1) Railway business

The Company is obligated to provide passenger rail transportation services based primarily on transportation agreements with customers.

Regarding commuter passes, obligations are considered to be fulfilled once the expiration date of a commuter pass has passed, and revenue is recognized over a certain period of time.

Regarding tickets other than commuter passes, obligations are considered to be fulfilled from the point when a transportation service is provided by use of the ticket, and revenue is recognized at one point in time.

In addition, compensation for transportation-service-related transactions is generally received in advance.

(2) Related businesses

In the real estate sale business, the Company primarily sells condominiums and has obligations to deliver condominiums based on real estate sales agreements with customers. These obligations are considered to be fulfilled when control of the relevant property is transferred to the customer, and revenue is recognized from the point in time when the condominium was delivered.

In the real estate lease business, the Company primarily manages and operates commercial facilities, offices, apartment buildings and hotels, and leases these units based on building lease agreements and other agreements. Regarding building lease agreements and other agreements, revenue is recognized in the scope of the agreement period based on the "Accounting Standard for Lease Transactions."

6. Treatment of construction grants

The Company receives construction grants from municipal governments and others to aid in construction and improvement of railways and other properties, such as construction of elevated railway tracks for grade separation and construction for widening railway crossings.

Such construction grants are recognized by deducting the amount equivalent to the contribution for construction received mainly at the completion of the construction directly from the acquisition cost of the fixed assets.

In the non-consolidated statements of income, the construction grants received are recognized in extraordinary gains, and the amount deducted directly from the acquisition cost of the fixed assets is recognized in extraordinary losses as losses from provision for cost reduction of fixed assets.

7. Accounting method for retirement benefits

The method for accounting for an unrecognized actuarial gain or loss for retirement benefits differs from the method for doing so in consolidated financial statements.

8. Adoption of the group tax sharing system

The Company is applying the group tax sharing system from the fiscal year ended March 31, 2023.

9. Adoption of the tax effect accounting for the transition from the consolidated taxation system to

the group tax sharing system

Due to the application of the group tax sharing system, the accounting processing and disclosures for income taxes and local corporation tax, as well as the tax effect accounting of the Company is in accordance with the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System (ASBJ PITF No. 42, August 12, 2021, hereinafter “ASBJ PITF No. 42”).

In addition, pursuant to the provision of paragraph 32-1 of ASBJ PITF No. 42, the Company assumes that there is no effect of the changes in accounting policies in accordance with the application of ASBJ PITF No. 42.

II Notes on Changes in Accounting Policies

(Adoption of the Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company adopted the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 31, June 17, 2021, hereinafter “Accounting Standard for Fair Value Measurement”) from the beginning of the fiscal year ended March 31, 2023. The Company will apply new accounting policies established in the Implementation Guidance on Accounting Standard for Fair Value Measurement prospectively in accordance with transitional treatment established in Paragraph 27-2 of the said Implementation Guidance.

Accordingly, for certain investment trusts for which acquisition cost was recorded on the Non-Consolidated Balance Sheet as securities for which it is extremely difficult to determine their fair values, calculations are now based on the fair value method. Their application had no impact on the non-consolidated financial statements.

III Notes on Changes in Presentation

(Non-consolidated statements of income)

(i) Subsidies for employment adjustment

“Subsidies for employment adjustment” (¥1,308 million in the previous fiscal year), which was previously listed separately under non-operating income, is listed as “Other” from the fiscal year under review due to its diminished monetary significance with respect to non-operating income.

(ii) Loss on valuation of derivatives

“Loss on valuation of derivatives” (¥192 million in the previous fiscal year), which was previously included in “Other” under non-operating expenses, is listed separately from the fiscal year under review due to its increased monetary significance with respect to non-operating expenses.

(iii) Provision for loss on guarantees, etc.

“Provision for loss on guarantees, etc.” (¥153 million in the fiscal year under review), which was previously included in "Other" under extraordinary losses, is listed separately from the fiscal year under review due to its increased monetary significance with respect to extraordinary losses.

IV Notes on Accounting Estimates

1. Recoverability of deferred tax assets
   (1) Amount of deferred tax assets stated in the non-consolidated financial statements for the fiscal year under review: ¥45,699 million
   (2) Information on the nature of significant accounting estimates related to the identified items
   Calculation method for the amount stated in (1) above is as described in "1. Recoverability of deferred tax assets" under "IV Notes on Accounting Estimates" of the notes to consolidated financial statements.
2. Impairment loss on non-current assets
   (1) Amount of non-current assets recorded in the non-consolidated financial statements for the fiscal year under review:

Fixed assets for railway business	¥ 138,695 million
Fixed assets for other businesses	¥326,589 million
Fixed assets relating to both businesses	¥17,703 million
Construction in progress	¥42,907 million

   (2) Information on the nature of significant accounting estimates related to the identified items
   Calculation method for the amount stated in (1) above is as described in "2. Impairment loss on non-current assets" under "IV Notes on Accounting Estimates" of the notes to consolidated financial statements.
3. Provision for loss on disaster
   (1) Amount of provision for loss on disaster recorded in the non-consolidated financial statements for the fiscal year under review: ¥809 million
   (2) Information on the nature of significant accounting estimates related to the identified items
   Calculation method for the amount stated in (1) above is as described in "3. Provision for loss on disaster" under "IV Notes on Accounting Estimates" of the notes to consolidated financial statements.
   (3) Provision for loss on disaster that cannot be rationally estimated
   Due to heavy rain in July 2020, train services have been suspended on the Hisatsu line in Kyushu between Yatsushiro and Yoshimatsu stations (86.8 km operating distance). The majority of the line in the section was laid along the Kuma River, and the impact of the torrential rain has caused damages in over 400 places, including railroad disasters and bridges being washed away. Regarding the restoration policy for the Hisatsu line, the "Council for Studying Issues of

the JR Hisatsu Line" was established in March 2022 under the auspices of the Ministry of Land, Infrastructure, Transport and Tourism and the Kumamoto Prefectural Government. Discussions at the Council began recently with the Company as a participant. Although there is a possibility the Group will incur expenses as a result of future Council studies, it is difficult to estimate the amount reasonably at this point in time. Therefore, in the fiscal year under review, the Group has not recorded possible expenses that may be incurred in provision for loss on disaster.

V Additional Information

(Board Benefit Trust (BBT))

"Board Benefit Trust (BBT)" is as described in "V. Additional Information" of the notes to consolidated financial statements.

VI Notes to Non-Consolidated Balance Sheets

1. Pledged assets and secured liabilities

Pledged assets

Securities	¥22 million
Investment securities	¥81 million
Other investments	¥229 million
Total:	¥334 million

The above securities, investment securities and other investments are deposited to the Fukuoka Legal Affairs Bureau as a warranty against defects on housing construction, etc. in accordance with the Act for Secure Execution of Defect Housing Warranty Liability.

2. Accumulated depreciation of property, plant and equipment ¥675,218 million

3. Cumulative value of construction grants subtracted directly from cost of acquisition of non-current assets

Fixed assets for railway business	¥397,470 million
Fixed assets for other businesses	¥16,403 million
Fixed assets relating to both businesses	¥7,346 million

4. Total value of accounts under non-current assets

Property, plant and equipment

Land	¥139,330 million
Buildings	¥205,401 million
Fixtures	¥67,462 million

Vehicles	¥50,093 million
Machinery and rolling stock	¥12,349 million
Tool and furniture	¥2,559 million
Lease assets	¥2,928 million

Intangible assets

Lease assets	¥167 million
Other	¥2,695 million

5. Contingent liabilities

(1) Guarantee liabilities

(Guarantee on financial institution loans to subsidiaries and affiliated companies)

JR Kyushu Business Development (Thailand) Co., Ltd.	¥13,059 million
JR Kyushu Senior Life Support Co., Ltd.	¥3,115 million
JR Kyushu Capital Management (Thailand) Co., Ltd.	¥254 million
JR Kyushu Farm Co., Ltd.	¥50 million

(2) Management guidance memorandums

JR Kyushu Farm Co., Ltd.	¥79 million

6. Monetary claims and liabilities to subsidiaries and affiliated companies

Short-term monetary claims	¥21,360 million
Long-term monetary claims	¥2,172 million
Short-term monetary liabilities	¥31,516 million
Long-term monetary liabilities	¥5,496 million

7. Balances of liability for retirement benefits

Liability for retirement benefits	¥41,260 million
Balance of actuarial gain or loss not yet amortized	¥(5,734 million)
Balance of allowance for retirement benefits	¥35,526 million

VII Notes to Non-Consolidated Statements of Income

1. Operating revenue ¥211,610 million

2. Operating expense

Transportation, other services and cost of sales	¥146,923 million
Selling, general and administrative expense	¥12,337 million

Taxes	¥11,536 million
Depreciation and amortization	¥17,999 million

3. Value of operating transactions with subsidiaries and affiliated companies

Operating revenue	¥25,839 million
Operating expense	¥62,629 million
Value of non-operating transactions	¥21,112 million

VIII Notes to Non-Consolidated Statement of Changes in Net Assets

Class and number of treasury stock as of the end of the fiscal year under review

Common stock 181,487 shares

Note: The above treasury stock is the shares of the Company's stock (181,400 shares) held by the trust as trust assets of the Board Benefit Trust (BBT).

IX Notes on Tax Effect Accounting

Deferred tax assets occurred mainly due to impairment losses and tax loss carryforwards. An amount deducted from deferred tax assets (valuation allowance) stood at ¥93,194 million.

X Notes on Transactions with Related Parties

Subsidiaries and affiliated companies

(Millions of Yen)

Category	Company name	Ratio of voting rights ownership	Relationship with the related parties	Transaction description	Transaction value	Account	Ending balance
Subsidiaries	Kyutetsu Corporation Co., Ltd.	Direct ownership 100.0%	Awarding of construction work contracts	Construction work fee (Note 1)	16,595	Payables	11,779
Subsidiaries	JR Kyushu Business Development (Thailand) Co., Ltd.	Direct ownership 49.0% Indirect ownership 24.0%	Capital contribution for a project in Thailand	Debt guarantee (Note 2)	13,059	–	–

Transaction terms and policy on determining them

(Note 1) Transaction terms are determined through price negotiations each term in consideration of market prices and total costs.

(Note 2) Debt guarantee was provided on bank loans, and debt guarantee fees were determined through consultations in consideration of ordinary guarantee fees.

XI Notes on Revenue Recognition

Information that serves as the basis for understanding revenue from contracts with customers

Information that serves as the basis for understanding the revenue is as stated in "5. Basis for recognizing significant revenue and expenses" under "I Notes on Significant Accounting Policies."

XII Notes on Per-share Information

1. Net assets per share ¥2,163.62
2. Net income per share ¥161.71

Note: When calculating net assets per share, the Company's shares remaining in the Board Benefit Trust (BBT) recognized as treasury stock under shareholders' equity are included in the treasury stock excluded from the number of shares issued and outstanding at end of period (181,400 shares at the end of the fiscal year under review).

In addition, when calculating net income per share, the shares are included in the treasury stock excluded from the average number of shares during the period (181,975 shares for the fiscal year under review).

XIII Significant Subsequent Events

[Transfer of shares in equity-method affiliate]

At a meeting of the Board of Directors held on April 28, 2023, the Company resolved to transfer all its shares in Drug Eleven Co., Ltd. (hereinafter referred to as the “Transferred Company”), an equity-method affiliate of the Company, to the Tsuruha Group (hereinafter referred to as the “Transfer”). On the same day, the Company executed a share transfer agreement with TSURUHA Holdings, Inc. (hereinafter referred to as “Tsuruha HD”), and, of the Transferred Company’s shares, decided to transfer 1,558,327 shares directly to Tsuruha HD and 1,000,000 shares accompanying the acquisition of treasury stock by the Transferred Company.

Accompanying the Transfer, the Transferred Company will be excluded from the Company’s equity-method affiliates.

(1) Name of transfer partner company

Drug Eleven Co., Ltd.

TSURUHA Holdings, Inc.

(2) Name, business and description of company to be transferred, and its business relationship with JR Kyushu

Name: Drug Eleven Co., Ltd.

Business activities: Retail sales of pharmaceuticals, cosmetics, daily-use items, etc.; dispensing pharmacy operations

Business relationship between the company concerned and the Company: Drug Eleven has lease contracts, etc., with JR Kyushu

(3) Reason for transfer

In May 2020, the Company transferred 51% of its shares in the Transferred Company to the Tsuruha Group, which operates drugstores and dispensing pharmacies nationwide, in order to further grow the business of the Transferred Company, which had been a wholly owned subsidiary, and increase its business value. As an equity-method affiliate of the Company, the Transferred Company has worked to expand its business scale and improve profitability, while utilizing the business know-how and other management resources of the Tsuruha Group.

Meanwhile, the drugstore industry continues to face a challenging management environment, with new store openings by competitors beyond industry and business categories, entry into new areas to expand trade areas, expansion of scale through M&A, competition from other industries that are becoming more homogeneous, and the narrowing of trade areas resulting from these factors.

Under these circumstances, after much consideration, we have determined that the best way for the Transferred Company to further grow its business and increase corporate value is to operate it as a wholly owned subsidiary of Tsuruha HD, and have therefore decided to execute the share transfer to the Tsuruha Group.

(4) Effective date of share transfer

Share transfer to the Transferred Company: May 30, 2023 (planned)

Share transfer to Tsuruha HD: May 31, 2023 (planned)

(5) Number of transferred shares, status of shareholding before and after the transfer, transfer price and gain on transfer

①Number of transferred shares and status of shareholding before and after the transfer

(i) Number of shares owned before transfer: 2,558,327 shares (Ratio of voting rights: 49.0%)

(ii) Number of transferred shares: 1,000,000 shares to the Transferred Company
1,558,327 shares to Tsuruha HD

(iii) Number of shares owned after transfer: 0 share (Ratio of voting rights: 0%)

②Transfer price: 11.7 billion yen

③Gain on transfer: The Company expects to recognize approximately 7.0 billion yen as extraordinary gains in the fiscal year ending March 31, 2024.

Any number less than a minimum display unit number is truncated for presentation. However, for non-monetary figures and per-share information, such numbers are rounded off to the nearest minimum display unit number for presentation.