

Consolidated Financial Results
for the Three-Month Period Ended June 30, 2018
(Japanese GAAP)

August 6, 2018

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 Stock exchange listings: Tokyo and Fukuoka
 Securities code: 9142
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Scheduled date for filing of quarterly report: August 9, 2018
 Scheduled date of dividend payment commencement: —
 Preparation of supplementary explanations for financial results: Yes
 Holding of a briefing on quarterly financial results: None

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

1. Consolidated Financial Results for the Three-Month Period Ended June 30, 2018
(From April 1, 2018 to June 30, 2018)

(1) Consolidated operating results

(Percentages show year-on-year changes.)

	Operating revenues		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2018	98,909	4.5	16,067	(4.0)	17,292	0.6	13,431	(0.5)
June 30, 2017	94,619	19.1	16,731	35.3	17,187	32.4	13,502	88.5

(Note) Comprehensive income: Three months ended June 30, 2018: ¥15,468 million (17.1%)
 Three months ended June 30, 2017: ¥13,208 million (154.4%)

	Net income per share — basic	Net income per share — diluted
Three months ended June 30, 2018	Yen 83.95	Yen —
June 30, 2017	84.39	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2018	732,223	391,574	52.7
As of March 31, 2018	749,391	383,201	50.3

(Reference) Shareholders' equity: As of June 30, 2018: ¥385,594 million
 As of March 31, 2018: ¥377,163 million

2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2018	—	39.00	—	44.00	83.00
Year ending March 31, 2019	—				
Year ending March 31, 2019 (Forecast)		41.50	—	41.50	83.00

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

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2019 (April 1, 2018 to March 31, 2019)

(Percentages for the full year show year-on-year changes.)

	Operating revenues		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	439,700	6.4	60,700	(5.1)	62,600	(6.6)	47,500	(5.8)	296.88

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

Notes

- (1) Changes in significant subsidiaries during the three months ended June 30, 2018 (changes in specified subsidiaries affecting the scope of consolidation): No
- (2) Application of special accounting treatment in preparing the quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates and restatement of revisions
 - i Changes in accounting policies with revision of accounting standards: No
 - ii Changes in accounting policies other than the above: No
 - iii Changes in accounting estimates: No
 - iv Restatement of revisions: No

(4) Number of shares outstanding (common stock)

i Number of shares issued and outstanding at end of period (including treasury stock)	As of June 30, 2018	160,000,000 shares	As of March 31, 2018	160,000,000 shares
ii Number of shares of treasury stock at end of period	As of June 30, 2018	—	As of March 31, 2018	—
iii Average number of shares during the period	As of June 30, 2018	160,000,000 shares	As of June 30, 2017	160,000,000 shares

* This summary of consolidated financial results is not subject to quarterly reviews by certified public accountants or corporate auditors.

Explanation of Appropriate Uses of Performance Forecasts and Other Important Items

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

Supplementary quarterly materials are attached to this summary of consolidated financial results.

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Financial Results for the First Quarter of FY2019/3 (Cumulative total for the three-month period from April to June)

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Qualitative Information on Consolidated Operating Results

In the three-month period ended June 30, 2018, Japan's economy continued on a modest growth trend amid a rise in exports and production stimulated by steady growth in the global economy as well as the increasingly solid consumer spending arising from steady improvements in the job market and wages.

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

As a result, operating revenues in the three-month period ended June 30, 2018, increased 4.5% year on year, to ¥98,909 million. Operating income was down 4.0%, to ¥16,067 million; EBITDA rose 1.4%, to ¥21,094 million; ordinary income edged up 0.6%, to ¥17,292 million; and net income attributable to owners of the parent edged down 0.5%, to ¥13,431 million.

(Note) EBITDA for the consolidated period under review is the numerical value of operating income plus the cost of depreciation (excluding the cost of depreciation related to lease assets held for the purpose of subleasing).

Business performance by segment is as follows.

a. Transportation Group

In the railway business, we carried out our business operations with safety and service as our foundation. At the same time, we worked to secure revenues by fully utilizing our transportation network, centered on the Kyushu Shinkansen, and implementing various management initiatives from the perspective of our customers. In terms of safety initiatives, we engaged in activities that promoted safety under the slogan of “confirming safety from all aspects” in order to create a safety-oriented corporate culture for the entire JR Kyushu Group. For safety investments, we steadily carried out the replacement of aging facilities. In regard to services, we continued to exercise the 5S (sort, set in order, shine, standardize, sustain) methodology as a basic part of daily operations and the foundation of our services, and made efforts to welcome customers with a smile and through pleasant greetings.

From the perspective of marketing, we promoted sales of all our products with the purpose of encouraging the use of railways, primarily the Kyushu Shinkansen. Such products included the discount ticket campaign “Kyushu Shinkansen Nimai Kippu,” which involves train coupon books, and the Shinkansen commuter pass “Shinkansen Excel Pass.” At the same time, we carried out the promotional campaign “The Answer Is in Kagoshima,” which runs in conjunction with the NHK Taiga Drama *Segodon*. As for our “JR Kyushu Internet Reservation Service,” we enhanced our lineup of products available only online and encouraged sales through a promotion to receive *JR Kyupo* loyalty points when making Internet reservations. Also, we undertook initiatives to boost the recognition level of Kyushu-based brands and to encourage visitors to Kyushu. These initiatives included the cruise train “Seven Stars in Kyushu,” which commenced new routes as of March 2018, and our 11 “Design & Story” trains, in addition to the promotion of Kyushu's natural environment, food, hot springs, and historical

culture and the hospitality of local community members. Furthermore, we cooperated with local community members to establish attractive walking courses for our “Station Manager Recommends JR Kyushu Walking” initiative, which aims to invigorate local communities in Kyushu. A large number of customers took part in this initiative. Moreover, we promoted the direct sale of the “JR Kyushu Rail Pass,” a mainstay product geared toward customers from overseas, via our corporate website as well as our advanced seat reservation service. In addition, we communicated information on and encouraged sales of the pass in a manner that catered to specific countries and regions, primarily South Korea, Taiwan, Hong Kong, and China.

Turning to transportation, we implemented detailed transportation-oriented initiatives and made concerted efforts to establish an efficient transportation organization that meets the demand for each train line. At the same time, we promoted the use of our railways by further enhancing our transportation network, which is centered on the Kyushu Shinkansen. Also, due to the impacts of heavy rain that occurred in northern Kyushu in July 2017 and typhoon No. 18 that struck in September of the same year, we implemented substitute forms of transportation on certain sections of the Kyudai Main Line and the Hitahikosan Line. Moreover, with regard to operations between Higo-Ozu Station and Aso Station on the Houhi Main Line, which were suspended due to the impacts of the 2016 Kumamoto earthquakes, centered on the Houhi Main Line Repair Office, we are making coordinated efforts with relevant organizations to help advance erosion control, reforestation, and road repair measures of the central and local governments.

In our passenger ship business, we concluded a partnership agreement with JR Kyushu Jet Ferry Inc., Kyushu Yusen Corporation, and the local government of Tsushima City, Nagasaki Prefecture to promote tourism through the operation of Japan’s first “mixed-boarding” ferries. Under this agreement, a certain number of our Beetle hydrofoil ferries will operate on a domestic route between Fukuoka City and Tsushima City. Through this agreement, we worked to expand demand for travel via hydrofoil ferry.

For our bus business, we rolled out limited-time discount campaigns for the high-speed bus B&S Miyazaki, which connects with the Kyushu Shinkansen, and other high-speed bus routes, thereby securing profits.

As a result of the above efforts, the Transportation Group recorded operating revenues of ¥43,637 million, down 0.1% year on year; operating income of ¥9,325 million, down 4.7%; and EBITDA of ¥10,935 million, up 0.2%.

b. Construction Group

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

As a result, the Construction Group recorded operating revenues of ¥12,443 million, up 12.7% year on year; operating loss of ¥243 million, an improvement of ¥52 million from the same period of the previous fiscal year; and negative EBITDA of ¥11 million, an improvement of ¥87 million.

c. Real Estate Group

As for the real estate lease business, we worked to create a lively atmosphere at Higo Yokamon Ichiba, a commercial facility located under elevated railway tracks at Kumamoto Station that opened in March 2018. In addition, we worked to expand earnings by actively holding events that utilized the station squares of each station building. In the real estate sale business, sales were recorded from MJR the Garden Oe, and we sought to promote sales of MJR the Garden Kagoshima-Chuo and other condominiums.

As a result, the Real Estate Group posted operating revenues of ¥14,456 million, down 21.9% year on year; operating income of ¥5,612 million, down 10.9%; and EBITDA of ¥7,895 million, down 6.4%.

d. Retail and Restaurant Group

Turning to our retail business, we moved forward with the opening of new drugstores and convenience stores. For the restaurant business, we made proactive efforts to pursue new areas of business, including the opening of our first Starbucks Coffee store, which commenced operations under a license agreement in April 2018, and the opening of Kyushu's first Komeraku store, which specializes in original *ochazuke* (rice with green tea poured over it) dishes.

As a result, the Retail and Restaurant Group recorded operating revenues of ¥25,493 million, up 2.3% year on year; operating income of ¥716 million, down 16.4%; and EBITDA of ¥1,113 million, down 10.8%.

e. Other Groups

In the hotel business, we actively engaged in sales activities at JR Kyushu Hotel Blossom Naha, and Okuhita Onsen UMEHIBIKI, which opened in 2017. In addition, we worked to expand earnings by bolstering revenue management at existing hotels. In the seniors business, we commenced the provision of visiting nursing care services at the residence-style private retire home SJR Takatori. We also worked to enhance our services with the aim of having our facilities be continuously selected by our customers. For the construction machinery sales and rental business, we strived to acquire new orders through such means as holding exhibitions on construction machinery that utilizes information and communication technologies.

As a result, Other Groups posted operating revenues of ¥20,264 million, up 52.2% year on year; operating income of ¥812 million, up 313.2%; and EBITDA of ¥1,370 million, up 201.7%.

(Note) EBITDA for the consolidated period under review is the numerical value of operating income plus the cost of depreciation (excluding the cost of depreciation related to lease assets held for the purpose of subleasing).

(2) Qualitative Information on Consolidated Financial Position

Total assets as of June 30, 2018, decreased 2.3% compared with the previous fiscal year-end, to ¥732,223 million. Current assets decreased 12.8%, to ¥174,707 million, following the collection of notes and accounts receivable—trade and other accounts receivable. Non-current assets increased 1.6%, to ¥557,516 million, due to the acquisition of property, plant and equipment.

Meanwhile, total liabilities decreased 7.0% compared with the previous fiscal year-end, to ¥340,649 million. Current liabilities fell 14.0%, to ¥141,685 million, due to payment of accounts payable—trade and other accounts payable. Non-current liabilities were down 1.2%, to ¥198,963 million, as a result of a decrease in liability for retirement benefits and other factors.

Furthermore, total equity increased 2.2% compared with the previous fiscal year-end, to ¥391,574 million, due to increases in retained earnings and other factors.

(3) Qualitative Information on Consolidated Performance Outlook

In regard to our full-year forecasts for the fiscal year ending March 31, 2019, there have been no revisions to the forecasts announced on May 10, 2018.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Consolidated Balance Sheets

(Millions of Yen)

	FY 2018/3 (As of March 31, 2018)	FY 2019/3, First Quarter (As of June 30, 2018)
ASSETS		
Current assets		
Cash and time deposits	15,064	15,119
Notes and accounts receivable–trade	42,833	33,093
Fares receivable	2,294	2,294
Securities	65,077	56,635
Merchandise and finished goods	15,024	15,720
Work in process	23,364	28,296
Raw materials and supplies	6,586	8,029
Other	30,272	15,607
Allowance for doubtful accounts	(115)	(90)
Total current assets	200,400	174,707
Non-current assets		
Property, plant and equipment		
Buildings and fixtures (net)	222,772	220,475
Machinery, rolling stock and vehicles (net)	20,928	20,836
Land	105,153	113,713
Lease assets (net)	10,726	10,376
Construction in progress	23,551	27,230
Other (net)	7,557	7,261
Net property, plant and equipment	390,690	399,894
Intangible assets	5,908	5,739
Investments and other assets		
Investment securities	22,687	23,904
Deferred tax assets	61,184	58,153
Net defined benefit assets	819	834
Money held in trust	55,783	56,946
Other	12,770	12,852
Allowance for doubtful accounts	(854)	(809)
Total investments and other assets	152,391	151,882
Total noncurrent assets	548,990	557,516
Total assets	749,391	732,223

(Millions of Yen)

	FY 2018/3 (As of March 31, 2018)	FY 2019/3, First Quarter (As of June 30, 2018)
LIABILITIES AND EQUITY		
Current liabilities		
Notes and accounts payable–trade	38,480	26,855
Short-term loans	4,528	4,545
Current portion of long-term debt	5,793	5,793
Payables	52,632	33,999
Accrued income taxes	8,047	1,098
Fare deposits received with regard to railway connecting services	1,597	1,321
Railway fares received in advance	5,319	6,279
Accrued bonuses	9,260	5,808
Other	39,065	55,983
Total current liabilities	164,724	141,685
Non-current liabilities		
Long-term debt	77,001	76,709
Allowance for safety and environmental measures	3,198	3,198
Allowance for disaster-damage losses	7,125	6,797
Liability for retirement benefits	63,426	62,307
Asset retirement obligations	1,545	1,540
Other	49,167	48,409
Total noncurrent liabilities	201,465	198,963
Total liabilities	366,190	340,649
EQUITY		
Common stock		
authorized, 640,000,000 shares; issued, 160,000,000 shares in 2016, 2015 and 2014	16,000	16,000
Capital surplus	234,270	234,270
Retained earnings (Deficit)	124,997	131,389
Total common stock	375,268	381,659
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	9,981	11,615
Gain (loss) on deferred hedges	(47)	123
Foreign currency translation adjustments	133	115
Defined retirement benefit plans	(8,171)	(7,920)
Total accumulated other comprehensive income	1,895	3,934
Non-controlling interests	6,037	5,980
Total equity	383,201	391,574
TOTAL LIABILITIES AND EQUITY	749,391	732,223

(2) Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Income Statements

Consolidated Cumulative First Quarter

(Millions of Yen)

	FY 2018/3, First Quarter (Three months ended June 30, 2017)	FY 2019/3, First Quarter (Three months ended June 30, 2018)
OPERATING REVENUES	94,619	98,909
OPERATING EXPENSES		
Transportation, other services and cost of sales	55,663	58,771
Selling, general and administrative expenses	22,223	24,070
Total operating expenses	77,887	82,841
OPERATING INCOME	16,731	16,067
NON-OPERATING INCOME		
Interest income	13	17
Dividend income	138	221
Gains on investment securities	—	545
Gain on assets held in trust	376	550
Other	135	146
Total non-operating income	665	1,481
NON-OPERATING EXPENSES		
Interest expense	163	218
Other	45	37
Total non-operating expenses	209	256
ORDINARY INCOME	17,187	17,292
EXTRAORDINARY GAINS		
Construction grants received	822	598
Other	127	19
Total extraordinary gains	949	617
EXTRAORDINARY LOSSES		
Losses from provision for cost reduction of fixed assets	757	592
Other	49	74
Total extraordinary losses	807	666
INCOME BEFORE INCOME TAXES	17,329	17,243
INCOME TAXES		
Current	1,258	1,614
Deferred	2,576	2,206
Total income taxes	3,835	3,820
NET INCOME	13,494	13,422
NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	△7	△8
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	13,502	13,431

Quarterly Consolidated Comprehensive Income Statements
Consolidated Cumulative First Quarter

(Millions of Yen)

	FY 2018/3, First Quarter (Three months ended June 30, 2017)	FY 2019/3, First Quarter (Three months ended June 30, 2018)
NET INCOME	13,494	13,422
OTHER COMPREHENSIVE INCOME		
Unrealized gain on available-for-sale securities	(470)	1,645
Gain (loss) on deferred hedges	—	170
Foreign currency translation adjustments	(3)	(21)
Defined retirement benefit plans	188	250
Total other comprehensive income	(286)	2,045
COMPREHENSIVE INCOME	13,208	15,468
TOTAL COMPREHENSIVE INCOME		
ATTRIBUTABLE TO:		
Owners of the parent	13,196	15,470
Non-controlling interests	12	(2)

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

None

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

None

(Additional Information)

Application of Partial Amendments to Accounting Standard for Tax Effect Accounting

As of the first quarter of FY2019/3, the Company has applied the Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018). As a result, deferred tax assets are now included under "Investments and other assets," and deferred tax liabilities are now included in the "Non-current liabilities" category for liabilities.

(Segment Information)

FY 2018/3, First Quarter (Three-Month Period Ended June 30, 2017)

Information Related to Operating Revenues and Income (Loss) by Segment

(Millions of Yen)

	Reportable Segment				Others (Note 1)	Total	Adjustment (Note 2)	Quarterly Consolidated Statements of Income (Note 3)
	Transportation	Construction	Real Estate	Retail and Restaurant				
Operating Revenues								
Outside Customers	42,501	3,894	16,986	24,837	6,399	94,619	—	94,619
Inside Group	1,173	7,152	1,520	76	6,912	16,834	(16,834)	—
Total	43,674	11,046	18,507	24,913	13,312	111,453	(16,834)	94,619
Segment income (loss)	9,789	(295)	6,301	857	196	16,849	(118)	16,731

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

2. The ¥118 million deduction from segment income (loss) reflects the elimination of intersegment transactions.

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

FY 2019/3, First Quarter (Three-Month Period Ended June 30, 2018)

Information Related to Operating Revenues and Income (Loss) by Segment

(Millions of Yen)

	Reportable Segment				Others (Note 1)	Total	Adjustment (Note 2)	Quarterly Consolidated Statements of Income (Note 3)
	Transportation	Construction	Real Estate	Retail and Restaurant				
Operating Revenues								
Outside Customers	42,376	5,451	12,654	25,413	13,013	98,909	—	98,909
Inside Group	1,261	6,992	1,801	79	7,250	17,385	(17,385)	—
Total	43,637	12,443	14,456	25,493	20,264	116,294	(17,385)	98,909
Segment income (loss)	9,325	(243)	5,612	716	812	16,223	(156)	16,067

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

2. The ¥156 million deduction from segment income (loss) reflects the elimination of intersegment transactions.

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

(Significant Subsequent Events)

Damage was sustained primarily by railway facilities due to heavy rain in July 2018. While we expect to incur repair and other expenses as a result, amount estimations cannot be rationally made at this time as we are currently investigating the details of this damage.