FY20.3
Semi-Annual Investors Meeting

November 6, 2019

Kyushu Railway Company

KYUSHU RAILWAY COMPANY

Contents

Highlights

Results For FY20.3 2Q

- Operating revenue up YoY due to increase in railway transportation revenue, etc.
- Consolidated operating income, ordinary income, and net income attributable to owners of the parent down due to elimination of special tax measures, higher depreciation in the railway business, etc.

Forecasts for FY20.3

- No revisions to consolidated financial forecasts (in regard to the breakdown of these forecasts, railway transportation revenue and operating revenue by segment have been revised)
- Operating revenue expected to increase due to higher railway transportation revenue, new hotel openings, etc.
- Net income attributable to owners of the parent expected to decline due to elimination of special tax measures, higher depreciation in the railway business, etc.

Status of Business Initiatives by Each Segment

- In the railway business, increase earning power in key fields—Shinkansen, urban area demand, inbound tourism demand
- In the related businesses, implement initiatives to increase the population in the areas around our railway lines by implementing strategic city-building initiatives in the regions around our business areas

Status of Consideration of Financial Strategy

- To strengthen our financial strategy, centered on the CFO, we are further enhancing our attention to feedback from investors and, at the same time, considering our capital policy and other matters.
- Revision of Shareholder Return Policy
- Implementation of share repurchases

Ⅰ. Financial Results for the Six-month Period Ended September 30, 2019

KYUSHU RAILWAY COMPANY

Consolidated Financial Highlights for the Six-Month Period Ended September 30, 2019

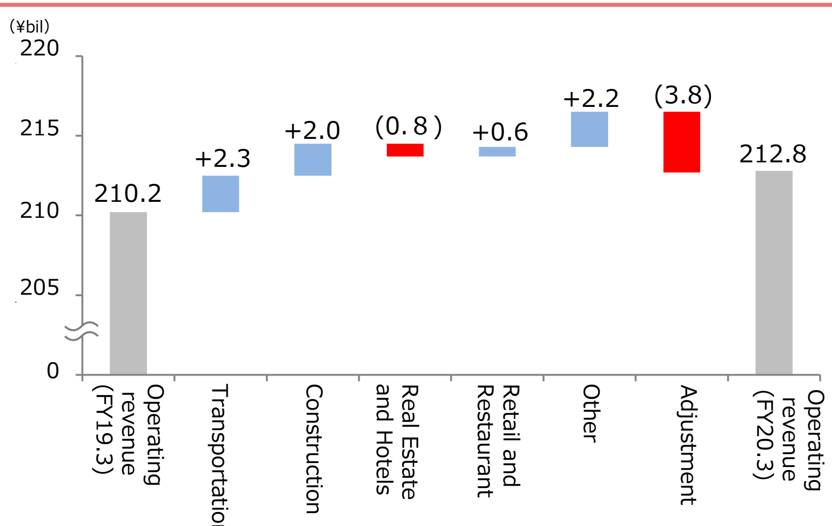
- Operating revenue up for the third consecutive year (record high)
- Operating income down for the first time in seven years
- Net income attributable to owners of the parent down for the first time in three years
- EBITDA down for the first time in three years

(¥bil)

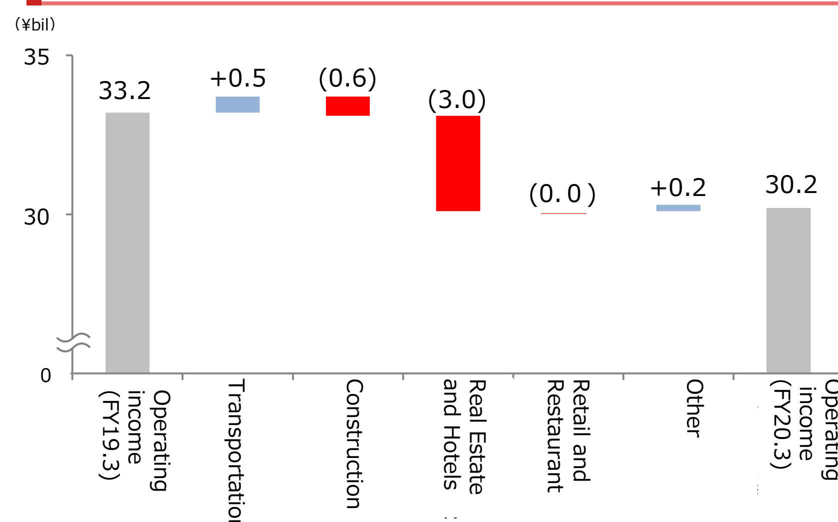
	6 months ended September 30, 2018	6 months ended September 30, 2019	YoY	
Operating revenue	210.2	212.8	2.6	101.3%
Operating income	33.2	30.2	(3.0)	90.9%
Ordinary income	35.0	31.0	(4.0)	88.5%
Net income attributable to owners of the parent	26.2	23.0	(3.2)	87.8%
EBITDA (※)	43.4	42.3	(1.0)	97.5%

Note: EBITDA = operating income + depreciation expense (excluding depreciation of leased assets held for subleasing purposes). The same applies hereafte.

Change in operating revenue by segment



Change in operating income by segment



Note: Figures for changes in operating revenue and EBITDA by segment are prior to eliminating intersegment transactions and therefore do not coincide with consolidated figures.

Consolidated Income Statements

(¥bil)

	6 months ended September, 30 2018	6 months ended September, 30 2019	YoY		Major factors
Operating revenue	210.2	212.8	2.6	101.3%	Increase in revenue from railway transportation, etc.
Operating expense	176.9	182.6	5.6	103.2%	Elimination of special tax measures (JR Kyushu) Increase in depreciation cost (JR Kyushu), etc.
Operating income	33.2	30.2	(3.0)	90.9%	
Non-operating income and expense	1.8	0.8	(1.0)	44.3%	Decline in gain on investment securities (JR Kyushu), etc.
Ordinary income	35.0	31.0	(4.0)	88.5%	
Extraordinary gain and loss	(1.0)	(0.8)	0.1	-	
Net income attributable to owners of the parent	26.2	23.0	(3.2)	87.8%	
EBITDA	43.4	42.3	(1.0)	97.5%	

Segment Information 【Summary】

(¥bill)

	6 months ended September 30, 2018	6 months ended September 30, 2019	YoY		Major factors
Operating revenues	210.2	212.8	2.6	101.3%	
Transportation	88.1	90.5	2.3	102.7%	
Railway Business (non-consolidated)	83.4	86.1	2.7	103.2%	Increase in revenue from railway transportation, increase due to change in revenue/expense classifications related to station buildings +1.2, etc.
Construction	32.5	34.6	2.0	106.2%	Increase in Shinkansen-related construction, etc.
Real Estate and Hotels	42.9	42.1	(0.8)	98.1%	
Real Estate Lease	26.3	27.4	1.0	104.1%	
Condominium Sales	8.5	6.5	(1.9)	76.5%	Decrease in revenue from sales of condominiums, etc.
Hotel Business	8.1	8.1	0.0	101.1%	
Retail and Restaurant	52.3	53.0	0.6	101.3%	
Other	34.3	36.5	2.2	106.6%	Increase in sales of construction materials, etc.
Operating income	33.2	30.2	(3.0)	90.9%	
Transportation	16.8	17.3	0.5	103.2%	
Railway Business (non-consolidated)	16.6	17.3	0.7	104.3%	Decrease due to elimination of special tax measures and increase in depreciation, increase due to change in revenue/expense classifications related to station buildings +2.7, etc.
Construction	0.9	0.2	(0.6)	28.8%	Increase in personnel costs and other expenses, etc.
Real Estate and Hotels	13.1	10.1	(3.0)	76.8%	
Real Estate Lease	10.9	8.9	(2.0)	81.7%	Decrease due to change in revenue/expense classifications related to station buildings（2.7）, etc.
Condominium Sales	0.8	0.6	(0.2)	69.5%	Decrease in revenue from sales of condominiums, etc.
Hotel Business	1.3	0.5	(0.7)	41.1%	Increase in opening preparation expenses, etc.
Retail and Restaurant	1.7	1.7	(0.0)	96.6%	
Other	0.8	1.1	0.2	127.1%	
EBITDA	43.4	42.3	(1.0)	97.5%	
Transportation	20.0	21.8	1.7	109.0%	
Railway Business (non-consolidated)	19.4	21.3	1.8	109.7%	
Construction	1.4	0.8	(0.5)	59.3%	
Real Estate and Hotels	18.1	15.5	(2.6)	85.7%	
Real Estate Lease	15.3	13.5	(1.7)	88.5%	
Condominium Sales	0.8	0.6	(0.2)	70.1%	
Hotel Business	1.9	1.4	(0.5)	70.7%	
Retail and Restaurant	2.5	2.5	(0.0)	96.6%	
Other	1.7	2.1	0.4	123.4%	

Note: Figures for 6 months ended September 30, 2019 have been reclassified with the new segment categories that took effect from April 1, 2019.

Balance Sheet and Cash Flow Statement

Balance Sheet

(¥bil)

	FY19.3	6 months ended September 30, 2019	Increase/(decrease)	Major Factors
Total Assets	801.4	806.9	5.4	
Cash and time deposits	16.9	18.3	1.4	
Short-tem securities	19.9	26.1	6.2	
Money held in trust	56.9	42.8	(14.0)	Decrease in redemption and sales of domestic bonds, etc.
Property, plant and equipment	461.3	490.4	29.0	
Railway business assets	71.6	70.5	(1.1)	
Interest-bearing debt	107.9	108.8	0.8	
Net assets	420.7	437.0	16.3	
Paid-in capital	249.9	249.9	0.0	
Capital and retained earnings	160.5	175.3	14.7	

Cash Flow Statement

(¥bil)

	6 months ended September 30, 2018	6 months ended September 30, 2019	Increase/(decrease)	Major Factors
Cash flows from operating activities	29.3	39.1	9.8	
Depreciation expenses	10.4	12.5	2.0	
Cash flows from investing activities	(16.9)	(22.4)	(5.5)	
Capital expenditures	(47.7)	(59.7)	(12.0)	
Free cash flow	12.4	16.6	4.2	
Cash flows from financing activities	(7.3)	(9.0)	(1.6)	
Cash and cash equivalents	69.4	44.5	(24.8)	

Non-consolidated Income Statements

(¥bil)

	6 months ended September 30, 2018	6 months ended September 30, 2019	YoY		Major Factors
Operating revenues	106.6	107.5	0.9	100.9%	
Railway transportation revenue	75.4	77.2	1.7	102.4%	Longer Golden Week holiday period, operations resumed on the Kyudai Main Line, etc.
Other revenue	31.1	30.2	(0.8)	97.2%	Decrease in revenue from sales of condominiums, etc.
Operating expense	80.4	83.2	2.8	103.5%	
Personnel expense	24.8	24.6	(0.2)	99.1%	
Non-personnel expense	45.3	45.2	(0.0)	99.8%	
Energy cost	4.6	4.7	0.0	101.5%	
Maintenance cost	13.3	13.3	(0.0)	99.6%	
Other	27.2	27.1	(0.0)	99.7%	Decrease in cost of sales of condominiums, increase due to elimination of special tax measures, etc.
Taxes	4.6	6.1	1.5	133.9%	Increase due to elimination of special tax measures, etc.
Depreciation cost	5.6	7.1	1.5	127.2%	
Operating income	26.1	24.2	(1.8)	92.7%	
Non-operating income and expense	7.8	5.8	(2.0)	74.4%	Decline in gains on investment securities, etc., decrease in dividend income, etc.
Ordinary income	34.0	30.1	(3.9)	88.5%	
Extraordinary gain and losse	(0.8)	(0.7)	0.0	-	Decrease in disaster expenses associated with heavy rain in July 2018 Increase in disaster expenses associated with seasonal rain front heavy rains in 2019, heavy rain in August 2019, typhoon No. 17, etc.
Net income	27.8	24.4	(3.4)	87.7%	

Railway Business

Railway Transportation Revenue

(¥bil)

	6 months ended September 30, 2018	6 months ended September 30, 2019	YoY		Major Factors
Total	75.4	77.2	1.7	102.4%	
Commuter pass	16.6	16.8	0.1	101.1%	
Non-commuter pass	58.7	60.3	1.6	102.8%	
Shinkansen	27.5	28.1	0.6	102.3%	・Basic trend (approx. 101%) ・Increase due to longer Golden Week holiday period ・Surge in demand due to the consumption tax hike
Commuter pass	1.3	1.4	0.0	104.2%	
Non-commuter pass	26.1	26.6	0.5	102.2%	
Conventional Lines	47.9	49.0	1.1	102.4%	・Basic trend (approx. 100%) ・Increase due to longer Golden Week holiday period ・Operations resumed on Kyudai Main Line (resumed on July 14, 2018)
Commuter pass	15.2	15.3	0.1	100.8%	
Non-commuter pass	32.6	33.6	1.0	103.2%	

Passenger-Kilometers

(Millions of passenger-kilometers)

	6 months ended September 30, 2018	6 months ended September 30, 2019	YoY	
Total	4,725	4,853	127	102.7%
Commuter pass	2,210	2,270	60	102.7%
Non-commuter pass	2,515	2,582	66	102.7%
Shinkansen	1,020	1,049	29	102.9%
Commuter pass	102	108	5	105.4%
Non-commuter pass	917	940	23	102.6%
Conventional Lines	3,705	3,804	98	102.6%
Commuter pass	2,107	2,162	55	102.6%
Non-commuter pass	1,598	1,641	43	102.7%

II. Forecasts for FY20.3

KYUSHU RAILWAY COMPANY

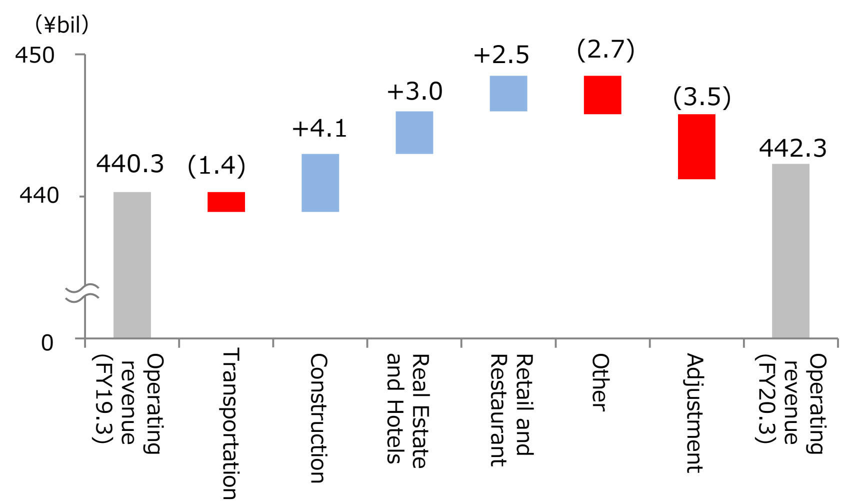
Consolidated Financial Highlights for FY20.3

(¥bil)

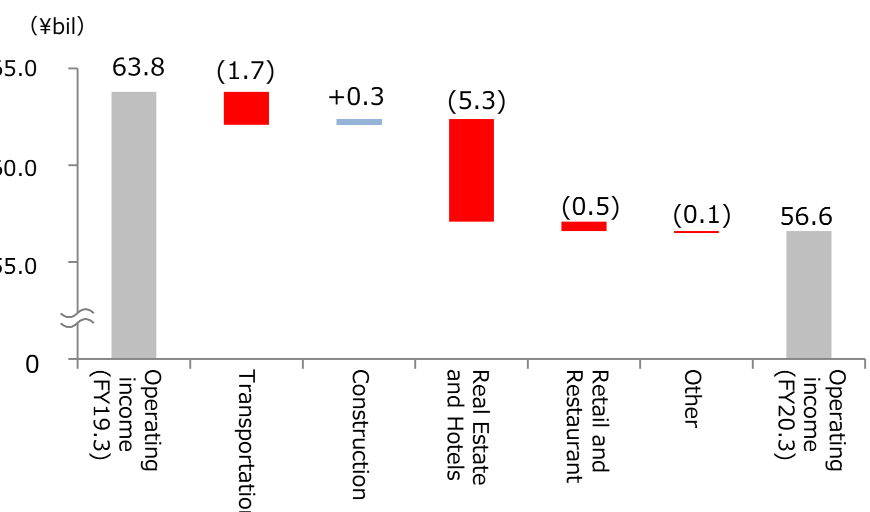
	Results FY19.3 A	Forecasts FY20.3 (8/5) B	Forecasts FY20.3 (11/5) C	C-A		C-B
Operating revenue	440.3	442.3	442.3	1.9	100.4%	-
Operating income	63.8	56.6	56.6	(7.2)	88.6%	-
Non-operating income and expen	66.5	57.2	57.2	(9.3)	86.0%	-
Net income attributable to owners of the parent	49.2	42.5	42.5	(6.7)	86.3%	-
EBITDA	85.4	82.3	82.3	(3.1)	96.4%	-

* From FY2020.3, the method of recording revenues/expenses related compensated construction work has changed.

Change in operating revenue by segment



Change in operating income by segment



Note: Figures for changes in operating revenue and EBITDA by segment are prior to eliminating intersegment transactions and therefore do not coincide with consolidated figures.

Consolidated Financial Forecasts (By Segment)

(¥bil)

	Results FY19.3 A	Forecasts FY20.3 (8/5) B	Forecasts FY20.3 (11/5) C	C-A		C-B	Major Factors (C-B)
Operating revenues	440.3	442.3	442.3	1.9	100.4%	-	
Transportation	181.8	180.4	180.4	(1.4)	99.2%	-	Increase in revenues from railway transportation, decrease in revenue from in hydrofoil ferry business due to worsening of Japan-South Korea relations, etc.
Railway Business (non-consolidated)	172.2	170.4	171.1	(1.1)	99.4%	0.7	
Construction	93.8	96.0	98.0	4.1	104.5%	2.0	Increase due to strong orders, etc.
Real Estate and Hotels	90.0	93.1	93.1	3.0	103.3%	-	
Real Estate Lease	53.9	54.8	54.8	0.8	101.7%	-	
Condominium Sales	19.7	19.8	19.8	0.0	100.1%	-	
Hotel business	16.4	18.5	18.5	2.0	112.7%	-	
Retail and Restaurant	104.0	107.7	106.6	2.5	102.5%	(1.1)	Decrease in sales at existing stores
Other	72.6	71.5	69.9	(2.7)	96.1%	(1.6)	Decrease due to transfer of financing subsidiary leasing business, etc.
Operating income	63.8	56.6	56.6	(7.2)	88.6%	-	
Transportation	27.4	25.7	25.7	(1.7)	93.7%	-	
Railway Business (non-consolidated)	26.7	24.5	25.2	(1.5)	94.1%	0.7	
Construction	6.2	6.3	6.6	0.3	104.9%	0.3	
Real Estate and Hotels	25.4	20.1	20.1	(5.3)	79.0%	-	
Real Estate Lease	20.6	16.6	16.6	(4.0)	80.2%	-	
Condominium Sales	2.3	1.9	1.9	(0.4)	79.4%	-	
Hotel business	2.3	1.6	1.6	(0.7)	68.1%	-	
Retail and Restaurant	3.4	3.2	2.9	(0.5)	85.0%	(0.3)	
Other	2.2	2.2	2.1	(0.1)	95.4%	(0.1)	
EBITDA	85.4	82.3	82.3	(3.1)	96.4%	-	
Transportation	34.3	35.4	35.4	1.0	103.1%	-	
Railway Business (non-consolidated)	32.8	33.0	33.7	0.8	102.6%	0.7	
Construction	7.2	7.3	7.4	0.1	101.8%	0.1	
Real Estate and Hotels	35.6	31.1	31.1	(4.5)	87.3%	-	
Real Estate Lease	29.5	25.6	25.6	(3.9)	86.7%	-	
Condominium Sales	2.4	1.9	1.9	(0.5)	79.0%	-	
Hotel business	3.7	3.6	3.6	(0.1)	96.9%	-	
Retail and Restaurant	5.0	5.1	4.7	(0.3)	92.5%	(0.4)	
Other	4.1	4.3	4.5	0.3	107.4%	0.2	

Note: Figures for FY19.3 have been reclassified with the new segment categories that took effect from April 1, 2019.

Non-consolidated Financial Forecasts

(¥bil)

	Results FY19.3 A	Forecasts FY20.3 (8/5) B	Forecasts FY20.3 (11/5) C	C-A		C-B
Operating revenues	221.9	220.4	221.1	(0.8)	99.6%	0.7
Railway transportation revenues	151.4	152.8	153.5	2.0	101.3%	0.7
Shinkansen	54.9	55.7	55.7	0.7	101.4%	-
Conventional Lines	96.5	97.1	97.8	1.2	101.3%	0.7
Other revenues	70.4	67.6	67.6	(2.8)	96.0%	-
Operating expenses	176.1	181.5	181.5	5.3	103.0%	-
Personnel expenses	49.7	49.1	49.1	(0.6)	98.7%	-
Non-personnel expenses	106.5	106.1	106.1	(0.4)	99.6%	-
Energy costs	9.4	9.6	9.6	0.1	101.8%	-
Maintenance costs	37.2	32.6	32.6	(4.6)	87.5%	-
Other	59.8	63.9	63.9	4.0	106.7%	-
Taxes	8.0	11.1	11.1	3.0	137.6%	-
Depreciation costs	11.8	15.2	15.2	3.3	128.4%	-
Operating income	45.7	38.9	39.6	(6.1)	86.6%	0.7
Non-operating income and expenses	8.0	4.8	4.8	(3.2)	59.6%	-
Ordinary income	53.7	43.7	44.4	(9.3)	82.6%	0.7
Extraordinary gains and losses	(0.9)	(0.2)	(0.2)	0.7	-	-
Net income	44.2	36.2	36.7	(7.5)	82.9%	0.5

Ⅲ STATUS OF BUSINESS INITIATIVES BY EACH SEGMENT

KYUSHU RAILWAY COMPANY

Transportation Segment

Transportation Segment performance

In FY20.3, we are expecting growth in railway transportation revenue, and the method of recording revenue and expenses for station buildings, etc., has been changed. On the other hand, we expect compensated construction work revenue to decline and depreciation to increase. As a result, we are forecasting lower revenue and income.

(¥bil)

	Results: 6 months ended September 30, 2018	Results: 6 months ended September 30, 2019	YoY		Forecasts FY20.3	YoY		FY22.3 (the Medium-Term Business Plan)
Operating revenue	88.1	90.5	2.3	102.7%	180.4	(1.4)	99.2%	184.0
Operating income	16.8	17.3	0.5	103.2%	25.7	(1.7)	93.7%	21.0
EBITDA	20.0	21.8	1.7	109.0%	35.4	1.0	103.1%	-

Positive factors

Increase in railway transportation revenue
- Rise in Shinkansen passengers
- Online booking
- Inbound tourism
- Urban area demand

Technological innovation and streamlined business operations
- Introduced energy-saving rolling stock
- Expanded Smart Support Stations

Revitalization of regional economies
- New D&S trains
- Nagasaki route of the Kyushu Shinkansen

Negative factors

Depopulation
- Decrease in conventional line Passengers

Increase in expenses
- Depreciation expense
- Fuel costs (crude oil, FX, etc.)
- Elimination of special tax measures (end of FY19.3)

Natural disasters
- Recovery costs
- Steady implementation of further safety investments

FY20.3 initiatives

Increase in railway transportation revenue
- Enhance yield management
- Diversifying rail pass sales channels

Recover from disasters
- Houhi Main Line recovery (planned for FY21.3)

Technological innovation and streamlined business operations
- Introduce energy-saving train
- Expand Smart Support Stations
- Taking on the challenge of new mobility services (Maas)

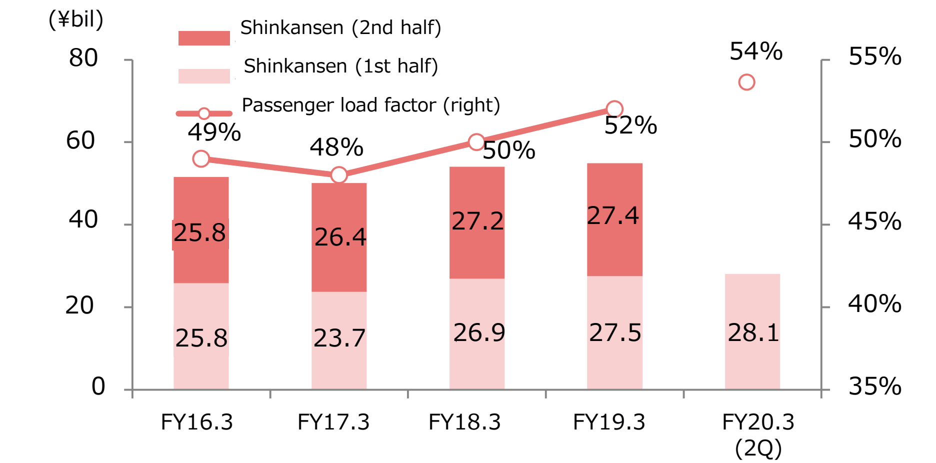
Initiatives in the Railway Business —Strengthening Earning Power

Increasing Shinkansen earning power

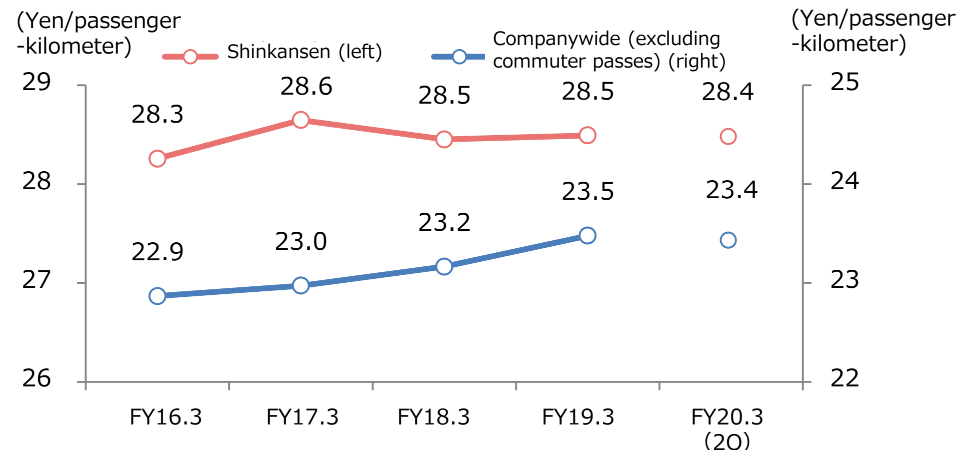
Accelerate shift toward Internet reservations

- Promoting use of Internet train reservation services by setting appealing prices

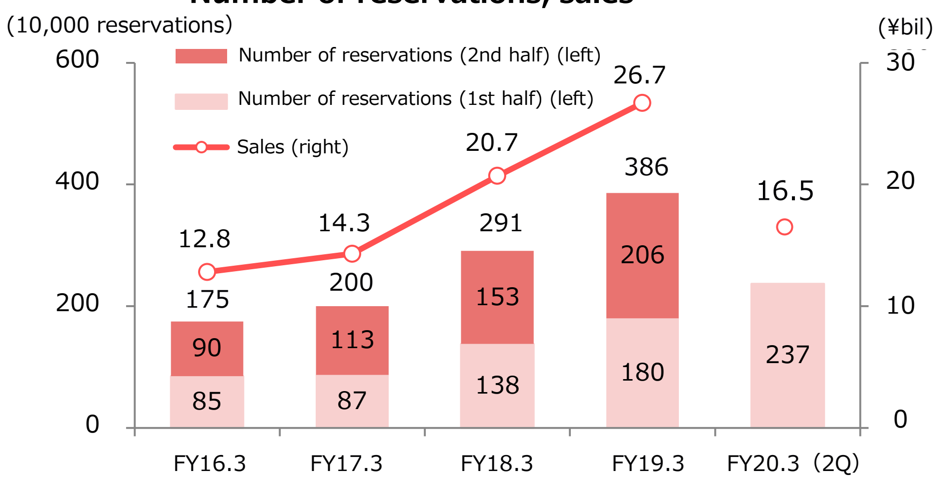
Railway transportation revenue (Shinkansen), passenger load factor on the Kyushu Shinkansen (Hakata－Kumamoto)



Yield (Companywide (excluding commuter passes), Shinkansen)



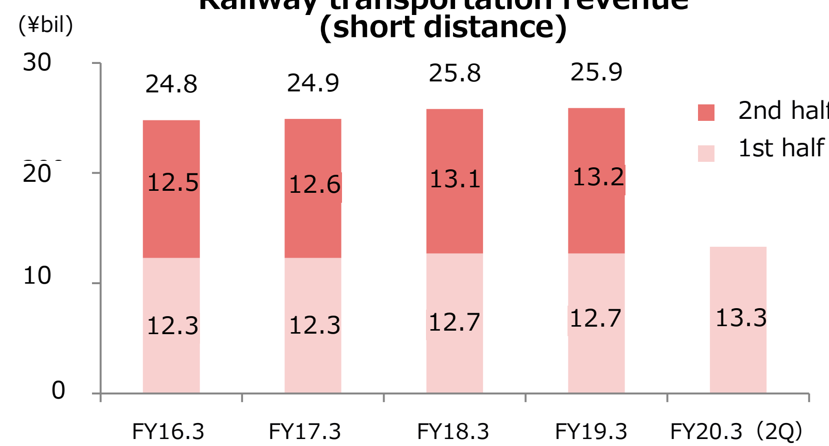
Internet train reservation services: Number of reservations, sales



Increasing short-distance earning power

- Extending the lively atmosphere with new city-building initiatives that draw on stations as bases

Railway transportation revenue (short distance)



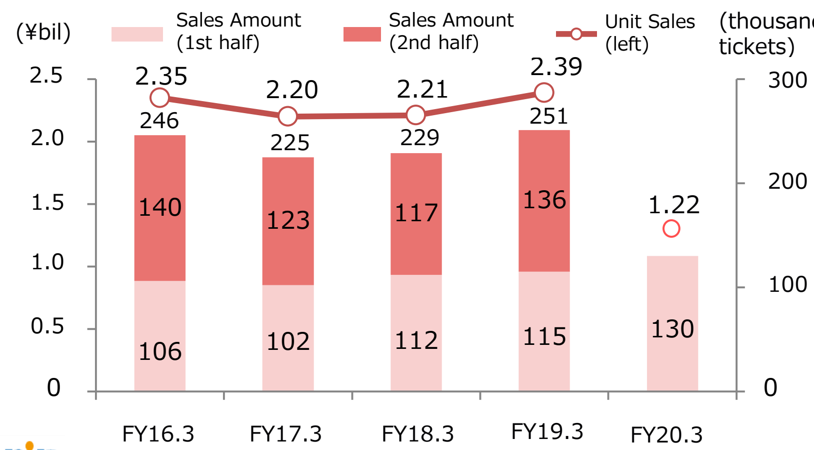
Initiatives in the Railway Business
—Strengthening Earning Power

Increasing inbound tourism earning power

Aggressive initiatives for inbound demand based on collaboration with external parties

- Collaboration with airlines
  - (ANA) PR initiative for "Design & Story" trains through "Japan Travel Planner"
    Launch of "ANA & JR KYUSHU RAIL PASS" (September 2019)
  - (JAL) "Hakata～Huis Ten Bosch" added to "JR Kyushu Free Kippu Tokuten" as optional service for "Dokokani Mile" (September 2019)
  - (AirAsia) Collaboration with objective of mutual tourism promotion
- Expansion of sales channels
  - Strategic alliance with Alibaba Group (August 2018)
  - Start of collaboration with Ctrip, a Chinese online travel company (October 2019)

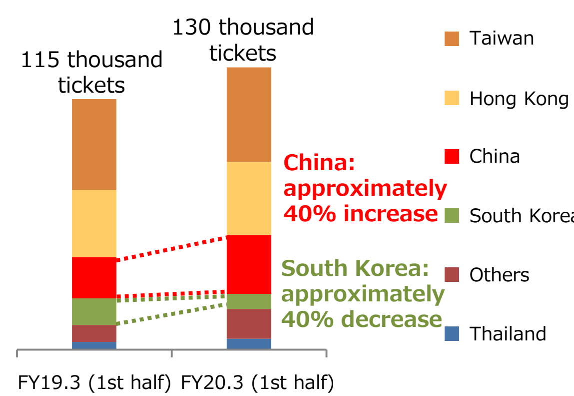
Sales Amount and Unit Sales of JR-KYUSHU RAIL PASS



Influence on inbound demand from the worsening of Japan-South Korea relations

- Unit sales of JR KYUSHU RAIL PASS, up 10% year on year, due to higher sales to tourists from China.
- In hydrofoil ferry operations, the passenger load factor has declined substantially since July, and accordingly the results forecast was revised downward.
- In the hotel, retail and restaurant businesses, South Korean tourists account for a small share of sales, and the effect on results has been minimal.

Sales of JR-KYUSHU RAIL PASS by country



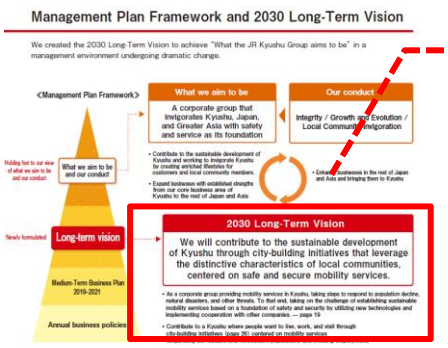
Initiatives in the Railway Business —Strengthening Earning Power

Taking on the challenge of new mobility services (MaaS)

Changes in the transportation services operating environment

- Increasing importance of public transportation (declining birthrate and aging population; declining population; increasing number of tourists, centered on inbound tourists; increasing opportunities to reduce environmental burdens)
- Technical innovation in mobility (CASE)
- National transportation policy (from competition to collaboration and cooperation)
- Labor shortage (serious labor shortage in transportation industry)

JR Kyushu Group Medium-Term Business Plan 2019-2021



2030 Long-Term Vision
<u>"Taking on the challenge of establishing sustainable mobility services based on a foundation of safety and security by utilizing new technologies and implementing cooperation with other companies"</u> (excerpt)

Advancing initiatives with other transportation companies

Business alliances with a focus on rolling out seamless mobility services

- Conclusion of business alliance agreement with DAIICHI KOUTSU SANGYO Co., Ltd. (May 2019)
- Collaboration with "MaaS Japan," which is led by Odakyu Electric Railway Co., Ltd. (May 2019)
- **<u>Conclusion of business alliance agreement with Nishi-Nippon Railroad Co., Ltd. (October 2019)</u>**

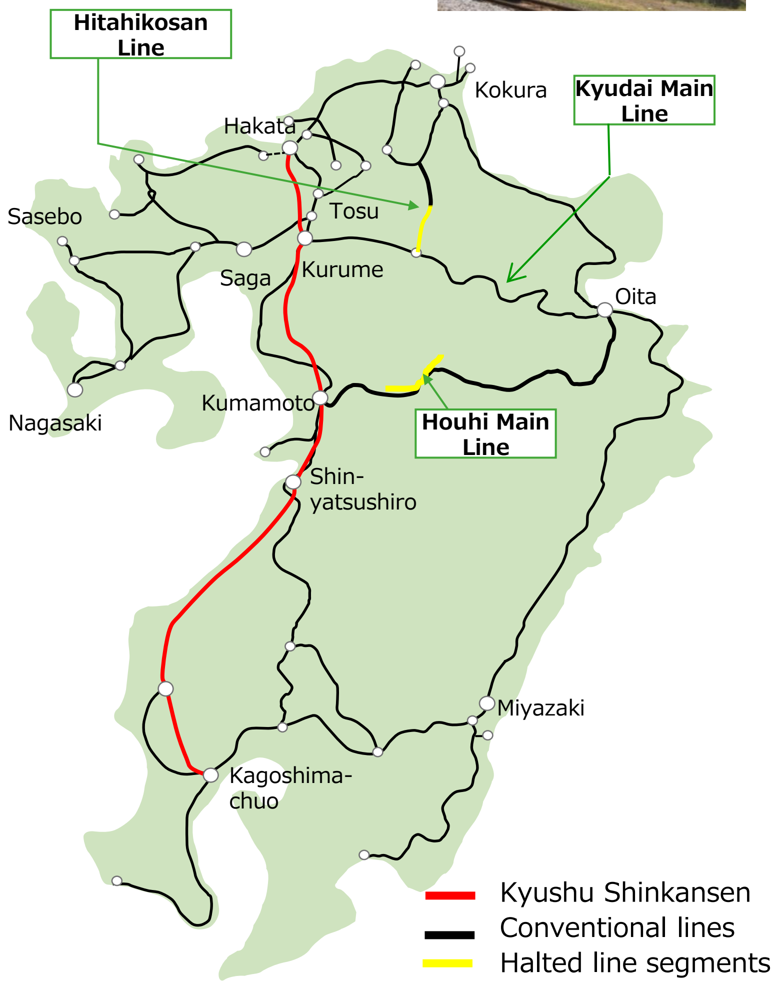
1. Collaboration in the MaaS field
   [Example] Providing new services through MaaS app that leverages collaboration between both companies
2. Provision of transportation services that promote the use of public transportation
   [Example] Increasing convenience of transfers between buses and trains (consideration of signs, mutual provision of operational information, and schedules that contribute to the promotion of the use of transfers)
   * Make full use of both companies' transportation services and provide public transportation services that meet customer needs
3. Realizing transportation services that utilize new technologies to increase the convenience of public transportation
   [Example] Utilizing big data and providing new mobility services

Initiatives in new technologies

Announcement of details related to the Company's study of self-driving trains in an MLIT committee studying self-driving technologies for railways

Status of Natural Disasters

Recovery of Kyudai Main Line achieved on July 14, 2018



	Kumamoto earthquakes	July 2017 heavy rain in northern Kyushu	Heavy rains and typhoons
Time of occurrence	April 2016	July 2017	June 2019 to September 2019
Impact on business performance	• Approx. ¥9.0 billion in disaster expenses recorded in FY17.3 (approx. ¥6.0 billion of which recorded as provision for loss on disaster)	• Approx. ¥1.7 billion in disaster expenses recorded in FY18.3 (¥1.3 billion of which recorded as provision for loss on disaster)	• Approx. ¥1.4 billion in disaster expenses recorded in FY20.3 (¥1.2 billion of which recorded as provision for loss on disaster)
Currently halted line segments	• Houhi Main Line (Higo-Ozu Station.Aso Station)	• Hitahikosan Line (Soeda Station–Yoake Station)	-
Expected restoration	• FY21.3	• Not yet determined	-

Status of progress toward restoration of Hitahikosan Line

- Held four restoration meetings between April 2018 and April 2019
- In regard to network maintenance, JR Kyushu presented a restoration plan regarding railways, BRT, and buses.
- Local governments in areas around our railway lines are holding briefings to explain the restoration plan, etc., to residents in local areas.

	Railway	BRT	Buses
Quickness	Approx. 44 minutes	Approx. 49 minutes	Approx. 69 minutes
Initial costs	Approx. ¥5.6 billion	Approx. ¥1.08 billion	Approx. ¥0.18 billion
Running costs	Approx. ¥0.29 billion per year	Approx. ¥0.11 billion per year	Approx. ¥0.14 billion per year

(Extracted from materials of the fourth Hitahikosan Line restoration meeting)

Real Estate and Hotels Segment

Real Estate and Hotels Segment performance

In FY20.3, we have opened THE BLOSSOM HIBIYA and THE BLOSSOM HAKATA Premier, and the method of recording revenue and expenses for station buildings, etc., has been changed. As a result, we are forecasting higher revenue and lower income.

Results / **Forecasts** (¥bil)

	6 months ended September 30, 2018	6 months ended September 30, 2019	YoY		Forecasts FY20.3	YoY		FY22.3 (the Medium-Term Business Plan)
Operating revenues	42.9	42.1	(0.8)	98.1%	93.1	3.0	103.3%	113.0
Real Estate Lease	26.3	27.4	1.0	104.1%	54.8	0.8	101.7%	-
Condominium Sales	8.5	6.5	(1.9)	76.5%	19.8	0.0	100.1%	-
Hotel Business	8.1	8.1	0.0	101.1%	18.5	2.0	112.7%	-
Operating income	13.1	10.1	(3.0)	76.8%	20.1	(5.3)	79.0%	24.0
Real Estate Lease	10.9	8.9	(2.0)	81.7%	16.6	(4.0)	80.2%	-
Condominium Sales	0.8	0.6	(0.2)	69.5%	1.9	(0.4)	79.4%	-
Hotel Business	1.3	0.5	(0.7)	41.1%	1.6	(0.7)	68.1%	-
EBITDA	18.1	15.5	(2.6)	85.7%	31.1	(4.5)	87.3%	-
Real Estate Lease	15.3	13.5	(1.7)	88.5%	25.6	(3.9)	86.7%	-
Condominium Sales	0.8	0.6	(0.2)	70.1%	1.9	(0.5)	79.0%	-
Hotel Business	1.9	1.4	(0.5)	70.7%	3.6	(0.1)	96.9%	-

Positive Factors

- Growth in tenant sales at major station buildings
- Contribution to earnings from hub station area development
- Increase in rental apartment inventory
- Aggressive business development initiatives in the hotel business
- Diverse business opportunities in the Fukuoka Metropolitan Area

Negative factors

- Difficulties in new development due to overheating of real estate market
- Change in unit prices due to condominium development area
- Increase in personnel costs due to tight supply and demand in labor market
- Intensifying competition due to advances outside the Kyushu area

FY20.3 initiatives

- Steady operation of newly opened properties
  - THE BLOSSOM HIBIYA
  - THE BLOSSOM HAKATA Premier
- Advancing development focused on the future
  - Miyazaki Station West Entrance Development and Kumamoto Station Area Development
- Increasing management efficiency through the establishment of intermediate holding companies

Implementing Strategic City-Building Initiatives in the Regions Around our Business

Advancing initiatives to maximize city value through further development in the Hakata Station area

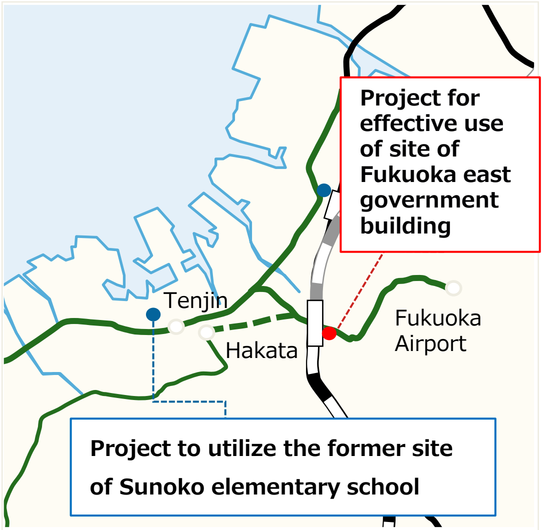
- Station building operation that leverages leasing capabilities
- Condominium business development that leverages brand strength
- Increasing the value of areas around our railway lines, centered on stations

Center area of Fukuoka

Commercial complex / Office Leasing
Condominiums
Rental apartments
Hotels

Implementing Strategic City-Building Initiatives in the Regions Around our Business

In Fukuoka Prefecture /City open recruitment, the Company was selected as a holder of preferred negotiating rights



Project for effective use of site of Fukuoka east government building

Site area: Approximately 2,639m²
Total floor space: Approximately 18,700 m²
Floors: B1-11
Use: Offices, commercial facilities, parking
Opening: Spring 2024 (planned)
Partners: FUKUOKA JISHO CO.,LTD., ASO CORPORATION

Project to utilize the former site of Sunoko elementary school

Location: 3-chome, Otemon, Chuo-ku, Fukuoka City
Ground area: approximately 8,500 m²; total floor space (senior citizen facility): Approximately 12,700 m²
Floors (senior citizen facility building): 13
Use: Hospital, senior citizens facility, gym
Opening: January 2024 (planned)
Partners: Sakurajyuji Co., Ltd. and six other companies

Large-scale Fukuoka City project — Hakata Connected

Project area	Approximately 80 ha *Radius around Hakata Station of about 500 m
Major deregulation	Hakata Connected Bonus (relaxation of regulation regarding ratio of total floor area to site area) (1) Buildings that contribute to enhancing the lively atmosphere → Maximum of 50% (2) Open space evaluation → Maximum of 2.5 times
Target	Guidance for reconstruction of 20 buildings over 10 years
Limited time period	Buildings planned for completion in 2029

博多コネクティッド

System for relaxation of existing regulation regarding ratio of total floor area to site area

✚

New incentives

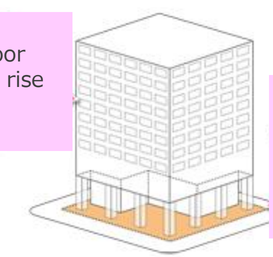
Maximum ratio of 50%

Items

- High-quality, high-value-added buildings
- Provision of tenant relocation floors

* Special issue resolution in Hakata Station area (Hakata Connected limited time period)

Securing floor space in high rise sections



Maximum of 2.5 times for open space evaluation, even for open spaces with roofs, etc.

Status of Progress with Development Projects

Implementing active business development in the Fukuoka Metropolitan Area

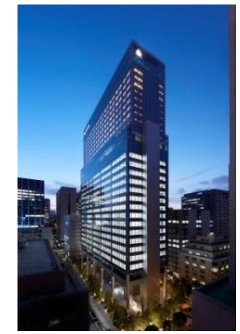
Hakata Eki-mae 2-chome Complex (THE BLOSSOM HAKATA Premier)

Site area: approximately 1,590 m^2;
Total floor space: approximately 15,300 m^2
Floors: B1-14 (hotel floors: 4-14)
Uses: Hotel, commercial facilities, offices
Total rooms: 238
Opening: September 25, 2019

Growth and evolution in new areas

THE BLOSSOM HIBIYA

***Joint development with NTT Urban Development Corporation**
Floors: 18-27 (hotel floors)
Total rooms: 255
Opening: August 20, 2019



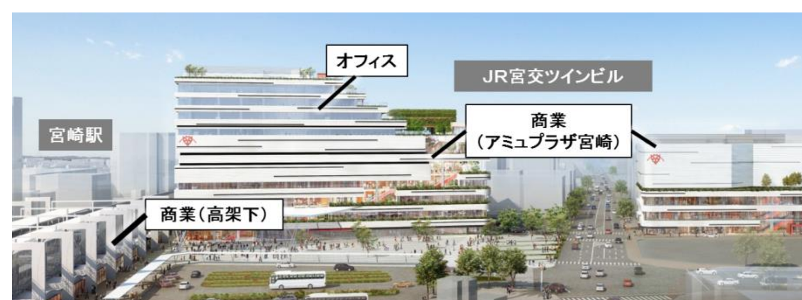
Increasing City Value with Stations as Bases

Kumamoto Station Area Development (Opening in Spring 2021)

Lot area: 70,000m^2 (including area below elevated tracks)
Total floor space: 109,000m^2 (station building: same scale as JR Oita City)
Uses: Commercial areas (station building, etc.), hotels, residential areas
* Start of construction, tenant leasing, etc., for Kumamoto Station Building (provisional name; commercial facilities, hotel facilities, etc.) and Kumamoto Station North Building (provisional name; offices)

Miyazaki Station West Entrance Development (Opening in Fall 2020)

JR Miyako Twin Building (joint development with Miyakohgroup)
Lot area: Approx. 7,300 m^2
Total floor space: Approx. 37,700 m^2
Uses: Commercial areas (station building, etc.), office buildings, etc.
* Selected the company that will open the cinema complex that will be the core facility at AMU PLAZA Miyazaki



Retail and Restaurant Segment

Retail and Restaurant Segment performance

In FY20.3, we will strengthen initiatives for inbound demand, but we also anticipate increases in personnel costs, etc. Consequently, we are forecasting higher revenue and lower income. We will continue to implement profitability management through scrap-and-build initiatives. In addition, we will reduce costs through introducing self-checkout registers and the use of RPA, etc.

Results

	6 months ended September 30, 2018	6 months ended September 30, 2019	YoY	
Operating revenue	52.3	53.0	0.6	101.3%
Operating income	1.7	1.7	(0.0)	96.6%
EBITDA	2.5	2.5	(0.0)	96.6%

Forecasts

(¥bil)

	Forecasts FY20.3	YoY		FY22.3 (the Medium-Term Business Plan)
Operating revenue	106.6	2.5	102.5%	115.0
Operating income	2.9	(0.5)	85.0%	4.0
EBITDA	4.7	(0.3)	92.5%	-

Positive factors

- Active development of new stores
- Increase in store visits and spending due to inbound tourism
- Entry into new business categories
- Leveraging new technologies to increase convenience

Negative factors

- Increase in personnel costs due to tight supply and demand in labor market
- Decrease in new opportunities due to concern over store conditions
  - Hard to acquire new properties
  - Drop in gross margin
  - Closure of unprofitable stores

FY20.3 initiatives

- Improve segment profitability through scrap and build
- Continue to strengthen inbound tourism initiatives
- Steady operation of new formats
- Streamline business operations
  - Introduce self-checkout on a trial basis
  - Consider RPA

Construction Segment

Construction Segment performance

In FY20.3, the segment will benefit from higher demand due to favorable market conditions, and we will work to increase external sales. However, there are also a significant number of factors that will affect profits, such as higher prices for construction materials. We expect the Construction segment to record higher revenue and profits as a result of our efforts to steadily implement construction work and to reduce expenses.

Results / Forecasts

(¥bil)

	Results: 6 months ended September 30, 2018	Results: 6 months ended September 30, 2019	YoY		Forecasts FY20.3	YoY		FY22.3 (the Medium-Term Business Plan)
Operating revenue	32.5	34.6	2.0	106.2%	98.0	4.1	104.5%	98.0
Operating income	0.9	0.2	(0.6)	28.8%	6.6	0.3	104.9%	6.0
EBITDA	1.4	0.8	(0.5)	59.3%	7.4	0.1	101.8%	-

Positive factors

- Increase in demand due to strong economic conditions
- Ample order opportunities (Hokuriku and Nagasaki Shinkansen, etc.)

Negative factors

- Increase in personnel costs due to tight supply and demand in labor market
- Rise in building material costs
- Drop in profit margin due to intensifying competition

FY20.3 initiatives

- Increase ex-group orders
- Accelerate expansion outside of Kyushu

Other Segment

Other Segment performance

Caterpillar Kyushu, which was acquired by the Company, continues to record solid results, but in FY20.3 the forecast is for lower sales and profits due to a decline in construction material revenue from business related to elevated railway track construction and to other factors.

Results / Forecasts

(¥bil)

	Results: 6 months ended September 30, 2018	Results: 6 months ended September 30, 2019	YoY		Forecasts FY20.3	YoY		FY22.3 (the Medium-Term Business Plan)
Operating revenues	34.3	36.5	2.2	106.6%	69.9	(2.7)	96.1%	76.0
Operating income	0.8	1.1	0.2	127.1%	2.1	(0.1)	95.4%	2.5
EBITDA	1.7	2.1	0.4	123.4%	4.5	0.3	107.4%	-

Positive factors

- Group synergies achieved by consolidating Caterpillar Kyushu

Negative factors

- Increase in personnel costs due to tight supply and demand in labor market

FY20.3 initiatives

- Achieve group synergies by consolidating Caterpillar Kyushu

Ⅳ STATUS OF CONSIDERATION OF FINANCIAL STRATEGY

KYUSHU RAILWAY COMPANY

Status of Consideration of Financial Strategy

Background

- Since our listing, we have implemented a variety of initiatives in governance, financial strategy, and IR activities
- To further strengthen our management base, CFO role was clarified and additional outside directors were appointed in June 2019
- In consideration of the fact that the shareholder proposals from Fir Tree received a certain level of approval and of the dialogs that were subsequently conducted with shareholders / investors, we have seriously considered our financial strategy from the perspective of increasing corporate value
- Due in part to historical factors, we recognize that excess capital on our balance sheet is an issue, and we will strive to work toward optimal capital structure

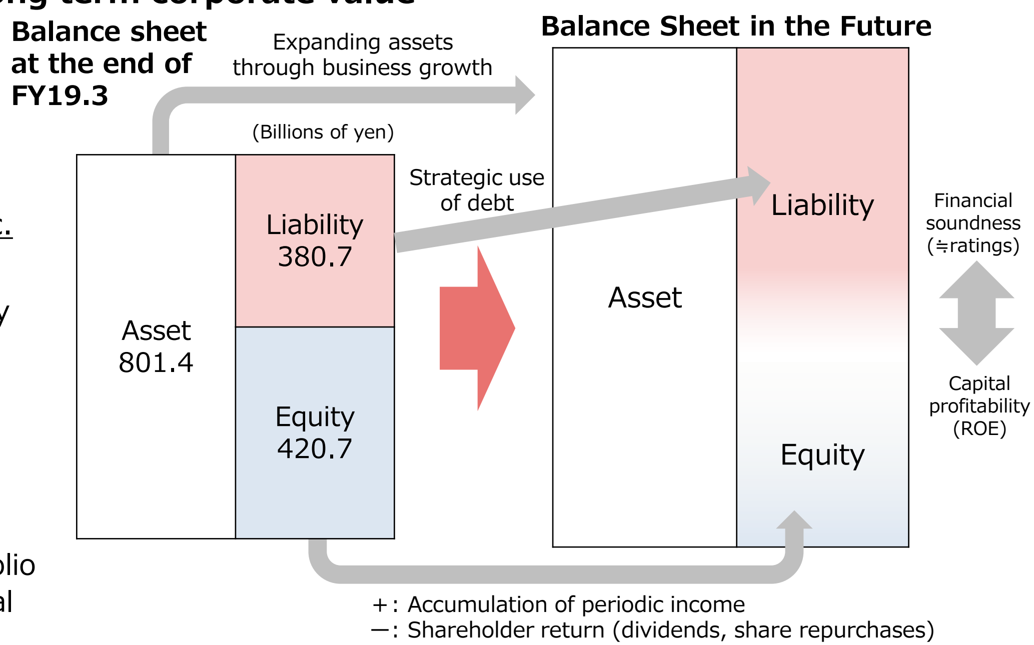
Financial strategy

Through emphasizing both business and financial strategies, we will aim for sustainable growth and increases in mid-to-long term corporate value

Business strategy

Growth investment, increased efficiency, etc.

- Increase earning power / productivity in the railway business
- Growth in the real estate business, centered on station buildings, condominiums, etc.
- Review of business portfolio (leasing business, hospital restructuring, etc.)



Financial strategy

Capital restructuring with a focus on D/E ratio

- Maintain financial soundness to address future changes in the business environment
- Consider a capital restructuring utilizing debt in order to increase mid-to-long term corporate value while maintaining financial soundness

Work on capital restructuring while strengthening (changing) shareholder return policy, centered on asset expansion through business growth

Revision of Shareholder Return Policy

Shareholder Return Policy

(Before revision)

JR Kyushu places importance on the stable provision of returns to shareholders over the long term

Over the period to FY2022.3, **we will aim for a total payout ratio of 35% while providing stable dividends and implementing share repurchase depending on the situation**

(After revision)

JR Kyushu places importance on providing stable provision of returns to shareholders over the long-term

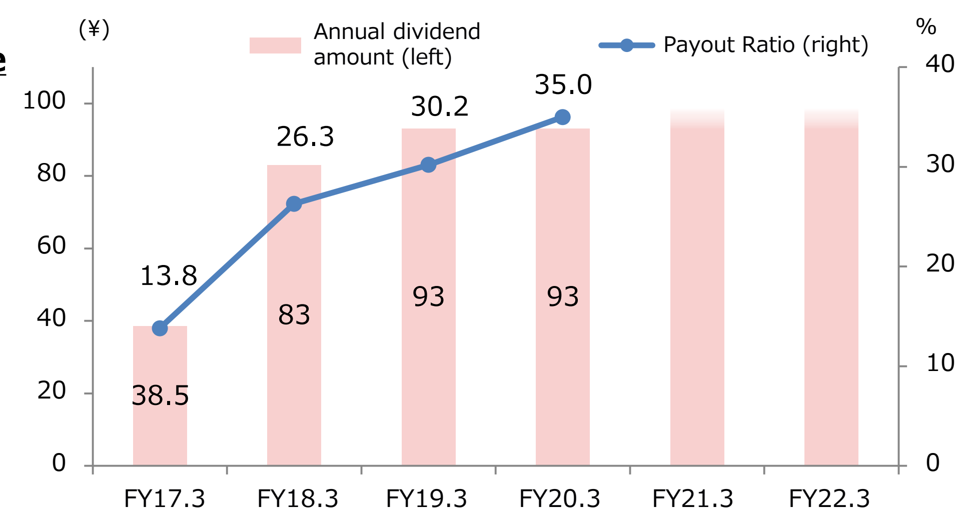
For each fiscal year through FY2022/3, **we will aim for a dividend payout ratio of 35%, with minimum dividend per share of ¥93.0. Additionally, we will implement a share repurchase to increase capital efficiency opportunistically**

Trends in dividends per share (¥) and payout ratio

For FY20.3, we are planning for **¥93 dividend per share**

* For FY19.3, interim dividends were ¥46.50 per share

	Annual Dividend Amount per Share	Consolidated payout ratio
FY19.3	¥93	30.2%
FY20.3 (Planned)	¥93	35.0%



* For half fiscal year

Share Repurchases

Reasons for share repurchases

In order to enhance shareholder returns and to increase capital efficiency under the new shareholder return policy

- Further enhancement of shareholder returns as one of the important management measures
- Aiming to achieve optimal capital structure by further leveraging and adjusting capital base to improve capital efficiency while maintaining financial soundness
- Utilize funds raised through the issuance of bonds (plan for ¥20.0 billion in December) and the sale of business (leasing business, etc.) as a source of funds for the share repurchases

Details of matters related to share repurchases

- Type of shares to be repurchased: Share of common stock of JR Kyushu
- Total number of shares to be repurchased: 3.2 million shares (upper limit)
  (Percentage of issued shares (excluding treasury stock): 2.0%)
- Total purchase cost for shares: ¥10.0 billion (upper limit)
- Repurchase period: November 6, 2019, through March 31, 2020

We will continue to consider and implement share repurchases while considering various factors

APPENDIX

KYUSHU RAILWAY COMPANY

Creation of 2030 Long-Term Vision

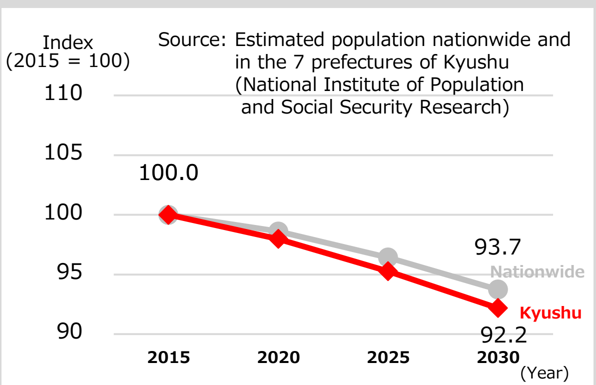
- We created the 2030 Long-Term Vision in a management environment undergoing dramatic change.

2030 Long-Term Vision

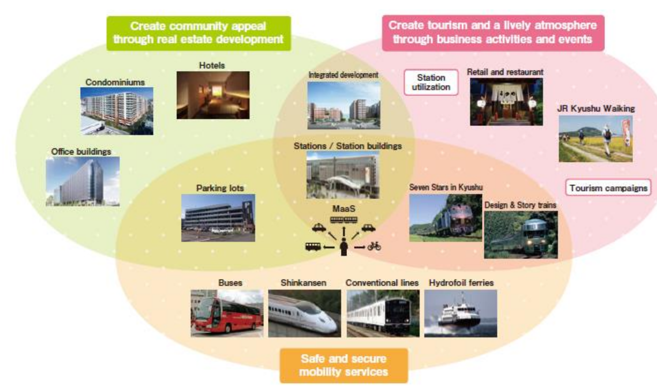
We will contribute to the sustainable development of Kyushu through city-building initiatives that leverage the distinctive characteristics of local communities, centered on safe and secure mobility services.

- As a corporate group providing mobility services in Kyushu, taking steps to respond to population decline, natural disasters, and other threats. To that end, taking on the challenge of establishing sustainable mobility services based on a foundation of safety and security by utilizing new technologies and implementing cooperation with other companies.
- Contribute to a Kyushu where people want to live, work, and visit through city-building initiatives centered on mobility services (expanding the resident and nonresident populations and creating employment)

Declining population in Kyushu, where the pace of the decline exceeds that in the nationwide population



Initiatives to increase the population in areas around our railway lines



2030 Long-Term Vision

Negative factors

- Elimination of special tax measures
- Increase in depreciation due to rebound from impairment processing of railway assets
- Ongoing decline in passenger demand in regional areas
- Ongoing shift to the use of personal cars (spread of self-driving vehicles, etc.)
- Trend toward refraining from using railways and visiting commercial facilities due to the ongoing shift to e-commerce
- Intensifying competition due to new advances by competing commercial facilities, etc.

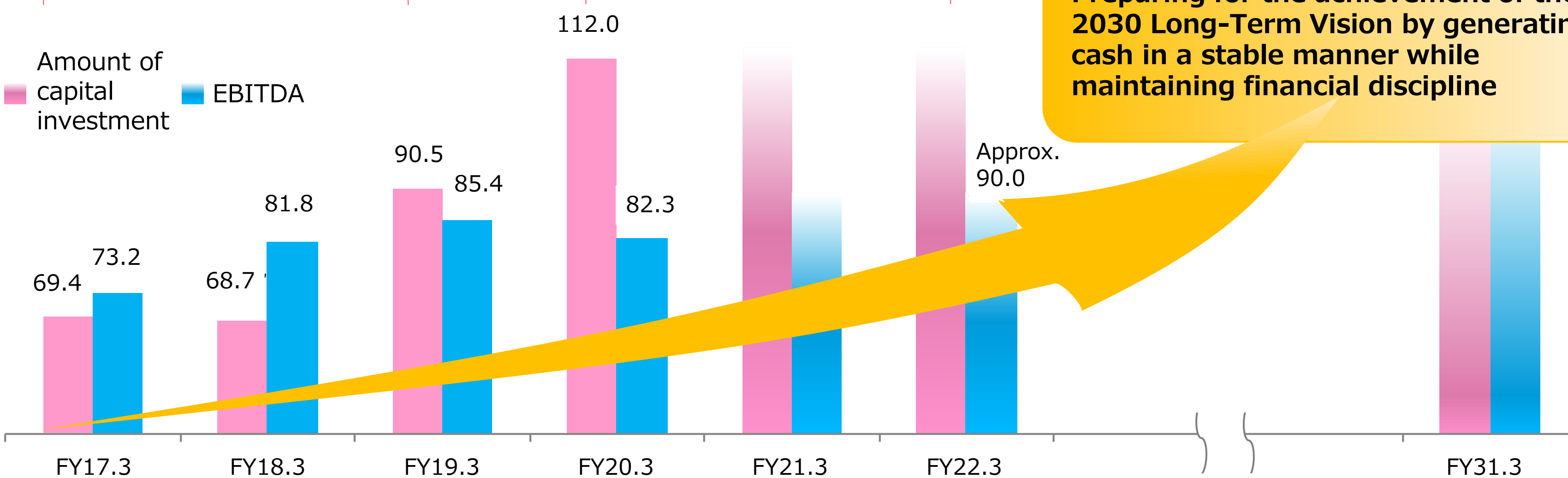
Positive factors

- Marketing that leverages online sales data
- Fostering demand through dynamic pricing
- Utilizing D&S trains, etc.; enhancing community-based tourism promotion to draw customers from Japan and overseas
- Ongoing replacement of tenants in existing commercial facilities in Hakata, Oita, Kokura, etc.
- Opening of new facilities in Kumamoto, Miyazaki, Nagasaki, etc., and increase urban area passengers
- Rolling out new brands in the hotel business
- Creating markets through commercialization initiatives from trials of urban-style and tourism-style MaaS
- Reducing fixed expenses through commercialization initiatives from trials of regional-style MaaS

Amount of capital investment for previous medium-term business plan
3-year total ¥228.7 billion

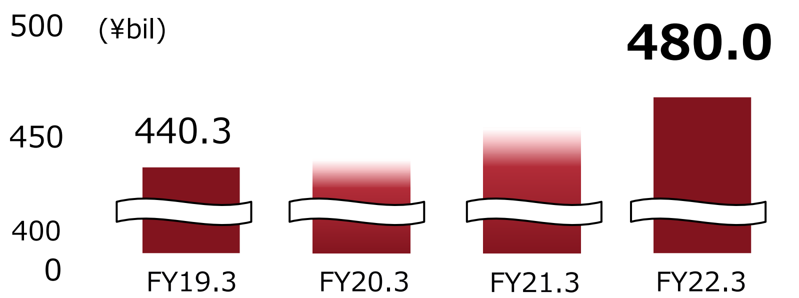
Amount of capital investment for medium-term business plan
3-year total ¥340.0 billion

Preparing for the achievement of the 2030 Long-Term Vision by generating cash in a stable manner while maintaining financial discipline

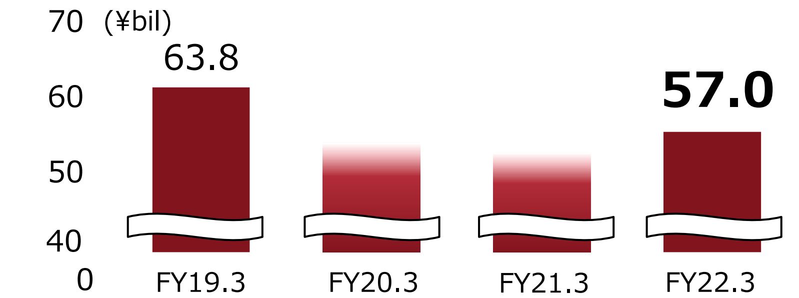


Target Management Indicators (Consolidated)

Operating revenue



Operating income



[Reference] EBITDA

¥85.4 billion (FY19.3) → Approx. **¥90.0 billion** (FY22.3)

[Reference] ROE

12.4% (FY19.3) → More than **8%** (FY22.3)

Unit: ¥bil; figures in parentheses show change vs. FY19.3

Segment name	Operating revenue*2 FY19.3	Operating revenue*2 FY22.3	Operating income*2 FY19.3	Operating income*2 FY22.3	Major factors
Transportation	181.8	**184.0 (+2.1)**	27.4	**21.0 (-6.4)**	Higher revenue due to increase in revenue from railway transportation Lower profit due to higher expenses accompanying elimination of special tax measures, increase in depreciation, etc.
Construction	93.8	**98.0 (+4.1)**	6.2	**6.0 (-0.2)**	Higher revenue due to Shinkansen-related construction work, etc. Lower profit due to increase in personnel costs and other expenses
Real Estate and Hotels	90.0	**113.0 (+22.9)**	25.4	**24.0 (-1.4)**	Higher revenue due to operating of Kumamoto Station Building,Miyazaki Station Building Lower profits due to increase in expenses accompanying revision of revenue/expense classification
Retail and Restaurant	104.0	**115.0 (+10.9)**	3.4	**4.0 (+0.5)**	Higher revenue and profits due to new store openings
Other	72.6	**76.0 (+3.3)**	2.2	**2.5 (+0.2)**	Higher revenue and profit due to higher sales outside the Group, etc.
Total	440.3	**480.0 (+39.6)**	63.8	**57.0 (-6.8)**	

*1 Figures for FY19.3 have been reclassified in accordance with the new segment categories.
*2 Segment operating revenue and operating income are prior to elimination of inter-segment transactions.

Further Strengthen Our Management Foundation

Establishment of the Nomination and Compensation Advisory Committee (announced March 19, 2019)

- The Compensation Advisory Committee was established in 2016 with the objective of enhancing the objectivity and transparency of procedures related to officer compensation.
- We determined that to advance the Medium-Term Business Plan 2019–2021, which was announced on March 19, 2019, it would be important to draw on the knowledge of the outside directors in considering officer skill sets, successor planning, etc. Accordingly, the area of nomination was added to the Compensation Advisory Committee to establish the Nomination and Compensation Advisory Committee.
- Appointment of outside director as chair to further enhance transparency and objectivity of nomination procedures

Clarification of Chief Financial Officer (CFO) position (June 21, 2019)

- We determined that, in conjunction with our core railway business, we must strengthen our earnings power in the real estate business, where we conduct strategic city-building initiatives, and we must bolster the appropriate allocation of management resources in order to form a strategic business portfolio, including M&A, etc. As a result, we decided to clarify the position of CFO.
- With consideration for a report from the Nomination and Compensation Advisory Committee, a newly appointed inside director, Toshihiro Mori, was appointed as CFO.
- Currently, Mr. Mori is focusing on bolstering financial strategy and IR activities.

Further increase in outside directors (June 21, 2019)

- To advance the Medium-Term Business Plan and strengthen the oversight function, with consideration for a report from the Nomination and Compensation Advisory Committee, the following two outside directors were newly appointed.
  1. Toshihide Ichikawa: Oversight of measures to increase earning power in the real estate business, which conducts strategic city-building initiatives
  2. Shinji Asatsuma: Oversight of measures to strengthen appropriate allocation of management resources in order to form a strategic business portfolio, including M&A, etc.
- Outside directors make up a majority of the Board of Directors (53.3%)

Introduction of a performance-based stock compensation plan (details announced on August 5, 2019)

- Introduction of a performance-based stock compensation plan in order to provide an incentive to executives with business execution duties and to strengthen the oversight function
- As key performance indicators (KPIs) — the plan uses a target management indicator in the Medium-Term Business Plan (consolidated operating income) as a short-term KPI, and total shareholder return (TSR) as a long-term KPI

Pipeline in the Medium-Term Business Plan

Medium-Term Business Plan: FY20.3 / FY21.3 / FY22.3

Next Medium-Term Business Plan and thereafter: FY23.3 and Beyond

Railway Business

- Introduction of next-generation rolling stock (821 series), renewal of 811 series [FY20.3 – FY23.3 and Beyond]

FY20.3
- Introduction of next-generation rolling stock (YC1 series)

FY21.3
- Introduction of SSS in Kagoshima area (spring 2020)

Real Estate Leasing Business

Commercial facilities / Offices

FY21.3
- Kumamoto Station Building (spring 2021)
- Miyazaki Station West Entrance Development (fall 2020)
- Kumamoto Station North Building (provisional name) (winter 2020)

FY23.3 and Beyond
- Nagasaki Station Area Development (undecided)
- Kagoshima-Chuo Station West Entrance Development (undecided)
- Toranomon 2-chome category 1 urban redevelopment project (December 2021)
- Development of former site of Fukuoka east government building (spring 2024)

HOtels

FY20.3
- THE BLOSSOM HIBIYA (19.8)
- THE BLOSSOM HAKATA Premier (19.9)

FY21.3
- Hotel [Kumamoto] (spring 2021)

FY22.3
- Hotel [Kyoto] (fall 2021)

Rental Apartments, etc.

FY20.3
- CREST COURT Utsubokoen (Apr. 2019)
- CREST COURT Shimura Sakaue (May 2019)
- RJR Precia Befu Ekimae (Aug. 2019)
- RJR Precia Takeshita II (Feb. 2020)
- RJR Precia Ropponmatsu (Mar. 2020)

Planning development at a pace of 400 to 500 units per year [FY21.3 – FY23.3 and Beyond]

FY21.3
- RJR Precia Tenjin South (May 2020)
- (provisional name) RJR Kumamoto Ekimae (Feb. 2021)
- (provisional name) RJR Precia Ohashi Ekimae (Mar. 2021)
- SJR Chihaya Garden (fall 2020)
- MJR/RJR Sakaisuji Hommachi Tower (Mar. 2021)

FY22.3
- Shimoori development (Feb. 2022)

FY23.3 and Beyond
- Utilization of former site of Sunoko elementary school (Jan. 2024)

Condominium Sales Business

FY20.3
- MJR Shin-Oe (Jul. 2019)
- MJR Meinohamaekiminami (Aug. 2019)
- MarkS City Futsukaichi (Mar. 2020, joint development project)
- MJR The Garden Miyazakiekimae (Mar. 2020, joint development project)
- MJR The Garden Kami-Kumamotoekimae (Mar. 2020)

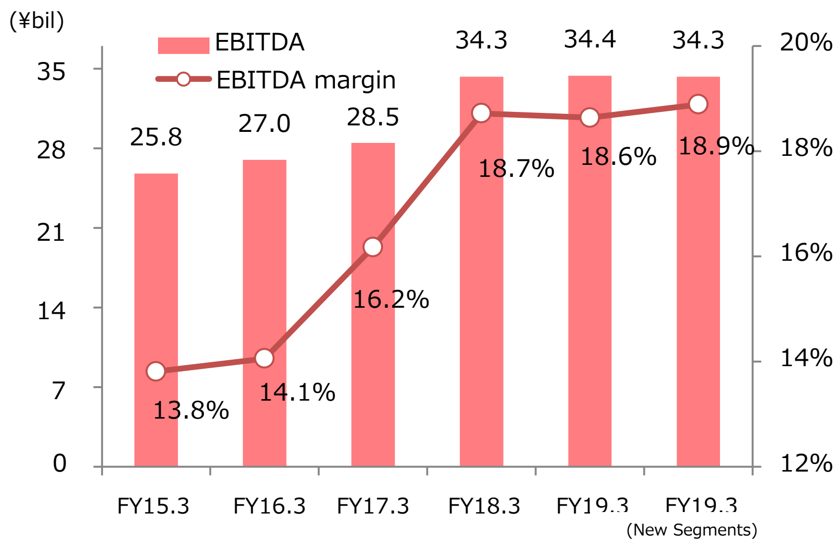
Planning development at a pace of 500 units per year [FY21.3 – FY23.3 and Beyond]

FY21.3
- MJR Chihaya Branchera (Dec. 2020)

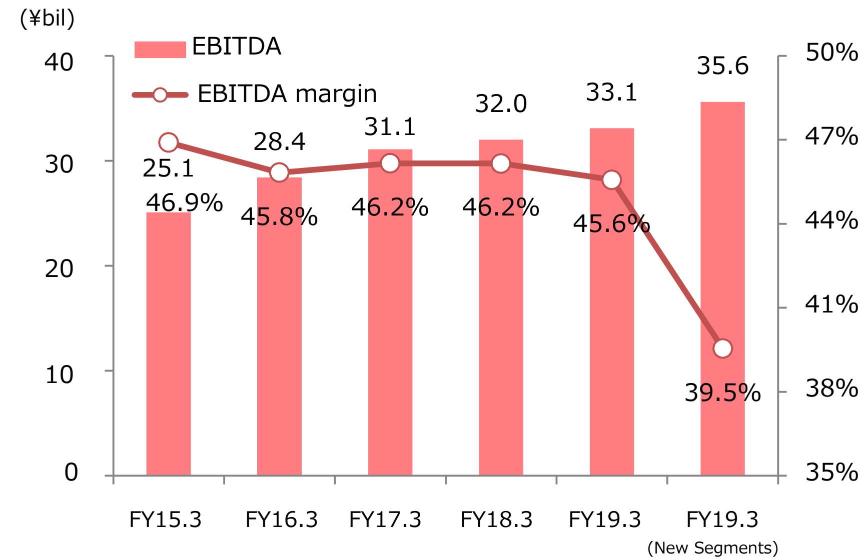
FY22.3
- MJR Hirao Ekimae (Apr. 2021)
- MJR Miyazakieki Minami Park Side (Jul. 2021)

EBITDA by Segment

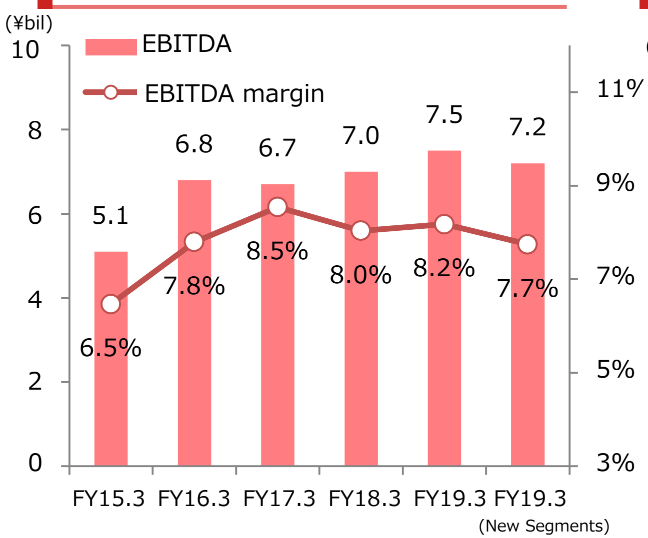
Transportation



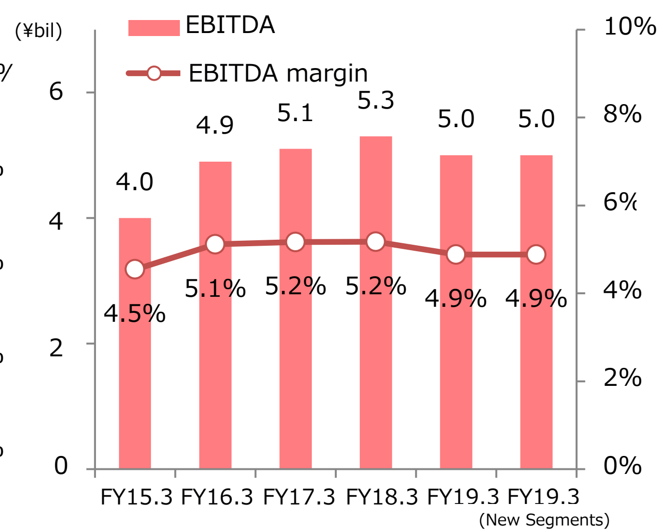
Real Estate and Hotels



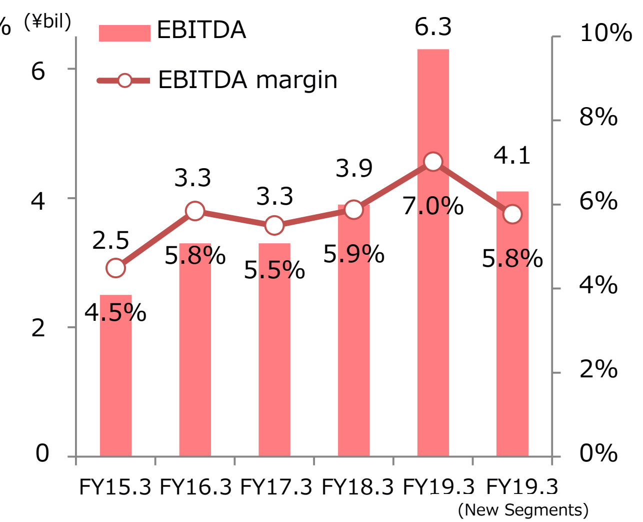
Construction



Retail and Restaurant



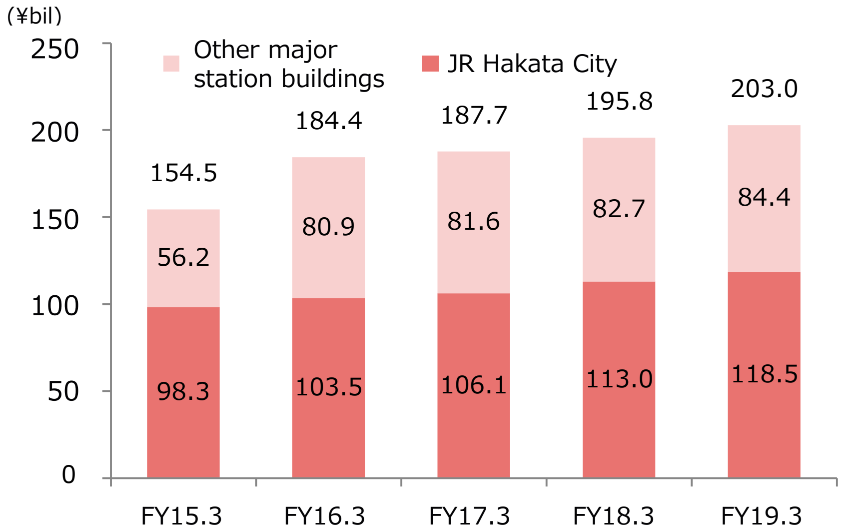
Other



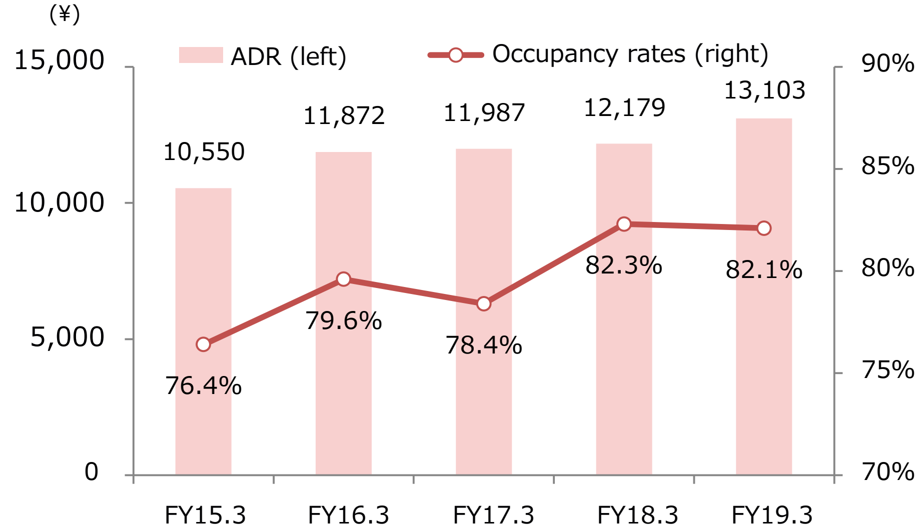
※ Figures for the Transportation segment EBITDA up to and including FY16.3 contain earnings from use of the Management Stabilization Fund (¥12.5 billion in FY15.3, and ¥11.1 billion in FY16.3).
※ Figures by segment are prior to eliminating intersegment transactions.

Real Estate and Hotel Business: Revenue, Occupancy Rates, Etc.

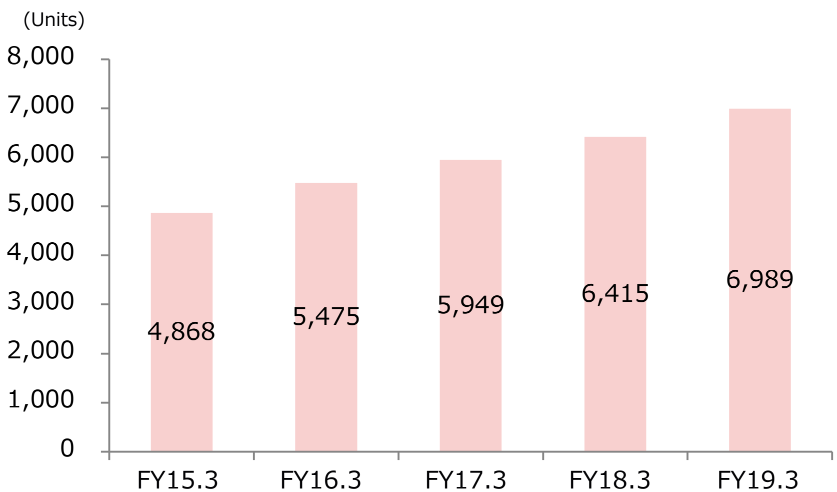
Station Building Tenant Sales



Hotel occupancy rates and average unit prices

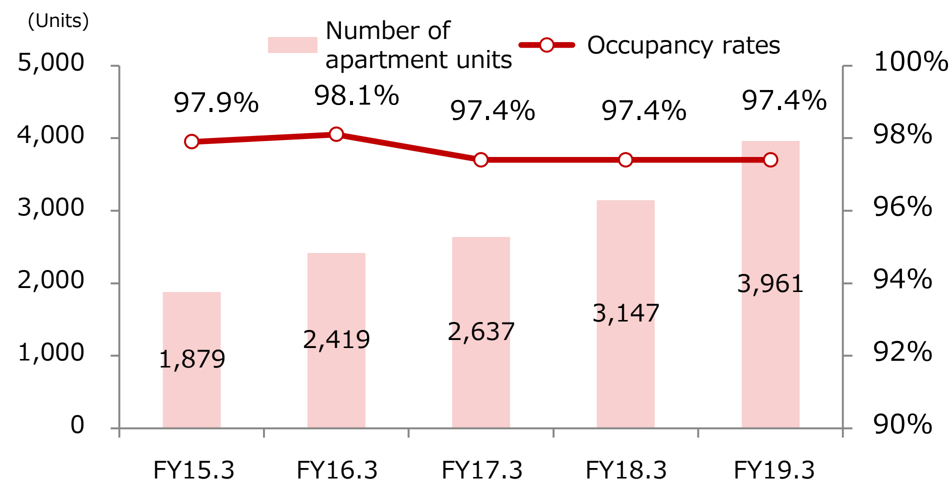


Aggregate Number of Condominium Sales



* Numbers of rooms are as of the end of each fiscal year

Aggregate Number of Apartment Units, Occupancy Rate



* Numbers of rooms are as of the end of each fiscal year
* Occupancy rates are averages of the figures at the end of each month (excluding the year of opening for newly opened properties; excluding newly acquired properties)

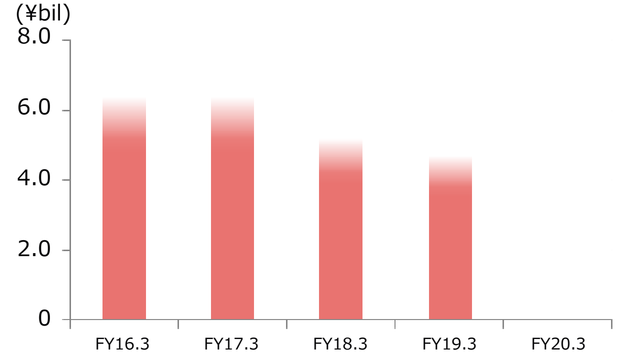
Changes in Cost Structure

Elimination of Special Tax Measures

- Elimination of special tax measures (special tax breaks implemented following the privatization of Japanese National Railways and provisions extending the period of these breaks) effective March 31, 2019 (period extending provisions eliminated effective March 31, 2017)
- Inability to accurately calculate tax reduction amount as tax amounts are based on evaluations by municipal governments
- Amount of impact on performance in FY19.3 estimated to be approximately ¥4.8 billion (to be recorded under taxes and non-personnel expenses)

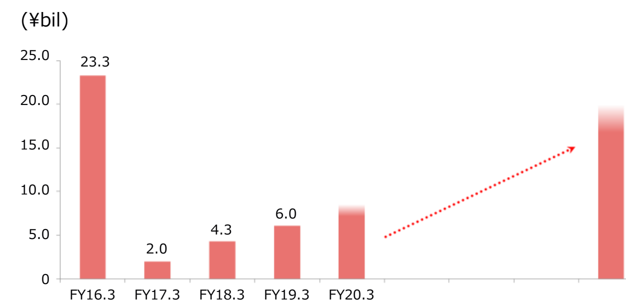
	Details of special tax measure					Affected line items
	Taxation category	Taxation standard				
		Up to FY17.3	FY18.3	FY19.3	FY20.3	
Period extending provisions	Property tax and city planning tax	3/5	Eliminated	Eliminated	Eliminated	Taxes
Tax breaks following privatization of Japanese National Railways	Property tax and city planning tax	1/2	3/5	3/5	Eliminated	・JR Kyushu: Taxes ・JRTT*: Non-personnel expenses
Capital proportion	Corporation tax	Additional paid-in capital, capital stock	(Capital stock + Additional paid-in capital) × 3/4	(Capital stock + Additional paid-in capital) × 1/2	Eliminated	Taxes

Amount of impact on performance from special tax measures



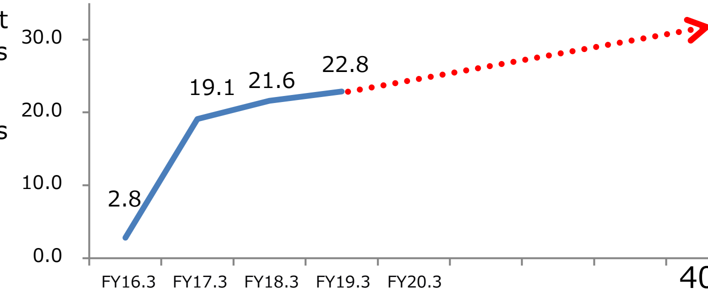
Depreciation Costs of the Railway Business

- Decrease in depreciation costs in conjunction with impairment losses on fixed assets held in the railway business (approximately ¥520.0 billion) recorded on March 31, 2016
- Capital investment of between ¥25.0 billion and ¥30.0 billion a year conducted in railway business (excluding rolling stocks) after impairment losses
- Gradual increase in depreciation costs going forward due to continuation of current trends (risk for upturns stemming from rolling stock upgrades)



Corporate Tax Rate

- Disparity between tax burden and effective tax rate (30.5% in FY19.3) due to significant temporary differences associated with impairment losses (income used for taxation purposes lower than income used for accounting purposes)
- Gradual increase in tax rates as temporary differences associated with impairment losses resulted in the recording of new deferred tax assets
- Current trends to continue over foreseeable future but long-term trends undetermined



Sources/Uses of Funds, and Principal Management Indicators

Over the period of the medium-term business plan, we will aim for capital investment of ¥340.0 billion, which will exceed our cumulative consolidated operating cash flow. We will take a flexible approach to investment opportunities and work to realize growth by issuing corporate bonds and borrowings.

- Draw on our debt capacity to Increase in order to offset insufficient free cash flow
- Maintain financial soundness to address future changes in the business environment

- Implement sell/redeem financial assets for allocation to capital investments in the railway business*

- Implement maintenance and upgrade investment, certain portions of growth investment, and profit distribution for shareholders, in principle with in the limits of operating cash flow, to support sustainable management and growth

《Financing》

Corporate Bonds and borrowing, etc.

Sell/redeem of financial assets

Consolidated operating cash flow: ¥220.0 billion

《Uses of funds》

Growth investment: ¥210.0 billion (including M&A activities)

Steadily advance investment that contributes to growth during the period of the medium-term business plan and thereafter

Maintenance and Upgrade investment: ¥130.0 billion

Safety investment: ¥70.0 billion

While establishing sustainable railway services through improvement in earnings, position our primary mission of safety as our highest priority and take steps to address issues such as frequent natural disasters and aging railway facilities and rolling stock

Profit distribution for shareholders

Continue to provide stable returns to shareholders, despite the expected impact from the end of special tax treatment, etc.

* ¥87.2 billion of funds directed to the Management Stabilization Fund will be allocated to capital investment in assets for use in the railway business that contribute to the maintenance and enhancement of the railway network. Funds will be allocated within the five years from FY17.3.

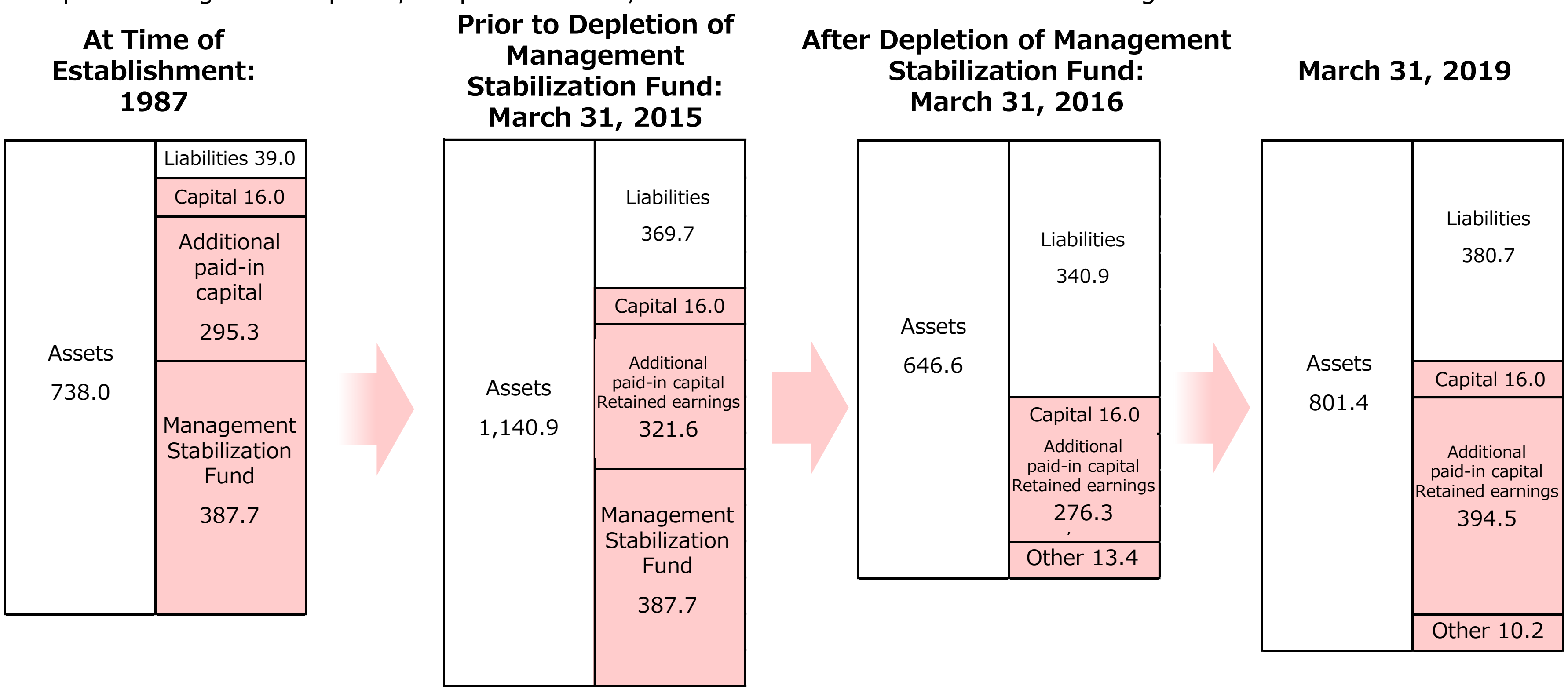
JR Kyushu's Capital Structure

- Capital calculated as difference between assets and liabilities at time of privatization of Japanese National Railways in 1987
- JR Kyushu established with excessive levels of capital (additional paid-in capital) due to low levels of liabilities

  Note: The three JR companies on the Japanese mainland had limited capital due to inheriting liabilities from Japanese National Railways.
- Management Stabilization Fund (¥387.7 billion) depleted in FY16.3 to direct funds to Shinkansen lease fees (prepaid expenses)

  Impairment losses on fixed assets held in the railway business (approximately ¥520.0 billion) stemming from depletion of the Management Stabilization Fund

⇒ Capital still higher than peers, despite decrease, as a result of circumstances surrounding establishment



Forward-Looking Statements

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

IR materials can be viewed on our corporate website:

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