

# ADVANCING FURTHER INTO THE FUTURE

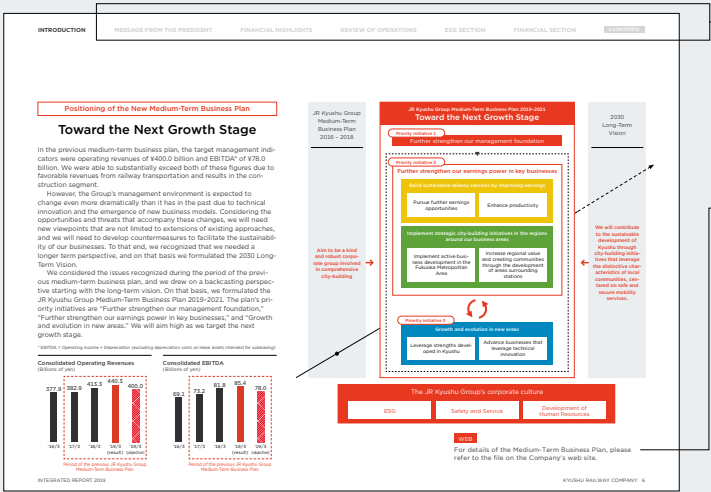
INTEGRATED REPORT 2019





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EDITORIAL POLICY

This report was developed for the purpose of imparting a deeper understanding of the Group's operations (JR Kyushu and related companies) to our stakeholders. The report was prepared with reference to the International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC)\* and the Guidance for Collaborative Value Creation from the Ministry of Economy, Trade and Industry. It is the editors' aim to communicate financial and non-financial information, such as management policies, business strategies, and ESG information, to readers in a concise manner. For those interested, more detailed information is available on the corporate website.

\* Private-sector organization established in 2010 by private-sector companies, investors, accountants' organizations, government institutions, etc., with the aim of developing an international corporate reporting framework.

OVERVIEW OF GUIDANCE FOR COLLABORATIVE VALUE CREATION

	Value	Business model	Sustainability/ growth	Strategy	Strategy performance and key performance indicators (KPIs)	Governance
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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements, including future outlooks and objectives of the JR Kyushu Group. These statements are judgments made by the Company based on information, projections, and assumptions available at the time of the document's creation. Accordingly, please be advised that actual operating results could greatly differ from the contents of this document due to the effects of the economic situation inside and outside Japan and of the Kyushu area, real estate market conditions, the progress of respective projects, changes in laws and regulations, and a wide range of other risk factors. The purpose of this document is not to solicit the purchase of the Company's stocks or other financial instruments in Japan. In addition, this report does not constitute an offer of securities in the United States. Based on the American Securities Act of 1933, offering or selling securities in the United States is not permitted, with the exception of cases where there is registration of securities or exemption from registration. In cases where securities are being publicly issued in the United States, an English prospectus created on the basis of the Securities Act of 1933 will be used. The prospectus states that said securities may be acquired from an issuing company or seller and also contains detailed information and financial statements on issuing companies and their management.

# ADVANCING FURTHER INTO THE FUTURE

**We aim to be a corporate group that invigorates Kyushu, Japan, and Greater Asia with safety and service as its foundation.**

JR Kyushu was created following the breakup and privatization of Japanese National Railways in 1987. Since then, we have not only worked steadily to build a strong railway business, but have also leveraged the power of the Group, using our businesses for active city-building (community enhancement and vitalization).

Along the way, we have established three pillars that form our code of conduct that each and every employee of the Group can always keep in mind and use as a touchstone. These are Integrity, Growth and Evolution, and Local Community Invigoration.

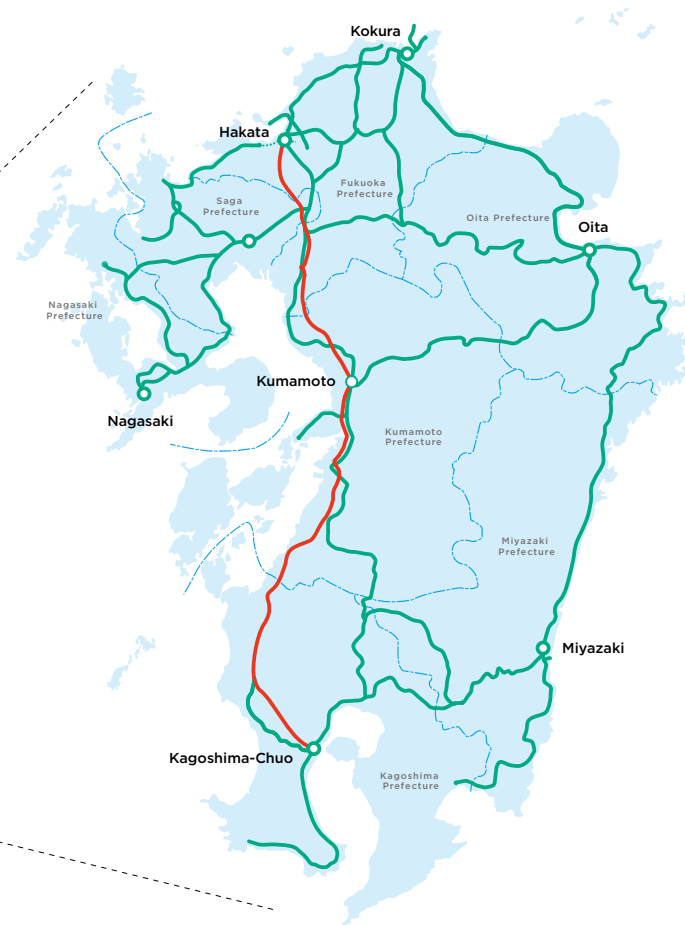
With a focus on these three pillars and the future, we will strive to achieve “What the JR Kyushu Group Aims To Be”—“A corporate group that invigorates Kyushu, Japan, and Greater Asia with safety and service as its foundation.”

Three pillars forming the code of conduct  
that the Group always keeps in mind



# Developing Our Businesses, Centered on the Railway Business, with Our Base in Kyushu

JR Kyushu was established as a group centered on the railway business, with a railway network that covers all of Kyushu. In addition, in non-railway businesses we have expanded our business fields. These initiatives are centered on operations that are highly compatible with the railway business, such as the residential building, construction, passenger ship, hotel, and station building businesses. Moving forward, we will continue to 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.



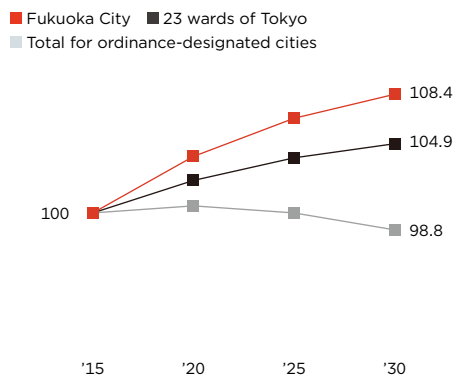
— Conventional lines  
— Shinkansen line

\*1 Source: Future estimated population of Fukuoka City (National Institute of Population and Social Security Research)

\*2 Source: Internal investigation. Estimates based on statistics from the Policy Research Institute for Land, Infrastructure, Transport and Tourism regarding inbound tourism demand for all of Japan. Assumes that the recent trend in the percentage of inbound travelers who visit Kyushu will remain the same in the future

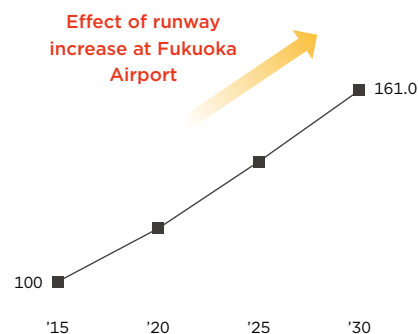
## Expected increase in population of Fukuoka City\*1

Index (2015 = 100)



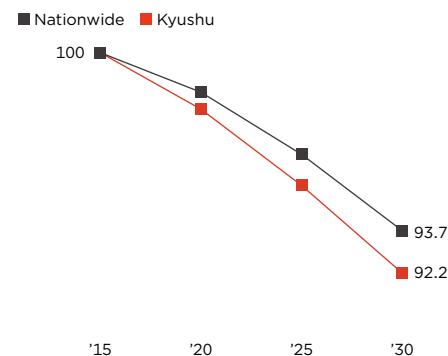
## Expected increase in number of inbound overseas tourists visiting Kyushu\*2

Index (2015 = 100)



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

Index (2015 = 100)



## Increasing natural disasters in Kyushu

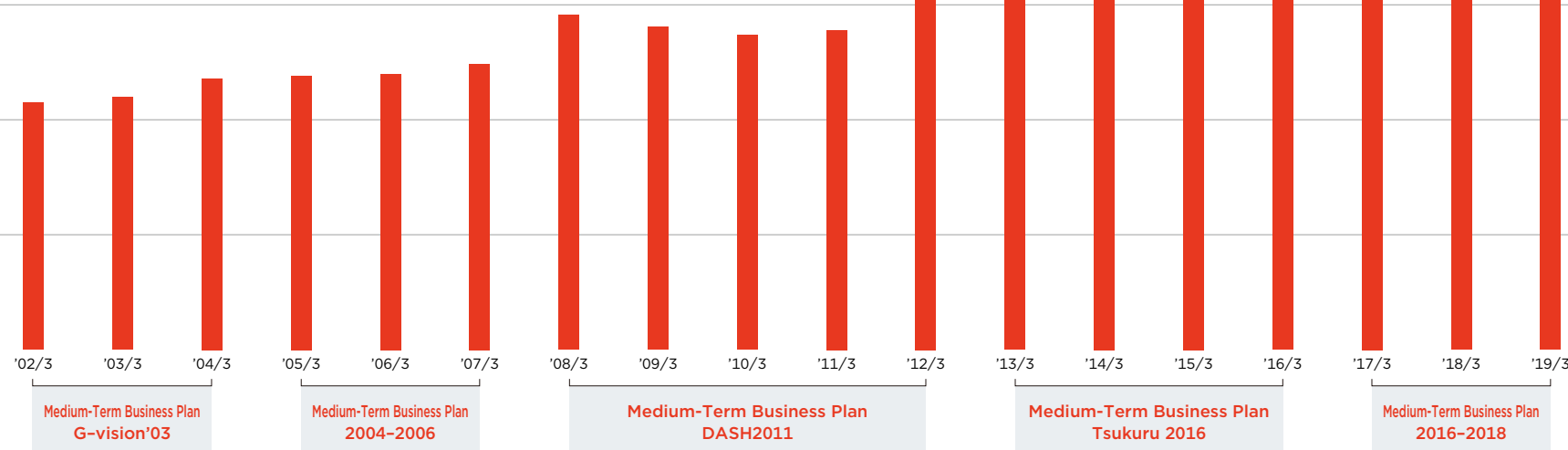
Natural phenomena causing notable damage in recent years

July 2012	Heavy rain in northern Kyushu
April 2016	Kumamoto earthquakes
July 2017	Heavy rain in northern Kyushu
July 2018	Heavy rain

# Steadily Improving Results in Accordance with the JR Kyushu Group Medium-Term Business Plan

The Group's first medium-term business plan was G-vision'03, which we formulated in 2001. We have now completed five medium-term business plans, up to the JR Kyushu Group Medium-Term Business Plan 2016-2018, for which FY2019/3 was the final year. In this way, we have steadily improved our results. In addition, during this period we completed two major projects—the full opening of the Kyushu Shinkansen and the opening of JR Hakata City in 2011. In 2016, we listed our stock on the Tokyo Stock Exchange and the Fukuoka Stock Exchange.

FY2019/3  
Consolidated  
Operating Revenues  
¥440.3 billion



## Major events



2004

Opens Amu Plaza Kagoshima in the Kagoshima-Chuo Station Building



2007

Makes the current JR KYUSHU DRUG ELEVEN CO., LTD. a subsidiary



2011

Begins operation of the entire Kyushu Shinkansen line  
Opens JR Hakata City in Hakata Station



2015

Opens JR Oita City in Oita Station



2016

Is listed on the Tokyo Stock Exchange, First Section, and Fukuoka Stock Exchange  
Opens JRJP Hakata Building



2017

Makes Caterpillar Kyushu Ltd. a subsidiary



## Review of the Previous Medium-Term Business Plan

### Aiming to Be a Kind and Robust Corporate Group Involved in Comprehensive City-building

We implemented the JR Kyushu Group Medium-Term Business Plan 2016–2018, covering the period from FY2017/3 to FY2019/3. During this three-year period, we aimed to further accelerate the creation of a strong management base that allows us to continuously contribute to the well-being of all the people related to the JR Kyushu Group including our customers, business partners, employees, and shareholders by becoming a kind and robust corporate group involved in comprehensive city-building.

As a result, we were basically able to accomplish initiatives that were aligned with the three key strategies: “Build robust railways that provide the foundation for all our businesses,” “Actively promote in city-building in the Kyushu area,” and “Take on the challenges of new businesses and expanding outside the Kyushu area.”

In the railway business, serious disasters occurred almost every year, but revenues from railway transportation increased and reached a record high for two consecutive years. In non-railway businesses, JR Hakata City, which was opened in 2011, continued to post solid results. In addition, we recorded growth in tenant sales at other main station buildings. Furthermore, we opened the JRJP Hakata Building, which was our first full-scale office development, and Ropponmatsu 421, which we advanced as our first city-building project outside of the areas around our railway lines.

In these ways, over the three-year period we were able to steadily implement the three key strategies and to make steady progress toward what we aim to be.

## The Key Strategy

Build robust railways that provide the foundation for all our businesses

### Priority Items

- Improving transportation services (improving train operating condition information, etc.)
- Increasing Shinkansen revenues through higher online sales, diversifying sales channels for the JR Kyushu Rail Pass, etc.
- Expansion of smart support stations\* (3 train lines)
- Introducing energy-saving rolling stock (DENCHA, etc.)

\* A service under which support center operators offer guidance to customers through intercoms installed in stations where personnel are not always assigned. In addition, we have established a system under which we use multiple cameras installed in stations to watch over customer safety, with support staff providing assistance at stations as necessary.

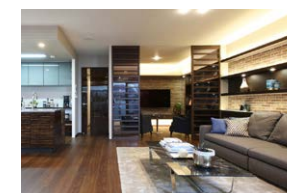


## The Key Strategy

Actively promote in city-building in the Kyushu area

### Priority Items

- Opening JRJP Hakata Building and Ropponmatsu 421
- Achieving steady growth in key businesses (station buildings, condominiums, rental apartments, hotels)



## Positioning of the New Medium-Term Business Plan

### Toward the Next Growth Stage

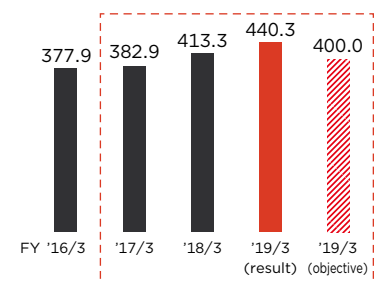
In the previous medium-term business plan, the target management indicators were operating revenues of ¥400.0 billion and EBITDA\* of ¥78.0 billion. We were able to substantially exceed both of these figures due to favorable revenues from railway transportation and results in the construction segment.

However, the Group's management environment is expected to change even more dramatically than it has in the past due to technical innovation and the emergence of new business models. Considering the opportunities and threats that accompany these changes, we will need new viewpoints that are not limited to extensions of existing approaches, and we will need to develop countermeasures to facilitate the sustainability of our businesses. To that end, we recognized that we needed a longer-term perspective, and on that basis we formulated the 2030 Long-Term Vision.

We considered the issues recognized during the period of the previous medium-term business plan, and we drew on a backcasting perspective starting with the long-term vision. On that basis, we formulated the JR Kyushu Group Medium-Term Business Plan 2019–2021. The plan's priority initiatives are "Further strengthen our management foundation," "Further strengthen our earnings power in key businesses," and "Growth and evolution in new areas." We will aim high as we target the next growth stage.

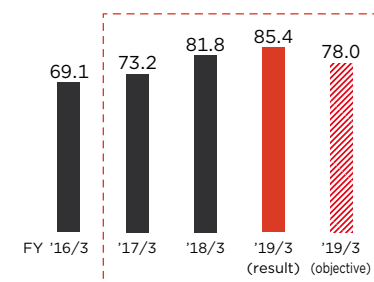
\* EBITDA = Operating income + Depreciation (excluding depreciation costs on lease assets intended for subleasing)

**Consolidated Operating Revenues**  
(Billions of yen)



Period of the previous JR Kyushu Group Medium-Term Business Plan

**Consolidated EBITDA**  
(Billions of yen)



Period of the previous JR Kyushu Group Medium-Term Business Plan

JR Kyushu Group  
Medium-Term  
Business Plan  
2016–2018

Aim to be a kind  
and robust corpo-  
rate group involved  
in comprehensive  
city-building

### JR Kyushu Group Medium-Term Business Plan 2019–2021 Toward the Next Growth Stage

#### Priority initiative 1

Further strengthen our management foundation

#### Priority initiative 2

Further strengthen our earnings power in key businesses

Build sustainable railway services by improving earnings

Pursue further earnings  
opportunities

Enhance productivity

Implement strategic city-building initiatives in the regions  
around our business areas

Implement active busi-  
ness development in the  
Fukuoka Metropolitan  
Area

Increase regional value  
and creating communities  
through the development  
of areas surrounding  
stations

#### Priority initiative 3

Growth and evolution in new areas

Leverage strengths devel-  
oped in Kyushu

Advance businesses that  
leverage technical  
innovation

### The JR Kyushu Group's corporate culture

ESG

Safety and Service

Development of  
Human Resources

2030  
Long-Term  
Vision

We will contribute  
to the sustainable  
development of  
Kyushu through  
city-building initia-  
tives that leverage  
the distinctive char-  
acteristics of local  
communities, cen-  
tered on safe and  
secure mobility  
services.

## MESSAGE FROM THE PRESIDENT



**Toshihiko Aoyagi**  
President and CEO

**We will work to fulfill our social role as a corporate group that provides mobility services in Kyushu, with a focus on the future.**

### Previous Medium-Term Business Plan

#### Target Management Indicators

In FY2019/3, we concluded the JR Kyushu Group Medium-Term Business Plan 2016–2018. The plan's target management indicators were operating revenues of ¥400.0 billion and EBITDA\*1 of ¥78.0 billion, and we achieved these targets in FY2018/3—one year ahead of schedule. In FY2019/3, we substantially exceeded the targets. Operating revenues were up 6.5%, to ¥440.3 billion, for the ninth consecutive year of higher revenues, and consolidated EBITDA rose 4.4%, to ¥85.4 billion, for the sixth consecutive year of growth. Conversely, operating income was down 0.1%, to ¥63.8 billion; ordinary income declined 0.8%, to ¥66.5 billion; and net income attributable to owners of the parent decreased 2.3%, to ¥49.2 billion.

In addition, the total amount of capital investment over the three-year period was ¥228.7 billion, versus the planned level of ¥190.0 billion. This was due to aggressive investment in rental apartments, hotels, etc., which resulted in total growth investment of ¥128.6 billion, surpassing the planned level of ¥80.0 billion.

JR Kyushu first listed on a stock exchange in October 2016, during the first year of the previous Medium-Term Business Plan, and the target management indicators could be called our first promise to our investors. We kept that promise, reinforcing our confidence in our business administration in the years ahead.

\*1 Note: EBITDA = operating income + cost of depreciation (excluding depreciation of leased assets held for subleasing purposes).



### Three Key Strategies

However, the substance is more important than the numbers. Under the previous Medium-Term Business Plan, we worked to implement three key strategies: 1) Build robust railways that provide the foundation for all our businesses, 2) Actively promote city-building in the Kyushu area, and 3) Take on the challenges of new businesses and expanding outside the Kyushu area. These strategies specify what type of business the Group is aiming to be. In the previous plan, we established a variety of measures in line with these key strategies, and we were able to implement those measures basically in line with the plan.

The railway business, which is positioned as the foundation of all of our businesses, was affected by significant natural disasters in each year of the plan. In 2016, the Kumamoto earthquakes struck, then there were heavy rains in northern Kyushu in July 2017, and the July 2018 heavy rains. In this way, our business environment was extremely challenging; however, as a result of increases in both Kyushu Shinkansen revenues and revenues from short-distance travel, among other sources, revenues from railway transportation in FY2019/3 reached ¥151.4 billion, a record for the second consecutive year. I believe that this achievement is a result of the steady progress we have made with regard to “building robust railways.”

In non-railway businesses, JR Hakata City, which was opened in 2011, continued to post solid results. We also recorded growth in tenant sales at other main station buildings. Moreover, the JRJP Hakata Building, which was our first full-scale office development, and Ropponmatsu 421, which we advanced as our first city-building project outside of the areas around our railway lines, were opened according to plan and got off to favorable starts. Through development in areas around our railway lines, centered on station building and other development initiatives, we were able to achieve an increase of approximately 4% versus FY2016/3 in short-distance travel revenues, which are included in revenues from railway transportation. We are steadily seeing a ripple effect on our railway business.

Looking at business development in the area outside Kyushu, leveraging the know-how cultivated in our operations to date, in Okinawa we opened the JR Kyushu Hotel Blossom Naha in 2017. In Thailand, we entered the serviced apartment business in 2018, and subsequently we started hotel and condominium business operations.

Furthermore, as a new business initiative, in 2017 we made Caterpillar Kyushu Co., Ltd., a consolidated subsidiary. Caterpillar Kyushu, which conducts sales and rental of construction machinery, is utilizing the networks of Group companies affiliated with the Company's Railway Construction Department, Real Estate Department, and Construction Group. In this way, Caterpillar Kyushu is working to find new customers and to increase its market share in Kyushu.

Overall, we believe that during the three years of the previous Medium-Term Business Plan, we were able to smoothly implement the three key strategies and steadily head in the direction we are aiming for.

### 2030 Long-Term Vision

In preparing the new Medium-Term Business Plan, the Group formulated the 2030 Long-Term Vision. Our business environment is marked by rapid progress in technical innovation, as demonstrated by artificial intelligence and the Internet of Things. We felt a sense of crisis and believed that simply extending our efforts, starting with the results and issues of the previous Medium-Term Business Plan, would not enable us to address those changes in our business environment. It was for this reason that we decided to create the 2030 Long-Term Vision. Moreover, Kyushu is the base of the Group's businesses, and the population in Kyushu is expected to decline more rapidly than Japan's overall population. According to the National Institute of Population and Social Security Research, from 2015 to 2045 the population of Kyushu is projected to decline by approximately 20%. In this and other ways, the Group's business environment is expected to undergo dramatic change.

Of course, initiatives based on extensions of our current approaches will also remain important. However, at the same time, I believe that we will need to focus on the near future, think from new perspectives, and start to take action now to address those changes.

The 2030 Long-Term Vision expresses where the Group wants to be in 2030, about 10 years as well as stating that “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.” Rather than “railway,” we used the phrase “mobility services,” which incorporates our thinking about the vision.

## MESSAGE FROM THE PRESIDENT

Rapid technical innovation is significantly changing the framework of our existing businesses. For example, the practical implementation of self-driving automobiles is approaching, which could cause railways to lose their competitive advantage versus automobiles and threaten the survival of the railway business itself. The Group believes that it must address such long-term trends in technical innovation and collaborate with other companies to provide customers with mobility services—a variety of transportation options, including not only trains but also buses, taxis, and car sharing services.

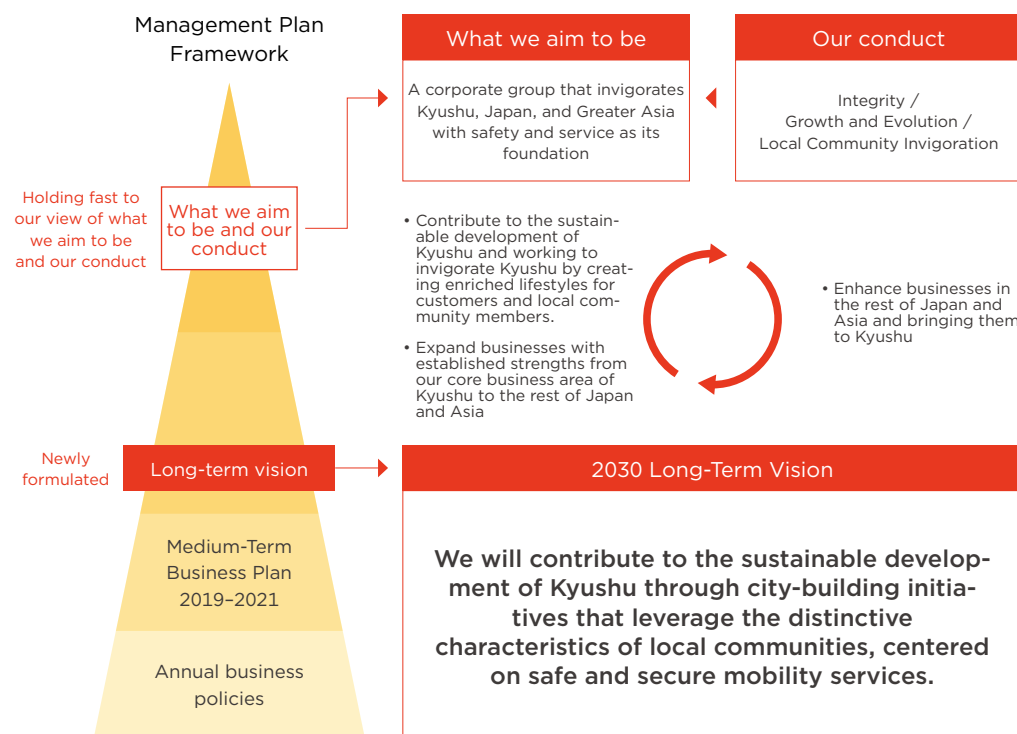
The Group will address those trends and advance MaaS<sup>\*2</sup> initiatives. We expect MaaS initiatives to provide opportunities for JR Kyushu to reevaluate the value of railways in the overall transportation system. How should we strive to increase that value? Or should we change? We will consider these questions earnestly, and further heighten the value of railways in the Kyushu transportation network. Then, centered on these mobility services, we will continue to contribute to the sustainable development of Kyushu through city-building initiatives that draw on the distinctive characteristics of local communities, such as our city-building activities in Hakata and Oita.

<sup>\*2</sup> MaaS = Mobility as a Service: A new approach to seamless mobility that leverages ICT and utilizes the cloud. Mobility through all modes of transportation other than privately owned cars is addressed as a single service.

## Changes in the Operating Environment

Opportunities		Threats
Increasing populations in urban areas (Fukuoka City, etc.)	Fluctuations in real estate market conditions	Market contraction due to declining population
Ongoing increase in inbound tourism demand	Technical innovation, such as self-driving vehicles and AI	Decrease in the working population due to declining birth rate and aging population
Activities related to the enhancement of urban functions (deregulation, etc.)	Emergence of new business models, such as the sharing economy and MaaS	Frequent occurrence / increased severity of natural disasters

## Management Plan Framework and 2030 Long-Term Vision



### New Medium-Term Business Plan

In formulating the new Medium-Term Business Plan, we considered the issues recognized during the period of the previous plan, and we utilized a backcasting perspective starting with the long-term vision. On that basis, the Group formulated the JR Kyushu Group Medium-Term Business Plan 2019–2021, for which the final fiscal year will be FY2022/3.

The plan's priority initiatives are "Further strengthen our management foundation," "Further strengthen our earnings power in key businesses," and "Growth and evolution in new areas." By advancing measures based on these initiatives, we will aim high as we target the next growth stage.

### First Priority Initiative: Further Strengthen Our Management Foundation

It has been three years since we listed on a stock exchange. Since that time, we have engaged in frequent dialogue with shareholders and investors and have received feedback regarding their expectations that we would strengthen corporate governance and other aspects of our management foundation. We began efforts to reinforce our management base under the previous Medium-Term Business Plan. With consideration for dialog with shareholders and investors, we continued such efforts by transitioning to a Company with Audit and Supervisory Committee structure in June 2018 and establishing the Nomination and Compensation Advisory Committee in March 2019. Under the new plan, we will further advance these efforts, centered on the promotion of segment management and the strengthening of governance.

With respect to segment management, in April 2019 we established intermediate holding companies in the station building business and the hotel business. Our aim was to facilitate agile, flexible decision-making and operational execution by having the intermediate holding companies responsible for Group companies in the same business.

We also changed segment classifications and revenue and expense classifications<sup>\*3</sup> in order to handle revenues and profits for each segment in a more practical manner. Moving forward, we will work to optimally allocate management resources to each segment and use said resources.

To strengthen governance, two outside directors were newly appointed at the shareholders' meeting held in June 2019. They have deep knowledge in such areas as real estate, finance, accounting, and IR, and we expect them to contribute to the advancement of the new Medium-Term Business Plan and the strengthening of the

oversight function. As a result, the Company has 15 directors (including four directors who are Audit and Supervisory Committee members). Eight of the directors are outside directors (three of whom are Audit and Supervisory Committee members). In addition, we clarified the position of CFO in order to strengthen our financial strategy. Also, in regard to remuneration for directors (excluding directors who are Audit and Supervisory Committee members), in June 2019 we introduced a performance-based stock compensation plan. The purpose of this plan is to enhance the value shared with shareholders and to further increase the motivation of the directors in contributing to the improvement of business performance and growth in corporate value over the medium and long term. Going forward, we will continue working to strengthen our management base.

<sup>\*3</sup> In regard to segment classification changes, etc., please refer to page 26.

### Strengthen Group Management

<div>Segment management</div> <div>Strengthen governance</div>	<p><b>Establish intermediate holding companies in the station building business and hotel business (April 1, 2019)</b> Establish intermediate holding companies in order to strengthen governance and to facilitate decision-making and operational execution that are more agile and flexible</p> <p><b>Change segment classifications, etc. (April 1, 2019)</b> Change segment classifications and revenue/expense classifications in order to handle revenues and profits for segments, etc., in a more practical manner</p>
	<p><b>Implement measures to rearrange businesses and reorganize the Group</b> Consider and implement measures to rearrange businesses and reorganize the Group in order to pursue flexible and efficient segment management</p> <p><b>Revise monitoring systems and processes (to be considered and implemented during the period of this plan)</b> Consider and implement the revision of monitoring systems/processes and KPIs, etc., in order to enhance the driving force of segment management</p>
	<p><b>Strengthen business portfolio management system</b> Work to achieve appropriate management resource allocation by clarifying the position of CFO, etc., in order to form a strategic business portfolio while leveraging M&amp;A, etc.</p> <p><b>Revise officer compensation system</b> Consider the introduction of stock compensation plan in order to enhance value shared with shareholders</p> <p><b>Establish and utilizing the Nomination and Compensation Advisory Committee</b> Establish the Nomination and Compensation Advisory Committee (March 19, 2019), centered on outside directors, and working to increase the objectivity and transparency of procedures related to officer nomination, compensation, etc.</p>



## Second Priority Initiative: Further Strengthen Our Earnings Power in Key Businesses

### Building Sustainable Railway Services by Improving Revenues and Expenditures

In the railway business, the Group's core business, depreciation expenses will increase substantially due to the impairment loss recorded in FY2016/3. In addition, due to the elimination of special tax measures accompanying the listing of our stock, related expenses will increase. Furthermore, as described above, serious natural disasters have been occurring frequently for several years, and, in this setting, we believe it will be necessary to further improve earnings.

Specifically, with safety as the major precondition, we will work to steadily expand earnings in three core areas—the Shinkansen, short-distance travel, and inbound. First, for the Shinkansen we will take steps to increase the convenience of the online train reservation system and increase the online sales ratio. The Shinkansen online sales ratio is currently about 60%, and we think we can reduce costs if we increase it to approximately 80%. We will also strengthen yield management through customer analysis initiatives pertaining to online sales. Second, we will work to enhance convenience in order to increase revenues from short-distance railway transportation. In addition, aiming to foster to population growth in areas around our railway lines, we will strive to capture the effects of various events held in these areas. and steadily promote measures, such as development through city-building initiatives centered on stations. Third, looking at inbound, the number of overseas visitors to Japan who travel to Kyushu has set a new record for eight years in a row, surpassing five million people in 2018. Moving forward, the Group will cooperate with overseas travel agents and airlines and work to expand sales of the JR Kyushu Rail Pass. Also, with the aim of attracting tourists from China and increasing spending in the Kyushu region, we will leverage our strategic alliance with the Alibaba Group, which provides a travel site visited by more than 10 million people a day in China.

Moreover, we will strive to increase productivity by promoting efficiency and labor-saving through the aggressive utilization of new technologies. Specifically, we will work to reduce maintenance costs by increasing Smart Support Station<sup>\*4</sup> equipment and advancing CBM.<sup>\*5</sup>

<sup>\*4</sup> A service under which support center operators remotely monitor safety and offer guidance to customers through intercoms. Utilizes cameras and intercoms installed in stations where personnel are not always assigned.

<sup>\*5</sup> CBM = Condition Based Maintenance. One approach to preventive maintenance. For facilities that are operating in a stable manner, items such as equipment replacement are implemented only when they are determined to be necessary. Unnecessary equipment replacement is not implemented.

## Pursuing Further Earnings Opportunities

### Enhance earnings power in key fields

#### Shinkansen

- Increase online sales ratio by enhancing convenience of online train reservation system
- Bolster yield management through online-sales customer data management, etc.
- Consider the use of the Shinkansen in the logistics business
- Strengthen cooperation with companies in other transportation-related areas (parking lots, taxi services, car sharing, etc.)

#### Urban area demand

- Maximize synergies with development of areas around our railway lines, etc.
- Cooperate with development initiatives in areas around Miyazaki Station, Kumamoto Station, etc.
- Make the most of the effects of various events

#### Inbound tourism demand

- Expand sales routes for JR Kyushu Rail Pass in cooperation with overseas travel agents and airlines
- Increase convenience of exclusive reservation website
- Actively provide information to inbound overseas tourists

### Implement city-building initiatives that leverage the appeal of railways

- Discover additional tourism resources that utilize new Design & Story trains
- Enhance the value of the Kyushu brand by further improving Seven Stars in Kyushu trains and Design & Story trains
- Implement active tie-ups with local governments and private-sector companies (tourism campaigns, JR Kyushu Walking, use of station buildings, etc.)

### Prepare for the opening of the Nagasaki route of the Kyushu Shinkansen

- Cooperate with communities, etc., to promote tourism in the western Kyushu area
- Consider facilities, schedules, etc., to increase convenience

### Target management indicators

	FY19/3		FY22/3
Revenues from railway transportation	¥151.4 billion		¥154.0 billion
Shinkansen	¥54.9 billion		¥56.7 billion
Conventional lines	¥96.5 billion		¥97.3 billion

## Implementing Strategic City-Building Initiatives in the Regions around our Business Area

We will carry out development in areas surrounding stations in line with the characteristics of local communities, and work to help build a Kyushu where “people want to live, work, and visit.” In this way, we will strive to support population growth in the areas around our railway lines. During the period covered by the new Medium-Term Business Plan, we will steadily advance the Miyazaki Station west entrance development and development in the area around Kumamoto Station. In addition, we are planning large-scale development projects in areas surrounding stations after the completion of the new plan. Such initiatives include the Nagasaki Station area development initiative, which will be implemented in preparation for the opening of the Nagasaki route of the Kyushu Shinkansen; the development in the area around Oita Station; and the development of the Kagoshima-Chuo Station west entrance. City-building projects take a long time, and accordingly we consider the period of the new Medium-Term Business Plan to be important for the success or failure of these projects. On that basis, we will work to steadily advance our preparations.

Furthermore, although the overall population of Kyushu is expected to continue to decline, the population of Fukuoka City is projected to continue growing. I believe it will be important to effectively address the market in the Fukuoka Metropolitan Area. Currently, Fukuoka City is promoting the Hakata Connected<sup>\*6</sup> redevelopment guidance scheme, and the Group has announced plans for utilizing the space above the tracks at Hakata Station in coordination with Hakata Connected. Our plans include the construction of a multipurpose building that makes three-dimensional use of the space above conventional line tracks at Hakata Station. We are aiming to see this construction through with the cooperation of Fukuoka City, land owners in the Hakata Station area, and other parties. In this way, we will leverage a variety of opportunities, such as the deregulation measures advanced by the government, and aggressively implement business development initiatives.

<sup>\*6</sup> A program of Fukuoka City focused on the area within a 500-meter radius around Hakata Station. Through cooperation between the government sector and the private sector, the replacement of buildings within the area will be promoted and the dynamism and lively atmosphere of Hakata Station will be extended to the surrounding area.

## Projects That Will Be Opened during the Period of the Medium-Term Business Plan

### A Fukuoka Metropolitan Area

**A leading city in Asia and Japan's most vibrant community**

Work to maximize city value through business development that takes advantage of all opportunities

### B Development in the area around Kumamoto Station

**A station city that is the new center of Kumamoto**

Overview: Integrated development, incorporating commercial facilities, offices, hotels, condominiums, and parking lots

Timing of opening: Spring 2021 (station building)

Total floor space: 109,000 m<sup>2</sup> (station building only)

### C Miyazaki Station west entrance development

**A station city built jointly with local companies**

Overview: Integrated development incorporating commercial facilities, offices, parking lots, and condominiums

Timing of opening: Fall 2020 (JR Miyakoh Twin Building)

Total floor space: 37,700 m<sup>2</sup> (JR Miyakoh Twin Building only)

### D Mojiko Station restoration

**Revitalize the core of Mojiko Retro, a symbol of tourism in northern Kyushu Mojiko Station restoration**

Overview: Station building restoration, opening of “Mikado Shokudo by NARISAWA,” etc.

Timing of opening: March 2019

### Opening in FY23/3 and thereafter

### E Development in the area around Nagasaki Station

**A station city welcoming the world by leveraging the opportunities of the Shinkansen opening**

Overview: Integrated development incorporating commercial facilities, hotels, offices, etc.

### F Development at the west entrance of Kagoshima-Chuo Station

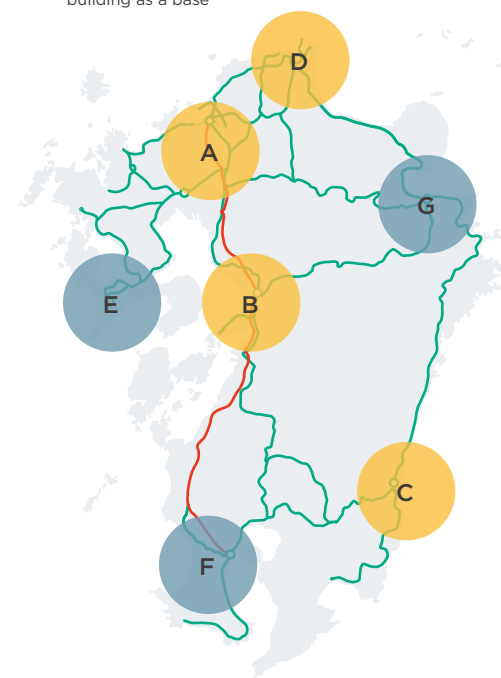
**A station city built through cooperation with local communities**

Overview: Integrated development incorporating commercial facilities, offices, and condominiums

### G Development in the Oita Station Area

**Leverage recruitment initiatives as business opportunities and promote further growth of the station city**

Overview: Integrated development incorporating commercial facilities, condominiums, etc., with the station building as a base



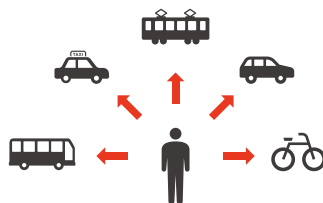
### Third Priority Initiative: Growth and Evolution in New Areas

We will continue to implement business development centered on Kyushu, and we will also conduct business activities in the area outside of Kyushu in business fields in which we expect to be sufficiently competitive. In Japan, we are rolling out new hotel brands, expanding our formats to include luxury hotels, and advancing development that leverages our results in condominium sales, which are in the top rank in Kyushu, and our planning capabilities. In August 2019, we opened THE BLOSSOM HIBIYA in the Tokyo Metropolitan Area under our new brand—THE BLOSSOM. Furthermore, in cooperation with influential partners, we will work to expand earnings from our businesses in Thailand, which were started during the previous Medium-Term Business Plan.

In taking on the challenge of new businesses, one focus will be operations that are highly compatible with the railway business. In consideration of the abovementioned trends in long-term technical innovation, the provision of new MaaS-related services will be important. Currently, we are considering the commercialization of MaaS in three categories—urban-style, regional-style, and tourism-style. In May 2019, we concluded a business alliance agreement with the taxi operator DAIICHI KOUTSU SANGYO Co., Ltd. This step was taken with a focus on the future rollout of MaaS-based, integrated mobility services.

#### Take on the challenge of new mobility services (MaaS)

Urban-style MaaS	<ul style="list-style-type: none"> <li>Start verification testing of new services in cooperation with taxi companies</li> <li>Apply MaaS concepts to city-building initiatives by utilizing such assets as parking lots connected to stations and rolling stock and by implementing</li> <li>New initiatives that leverage the knowledge of venture companies, etc. (with additional venture investment as needed)</li> </ul>
Regional-style MaaS	<ul style="list-style-type: none"> <li>Start to consider the applicability of MaaS as a sustainable mobility service, with the future state of regional transportation as the basic theme</li> </ul>
Tourism-style MaaS	<ul style="list-style-type: none"> <li>Build models for the revitalization of areas around our railway lines through collaboration with tourism facilities, commercial facilities, etc.</li> </ul>



### Target Management Indicators

Under the new Medium-Term Business Plan, our target management indicators are consolidated operating revenues of ¥480.0 billion and consolidated operating income of ¥57.0 billion. In comparison with results in FY2019/3, positive factors will include an increase in revenues from railway transportation and the benefits associated with the opening of the Kumamoto Station building and the Miyazaki Station building. On the other hand, expenses will be higher, due primarily to the abovementioned elimination of special tax measures and an increase in depreciation. Accordingly, the plan anticipates an increase in consolidated operating revenues but a decline in consolidated operating income. Furthermore, for reference, the forecast for EBITDA in FY2022/3 is approximately ¥90.0 billion.

#### Target Management Indicators (billions of yen)

Segment name	Operating revenues		Operating income		Major factors
	FY19/3	FY22/3	FY19/3	FY22/3	
Transportation	181.8	184.0	27.4	21.0	Higher revenues due to increase in revenues from railway transportation Lower profit due to higher expenses accompanying elimination of special tax measures, increase in depreciation, etc.
Construction	93.8	98.0	6.2	6.0	Higher revenue and profit due to Shinkansen-related construction work, etc.
Real Estate and Hotels	90.0	113.0	25.4	24.0	Higher revenues 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	3.4	4.0	Higher revenues and profits due to new store openings
Other	72.6	76.0	2.2	2.5	Higher revenues and profit due to higher sales outside the Group, etc
Total	440.3	480.0	63.8	57.0	

### Reference

EBITDA	ROE
85.4 (FY19/3)	12.4% (FY19/3)
→ 90.0 (FY22/3)	→ 8% or more (FY22/3)

Notes:

- In regard to segments, the figures have been reclassified in accordance with the new segment categories.
- Segment operating revenues and operating income are prior to elimination of inter-segment transactions.



## MESSAGE FROM THE PRESIDENT

We are planning total capital investment over the next three years of ¥340.0 billion, which will exceed the ¥228.7 billion of capital investment during the period covered by the previous plan. In addition, capital investment is expected to surpass the cumulative total amount of operating cash flows over the course of the plan. Looking at the details of capital investment, plans call for maintenance and upgrade investment of ¥130.0 billion (including safety investment of ¥70.0 billion), and growth investment of ¥210.0 billion (including M&A). The social role of the Group is to establish sustainable railway and mobility services, with a priority on safety and service, our most important missions. To that end, we must invest in measures to address such issues as frequent natural disasters, aging facilities, and rolling stock upgrades. In particular, for the Group to continue practicing sustainable management, it must achieve further growth in cash flows and profits, not only in the Transportation Segment but also in the Real Estate and Hotels Segment and other segments. Accordingly, we will continue to steadily implement growth investment. Maintenance and upgrade investment, certain portions of growth investment, and shareholder returns will be implemented, in principle, within the limits of operating cash flows. On the other hand, to raise funds to address the shortage of cash resulting from growth investment, we will utilize debt while maintaining financial discipline.

### ESG Initiatives

In recent years, growing attention has been paid to environmental, social, and governance (ESG) investment, in which investment decisions incorporate non-financial information, such as ESG information, and to the Sustainable Development Goals (SDGs),<sup>\*7</sup> which are goals shared by international society. I believe that this is a result of the widespread acceptance of the idea that contributing to the sustainability of society also supports the sustainability of companies themselves.

This idea underpins what we aim to be: “A corporate group that invigorates Kyushu, Japan, and Greater Asia with safety and service as its foundation.” The three pillars that form our code of conduct—Integrity, Growth and Evolution, and Local Community Invigoration—have always been kept in mind and used as a touchstone by every employee of the Group. I believe that these pillars are aligned with ESG initiatives.

## Major Themes of ESG

Environment (E)	Social (S)	Governance (G)
<p>Work to support conservation of the natural environment as a responsible company addressing environmental issues that have an influence on business continuity</p>	<p>Work to secure and develop human resources needed to address changes in the social structure and ongoing innovation, and strive to contribute to the establishment of a sustainable society</p>	<p>Target the realization of what the JR Kyushu Group aims to be, build a stable long-term and trust relationships with stakeholders</p>
Major themes	Major themes	Major themes
<ul style="list-style-type: none"> <li>• Climate change: Contribute to a low-carbon society through environmentally friendly station facilities and rolling stock</li> <li>• Resource conservation: Proactively move activities forward</li> <li>• Pollution prevention: Strive to ensure safety in business areas and peripheral environments</li> </ul>	<ul style="list-style-type: none"> <li>• Safety</li> <li>• Service</li> <li>• Utilization of human resources, job satisfaction</li> <li>• Contribution to local communities</li> <li>• Enhancement of initiatives to address human rights issues</li> <li>• Strengthen supply chain management</li> </ul>	<ul style="list-style-type: none"> <li>• Implement rigorous compliance to prevent corruption and other wrongdoing</li> <li>• Strengthen risk management</li> <li>• Establish management transparency and fairness</li> <li>• Enhance communication with stakeholders</li> </ul>
New initiatives	New initiatives	New initiatives
<ul style="list-style-type: none"> <li>• Strengthen the system of the Ecology Committee</li> <li>• Formulate the JR Kyushu Environmental Vision</li> </ul>	<ul style="list-style-type: none"> <li>• Formulate various policies (human rights, purchasing, human resource development)</li> <li>• Disclose related data</li> </ul>	<ul style="list-style-type: none"> <li>• Formulate various policies (corruption prevention, governance)</li> <li>• Disclose related data</li> </ul>

## MESSAGE FROM THE PRESIDENT

The Group, therefore, established the ESG Promotion Office to implement ESG initiatives on a full-fledged basis. However, this new office will not significantly change what the Group has done to date. Rather, we will strengthen our commitment and implement activities that will earn a favorable response from our shareholders, investors, people in local communities, and other stakeholders. In accordance with this approach, under the new Medium-Term Business Plan, we established major themes for ESG initiatives. We will strengthen and advance initiatives in ESG fields in order to make a continued contribution to local communities through our business activities.

→ For further information about our ESG-related initiatives, please refer to the ESG Section on pages 28 to 49.

\*7 International goals to be achieved during the period from 2016 to 2030 in The 2030 Agenda for Sustainable Development, which was adopted at a UN summit in September 2015 as a successor to the Millennium Development Goals (MDGs), which were formulated in 2001.

### To Our Shareholders and Investors


The Company views the return of profits to shareholders as one of its most important management tasks. Accordingly, the Company has adopted a basic policy of providing stable shareholder returns over the long term. Up to FY2019/3, our basic policy was to aim for stable dividends per share with a consolidated payout ratio at a level of approximately 30% as the standard guideline. For each fiscal year, we made a decision regarding the amount of dividends in accordance with a comprehensive evaluation, while maintaining a focus on future results trends. In accordance with this policy, based on a comprehensive evaluation of operating results and other factors, the Company decided to pay an annual dividend of ¥93 per share for FY2019/3. Over the period of the new Medium Term Business Plan, from FY2020/3 to FY2022/3, we will aim for a total payout ratio of 35%, while providing stable dividends and implementing share repurchases depending on the situation. For FY2020/3, in keeping with this policy, we are planning an annual dividend of ¥93 per share, the same as that for FY2019/3.

Over the three-year period of the new Medium-Term Business Plan, operating income is forecast to decline. In this setting, the Company will work to improve earnings. In addition, we will draw on our borrowing ability to implement capital investment in order to steadily advance development initiatives, such as the Miyazaki Station west entrance development and the development in the area around Kumamoto Station, and increase corporate value over the medium to long term.

JR Kyushu has emphasized dialogue with shareholders and investors, and the feedback that we have received has been reflected in management in a variety of ways. Moving forward, there will be no change to that approach. JR Kyushu was established through the break up and privatization of its predecessor, which was a state-owned enterprise. Furthermore, JR Kyushu is a company that has advanced its business operations in accordance with an extremely distinctive management system, under which investment income from the Management Stabilization Fund was used to compensate for losses from the railway business. Accordingly, I believe that we must work harder than typical listed companies in order to help shareholders and investors understand our approach to management.

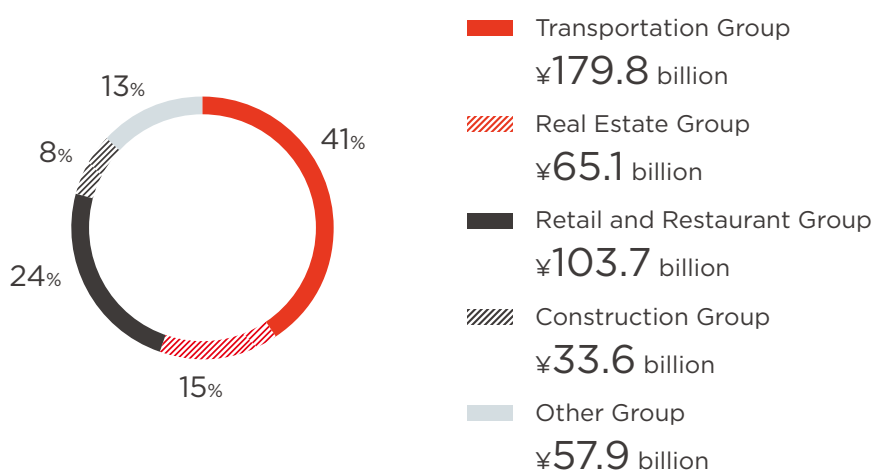
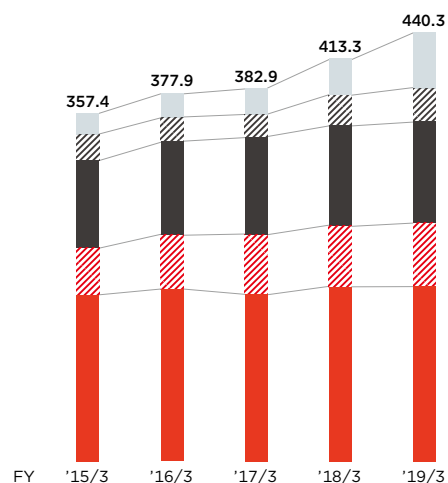
In accordance with our newly established 2030 Long-Term Vision and our new Medium-Term Business Plan, we will work to fulfill our social responsibility as a corporate group that provides mobility services in Kyushu, with a focus on the future. In this way, we will strive to increase corporate value. I would like to ask our shareholders and investors for even greater support and understanding of the Group's businesses going forward.

August 2019  
President and CEO  
Toshihiko Aoyagi



# FINANCIAL HIGHLIGHTS

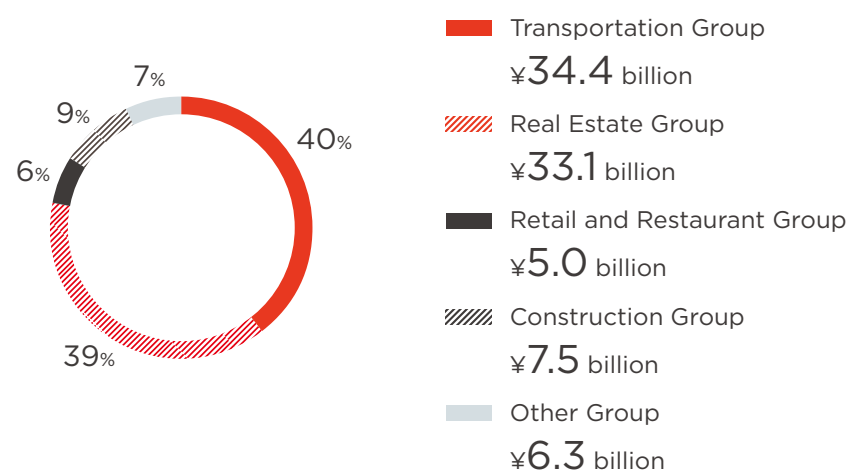
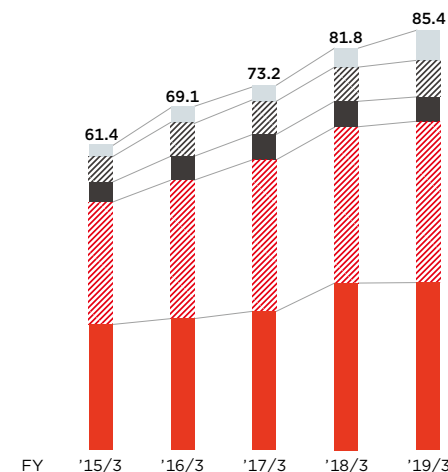
Consolidated Operating Revenues (Billions of yen)



Notes:

- Figures for each segment are figures before the segment change in April 2019.
- Operating revenues by segment are attributable to external customers, and EBITDA by segment is before intersegment eliminations.
- EBITDA for FY2016/3 and previous fiscal years comprises operating income + cost of depreciation + earnings from use of the Management Stabilization Fund, while EBITDA for FY2017/3 comprises operating income + cost of depreciation.
- Percentages show the percentage of the total accounted for by each business segment. Due to rounding, the total of the percentages might not equal 100%.

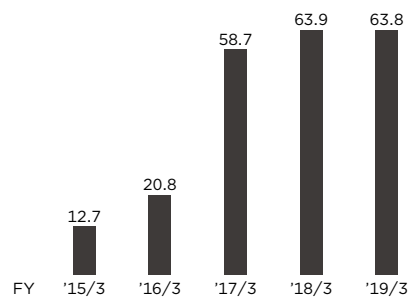
Consolidated EBITDA (Billions of yen)



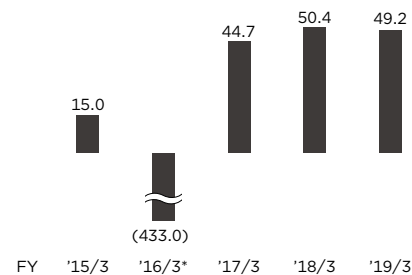


## FINANCIAL HIGHLIGHTS

### Operating Income (Billions of yen)



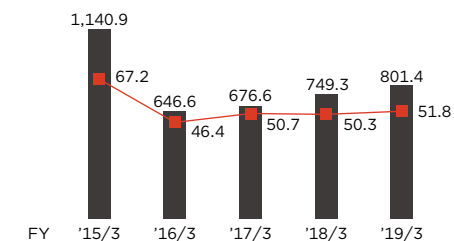
### Net Income (Loss) Attributable to Owners of the Parent (Billions of yen)



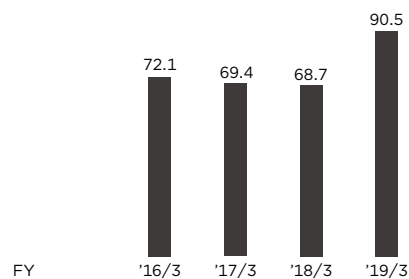
\* On March 31, 2016, the Management Stabilization Fund was terminated. Consequently, an impairment loss of ¥521.5 billion was recorded on railway-related fixed assets and other assets for the year ended on the same date.

### Total Assets / Equity Ratio

■ Total assets (Billions of yen)  
■ Equity ratio (%)

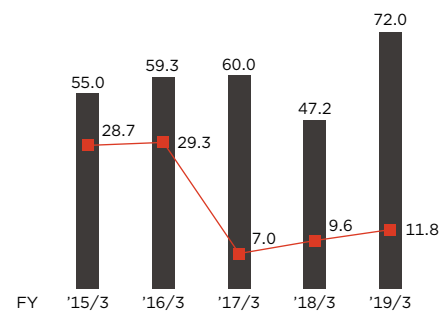


### Capital Investment Amounts (Consolidated) (Billions of yen)



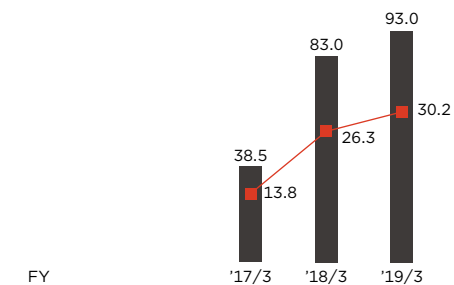
### Capital Investment Amounts / Depreciation Costs (Non-Consolidated)

■ Capital investment amounts (Billions of yen)  
■ Depreciation costs (Billions of yen)



### Dividends per Share / Dividend Payout Ratio

■ Dividends per share (Yen)  
■ Dividends payout ratio (%)



# REVIEW OF OPERATIONS

To promote segment management, on April 1, 2019, we established intermediate holding companies in the station building and hotel businesses, and we implemented segment classification changes. Please note that in this section the reporting is based on the former segments.


# TRANSPORTATION GROUP (former segments)

## FY2019/3 Results

## Operating Revenues

YoY  
¥185.0 billion 0.7% 

## EBITDA

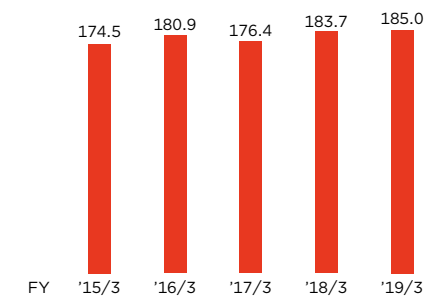
YoY  
¥34.4 billion 0.3% 

Operating revenues in the Transportation segment were ¥185.0 billion, an increase of ¥1.2 billion, or 0.7%, compared with the previous fiscal year. Operating income came to ¥27.4 billion, down ¥1.7 billion, or 6.0%, compared with the previous fiscal year, and EBITDA edged up 0.3%, to ¥34.4 billion.

Operating revenues increased due to higher railway transportation revenues. However, operating income declined as a result of a rise in depreciation and other factors, while EBITDA registered a small increase.

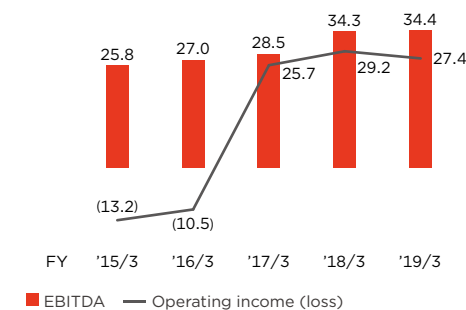
## Operating Revenues

(Billions of yen)



## EBITDA / Operating Income (Loss)

(Billions of yen)



## Notes:

1. Operating revenues, operating income (loss), and EBITDA are numerical values before eliminating intersegment transactions.
2. Transportation Group EBITDA for FY2016/3 and previous fiscal years comprises operating income + cost of depreciation + earnings from use of the Management Stabilization Fund, while EBITDA for FY2017/3 comprises operating income + cost of depreciation.

## Segment Overview

Our Transportation segment consists mainly of our operation of a network of railway lines constituting key commuter lines for the Kyushu regional area covering a total length of 2,273.0 operating kilometers (including 288.9 operating kilometers of Shinkansen tracks leased from JR TT) that connects the entirety of the island of Kyushu and all seven of its prefectures as well as a number of Design and Story trains and tour experiences. The business also includes long-distance and local bus operations and hydrofoil ferry services to South Korea and Tsushima.

## Consolidated Subsidiaries (as of March 31, 2019)

- Holding Company for Houhi Main Line
- JR Kyushu Bus Company
- JR Kyushu Jet Ferry Inc.
- JR Kyushu-Rent-A-Car&Parking Co., Ltd.
- JR Kyushu Service Support Co., Ltd.
- JR Kyushu Linen Co., Ltd.



## REVIEW OF OPERATIONS

### Transportation Group

#### FY2019/3 Initiatives

In the railway business, we continued to develop operations founded on safety and service quality. At the same time, we fully utilized our network centered on the Kyushu Shinkansen to deploy sales measures from the customer's perspective in order to secure profits.

We promoted sales of all our planned tickets with the purpose of encouraging the use of railways, primarily the Kyushu Shinkansen, while implementing various campaigns aimed at transporting passengers to target areas. Furthermore, we took steps to promote use of the Internet Reservation Service, such as by launching the JR Kyushu Internet Train Reservation Business for corporate customers. We also made efforts to increase awareness of the Kyushu brand and encourage customers to visit Kyushu, including by operating the cruise train Seven Stars in Kyushu on a new route. Moreover, we enhanced the JR Kyushu Rail Pass, a mainstay product geared toward customers from overseas. To that end, in addition to a direct online sales system and a seat reservation service offered through JR Kyushu Rail Pass Online Booking, a specialized reservation

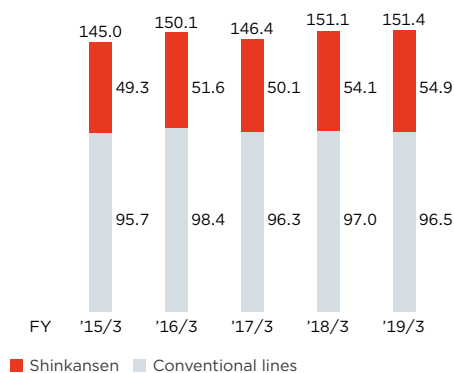
website, we provided information and offered sales promotions catering to customers from specific countries and regions.

In transportation, we implemented detailed transportation-oriented initiatives, making 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.

In our passenger ship business, we began to operate Japan's first ferries combining passengers and cargo. This service is available on some of our Beetle hydrofoil ferries on a domestic route between Fukuoka and Tsushima. In this way, we worked to expand demand for travel via hydrofoil ferries. For our bus business, we rolled out limited-time discount campaigns for the high-speed bus B&S Miyazaki, which is connected to the Kyushu Shinkansen, and other high-speed bus routes. In addition, we worked to further improve earnings through the revision of certain routes.

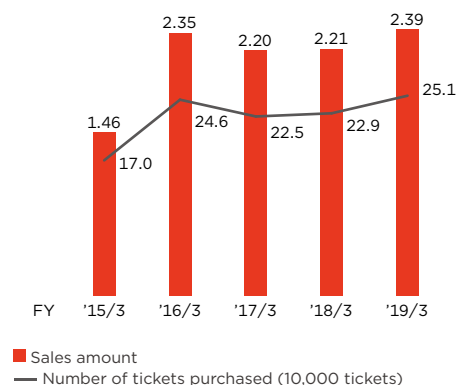
#### Railway Transportation Revenues

(Billions of yen)



#### Sales Amount and Number of JR Kyushu Rail Pass Purchased

(Billions of yen)



#### Strengthening of Measures to Capture Inbound Tourism Demand

The number of inbound travelers to Kyushu was 5.11 million in 2018, an increase of 170,000 year on year. Through collaboration with overseas travel agencies and airlines and the enhancement of specialized reservation sites, we worked to expand sales of the JR Kyushu Rail Pass.

Looking at our transportation revenues, inbound use was primarily by customers from South Korea, Taiwan, Hong Kong, and China. Previously, the majority of Chinese tourists visiting Kyushu arrived by cruise ship, but in recent

years individual travel has been increasing, and we anticipate further gains in railway usage going forward. In July 2018, we concluded a strategic alliance with the Alibaba Group, which provides Fliggy, a travel site visited by more than 10 million people a day. In FY2019/3, sales of the JR Kyushu Rail Pass in China were up substantially, rising approximately 20% year on year.



JR Kyushu Rail Pass

#### Recovery from Natural Disasters

The heavy rains that occurred in July 2018, centered on western Japan, caused damage to the Chikuhi Line, the Chikuho Main Line, and the Hisatsu Line. Consequently, in FY2019/3 the Company recorded disaster expenses totaling approximately ¥1.2 billion.\* Operation has since been restarted on all of these routes.

The heavy rains in northern Kyushu in July 2017 caused damage to the Kyudai Main Line and the Hitahikosan Line. Operation on the Kyudai Main Line was restarted in July 2018, but operation on the Hitahikosan Line is still suspended between Soeda Station and Yoake Station. We are currently discussing the restoration plan with local governments.

Moreover, operation on the Houhi Main Line between Higo-Ozu Station and Aso Station was suspended due to the impacts of the 2016 Kumamoto

earthquakes. We are now coordinating restoration initiatives with the national government and related local governments, and we expect operation to be restored in FY2021/3.

Moving forward, the JR Kyushu Group will continue to focus on initiatives targeting the building of robust railways in order to minimize the effects of natural disasters.

\* Approximately ¥400 million of this amount was provision for loss on disaster.



The Chikuhi Line was damaged by heavy rain in July 2018.

# REAL ESTATE GROUP (former segments)



## Segment Overview

Our Real Estate segment consists of dedicated station buildings connected to our primary railway stations throughout Kyushu and the leasing of commercial retail space located within such complexes and office space in office buildings, the leasing of residential apartments through our RJR brand, and the sale of condominiums through our MJR brand. Our principal real estate holdings include those in highly desirable areas of the major city areas of Kyushu, such as the Hakata District of Fukuoka.

## Consolidated Subsidiaries (as of March 31, 2019)

- JR Hakata City Co., Ltd.
- Kokura Terminal Building Inc.
- Nagasaki Terminal Building Inc.
- JR Oita City, Inc.
- Kagoshima Terminal Building Inc.
- JR Kyushu Building Management Co., Ltd.
- JR Kyushu Business Development (Thailand) Co., Ltd.
- JR Kyushu Capital Management (Thailand) Co., Ltd.

Note: For JR Kyushu Capital Management (Thailand) Co., Ltd., the proportion of voting rights is 50% or less, but it is substantially controlled by the Company, and therefore it is a consolidated subsidiary.

## FY2019/3 Results

### Operating Revenues

YoY  
¥72.6 billion 4.7% ↑

### EBITDA

YoY  
¥33.1 billion 3.4% ↑

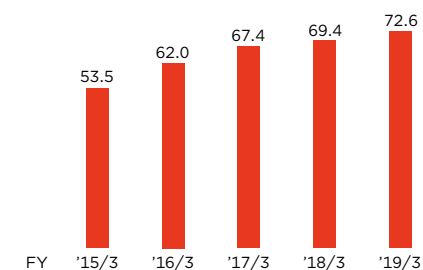
Operating revenues in the Real Estate segment were ¥72.6 billion, an increase of ¥3.2 billion, or 4.7%, compared with the previous fiscal year. Operating income came to ¥23.7 billion, an increase of ¥0.5 billion, or 2.5%, while EBITDA was ¥33.1 billion, up ¥1.0 billion, or 3.4%.

Operating revenues, operating income, and EBITDA all increased year on year due to higher revenues from real estate leases.

Our real estate lease business recorded ¥52.9 billion in operating revenues before intersegment eliminations, operating income of ¥21.3 billion, and EBITDA of ¥30.7 billion.

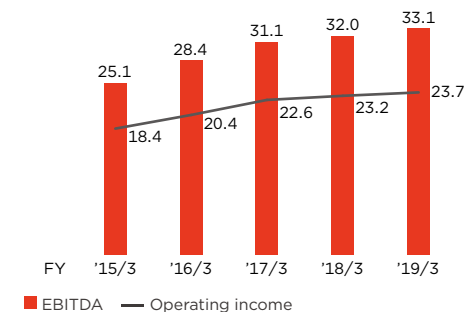
### Operating Revenues

(Billions of yen)



### EBITDA / Operating Income

(Billions of yen)



#### Notes:

1. Operating revenues, operating income, and EBITDA are numerical values before eliminating intersegment transactions.
2. Real Estate Group EBITDA comprises operating income + cost of depreciation.

## REVIEW OF OPERATIONS

### REAL ESTATE GROUP

#### FY2019/3 Initiatives

Our real estate lease business centers on commercial facilities, such as station buildings, as well as offices and apartments, primarily in the Kyushu area.

In our station building business, we are promoting attractive and lively city-building centered on train stations and rooted in local communities. Also, we are maximizing synergistic effects with the railway business with the aim of improving the value of our stations and station buildings. At the new commercial facility Higo Yokamon Ichiba, which was fully opened beneath Kumamoto Station in FY2019/3, we worked to create a lively station atmosphere. In addition, we renovated Amu Plaza Kokura and Amu Plaza Nagasaki and actively held events utilizing the station squares

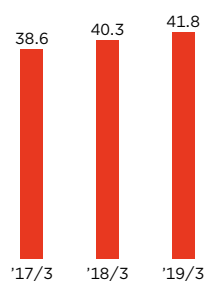
and other facilities at each station. In these ways, we made concerted efforts to expand earnings.

In our rental apartment business, we have established our brand in Kyushu, and units and sales have both started to increase steadily. Furthermore, the occupancy rate at rental apartments remains at a high level.

In the real estate sales business, the condominium sales business is active in all areas of Kyushu, and our MJR series has grown into a popular brand of buildings in Kyushu that sell out quickly after they are put on the market. We recorded sales at MJR the Garden Kagoshima-Chuo, MJR Oita Ekimae the Residence, and other properties, and we worked to promote sales activities at MJR The Garden Kami-Kumamoto Ekimae.

#### Station Building Business Revenues

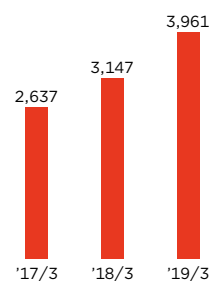
(Billions of yen)



Note: Figures above are the total of business revenues from six station building business subsidiaries and the JRJP Hakata Building.

#### Number of Units at Rental Apartments (Aggregate)

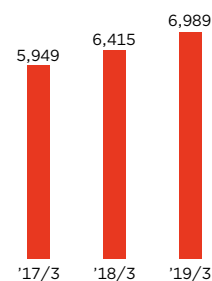
(Units)



Note: Figures are as of March 31 of each fiscal year.

#### Number of Sold Condominiums (Aggregate)

(Condominiums)



Note: Figures are as of March 31 of each fiscal year.

#### ■ Initiatives to Develop Areas around Stations, Centered on Station Buildings

We are advancing the station building business, predominantly targeting major stations in Kyushu, and promoting city-building overflowing with charm and energy, centered on station buildings.

With e-commerce sales continuing to grow, we took steps to revise our operations, such as strengthening leasing activities and implementing store renovations. As a result, we are now recording steady tenant sales at JR Hakata City and other major station buildings. In FY2019/3, we implemented the full opening of Higo Yokamon Ichiba, which was the first initiative in the development project for the area around Kumamoto Station. We also renovated Amu Plaza Kokura and Amu Plaza Nagasaki. During the period of the JR Kyushu Group Medium-Term Business Plan 2019–2021, we are planning to implement the Miyazaki Station west entrance

development and development in the area around Kumamoto Station. In particular, for the development in the area around Kumamoto Station, we are planning an integrated development project that will include not just a station building but also hotel, residential, and other facilities. The opening is scheduled for spring 2021,

Leveraging the know-how that we have cultivated to date, we will work to increase city value with stations as bases.



Higo Yokamon Ichiba was opened under elevated railway tracks at Kumamoto Station

#### ■ Further Progress in the Rental Apartment and Condominium Businesses

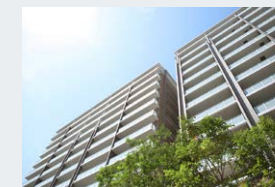
To generate revenues in Kyushu, focusing on Fukuoka, which is a major area, we will leverage our brand strengths in the rental apartment and condominium businesses, where we are providing a stable supply of about 500 rental apartments and 500 condominiums a year.

In rental apartments, we are implementing new development projects and taking other steps to generate stable earnings. We are also working to develop high-grade properties that leverage our know-how in the field of condominiums, and we continue to secure high occupancy rates. In FY2019/3, we started accepting tenants at Grand Precia Shibaura, a property in Tokyo with a total of 234 units.

With regard to condominiums, in

FY2019/3 we started to deliver units at MJR the Garden Kagoshima-Chuo, which has a total of 472 units.

Moving forward, we will continue efforts to secure further earnings.



Delivery of units at MJR the Garden Kagoshima-Chuo started in FY2019/3



# RETAIL AND RESTAURANT GROUP (former segments)



## Segment Overview

Our Retail and Restaurant segment consists mainly of the operation of DRUG ELEVEN branded drugstores, FamilyMart branded convenience store franchises, kiosk stands, fast food chains, and restaurants located throughout Kyushu, Okinawa, Tokyo, and Shanghai, China, both in and around our railway stations and other attractive urban locations.

## Consolidated Subsidiaries (as of March 31, 2019)

- JR Kyushu Retail, Inc.
- JR KYUSHU DRUG ELEVEN CO., LTD.
- JR Kyushu Food Service Inc.
- JR Kyushu Fast Foods Inc
- Inc Train D'or
- Shanghai JR Kyushu Food Service Inc.
- JR Kyushu Farm. Co., Ltd.

## FY2019/3 Results

### Operating Revenues

YoY  
¥104.0 billion 0.8% ▲

### EBITDA

YoY  
¥5.0 billion 4.8% ▲

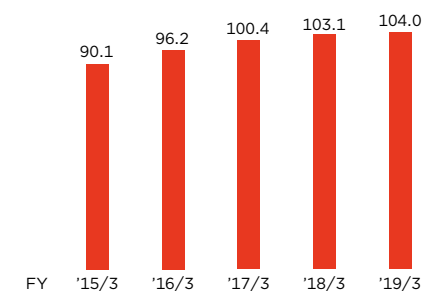
Operating revenues in the Retail and Restaurant segment were ¥104.0 billion, an increase of ¥0.8 billion, or 0.8%, compared with the previous fiscal year. Operating income was ¥3.4 billion, a decrease of ¥0.2 billion, or 6.5%, while EBITDA came to ¥5.0 billion, a decrease of ¥0.2 billion, or 4.8%.

In the retail business, we opened new drugstores and convenience stores.

In the restaurant business, we took steps to expand our business area, such as opening our first cafe in the Hiroshima region. We also worked to develop new business formats in stations.

### Operating Revenues

(Billions of yen)



### EBITDA / Operating Income

(Billions of yen)



#### Notes:

- Operating revenues, operating income, and EBITDA are numerical values before eliminating intersegment transactions.
- Retail and Restaurant Group EBITDA comprises operating income + cost of depreciation.



# CONSTRUCTION GROUP (former segments)



## Segment Overview

Our Construction segment provides comprehensive services that include the design, planning, and construction of a variety of railway and civil engineering projects. Our construction business complements our railway business through its involvement in projects including the upgrade of our railway network, as well as working on other railway construction throughout Japan.

## Consolidated Subsidiaries (as of May 31, 2019)

- KYUTETSU CORPORATION
- Sanki Construction Co., Ltd.
- JR Kyushu Housing Company
- JR Kyushu Engineering, Ltd.
- Kyushu Electric System Company
- JR Kyushu Consultants Company

## FY2019/3 Results

Operating Revenues

YoY

¥91.7 billion 4.3% ↑

EBITDA

YoY

¥7.5 billion 6.1% ↑

Operating revenues in the Construction segment were ¥91.7 billion, an increase of ¥3.7 billion, or 4.3%, compared with the previous fiscal year. Operating income was ¥6.5 billion, up ¥0.2 billion, or 4.1%, and EBITDA came to ¥7.5 billion, an increase of ¥0.4 billion, or 6.1%.

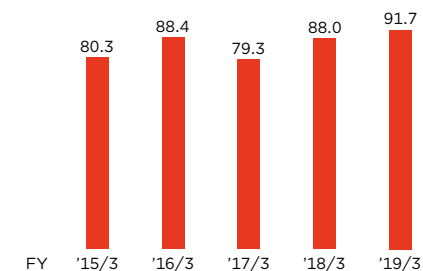
In the construction business, work orders have been received for Shinkansen-related projects, elevated tracks, condominium-related projects, and other projects, with construction being steadily executed. Cost reductions were also pursued.

### Notes:

1. Operating revenues, operating income, and EBITDA are numerical values before eliminating intersegment transactions.
2. Construction Group EBITDA comprises operating income + cost of depreciation.

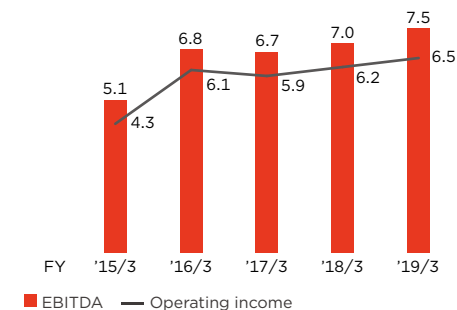
## Operating Revenues

(Billions of yen)



## EBITDA / Operating Income

(Billions of yen)



# OTHER GROUP (former segments)



## Segment Overview

Our Other segment consists mainly of our hotel operations in Japan, but also includes a trading company, an advertising agency, and nursing homes. Our hotels are located across Kyushu, Tokyo, and Okinawa. Our hotel properties enjoy occupancy rates higher than the average hotel in Kyushu and have been a stable source of cash flows and a growing source of revenues.

## Consolidated Subsidiaries (as of March 31, 2019)

- JR Kyushu Huis Ten Bosch Hotel Co., Ltd.
- JR Kyushu Hotels Inc.
- JR Kyushu Station Hotel Kokura Inc.
- JR Kyushu Resort Development Co., Ltd.
- Oyama Yumekobo, Inc.
- JR Kyushu Trading Co., Ltd.
- JR Kyushu Financial Management Company
- JR Kyushu Agency Co., Ltd.
- JR KYUSHU SECOM INC.
- JR Kyushu Life Service Co., Ltd.
- JR Kyushu System Solutions Inc.
- JR Kyushu Senior Life Support, Inc.
- Caterpillar Kyushu Ltd.

Notes: JR KYUSHU SECOM INC. is an equity-method affiliate of the Company.

## FY2019/3 Results

### Operating Revenues

YoY  
¥89.8 billion 33.3% ↑

### EBITDA

YoY  
¥6.3 billion 59.1% ↑

Operating revenues in the Other segment were ¥89.8 billion, an increase of ¥22.4 billion, or 33.3%, compared with the previous fiscal year. Operating income came to ¥3.5 billion, an increase of ¥1.1 billion, or 48.1%, while EBITDA was ¥6.3 billion, up ¥2.3 billion, or 59.1%.

In the hotel business, we took steps to expand earnings by renovating JR Kyushu Station Hotel Kokura and strengthening revenue management at existing hotels.

In the seniors business, we began to provide home nursing care services at SJR Takatori, a private residential home for the elderly. We also worked to improve services to make our facilities more attractive to customers.

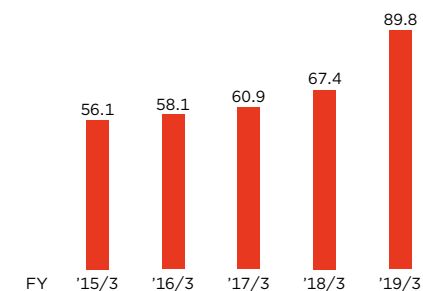
In the construction machinery sales and rental business, we took steps to acquire new orders, such as exhibiting construction machinery that leverages information and communications technology.

### Notes:

1. Operating revenues, operating income, and EBITDA are numerical values before eliminating intersegment transactions.
2. Other Group EBITDA comprises operating income + cost of depreciation.

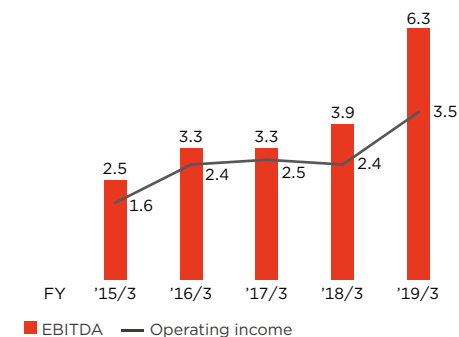
## Operating Revenues

(Billions of yen)



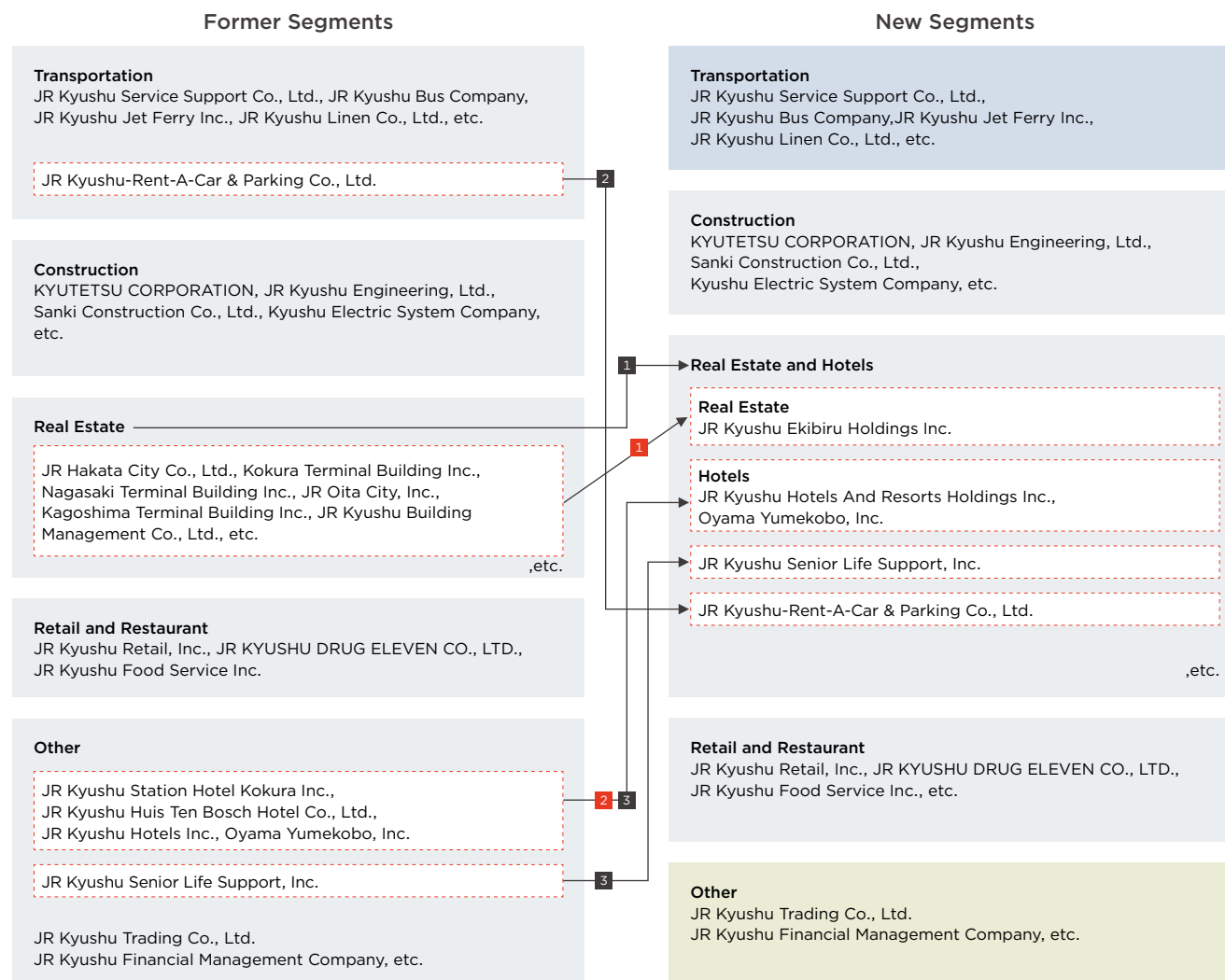
## EBITDA / Operating Income

(Billions of yen)



# OVERVIEW OF SEGMENT CLASSIFICATION CHANGES

## Overview of Segment Classification Changes (as of April 1, 2019)



## Points of change

- 1 2 Establish intermediate holding companies in the station building and hotel business (as of April 1, 2019)

Strengthen governance and achieve agile and flexible decision-making and operational execution through business management based on intermediate holding companies (JR Kyushu Hotels And Resorts Holdings Inc., JR Kyushu Ekibiru Holdings Inc.)

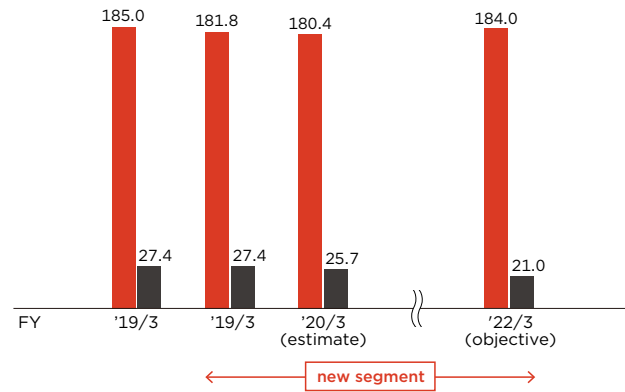
Change segment classifications and revenue / expense classifications (as of April 1, 2019)

### [Segment classification changes, etc.]

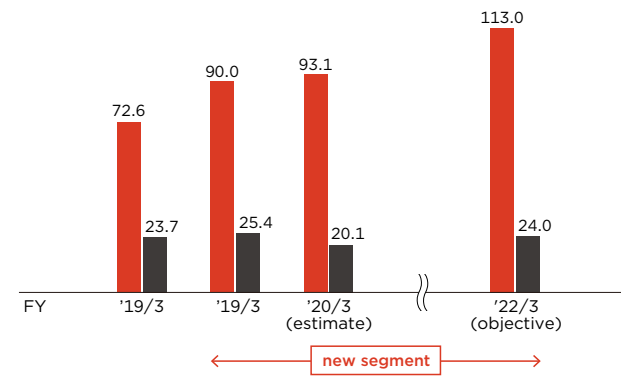
- 1 Real Estate segment → Real Estate and Hotels segment**  
Segment name changed in conjunction with the segment classification changes in order to seamlessly strengthen the real estate and hotel businesses
- 2 JR Kyushu-Rent-A-Car & Parking Co., Ltd.**  
Aim for further growth in the core parking lot business by strengthening collaboration with the real estate business
- 3 Hotel business and JR Kyushu Senior Life Support, Inc.**  
Revise the practice under which multiple segments record revenues, etc., from the hotel business and the seniors business, which are aiming for further growth by strengthening collaboration with the real estate business. Shift the hotel business and the seniors business to the Real Estate and Hotels segment

## OVERVIEW OF SEGMENT CLASSIFICATION CHANGES

### Transportation Services

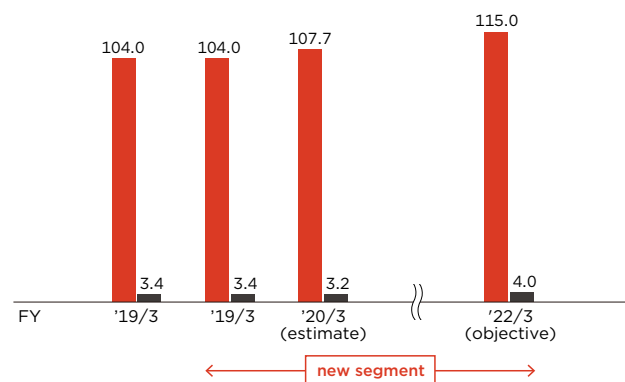


### Real Estate and Hotels

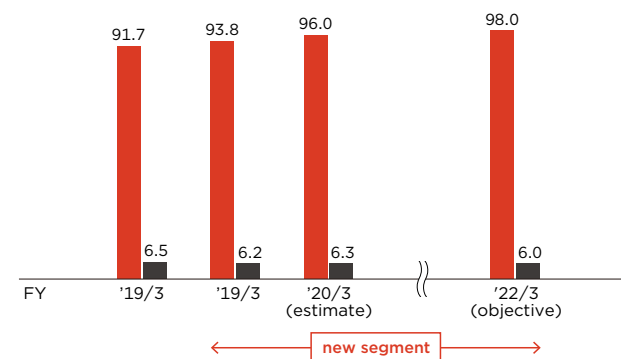


■ Operating revenues (billions of yen)  
■ Operating income (billions of yen)

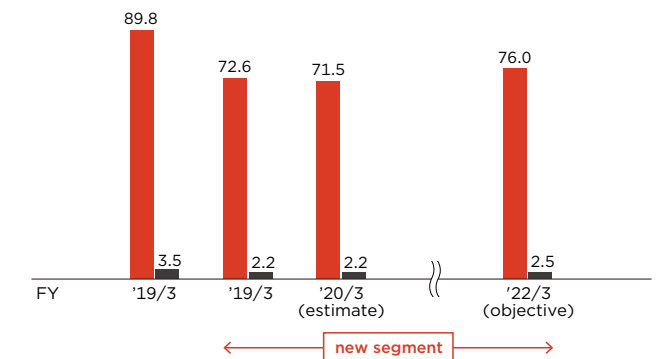
### Retail and Restaurant



### Construction



### Other





## ESG SECTION

## SAFETY

## Policy on Ensuring Railway Safety

The JR Kyushu Group establishes a Medium-Term Safety Plan in order to ensure the safety of its railways. In the safety plan (2017-2019), we set forth the goals of “eradicating accidents that could result in the deaths or injuries of customers or in the deaths of employees,” “eradicating, to achieve the preceding goal, dangerous accidents and events that threaten to have such an impact,” and, finally, “reducing other accidents and

events.” In order to achieve those goals, we formulated priority actions for five major items—“improvement of framework for enhancing safety (safety management system),” “development of human resources who support safety,” “development of measures to ensure safety,” “strengthening measures for reducing and preventing damage from disasters,” and “preventing rolling stock and facility breakdowns”—and we implemented initiatives in line with the action plan.

In the future, in accordance with the safety plan, we will formulate a basic policy on safety each fiscal year, and by reliably implementing initiatives in line with the policy, we will build up more reliable safety.

## Safety Control Structure

With proactive involvement by top management, we have established safety management regulations for the purpose of establishing a safety control structure and maintaining and improving transportation safety. In addition, by appropriately operating a PDCA cycle for safety control and implementing such activities as safety audits and safety checks, we carry out checks of our internal safety control structure and thus strive to further ensure safety.

## Safety Promotion Committee

At the head office, meetings of the Corporate Safety Promotion Committee, whose purpose is to carry out deliberations on implementing measures for preventing railway accidents, transport disorders, and work-related accidents and to share safety-related information, are held on a monthly basis. Matters, such as measures and information, that are adopted by the committee are disseminated mainly through Safety Promotion Committee meetings held in each area of Kyushu and Safety Promotion Committee meetings held in each department. Furthermore, in order that the whole Group works to ensure safety, these Safety Promotion Committee meetings are attended by persons in charge of safety at JR Kyushu Group companies, and measures and safety-related information that are adopted are disseminated to Group companies.

Initiatives for Enhancement and Growth	FY2019/3 Priority Action Items
<b>Improvement of framework for enhancing safety (safety management system)</b> 1) Smooth implementation of a PDCA cycle that includes safety audits, safety checks, and full safety checks 2) Initiatives for the whole Group that include safety conferences, safety discussion gatherings, and meetings and trainings in each department 3) Reduction of potential risks by promptly responding to views expressed by employees about safety	<ul style="list-style-type: none"> <li>• Smooth implementation of a PDCA cycle that includes safety audits, safety checks, and full safety checks</li> <li>• Initiatives for the whole Group that include safety conferences, safety discussion gatherings, and meetings and training in each department</li> </ul>
<b>Development of human resources who support safety:</b> 1) Implementation of study training at the Safety Promotion Building and follow-ups at each workplace 2) Various study training and applied education and trainings; on-site tours of safety promotion projects and technical guidance projects; and various abnormal-event response training 3) Establishment of risk management, and educational materials-based education to prevent work-related accidents	<ul style="list-style-type: none"> <li>• Implementation of effective methods to eliminate operation errors that could result in deaths or injuries</li> <li>• Implementation of study training at the Safety Promotion Building on the theme of “prevention, rescue, communication”</li> <li>• Various study training and applied education training; on-site tours; and various abnormal-event response training</li> <li>• Establishment of risk assessment, and educational materials-based education to prevent work-related accidents</li> <li>• Thorough implementation of rapid and accurate reporting and appropriate responses, with a priority on safety</li> </ul>
<b>Development of measures to ensure safety:</b> 1) Development of facilities that provide back-ups in the event of human errors and thereby increase the degree of safety 2) Prevention of dangerous events involving train cars and facilities 3) Initiatives to reduce railway accidents	<ul style="list-style-type: none"> <li>• Development of facilities that provide back-ups in the event of human errors and thereby increase the degree of safety</li> <li>• Prevention of dangerous events involving train cars and facilities</li> <li>• Initiatives to reduce railway accidents</li> </ul>
<b>Strengthening measures for reducing and preventing damage from disasters:</b> 1) Earthquake and tsunami measures 2) Measures to prevent fallen rocks, trees, bamboo, and other fallen objects 3) Strengthening of measures to prevent damage caused by rainfall on Shinkansen tunnel openings and urban areas with conventional lines 4) Measures to prevent damage by animals (deer), such as expansion of fence installations to prevent intrusions by deer and implementation of effective cautious operation 5) Emergency alerts in accordance with the level of railway terrorism crisis management	<ul style="list-style-type: none"> <li>• Earthquake and tsunami measures</li> <li>• Promotion of measures to prevent fallen rocks, fallen trees and bamboo, flying objects, etc.</li> <li>• Strengthening of measures to prevent damage caused by rainfall on Shinkansen tunnel openings and urban areas with conventional lines</li> <li>• Measures to prevent damage by animals (deer), such as expansion of fence installations to prevent intrusions by deer and implementation of effective cautious operation</li> <li>• Promotion of countermeasures to railway terrorism crisis in preparation for international events</li> </ul>
<b>Preventing rolling stock and facility breakdowns:</b> 1) Carrying out the disposal of aging cars, refurbishment work, engine replacement for internal-combustion engine cars, etc. 2) Taking measures to prevent shelling, including planned rail replacement and rail resurfacing 3) Introducing multiple train detectors for track circuit devices, taking measures to prevent cable damage, and carrying out planned facility upgrades for interlocking devices and the like 4) Carrying out planned upgrades of railway facilities and equipment and planned replacement of obsolete equipment	<ul style="list-style-type: none"> <li>• Rolling stock refurbishment work, engine replacement for internal combustion engine cars, etc.</li> <li>• Promotion of appropriate shelling management and rail resurfacing</li> <li>• Enhancement of the train detection capabilities of multiple train detectors for track circuit devices, promotion of stable operation (2 different series)</li> <li>• Prevention of breakdowns by carrying out planned upgrades of railway facilities and equipment and planned replacement of obsolete equipment</li> </ul>

## ESG SECTION

### SAFETY

#### Specific Initiatives

##### Expenditures Related to Railway-Related Safety

Investments in safety facilities are made in a planned manner every year. The main safety investment projects in FY2019/3 were as follows. Furthermore, ¥24.7 billion was invested into the replacement of aged equipment, security and disaster

##### Main Safety Investment Projects

###### Replacement of obsolete facilities

Replacement of substation facilities,  
replacement of train track facilities

###### Safety and disaster-damage prevention measures

Disaster prevention measures for the Kyushu Shinkansen,  
measures to prevent Shinkansen derailment

###### Measures for stable transportation

Change of wooden sleepers to prestressed concrete ties,  
improvement of track circuit devices

###### Rolling stock projects

New production of 819 series dual energy charge train  
(DENCHA), 811 series renewal

prevention, stable transportation measures, and vehicle-related investments, and ¥29.5 billion yen was spent as repair expenses for the maintenance and management of railway facilities, for a total of ¥54.2 billion.

#### Safety Promotion Campaigns

In order to ensure safety, each employee must have high safety awareness, and the company organization must have an open atmosphere in which opinions on safety can be exchanged freely. Therefore, since FY2007/3, we have been continuously carrying out safety promotion campaigns and striving to build a safety culture.

In FY2020/3, under the slogan of “One more time. Is that OK? Be alert to safety”, we are carrying out Safety Promotion Campaign 2019. In order to collect employee views on safety, which mean “opinions and awareness” and “unsafe incident experiences,”\* the Company built an internal network system. By disclosing and sharing that information with all employees over the internal network, we have been able to prevent accidents and risks before they materialize.

\* Incidents that did not result in serious accidents but for which accidents would not have been surprising

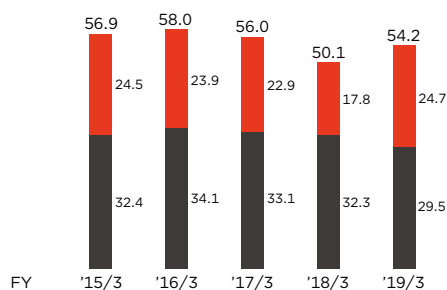
#### Education and Training

In order for the knowledge and technology necessary for each route and position level to be passed on, Kyushu Railway Company not only carries out practical education that makes use of self-study facilities and the like but also holds various competitions so that employees can take part in friendly competition with each other while having aspirations.

Furthermore, the Company conducts emergency response training that consists of comprehensive disaster-preparedness drills for the Kanmon tunnel, large-scale hypothesized earthquake drills, comprehensive derailment recovery drills, tunnel evacuation guidance drills, and massive-tsunami evacuation guidance drills.

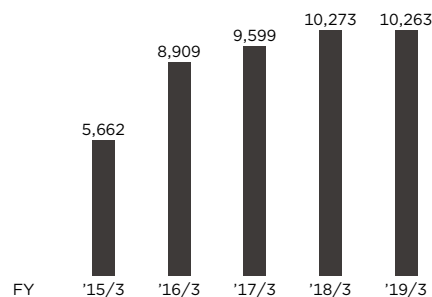
#### Expenditures on Safety

(Billions of yen)



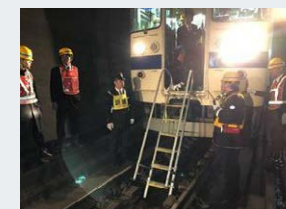
■ Capital investment amounts ■ Maintenance costs

#### Number of Employee Views on Safety



#### ■ Training in Tunnels

In September 2017, there was an incident in which a train was stopped for approximately three hours inside the Kanmon tunnel due to a rolling stock breakdown involving a train carrying passengers. In response, in December 2018, as in the previous year, we implemented response training for abnormal events in the Kanmon tunnel. In this way, we took steps to verify the methods of rapidly rescuing customers, such as with the use of ladders and gangways. We are also implementing comprehensive training in the Kanmon tunnel for the prevention of disaster damage, as well as training for the occurrence of a fire and other training. Furthermore, we are implementing abnormal-event training in the Nagasaki Tunnel.



Rescue operations using ladders



Transporting the injured on a motor-powered rail-cycle draisine

## ESG SECTION

### SAFETY

#### Occurrences of Railway Accidents and the Like

In FY2019/3, the number of railway accidents that occurred was 25, which was the lowest number of incidents ever. Furthermore, there was one case, referred to as “incidents,” of situations recognized as having a risk that a railway accident would occur.

In addition, there were 484 cases of transport disorders. Transport disorders mean cases where, for causes other than railway accidents, train service was suspended, a passenger train was delayed for 30 minutes or more, or a train other than a passenger train was delayed for an hour or more. There were 271 cases that resulted mainly from disasters involving rainfall,

strong wind, or earthquakes, 95 cases that resulted from persons moving onto the tracks or other causes not due to the Company, and 118 cases that were due to causes directly resulting from the Company, such as railway personnel or train cars and facilities.

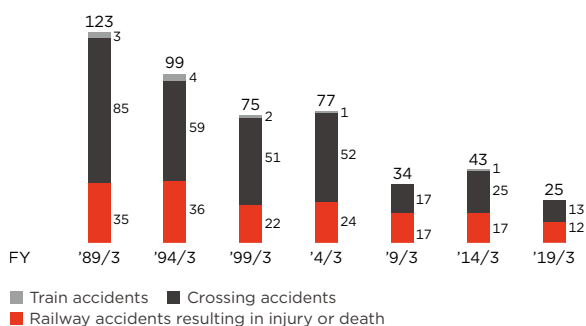
#### Antiterrorism Measures

In accordance with guidance from the Ministry of Land, Infrastructure, Transport, and Tourism and other government entities, Kyushu Railway Company remains vigilant against terrorism. Specifically, in addition to taking such measures as increasing security patrols by our own employees or others,

installing security cameras, and making trash cans transparent, with broadcasts, in-car telops, and posters, we have been asking for customers to cooperate by reporting whenever they discover any suspicious objects on station premises or inside train cars.

Also, every year in various locations, to increase cooperation with police departments and fire departments, we have been carrying out—jointly with the relevant departments—terrorism response training for such situations as coping with suspicious objects and aiding injured persons.

#### Railway Accident Occurrences



Train accidents: Train collision accidents, train derailment accidents, train fire accidents

Crossing accidents: On a railway crossing, a train or train car collides with a person, motor vehicle, etc., or the train or train car comes into contact with them

Railway accidents resulting in injury or death: Cases where an injury or death results from operation of a train or train car

#### Countermeasures to Rain Damage

The heavy rains that occurred in July 2018, centered on western Japan, caused operation to be discontinued or delayed in areas throughout Kyushu and resulted in damage to the Chikuhi Line, Chikuho Main Line, and Hisatsu Line. We are advancing countermeasures to rain damage. For the slopes in areas around our railway lines, we are implementing countermeasure construction work to prevent fallen rocks and landslides caused by changes resulting from localized heavy rains and typhoons, by surface weathering due to the passing of time, or by other factors. In FY2019/3, we implemented slope countermeasure work in 79 locations.



Before construction work



After construction work

#### Initiatives to Prevent Accidents at Crossings

Each year, we implement a Crossing Accident Prevention Campaign on a Companywide basis. This initiative is conducted during the national traffic safety campaigns in the spring and fall. At crossings and stations where traffic is comparatively heavy, we distribute flyers and other materials that indicate what to do when there is a problem on a crossing. In addition, February 3 has been declared to be Crossing Day each year since FY2018/3.



Crossing safety lecture (simulated crossing use)



Crossing Day on February 3



## Service

### Fundamental Approach

Since 1991, the Company has worked to enhance service through a variety of measures. In 2003, we formulated the Service Charter, which employees recite each day and always keep in mind. To enhance our corporate culture founded on service, since FY2008/3 we have established an annual theme in order to accelerate and further advance our initiatives. For FY2020/3, we selected the theme “Be aware. Move closer. Speak in a lively voice.” On that basis, we are working to enhance service.

#### Service Charter

1

We are grateful to the customers who select JR Kyushu.

2

We listen to customers,  
think from the customer's perspective,  
and pursue customer satisfaction.

3

We always greet customers with a sense  
of hospitality and concern.

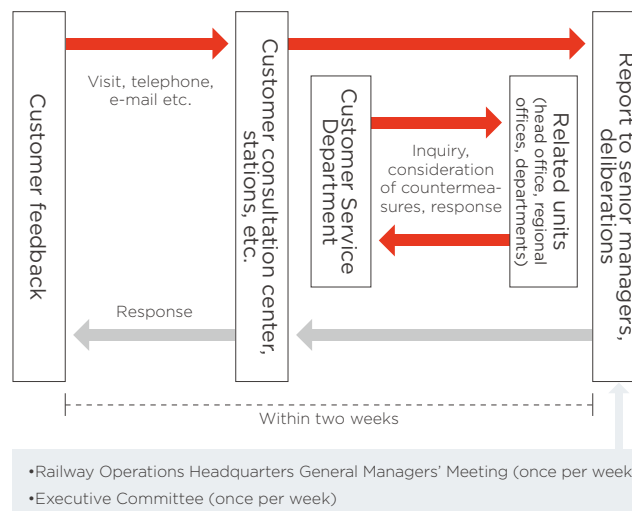
### Initiatives to Address Customer Feedback

Customer feedback is the starting point of our efforts to enhance service. We listen to customer feedback and strive to understand what customers are concerned about and what they are not satisfied with. In addition, we place the highest importance on responding rapidly to their requests and on working to enhance service.

Each employee at JR Kyushu works every day to gather feedback from customers, including not only opinions received directly from customers but also information received through a variety of other means, such as the Internet and the telephone. In FY2019/3, we received approximately 8,600 items of customer feedback. We strive to report to senior managers, deliberate, and provide a response to the customer within two weeks of the receipt of the opinion, and to rapidly share and analyze the feedback within the Company and link it to specific improvement measures.

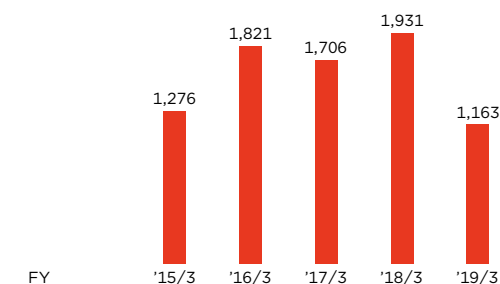
In regard to the opinions received from customers, we work to make improvements to the greatest extent possible. In the event that it is difficult to make improvements immediately, future measures are considered by the Committee to Enhance Our Corporate Culture Founded on Service, which has the president and other related officers as members. In these ways, we are working to enhance service quality.

### Flow of Customer Feedback



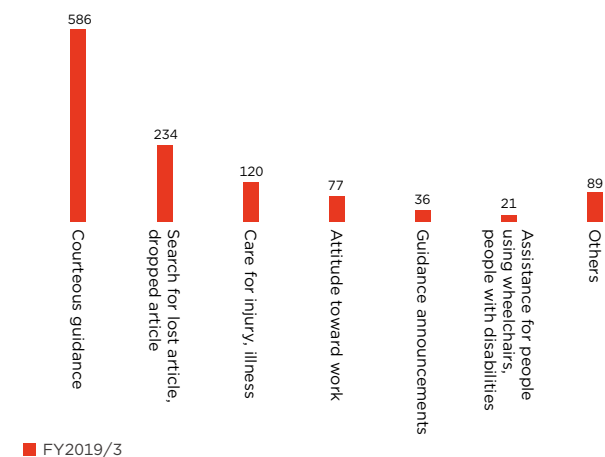
### Number of Compliments

(Number)



### Content of Compliments

(Number)

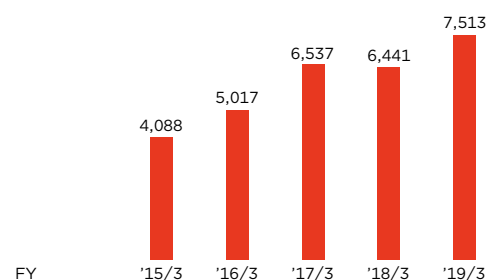


## ESG Section

### Service

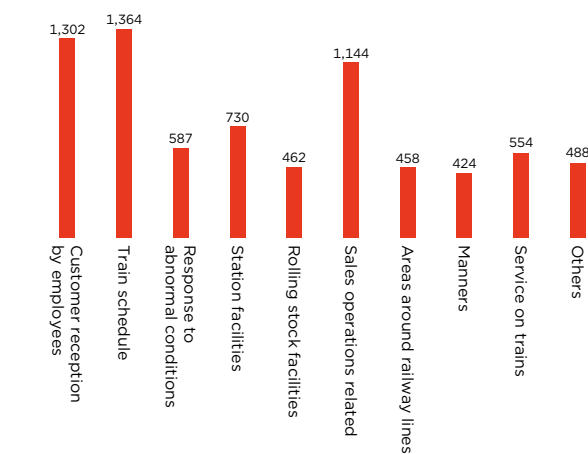
#### Number of Opinions and Requests

(Number)



#### Content of Opinions and Requests

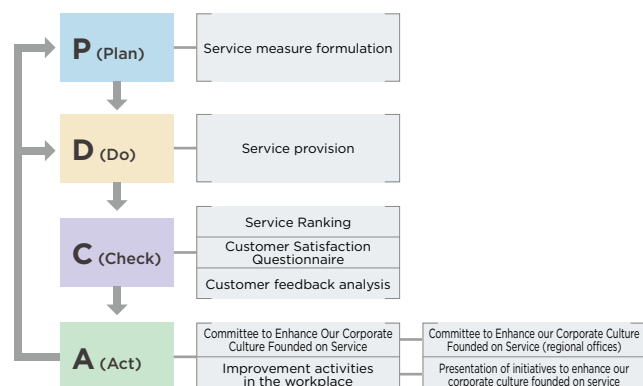
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■ FY2019/3

#### Initiatives to Enhance Service Quality

We periodically obtain the cooperation of customers in answering the Customer Satisfaction Questionnaire, which we use to measure customer satisfaction and to enhance various services based on the content of the evaluations received. We also implement a Service Ranking, which involves formulating evaluation standards for each service and utilizing external research for the conduct of evaluations. In these ways, we are implementing a variety of initiatives to enhance service quality. The diagram below shows the flow of initiatives to leverage customer feedback and enhance service quality.



#### P Formulation of Priority Implementation items

In FY2020/3, we are planning the following three priority implementation items as initiatives for “Toward a Corporate Culture Founded on Service 2019.”

- Putting smiles on the faces of customers
- Implementation of the “Greetings and Support” activities by all employees
- Polite guidance that is easy for customers to understand

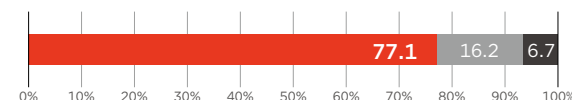
#### C Service Ranking

In the station, travel, and train crew units, we are fostering a sense of positive competition by quantifying and ranking the results of semiannual service surveys. In this way, we are working to enhance awareness of customer reception at each work-site and activate service improvement.

#### C Customer Satisfaction Questionnaire

In FY2019/3 we implemented an Internet survey, which received 21,706 responses. The top-ranked items on a questionnaire regarding manners on the train that cause concern included talking in loud voices, occupying multiple seats, and leaving garbage. To address these issues, we are considering the joint implementation of improvement initiatives with other railway companies.

#### Customer reception at the station



- Customers who are highly satisfied
- Customers who are neither satisfied nor dissatisfied
- Customers who are dissatisfied

#### Manners on the Train That Cause Concern

Ranking	Item	Percentage
1	Talking in loud voices	14.3%
2	Occupying multiple seats	12.0%
3	Leaving garbage	10.7%
4	Boarding the train while wearing a backpack	10.0%
5	Mobile phone conversations, ringtones, etc.	9.8%
6	Placement of luggage	9.7%
7	Using smartphones while walking	8.9%
8	Sound leaking from headphones	6.4%
9	Drunken passengers boarding	5.9%
10	Cutting in front of the line to board	5.6%
11	Eating and drinking on the train	4.3%
12	Other	2.4%

## ESG Section

### Service

#### A Committee to Enhance Our Corporate Culture Founded on Service

To comprehensively consider items related to service at the Company, implement improvement activities based on the formulation of service strategies, and advance the establishment of a foundation for the enhancement of service quality, a committee chaired by the president and including general managers and regional office manager among its members meets once per month.

#### A Presentation of Initiatives to Enhance Our Corporate culture Founded on Service

Fourteen worksites that were selected from within the Company gave presentations about excellent FY2019/3 initiatives that were implemented to enhance our corporate culture founded on service. Employees from the selected worksites energetically announced how they drew on their ingenuity, and these ideas were then rolled out in the worksites that attended the meeting. In this way, these ideas were linked to new service improvement initiatives.



Presentation of initiatives to enhance our corporate culture founded on service



Customer support training

#### Developing the Human Resources Who Support Service

Employees at all stations undergo a series of role-playing training activities, centered on responses to customers at ticket gates, attitudes while waiting for customers, and responses to customers with visual disabilities. In FY2020/3, we plan to implement these training activities for all train crew members. We are implementing a customer service championship for station employees and train crew members. We have regional and Companywide tournaments, where participants compete in customer service capabilities, including ways of talking to customers and deportment. In these ways, we are working to increase customer satisfaction. In addition, to provide appropriate support for customers with disabilities and elderly customers who are using stations or trains, we are implementing customer support training that includes the participation of people with disabilities.

#### Examples of Training

Name of training	Number of participants	Overview
Customer reception seminar	Approx. 40 people	Participants learn how to ensure that the type of service that is necessary on the front lines is well established in worksites, and they acquire know-how about responding to feedback from customers. In this way, this training aims to enhance guidance and customer service abilities.
Customer support training	Approx. 200 people	To enable customers with physical disabilities and elderly customers to use stations and trains with peace of mind, this training aims to have employees on the front lines (station employees, train crew members, etc.) learn about new barrier-free laws and regulations and acquire knowledge and skills related to appropriate support, and then to apply this training in each workplace.
E-learning	All employees	This training aims to deepen understanding of "Toward a Corporate Culture Founded on Service 2019"



Role playing training



#### Initiatives to Enhance a Culture of Mutual Praise

We believe that through praise we can draw out the motivation and independence of employees and further enhance service based on the added value created by each employee. On that basis, we are implementing a range of activities. Specifically, we have established a variety of recognition systems for employees who have received praise from customers. Also, on the cover of employee pay statements we include praise received from customers and words of thanks. In addition, we are also advancing the use of a thank you card program that enables employees to mutually communicate feelings of gratitude.

Furthermore, employees who have provided excellent service that received words of thanks from customers or another employee are recognized each month. We hold a semiannual Service Round Table Discussion for exchanges of opinions among the employees who receive this recognition, the president, and the general manager of the Customer Service Department. In addition, through the Service of the Year Awards, we recognize employees who have provided especially superior service. With reference to the excellent initiatives of recipients, we will continue working to share information to facilitate the provision of services aligned with the sentiments of customers.



Service of the Year Awards



Service Round-Table Discussion

## Development of Human Resources

### Fundamental Approach

Aiming to develop human resources who are eager to learn and take on challenges, we are implementing initiatives based on the themes of a corporate culture that emphasizes learning, a workplace environment that fosters action, comfortable environments that are easy to work in, and satisfaction.



### Corporate Culture That Emphasizes Learning

#### Internal Education

We provide training aligned with each growth stage for various positions, such as training for new employees, training for people who have been promoted, training for new managers, and training for people advancing to new management positions. In training by position, employees study such topics as mindsets, communication activation, and management methods.

In addition, we provide specialized training in knowledge and skills by organizational unit. We also utilize e-learning in the implementation of educational initiatives. In FY2019/3, this training was provided for work hour management, corporate ethics, human rights education, and other topics.

Moreover, we also offer internal and external distance learning and the JR Kyushu English School, which teaches English conversation that is useful in daily operations. We also send people to outside educational institutions. For example, employees can pursue MBA degrees at business schools overseas and in Japan, or obtain degrees at Ritsumeikan Asia Pacific University (APU) or Business BreakThrough University (BBT University). In these ways, we have established a framework to support the growth of employees. Furthermore, we are implementing action training to teach correct basic actions and enhance organizational abilities, including the pointing-and-calling system, which is the foundation of safety and service.

For specialist personnel, with the objective of developing

future frontline leaders, we offer leader training in a group format for a period of about three months. This is provided for approximately 20 employees age 35 and under, who are selected from organizational units. The exam to qualify for the training is highly competitive, and in FY2019/3 about 700 people took the exam. This program started in 1999, and it was implemented in FY2019/3 for the 20th time.

The content of the training extends over a wide range, including mental preparedness as a future leader; exchange with other companies, both from the same industry and from other industries; and theme-based research presentations.

Employees who have completed leader training have broader career paths. They are active in planning units as well as frontline leaders, including frontline managers.

### Training System by Position

		Training by position		Career enhancement training		
Supervisors	Managers	<div>Training for new frontline managers</div> <div>Training for people advancing to new management positions</div>		JR Kyushu Management School		
	M3/M2					
	M1	Training for new managers				
Mid-career employees	E	Training for employees promoted to E-rank positions		Leader training follow-up	Overseas MBA	BBT University
	C2/C1	Training for employees promoted to C-rank positions		Leader training		
		Third-year follow-up training				
Young employees	S2/S1	First-year follow-up training		Sent to study at Ritsumeikan Asia Pacific University (APU)		
		Training for new employees				
						Domestic MBA

## Workplace Environment That Fosters Action

### Proposal of Improvement Ideas

Daily improvement activities are positioned as a part of a workplace environment that fosters action. We encourage employees to move from learning or noticing something to doing something. In recent years, we have been working with the objective of enhancing content more than numbers (cost effectiveness, high level of expected effect, etc.). With the aim of cultivating participation in management by employees, the planning units are utilizing ideas from employees as Company initiatives and rolling out the ideas on a Companywide basis.

### JRK Activities

JRK activities refers to small-group activities that have been implemented since the founding of the Company. The content of these activities extends over a wide range, including not only improving methods of advancing work and realizing cost reductions but also increasing revenues, enhancing services, implementing local community invigoration initiatives, and promoting health. Decisions on these activities reflect consultation regarding the types of issues that people actually encounter on the front lines. In FY2019/3, a total of 5,470 JR Kyushu employees participated in 743 groups, and 14 teams from 13 companies participated at the Group company announcement.

The presentations are a distinctive feature of this program. There are many presentations in which employees perform skits, and the venue is filled with laughter, reflecting the JRK activity slogan of “cheerful, fun, and energetic.”



Companywide JRK activity presentation

### Future Creation Program HIRAMEKI

From FY2019/3, we started the Future Creation Program HIRAMEKI as representative initiative for a “culture that emphasizes taking action.” This is a new business proposal system to which any Company employee can submit ideas, without regard to their years of service at the Company or experience. A key feature of this system is that when an idea is proposed and adopted, then the employee who actually made the proposal is assigned to the new business project. This is not a system where people make proposals and then let someone else implement them. Personnel reassignments are a part of the system, which fosters an eagerness to contribute directly to the realization of a new business idea.

### Environments That are Easy to Work In, and Satisfaction Health Management

JR Kyushu believes that health-related awareness and action on the part of every employee contribute to the health of the Company. On that basis, we have formulated a basic policy for health management. Employees work to manage their own health, and at the same time the Company and workplaces are striving to support employee health. In addition, we have established the Health Management Office within the Company. The office’s activities include workplace visits and health consultations, with the central role played by industrial physicians and public health nurses. In these ways, we are working to support employee health management.

Furthermore, as a Company initiative to support further employee health promotion, we are holding events that combine fun and health promotion. These include “Let’s Walk Together: Tsubame Cup,” an internal walking event (approximately 2,200 participants in FY2019/3) and “JR Kyushu Group Sports Day” (approximately 4,000 participants in FY2019/3, including Group companies). In this way, we are working aggressively to promote health-related awareness and to encourage people to be active.



JR Kyushu Group Sports Day

### Systems that Support Diverse Working Styles

Changes in our management environment include a decreasing working population due to a declining birth rate and an aging population, as well as the diversification of working-style values. In response to these changes, we have taken steps to establish systems that support diverse working styles.

In particular, we are implementing initiatives in the area of support for raising next-generation children. We acquired the Kurumin mark for all of our previous five action plans—2007, 2009, 2012, 2015, and 2018. We are taking steps to create environments that are comfortable and enable employees to fulfill both work and child-rearing responsibilities. In addition, from FY2020/3, with the objective of fostering the participation of male employees in child-rearing, we established a system that provides paid leave to employees whose spouses have given birth.

### Action Plan Based on the Act on Promotion of Women’s Participation and Advancement in the Workplace

Based on the Act on Promotion of Women’s Participation and Advancement in the Workplace, JR Kyushu has formulated an action plan related to the promotion of women’s participation and advancement at the Company. During the period of the plan that extended from April 1, 2016 to April 1, 2019, we achieved our objective for the ratio of female managers of 6%. For the period of the plan that extends from April 1, 2019 to March 31, 2022, we have announced the objective of a retention rate for female employees of 95% or more. We are working to establish an employment environment that facilitates the continual participation and advancement of women.

### Employment of People with Disabilities

The Company is aggressively working to employ people with disabilities, and as of June 2019 the percentage of employees with disabilities was 2.5%. In addition, in April 2019 we established JR Kyushu Palette Work Inc. with the objective of employing people with disabilities. Moving forward, we will work to further expand employment of people with disabilities by creating an environment that is even easier to work in.



## CORPORATE GOVERNANCE

### Basic Approach

The JR Kyushu Group is involved in a variety of businesses based on safety and service born of its own strengths. At its base of operations in Kyushu, the Group continues to take on the challenge of creating an invigorated Kyushu, Japan, and Greater Asia in a tireless and enthusiastic manner.

In order to realize this objective, the Company aims to be a corporation in which customers, local community members, business partners, employees and their families, and shareholders can have lasting trust. To this end, the Company is establishing and improving frameworks and systems for decisive and prompt decision-making as well as for appropriate disclosure of information, while guaranteeing transparency and fairness in management. The Company is also further enhancing its efforts in corporate governance to realize continuous growth and improvement in corporate value over the medium to long-term.

### Basic Explanation on Organizational Structure

JR Kyushu transitioned to a Company with Audit and Supervisory Committee system described in the Companies Act of Japan from June 2018, in addition to introducing an executive officer system. These actions were taken in order to strengthen the supervisory functions of the Board of Directors, accelerate the pace of decision making, and enhance the overall efficiency of the Company's management. In addition, these actions aim to separate the role of management decision making and oversight from the role of business execution.

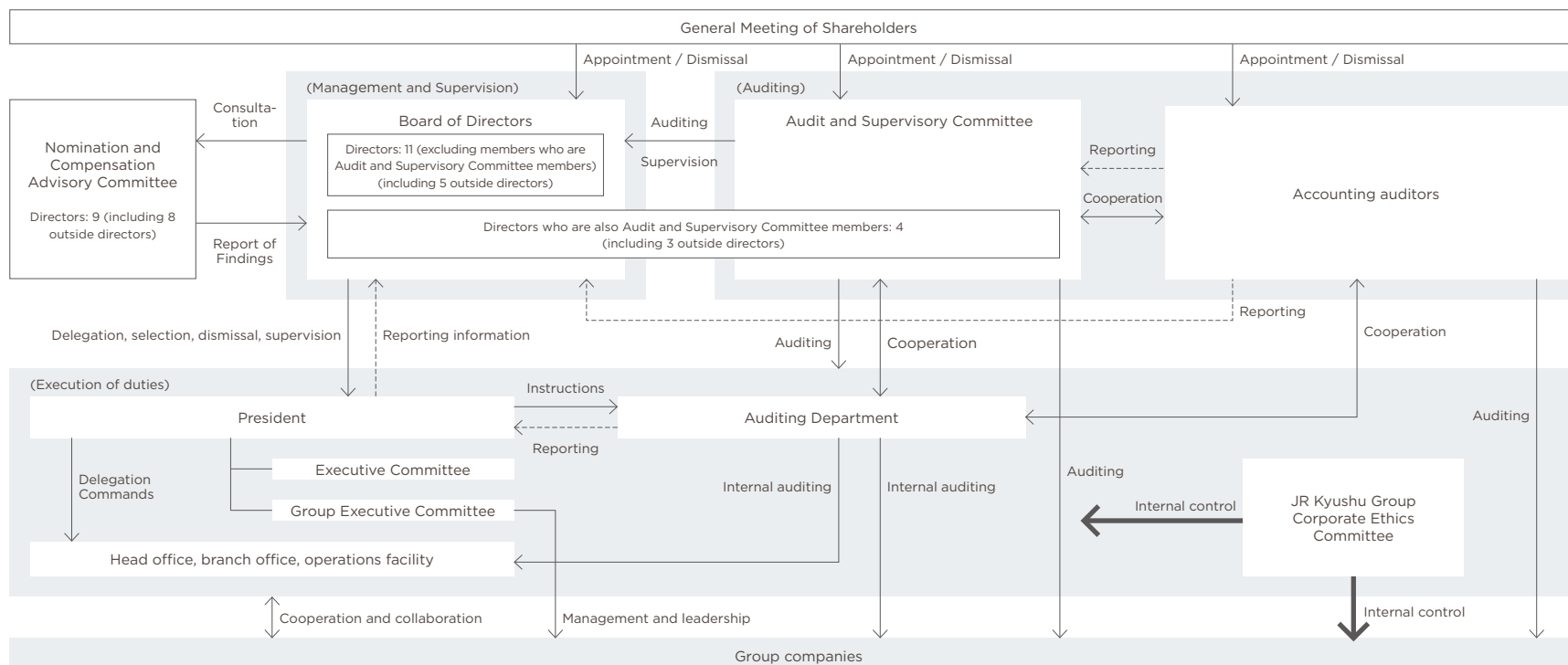
### The Board of Directors

The Board of Directors makes decisions on matters determined by law and important matters stipulated by the rules of the Board of Directors. The Board also supervises the business execution of directors, senior executive officers, and executive officers.

The Board of Directors meets once a month, as a general rule, and comprises a total of 15 members, including 11 directors (excluding directors who are Audit and Supervisory Committee members) and four directors who are Audit and Supervisory Committee members. Eight outside directors have been appointed in order to further strengthen the supervisory function over the Board of Directors.

In addition, the Company has established the Executive Committee, which in principle meets once a week. In accordance with the stipulations in the Articles of Incorporation, the

### Corporate Governance Structure (As of July, 1 2019)



## ESG SECTION

### CORPORATE GOVERNANCE

committee deliberates items determined by the Board of Directors regarding the delegation of authority as well as important items pertaining to the Company's operation. Furthermore, the Company has set up the Group Executive Committee, which deliberates management strategies such as the JR Kyushu Group's management vision and the allocation of management resources as well as important items related to individual Group companies. By overseeing the management of Group companies, the Group Executive Committee works to enhance the Group's comprehensive strengths.

#### Audit and Supervisory Committee

The Audit and Supervisory Committee receives reports on important matters related to audits, holds discussions, and passes resolutions. The Audit and Supervisory Committee meets once a month, as a general rule, and holds extraordinary meetings when necessary. The committee consists of four members (including three outside directors) and conducts audits concerning the execution of duties by directors, senior executive officers, and executive officers.

#### Nomination and Compensation Advisory Committee

The Company has established the Nomination and Compensation Advisory Committee, which serves as an advisory body to the Board of Directors. The committee comprises the president and eight outside directors (chaired by an outside director). In regard to the appointment and dismissal of directors and the compensation of executive directors, decisions are made by the Board of Directors with consideration for reports from the Nomination and Compensation Advisory Committee. In this way, the Company is working to strengthen the transparency and objectivity of the decision-making process for nominations and compensation.

The structure of the Company's corporate governance is as illustrated in the schematic diagram on page 37.

#### Internal Control Systems

In regard to internal control systems, to ensure management transparency and bolster the effectiveness of its audits, the Company has appointed outside directors with an abundance of external experience and knowledge. In addition, the Board of Directors has determined the Basic Policy Related to Internal Controls. To find out more about the Company's basic approach

to internal control systems and the status of these systems, please refer to the Corporate Governance Report on the Company's website.

#### Effectiveness of the Board of Directors

From December 2018 to March 2019, the Company commissioned an external institution to conduct a survey of all directors, including a questionnaire (anonymous form), individual interviews, and observer participation in a meeting of the Board of Directors. Subsequently, in consideration of the content of the report from the external institution, the results of the survey were reported to the Board of Directors and issues were shared. An overview of the results is as follows.

- A generally positive review was received in regard to the effectiveness of the Board of Directors, and it was acknowledged that the Board is operating effectively.
- Based on the effectiveness evaluation conducted in March 2018, a shared understanding was reached in regard to such issues as the fundamental revision of the number of members and composition of the Board of Directors and of the items brought up at meetings of the Board of Directors. In conjunction with the transition to a Company with Audit and Supervisory Committee system and the adoption of an executive officer system in June 2018, a revision of the items raised at meetings of the Board of Directors was implemented. It has been confirmed that this revision is steadily generating results.
- On the other hand, issues were raised in regard to the clarification of the risks of proposals, formulation of a succession plan, the appointment and dismissal of the CEO, and other nomination and compensation matters. To address these issues, the Company is taking steps to make improvements, such as the revision of Board of Directors' meeting materials and explanations at meetings of the Board of Directors as well as the enhancement of deliberations, centered on the Nomination and Compensation Advisory Committee, which was newly established in March 2019.

Moving forward, in light of this effectiveness evaluation, the Company's Board of Directors will work to make improvements, centered on the above issues, and further enhance its functions.

#### Progress in Establishing a Risk Management Structure

The Company has put in place Safety Promotion Committees at the head office and at each branch office. The purpose of these

committees is to comprehensively examine items related to the prevention of operational accidents and work-related injuries as well as to formulate measures to prevent a reoccurrence of such events should they occur. In addition, these committees work to establish and promote appropriate and effective measures to ensure transportation safety. The Company has also established the Comprehensive Guidance Office, which operates on a 24-hour basis, thereby setting up a structure that allows for a prompt and appropriate response in the event an accident or crisis occurs.

#### Liability Limitation Agreements

In accordance with the provision of Article 427, Paragraph 1, of the Companies Act, the Company has entered into agreements with its outside directors that limits liability for damages under Article 423, Paragraph 1, of the Companies Act. The amount of liability for damages based on these agreements is held within the minimum liability limit permissible by laws and regulations.

#### Statutory Number of Directors

As stipulated by the Articles of Incorporation, the Company shall not have more than 12 directors (excluding directors who are also Audit and Supervisory Committee members) nor shall the Company have more than five directors who are also Audit and Supervisory Committee members.

#### Conditions for Director Appointment

As requirements for selecting directors, the Company's Articles of Incorporation stipulates that a minimum of one-third of the shareholders who can exercise voting rights must be in attendance at the General Meeting of Shareholders and that a majority of votes must be won. In addition, the Articles of Incorporation prohibits cumulative voting.

#### General Meeting of Shareholder Items That Can Be Decided on by the Board of Directors

As stipulated by the Articles of Incorporation, the Company may, by resolution of the Board of Directors, distribute interim dividends pursuant to Article 454, Paragraph 5, of the Companies Act to registered or recorded shareholders or registered pledgees in the register of shareholders as of the close of business on September 30 of each year.

## ESG SECTION

### CORPORATE GOVERNANCE

#### Status of Outside Directors

The Company has appointed Koji Toshima, Masayoshi Nuki, Izumi Kuwano, Toshihide Ichikawa, Shinji Asatsuma, Eiichi Kuga, Kazuhide Ide, and Yasunori Eto as outside directors. The Company expects that all eight of these outside members will offer valuable opinions regarding the Company's management based on the abundance of experience and knowledge they have gained in such roles as business manager and attorney at law. Based on standards for independence regarding the selection of outside directors, the Company makes determinations for appointments on an individual basis to ensure that candidates have a sufficient level of independence that allows them to execute their duties from a standpoint that is independent of the Company's management. A candidate's work history and relationship with the Company are also taken into consideration. The Company's personal, capital, and business relationships, as well as other relationships of interest with outside directors, are as follows.

- Outside Director Koji Toshima is serving concurrently as a special advisor at YASKAWA Electric Corporation. In addition, Mr. Toshima holds 1,077 shares of the Company's stock.
- Outside Director Masayoshi Nuki is serving concurrently as a senior executive adviser at Kyushu Electric Power Company, Incorporated. The Company has a business relationship with Kyushu Electric Power Company, including payment of charges for electricity used. However, the monetary value of those transactions is within the independence standards determined by the Company, as listed below. In addition, Mr. Nuki holds 1,829 shares of the Company's stock.
- Outside Director Izumi Kuwano is serving concurrently as representative director and president of Tamanoyu Co., Ltd. The Company has a business relationship with Tamanoyu, including payment of hotel accommodation fees in the travel business. However, the monetary value of those transactions is within the independence standards determined by the Company, as listed below. In addition, Ms. Kuwano serves concurrently as an outside director at Oita Bank, Ltd. The Company has a business relationship with Oita Bank, which includes the borrowing of funds. However, the monetary value of those transactions is within the independence standards determined by the Company, as listed below. In addition, Ms. Kuwano holds 508 shares of the Company's stock.

- Outside Director Eiichi Kuga holds 911 shares of the Company's stock.
- Outside Director Kazuhide Ide serves concurrently as a Senior Executive Advisor at The Chikuho Bank, Ltd. The Company has a business relationship with The Chikuho Bank, which includes the borrowing of funds. However, the monetary value of those transactions is within the independence standards determined by the Company, as listed below. In addition, Mr. Ide holds 911 shares of the Company's stock.
- Outside Director Yasunori Eto serves concurrently as an attorney at law. In addition, Mr. Eto holds 97 shares of the Company's stock.
- There are no special interests between the Company and outside directors other than those listed above.

The Company has established independence standards for the appointment of outside directors. Outside directors of the Company shall be deemed to be independent if they do not fall under any of the following items.

1. A current executive (a person who executes operations, such as an executive director, executive officer, corporate officer, or employee; hereinafter, the same) of the Company or any of its subsidiaries (hereinafter, "Group companies"), or someone who has served in such a position in any of the past 10 fiscal years.
2. A spouse or relative by blood or marriage within the second degree of a current executive of a Group company (to the extent such an executive is at a level equivalent to important employee or higher), or of someone who has served in such a position in any of the past three fiscal years.
3. An entity of whom the Company is a major business partner (that is, a recipient of payment from the Company in excess of 2% of said recipient's average consolidated sales over the period of the preceding three fiscal years), or, in the event such an entity is a corporation, an executive of said corporation.
4. A major business partner of the Company (that is, an entity that makes payments to the Company that account for over 2% of the Company's average consolidated sales over the period of the preceding three fiscal years), or, in the event such a business partner is a corporation, an executive of said corporation.
5. A major lender to the Company (that is, an entity that provides loans to the Company in excess of 2% of the Company's average consolidated assets among the preceding three fiscal year-ends), or, in the event such a lender is a corporation, an executive of said corporation.
6. A legal expert, etc., whose remuneration received from the Company, other than officers' remuneration, exceeds ¥10 million in the current fiscal year or on average per annum over the period of the preceding three fiscal years, or, if such an expert belongs to a corporation, such a person who receives payments from the Company exceeding 2% of the consolidated sales of said corporation over the same period.
7. A director or executive of an organization that receives donations in excess of ¥10 million in the current fiscal year or on average per annum from the Company over the period of the preceding three fiscal years.
8. A major shareholder of the Company (that is, a shareholder who holds 10% or more of the total number of voting rights of the Company), or, in the event such a shareholder is a corporation, an executive of said corporation.
9. A spouse or relative by blood or marriage within the second degree of a person who falls under any of items 3. through 8. above (to the extent such an executive is at a level equivalent to important employee or higher).
10. In addition to the preceding items 1. through 9., a person who is unable to independently perform duties as an independent outside director due to a conflict of interest with the Company or to other exceptional circumstances.

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### CORPORATE GOVERNANCE

#### Support System for and Mutual Collaboration among Outside Directors (Excluding Audit and Supervisory Committee Members) and Outside Directors Who Are Audit and Supervisory Committee Members

The Company has established the Administration Department and the Audit and Supervisory Committee Office as contact

points for outside directors (excluding Audit and Supervisory Committee members) and outside directors who are Audit and Supervisory Committee members. A support system is in place that allows outside directors to freely exchange opinions when necessary and provides them with preliminary explanations from each department. In addition, the Audit and Supervisory

Committee, of which a majority of the members are outside directors, periodically exchanges opinions with the representative directors and the outside directors (excluding Audit and Supervisory Committee members) regarding audit plans, the status of audit implementation, etc.

#### Work History of Outside Directors

<b>Koji Toshima</b>	Mar. 1964	Joined YASKAWA Electric Manufacturing Co., Ltd. (currently YASKAWA Electric Corporation)
	Mar. 1986	General Manager of System Engineering and Planning Department, YASKAWA Electric Manufacturing Co., Ltd.
	Mar. 1990	General Manager of Yukuhashi Plant of System Business Headquarters, YASKAWA Electric Manufacturing Co., Ltd.
	Sept. 1992	Executive Officer, General Manager of Yukuhashi Plant of Industrial Electronics Business, YASKAWA Electric Corporation
	Mar. 1994	Executive Officer, Deputy General Manager of Robot Business Division, YASKAWA Electric Corporation
	June 1995	Director, Deputy General Manager of Robot Business Division and General Manager of Robot Factory, YASKAWA Electric Corporation
	June 1996	Director, General Manager of Robot Business Division, YASKAWA Electric Corporation
	June 2000	Managing Director, General Manager of Robot Business Division, YASKAWA Electric Corporation
	Sept. 2001	Managing Director, General Manager of Robot Automation Business Unit, YASKAWA Electric Corporation
	June 2002	Senior Managing Director, General Manager of Robot Automation Business Unit, YASKAWA Electric Corporation
	Mar. 2003	Senior Managing Director, General Manager of Robot Automation Business Unit and General Manager of Business Transformation Steering Headquarters, YASKAWA Electric Corporation
	Aug. 2003	Senior Managing Director, Supervisory Manager of Robot Business Division and General Manager of Business Transformation Steering Headquarters, YASKAWA Electric Corporation
	Mar. 2004	Representative Director and President, YASKAWA Electric Corporation
	Mar. 2007	Representative Director and President in charge of human resources development, YASKAWA Electric Corporation
	Mar. 2009	Representative Director and President, General Manager of Sales Administration Headquarters for Human Resources Development, YASKAWA Electric Corporation
	Mar. 2010	Representative Director and Chairman, YASKAWA Electric Corporation
	June 2012	Director, Kyushu Railway Company (current)
	Mar. 2013	Director, YASKAWA Electric Corporation
	June 2013	Special Advisor, YASKAWA Electric Corporation (current)
<b>Masayoshi Nuki</b>	Apr. 1968	Joined Kyushu Electric Power Company, Incorporated
	June 2000	General Manager of Public Relations Department, Kyushu Electric Power Company, Incorporated
	July 2001	Administration Officer, General Manager of Public Relations Department, Kyushu Electric Power Company, Incorporated
	June 2003	Administration Officer, General Manager of Kagoshima Branch Office, Kyushu Electric Power Company, Incorporated
	July 2003	Executive Officer, General Manager of Kagoshima Branch Office, Kyushu Electric Power Company, Incorporated
	June 2007	Director and Managing Executive Officer, General Manager of Business Development Division and General Manager of Information Communication Division, Kyushu Electric Power Company, Incorporated
	June 2009	Representative Director and Vice President, General Manager of Customer Services Division, Kyushu Electric Power Company, Incorporated
	June 2010	Representative Director and Vice President, Kyushu Electric Power Company, Incorporated
	Apr. 2012	Representative Director and Chairman, Kyushu Electric Power Company, Incorporated (scheduled to retire on June 27, 2018 and to assume the position of Senior Executive Adviser)
	June 2013	Director, Kyushu Railway Company (current)
	June 2018	Senior Executive Adviser, Kyushu Electric Power Company (current)
<b>Izumi Kuwano</b>	Apr. 1993	Joined Kabushiki Kaisha Tamanoyu
	Apr. 1995	Director and Senior Managing Officer, Kabushiki Kaisha Tamanoyu
	Oct. 2003	Representative Director and President, Kabushiki Kaisha Tamanoyu (current)
	June 2014	Director, Kyushu Railway Company (current)
<b>Toshihide Ichikawa</b>	Apr. 1977	Joined Mitsui Fudosan Co., Ltd.
	Apr. 2003	General Manager of Roppongi-Project Development Planning Department, Mitsui Fudosan Co., Ltd.
	Apr. 2005	Managing Officer, General Manager of Roppongi-Project Development Planning Department, Mitsui Fudosan Co., Ltd.
	Aug. 2005	Managing Officer, General Manager of Tokyo Midtown Development Department, Mitsui Fudosan Co., Ltd.
	Sept. 2008	Executive Managing Officer, General Manager of Tokyo Midtown Development Department, Mitsui Fudosan Co., Ltd.
	Apr. 2009	Executive Managing Officer, Chief Operating Officer of Accommodations Business Division, Mitsui Fudosan Co., Ltd.
	June 2011	Executive Managing Director, Executive Managing Officer, Chief Operating Officer of Accommodations Business Division, Mitsui Fudosan Co., Ltd.
	Apr. 2013	Managing Director, Mitsui Fudosan Co., Ltd.
	Apr. 2013	Advisor, Mitsui Home Co., Ltd.
	June 2013	Specially Appointed Advisor, Mitsui Fudosan Co., Ltd.
	June 2013	Representative Director and President, President and Executive Officer, Mitsui Home Co., Ltd.
	Oct. 2018	Group Senior Officer, Mitsui Fudosan Co., Ltd.
	Apr. 2019	Advisor, Mitsui Fudosan Co., Ltd. (current)
	Apr. 2019	Standing Advisor, Mitsui Home Co., Ltd. (current)
	June 2019	Director, Kyushu Railway Company (current)

<b>Shinji Asatsuma</b>	Apr. 1984	Joined Kansai Paint Co., Ltd.
	Apr. 2012	Executive Officer, General Manager of Corporate Planning Office, Kansai Paint Co., Ltd.
	Apr. 2015	Managing Executive Officer, General Manager of International Div., Kansai Paint Co., Ltd.
	June 2016	Director, Managing Executive Officer, General Manager of Administration Div., Kansai Paint Co., Ltd.
	Apr. 2017	Director, Managing Executive Officer, General Manager of Administration Div., General Manager of Corporate Administration Div., Kansai Paint Co., Ltd.
	Apr. 2018	Director, Managing Executive Officer in charge of Management, Corporate Planning, Human Resources Planning, General Manager of Administration Div., Kansai Paint Co., Ltd.
	Apr. 2019	Director, Kansai Paint Co., Ltd.
	June 2019	Director, Kyushu Railway Company (current)
	Apr. 1981	Joined National Police Agency
	Apr. 2006	Director-General of Kagoshima Prefectural Police
<b>Eiichi Kuga</b> (Audit and Supervisory Committee Member)	Sept. 2007	Director-General of Tokyo Metropolitan Government Office for Youth Affairs and Public Safety
	Sept. 2009	Director-General of Security Dept. of Tokyo Metropolitan Police Department
	Feb. 2011	Director-General of Kanagawa Prefectural Police
	Apr. 2013	Director-General of Imperial Guard Headquarters
	Dec. 2015	Advisor, Nippon Life Insurance Company
	June 2016	Full-time Audit & Supervisory Board member, Kyushu Railway Company
	June 2018	Full-Time Director and Audit and Supervisory Committee Member, Kyushu Railway Company (current)
	Apr. 1964	Joined The Kangyo Bank Ltd. (currently Mizuho Financial Group, Inc.)
	Apr. 1989	Manager of Related Business Department of Planning Division, The Dai-ichi Kangyo Bank, Ltd. (currently Mizuho Financial Group, Inc.)
	June 1990	Manager of Lottery Department, The Dai-ichi Kangyo Bank, Ltd.
<b>Kazuhide Ide</b> (Audit and Supervisory Committee Member)	June 1992	Director, Manager of Personnel and Planning Dept., The Dai-ichi Kangyo Bank, Ltd.
	May 1994	Director, Manager of Personnel Dept., The Dai-ichi Kangyo Bank, Ltd.
	Apr. 1995	Director and Managing Officer, The Dai-ichi Kangyo Bank, Ltd.
	Apr. 1997	Advisor, The Chikuhō Bank, Ltd.
	June 1997	Representative Director and Vice President, The Chikuhō Bank, Ltd.
	Apr. 1999	Representative Director and President, The Chikuhō Bank, Ltd.
	Apr. 2006	Representative Director and Chairman, The Chikuhō Bank, Ltd.
	June 2012	Director and Chairman, The Chikuhō Bank, Ltd.
	June 2015	Outside Audit & Supervisory Board member, Kyushu Railway Company
	June 2016	Chairman, The Chikuhō Bank, Ltd.
<b>Yasunori Eto</b> (Audit and Supervisory Committee Member)	June 2018	Director and Audit and Supervisory Committee Member, Kyushu Railway Company (current)
	July 2018	Senior Executive Adviser, The Chikuhō Bank, Ltd. (current)
	Apr. 1995	Appointed as a public prosecutor
	Apr. 2009	Deputy Chief Prosecutor, Kagoshima District Public Prosecutors Office
	Apr. 2011	Public prosecutor, Osaka District Public Prosecutors Office
	Sept. 2011	Retired as Public prosecutor
	Oct. 2011	Registered as an attorney at law Bengoshi Hojin Hino Sogo Law Office (current)
	June 2018	Director and Audit and Supervisory Committee Member, Kyushu Railway Company (current)

## ESG SECTION

### CORPORATE GOVERNANCE

#### Status of Audit and Supervisory Committee Audits, Internal Audits, and Accounting Audits

Each member of the Audit and Supervisory Committee, in compliance with the rules of the Audit and Supervisory Committee and standards for audits by the Audit and Supervisory Committee established by the Audit and Supervisory Committee, attends Board of Directors' meetings and important meetings of other committees. The Board audits the business performance of directors by receiving reports from directors, Company employees, and accounting auditors regarding the execution of duties. The Board also audits the performance of directors through surveys of business and asset conditions conducted via visits to the head office, branch offices, other major offices, and Group companies. To serve as a contact point for outside auditors, the Company has established the Audit and Supervisory Committee Office, which is composed of four staff members. The Audit and Supervisory Committee Office oversees the convocation procedures for meetings of the Audit and Supervisory Committee, creates notes of agenda items, and provides other kinds of assistance in regard to the committee operation.

The Company has established the Auditing Department at its head office to serve as an institution for conducting internal audits. The department consists of 13 members. Internal audits are carried out for the purpose of gaining an accurate understanding of the management activities of JR Kyushu and its Group companies as well as for improving operational efficiency through appropriate advice and recommendations and contributing to sound business development. Specifically, the Auditing Department carries out audits of the head office, branch offices, on-site operations, and Group companies based on auditing plans for each fiscal year. The department reports the results of these audits to the president.

In regard to accounting auditors, the Company has an auditing agreement with Deloitte Touche Tohmatsu LLC. For FY2019/3, the names of the certified public accountants who conducted auditing duties for the Company and the composition of the group of individuals who assisted them were as follows.

People responsible for audits

Certified public accountants: Kappei Isomata, Tomonori Ueda, Keisuke Takao

People assisting with audits

Nine certified public accountants, eight others

The Company selects an accounting auditor with comprehensive consideration for their quality control system,

independence, and expertise. In addition, in the event that it is determined that it is appropriate to not reappoint the accounting auditor based on comprehensive consideration for the status of operational execution and other various kinds of information, then the Company's policy is that the accounting auditor will not be reappointed based on the decision of the Audit and Supervisory Committee.

Additionally, compensation for accounting auditors is determined after examining and confirming the content of the accounting auditors' auditing plan, the status of the plan's execution, and its basis for calculating the estimated compensation. In regard to the compensation paid to the certified public accountants who served as accounting auditors in FY2019/3, it was determined, as follows, in accordance with this policy, with the consent of the Audit and Supervisory Committee pursuant to Article 399, Paragraph 1 and Paragraph 3, of the Companies Act, with consideration for the same type of confirmation and examination.

Category	Compensation based on audit and certification duties (millions of yen)	Compensation based on non-auditing duties (millions of yen)
Submitting company	89	18
Consolidated subsidiaries	52	4
Total	142	23

Also, the Company entrusts internal control guidance and advisory work related to financial reporting, a non-auditing duty outside the provisions of Article 2, Paragraph 1, of the Certified Public Accountants Acts, to the certified public accountants and pays compensation accordingly.

#### Collaboration between Audit and Supervisory Committee Audits, Internal Audits, and Accounting Audits

Audit and Supervisory Committee Audits, Internal Audits, and Accounting Audits hold liaison meetings where information is exchanged regarding audit plans, methods, and results. In addition, important information and opinions are exchanged between the Audit and Supervisory Committee and the accounting auditor, and between the Audit and Supervisory Committee and the Internal Audit Department, when necessary, in an effort to mutually enhance the depth of audits.

#### Director Compensation Amounts, etc., and Policy Regarding the Determination of the Calculation Method

To ensure that a director is provided an appropriate level of compensation based on his or her role and responsibilities, the Company has in place a system that takes into account a director's motivation toward improving business performance and corporate value.

When determining compensation levels, in regard to the compensation of directors (excluding directors who are Audit and Supervisory Committee members), reports are made by the Nomination and Compensation Advisory Committee, which comprises the president as well as outside directors, to the Board of Directors, which then decides on compensation amounts based on these reports, within the limit on the total amount of compensation determined by resolution of the General Meeting of Shareholders. The compensation of directors who are Audit and Supervisory Committee members is determined by deliberations among the directors who are Audit and Supervisory Committee members.

In the determination of FY2019/3 compensation amounts for the Company's directors (excluding outside directors and directors who are Audit and Supervisory Committee members), the compensation of individual directors is adjusted based on their responsibilities and results in the previous fiscal year. With consideration for reports made by the Compensation Advisory Committee, the Board of Directors decides on compensation amounts. These amounts are held within a limit set in advance at the General Meeting of Shareholders. In regard to the determination of FY2019/3 remuneration linked to business performance, consideration was given to the fact that the target indicator was consolidated operating income of ¥56.2 billion in the previous fiscal year, and the actual result was ¥63.9 billion.

Reflecting the decision made at the 32nd Annual General Meeting of Shareholders held on June 21, 2019, to introduce a Board Benefit Trust performance-based stock compensation plan, the compensation of directors (excluding outside directors and directors who are Audit and Supervisory Committee members) is composed of fixed-amount basic remuneration and variable-amount remuneration linked to business performance (stock compensation). The compensation of outside directors and directors who are Audit and Supervisory Committee members, with consideration for their responsibilities, consists of basic remuneration only.



## ESG SECTION

### CORPORATE GOVERNANCE

In regard to the amount of remuneration for directors (excluding directors who are Audit and Supervisory Committee members), at the 32nd Annual General Meeting of Shareholders held on June 21, 2019, approval was received for remuneration up to ¥420 million annually (including up to ¥60 million for outside directors). As for the amount of remuneration for directors who are Audit and Supervisory Committee members, at the 31st Annual General Meeting of Shareholders held on June 22, 2018, approval was received for remuneration up to ¥120 million annually.

In addition, concerning the stock compensation of directors (excluding outside directors and directors who are Audit and Supervisory Committee members), at the 32nd Annual General Meeting of Shareholders held on June 21, 2019, approval was received for the introduction of a Board Benefit Trust performance-based stock compensation plan. At the same shareholders' meeting, approval was received for the Company's contribution of money to a trust as funds for the acquisition of stock for future grants, up to ¥600 million for three years (including ¥390 million for directors).

Under this plan, shares are granted to eligible persons when they retire, and the number of shares granted varies in accordance with their position, degree of achievement of target indicators stipulated in the Medium-Term Business Plan, etc. The purpose is to further clarify the linkage between remuneration for executive directors and the corporate performance and share value of the Company, and to ensure that the benefit of the increase in share prices, but also the risk of the decrease in share prices are shared, thereby further enhancing motivation to contribute to the improvement in the business performance and corporate value over the medium and long term. Individual compensation amounts are not listed as there is no director or auditor whose individual compensation amount on a consolidated basis exceeds ¥100 million.

Category	Remuneration amount (millions of yen)	Total amount of remuneration, etc., by type (millions of yen)		Number of persons paid
		Basic remuneration	Link to business performance	
Directors (excluding Audit and Supervisory Committee members and outside directors)	328	309	19	16
Directors (Audit and Supervisory Committee members) (excluding outside directors)	28	28	-	1
Auditors (excluding outside auditors)	9	9	-	1
Outside directors	67	67	-	9
Total	433	414	19	27

#### Notes

1. Director compensation amounts do not include the employee portion of compensation for directors who double as employees.
2. The above amounts include compensation paid during their terms of office to 19 directors and four Audit & Supervisory Board members (including three outside Audit & Supervisory Board members) who resigned at the conclusion of the 31st Annual General Meeting of Shareholders held on June 22, 2018. On June 22, 2018, the Company transitioned from a Company with a Board of Auditors to a Company with Audit and Supervisory Committee.

#### Status of Shareholdings

The Company classifies investment shares held with the objective of obtaining profits through stock price fluctuations or stock-related dividends as investment shares for pure investment purposes. In addition, the Company classifies other shares as investment shares held for purposes other than pure investment (cross-shareholdings) and holds them in accordance with the following shareholding policy.

#### Investment Shares Held for Purposes Other Than Pure Investment (Limited to Listed Shares)

The Company holds investment shares held for purposes other than pure investment after comprehensively taking into account such factors as enhancing its relationship and collaboration with business partners as well as creating synergistic effects with Group businesses.

On an annual basis, the Board of Directors assesses whether or not to hold individual holdings of investment shares held for purposes other than pure investment, thereby examining factors such as whether the purpose of maintaining the holdings is appropriate, and also whether gains related to the holdings cover the Company's cost of capital or otherwise whether there are prospects for future improvement. As a result, for shares that the Company does not need to continue to hold, the Company selects a party to sell the shares to or conducts detailed deliberations, etc.

With respect to exercising voting rights of its cross-shareholdings, the Company casts opposing votes when there are concerns regarding corporate governance, and otherwise exercises its voting rights upon giving consideration as to whether or not a proposal will contribute to enabling growth of the entity concerned, improving its corporate value, or otherwise.

In FY2019/3, a continued careful review was made in regard to whether the purpose of maintaining the holdings is appropriate, and also whether gains related to the holdings cover the Company's cost of capital or otherwise whether there are prospects for future improvement, and the Company's Board of Directors verified the suitability of the shareholdings.

## ESG SECTION

### CORPORATE GOVERNANCE

#### Investment Shares Held for Purposes Other Than Pure Investment

	Number of issues (issues)	Total carrying amount on balance sheet (millions of yen)
Unlisted shares	39	2,182
Shares other than unlisted shares	14	13,305

#### Issues for Which The Number of Shares Increased in FY2019/3

	Number of issues (issues)	Total acquisition cost related to the increase in the number of shares (millions of yen)	Reasons for the increase in the number of shares
Unlisted shares	2	403	Strengthen collaboration in the mobility services business and the mobile services business
Shares other than unlisted shares	1	1,000	Maintain and strengthen cooperative relationships in the railway business, etc.

#### Issues for Which the Number of Shares Decreased in FY2019/3

	Number of issues (issues)	Total sale value related to the decrease in the number of shares (millions of yen)
Unlisted shares	–	–
Shares other than unlisted shares	1	6

#### Number of Shares, Carrying Amounts on the Balance Sheet, and Other Information for Specified Investment Shares by Issue

Company name	FY2019/3	FY2018/3	Purpose of holding, quantitative effects of holding, and reasons for the increase in the number of shares	Whether the investee holds the Company's shares
	Number of shares held (shares) Book value (millions of yen)	Number of shares held (shares) Book value (millions of yen)		
Kyudenko Corporation	887,800 3,080	887,800 4,643	Maintain and strengthen cooperative relationships in the Group's businesses, regional activities, etc.	Yes
Central Japan Railway Company	108,200 2,781	108,200 2,178	Maintain and strengthen cooperative relationships in the railway business, etc.	Yes
West Japan Railway Company	269,500 2,247	269,500 2,002	Maintain and strengthen cooperative relationships in the railway business, etc.	Yes
East Japan Railway Company	196,100 2,094	196,100 1,933	Maintain and strengthen cooperative relationships in the railway business, etc.	Yes
Nishi-Nippon Railroad Co., Ltd.	417,700 1,118	417,700 1,161	Maintain and strengthen cooperative relationships in the Group's businesses, regional activities, etc.	Yes
ALL NIPPON AIRWAYS CO., LTD.	246,600 1,000	– –	Maintain and strengthen cooperative relationships in the railway business, etc.	Yes
Kyushu Electric Power Co., Inc.	418,700 547	418,700 530	Maintain and strengthen cooperative relationships in the Group's businesses, regional activities, etc.	Yes
Saibugas Co., Ltd.	72,400 173	72,400 199	Maintain and strengthen cooperative relationships in the Group's businesses, regional activities, etc.	Yes
StarFlyer Inc.	20,000 74	20,000 96	Maintaining and strengthening cooperative relationship	No
T&D Holdings, Inc.	59,950 69	59,950 101	Maintaining and strengthening cooperative relationship	Yes
Fukuoka Financial Group, Inc.	23,650 58	118,250 67	Maintain and strengthen cooperative relationships in the Group's businesses, regional activities, etc.	Yes
Mizuho Financial Group	212,000 36	212,000 40	Maintaining and strengthening cooperative relationship	Yes
Dai-ichi Life Holdings, Inc.	9,700 14	9,700 18	Maintaining and strengthening cooperative relationship	Yes
Nishi-Nippon Financial Holdings, Inc.	8,493 7	8,493 10	Maintain and strengthen cooperative relationships in the Group's businesses, regional activities, etc.	Yes
GREENLAND RESORT COMPANY LIMITED	– –	13,200 7	Maintaining and strengthening cooperative relationship	No

#### Notes:

1. It is difficult to state the quantitative shareholding effect. Verification of the rationality of holdings is implemented as described above.
2. In October 2018, Fukuoka Financial Group, Inc., implemented a one-for-five reverse stock split of its common stock.

## SOCIAL CONTRIBUTION INITIATIVES

### Basic Approach

We believe the mission of a railway company is to conduct environmental development (a benefit to local areas), cultivate local traditions and cultures (together with local residents), and serve as a guide through the next stage of progress. We are actively advancing the following initiatives.

### Design & Story Trains

We are operating the Seven Stars in Kyushu cruise train as well as “Design & Story” trains. These are tourist trains that have rolling stock with a special design and tell a story derived from the area in which they are operating. In the areas around our railway lines, people smile at these trains and wave their hands. By operating these trains, which are very popular in local communities, we are helping to increase Kyushu’s overall brand value and to attract customers to the Kyushu region.

### Hosting Discussions with Customers

To improve services at JR Kyushu, we hold two central discussion meetings in addition to local meetings in eight regions across Kyushu for the purpose of gathering customer feedback.

### Participating in the Hakata City-Building Promotion Council

Promotion Council is an organization focusing on city-building in Fukuoka and that is made up of corporations, organizations, and autonomous councils based around Hakata Station and scholars and experts. JR Kyushu participates in this council in an executive capacity. The goal is to develop Hakata into an attractive locale that is great to live in, work in, and visit. To that end, we will actively collaborate with local residents on city-building efforts.

### Holding JR Kyushu Walks

We hold JR Kyushu Walks events to help people discover places of interest around stations in Kyushu.

### Creating Lively Atmospheres at Stations

As initiatives committed to local community invigoration, we are aggressively taking steps to create lively atmospheres centered around stations. From FY2018/3, we have held the Lively Station Atmosphere Creation Contest to provide recognition to employees for these types of initiatives. Moving forward, we will continue to implement initiatives that foster lively atmospheres at stations through these types of activities.

### Initiatives to Make Effective Use of Stations

In FY2019/3, we recruited ideas for business plans to attract people and create a lively atmosphere at Futajima Station on the Wakamatsu Line (Chikuho Main Line). This included the business plan operators that would actually implement the plans. We received 34 proposals, and the business plan operators that won the highest award are moving ahead with preparations to launch the business. In addition, we are also implementing initiatives to support the effective use of stations, aiming to contribute to the creation of areas with lively atmospheres centered around stations.

### Measures to Provide Regular Recognition to Employees Who Are Contributing to Local Communities

JR Kyushu regularly provides in-house recognition of employees who contribute to local communities through such initiatives as service activities, activities related to youth development, and local cleanup efforts. In FY2019/3, the highest award for contributing to local communities was given to an employee who contributed to sound youth development as an officer of a federation of children’s associations. In these ways, the activities of our employees are helping to invigorate local communities.

### ■ JR Kyushu Oentai Cheering Group

This *yosakoi* dance team is composed of members who work in entirely different locations in their daily work, including station employees, conductors, drivers, and train attendants. They perform at festivals and events throughout Kyushu, where they help to create excitement in local communities.



JR Kyushu oentai cheering group on stage

### ■ JR Kyushu Walks

JR Kyushu Walks, which was started in May 1995, will reach its 20th anniversary in FY2020/3. Many customers take part in this activity, and in 2019 more than 120,000 customers participated.



Promotional material for a JR Kyushu Walks event

### ■ Shinkansen Festival 2018 in Kumamoto

In FY2019/3, we held the Shinkansen Festival 2018 in Kumamoto at the rolling stock base for the Kyushu Shinkansen. Activities included internal tours of Shinkansen rolling stock and rides on a rail-cycle draisine.



Shinkansen Festival 2018 held in Kumamoto

## ENVIRONMENTAL CONSERVATION ACTIVITIES

### Basic Policy on Environmental Conservation Activities

In accordance with the basic philosophy that “the JR Kyushu Group will make concerted efforts to implement environmental conservation and thereby contribute to the creation of a sustainable society” as well as with its three basic policies, Kyushu Railway Company has been carrying out environmental conservation activities.

Under the JR Kyushu Group Medium-Term Business Plan 2016–2018, which was established in May 2016, we positioned “Contribute to the creation of a sustainable society through environmental conservation activities” as one of the basic policies. We have continued to take steps to make progress in such areas as efficient energy usage, effective use of resources, and waste reduction, including introducing energy-saving rolling stock and introducing LED lighting. In March 2017, we started commercial operation of DENCHA, Japan’s first AC electrified

#### Basic Philosophy

The JR Kyushu Group will make concerted efforts to implement environmental conservation and thereby contribute to the creation of a sustainable society.

#### Basic Policies

1. By introducing environmental conservation technologies and using originality and ingenuity in relation to them, we will promote efficient energy use and strive to reduce CO<sub>2</sub> emissions, which are a cause of global warming.
2. We will not only promote waste reduction and recycling and strive for efficient use of resources but also manage and dispose of environmental pollutants appropriately.
3. We will strive to provide safe and comfortable transportation so that even more customers can use environmentally friendly railways.

dual energy charge train, on the Chikuho Main Line. In March 2019, we introduced DENCHA on the Kashii Line. In this way, we are expanding the segments on which this train is operated.

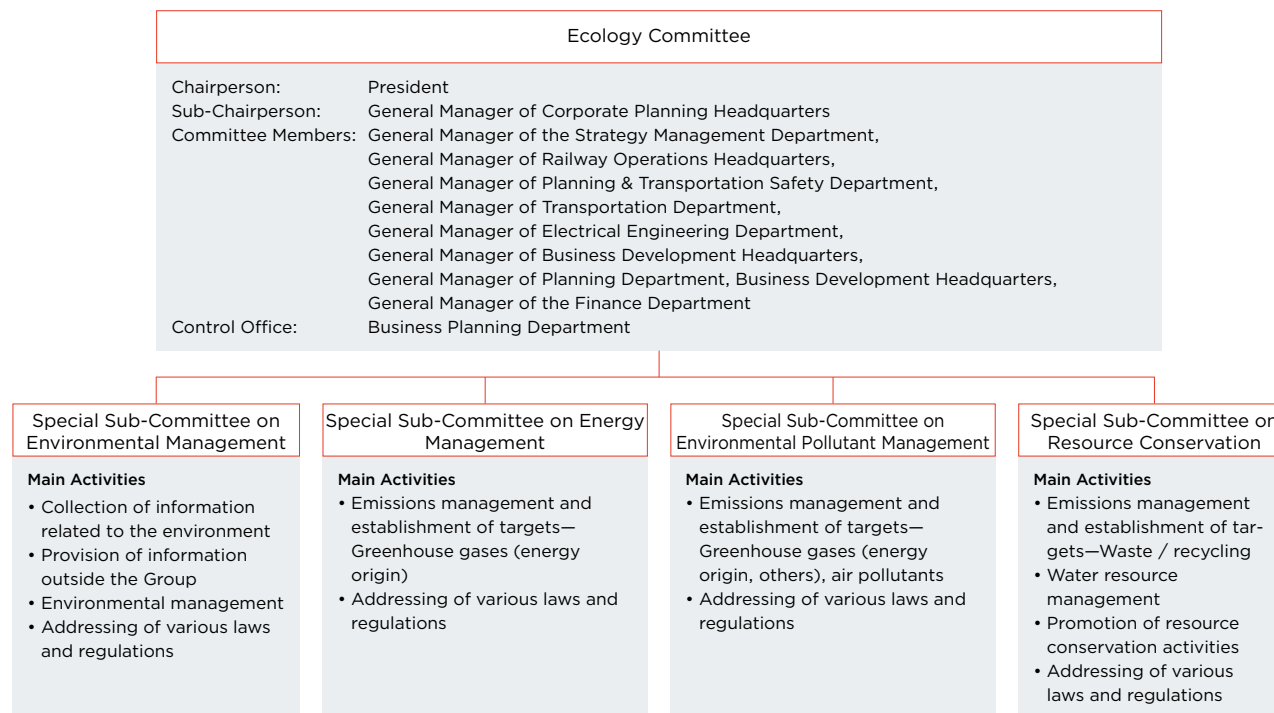
Under the JR Kyushu Group Medium-Term Business Plan 2019–2021, which was formulated in March 2019, climate change, resource conservation, and pollution prevention are positioned as major themes. We are working to support conservation of the natural environment as a responsible company.

### Environmental Management System

Kyushu Railway Company has constructed an environmental management system and implements environmental conservation activities.

In March 1999, in order to continuously implement environmental conservation measures, we established the Ecology Committee, which is chaired by the president, as a body to deliberate and decide on necessary matters including the basic policies. In the committee, four special sub-committees have been established as bodies to plan mainly implementation programs, target setting, results reporting, and activity promotion for various environmental issues. In addition, from April 2019 we revised the system, changing the membership of the committee and starting participation by Group companies in the sub-committees. Moving forward, we will announce Groupwide themes regarding environmental conservation and work to further strengthen collaboration.

### Ecology Committee Organizational Chart



## ESG SECTION

### ENVIRONMENTAL CONSERVATION ACTIVITIES

#### Setting Numerical Targets to Combat Global Warming

In response to the Paris Agreement, which was adopted in 2015, we formulated the JR Kyushu Low-Carbon Society Action Plan as a set of new voluntary targets.

Through such initiatives as the introduction LED lighting and energy-saving rolling stock, in FY2019/3 unit energy consumption was 2.6% lower than in FY2012/3. In this way, we were able to achieve certain of our targets.

##### JR Kyushu Low-Carbon Society Action Plan

In the railway division, we intend to achieve the following two targets by FY2031/3.

- 1) Increase the rate of introduction of energy-saving train cars to 83%.
- 2) Reduce unit energy consumption to 2.5% below the level in FY2012/3.

Please note that, in accordance with such factors as future changes in the transportation system, we will revise these targets as necessary.

#### Specific Initiatives

##### Introduction of Energy-Saving Train Cars

The introduction of energy-saving train cars is an initiative that Kyushu Railway Company has been constantly implementing since its establishment.

For our electric trains, we have been introducing cars that incorporate lightweight car bodies made of stainless steel and aluminum as well as VVVF inverters and regeneration brakes that use electricity efficiently. Meanwhile, for our diesel trains, we have been introducing cars equipped with high-efficiency engines that require less fuel consumption, and we have also been replacing the engines in our existing diesel trains with high-efficiency engines. Noteworthy is the fact that all Kyushu Shinkansen cars are energy-saving cars.

In FY2019/3, the percentage of all our train cars that are energy-saving train cars reached 78.5%.

To replace aging rolling stock, we developed the following two types of rolling stock, in line with a concept of "railway rolling stock that is environmentally friendly and strong."

The 821 series AC suburban-type rolling stock, which started operation on the Kagoshima Main Line (Kokura-Arao) in March 2019, includes a main circuit system that utilizes full SiC technologies in order to reduce the environmental burden. In comparison with the existing 415 series rolling stock, electricity consumption has been reduced by about 70%, and in addition the reliability of main power transformers (CI) and backup power suppliers (SIV) has been increased.

#### Comparison of Electricity Consumption by Train Type (Consumption per Car, Taking the 415 Series Train as 100)

Express Trains		Control System	Braking System	Car Body Construction
783 series	63%	Thyristor phase control	Regeneration brakes	Stainless steel car body
883 series	76%	VVVF control	Electricity-generating brakes	Stainless steel car body*
885 series	65%	VVVF control	Regeneration brakes	Aluminum car body

\* Aluminum car bodies are used for some of the cars in the 883 series.

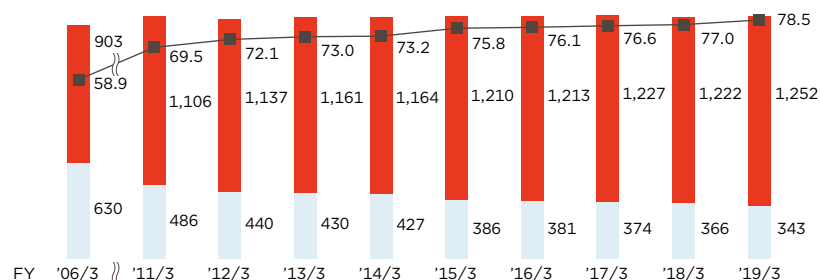
##### Suburban Trains

811 series	70%	Thyristor phase control	Electricity-generating brakes	Stainless steel car body
813 series	77%	VVVF control	Electricity-generating brakes	Stainless steel car body
303 series	58%	VVVF control	Regeneration brakes	Stainless steel car body
815 series	58%	VVVF control	Regeneration brakes	Aluminum car body
817 series	53%	VVVF control	Regeneration brakes	Aluminum car body
305 series	51%	VVVF control	Regeneration brakes	Aluminum car body
BEC819 series (DENCHA)	53%	VVVF control	Regeneration brakes	Aluminum car body
811 series (renewed)	49%	VVVF control	Regeneration brakes	Stainless steel car body
821 series	32%	VVVF control	Regeneration brakes	Aluminum car body
415 series (reference)	100%	Resistance control	Electricity-generating brakes	Steel car body

Note: The values above are theoretical values, and the numerical values will vary depending on the actual conditions of train operation, such as speed and number of persons on board.

#### Change in Number and Percentage of Energy-Saving Train Cars

■ Energy-saving train cars ■ Non-energy-saving train cars (Number of cars)  
■ Ratio of energy-saving train cars to all train cars (%)





## ESG SECTION

### ENVIRONMENTAL CONSERVATION ACTIVITIES

For the YC1 series storage battery-equipped diesel-electric rolling stock, we are currently conducting test operations targeting commercial operation and mass production. The regenerative power created during braking is used to charge the storage battery, and then utilized during acceleration. In these ways, this rolling stock has advantages in the effective use of energy. Furthermore, in comparison with the KIHA 66/67 existing diesel trains, fuel consumption has been reduced by about 20%, and reductions have also been achieved in emissions of CO<sub>2</sub>, etc., and in noise.

In the future, we will continue to make cars that are environmentally friendly.

### Reducing Use of Water Resources

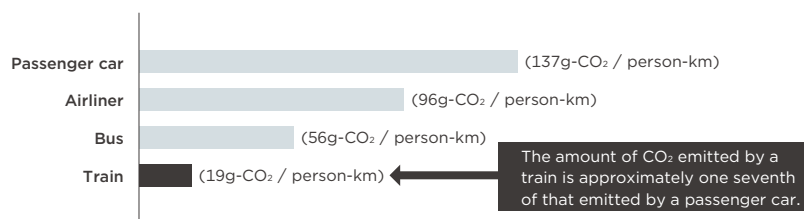
We have achieved significant results with measures to reduce the water used at the Kokura Rolling Stock Center. In addition to reusing water within the facility, we also supply water to the Kokura Station Building, which is located about two kilometers away, where it is used as non-potable water.

Other initiatives to reduce the use of water include the introduction of systems that use groundwater and rainwater at station buildings and other buildings. Moreover, Ropponmatsu 421 utilizes water-saving toilets, and waste water recycled by Fukuoka City is used as the toilet rinse water. In these ways, we are working to conserve valuable water resources.

### Reduction of Construction Waste

In order to achieve a recycling-oriented society, Kyushu Railway Company promotes reducing, reusing, and recycling of waste and also implements initiatives to make effective use of resources. As a part of that effort, in construction, by studying designs and methods for limiting waste as well as ways to reuse waste, we strive to reduce the volume of waste. In addition, we are working to reduce the construction materials used in construction and to introduce materials that make it possible to limit the amount of disposed materials. Furthermore, the industrial waste that is generated is processed appropriately under the Waste Management and Public Cleansing Act.

### Comparison of Amount of CO<sub>2</sub> Emitted When Carrying One Person One Kilometer



Source: Website of the Ministry of Land, Infrastructure, Transport and Tourism (CO<sub>2</sub> Emissions from the Transportation Sector) (FY2018/3)

### ■ Reducing Construction Waste

In civil engineering construction, the Company is working to reduce the volume of waste. To that end, we are studying designs and methods for limiting waste as well as ways to reuse waste.

On the Nippo Main Line and the Hitahikosan Line, we used the “geo rock wall construction method,” and we built retaining walls for the prevention of falling rocks with the use of soil secondarily generated by construction work on the site. In these ways, we reinforced the wall to withstand the shock of falling rocks, etc., without the use of concrete.

For an elevated bridge in Saga, we used the “smooth board method” for replacement of the railings on the bridge. Cement boards that are thin and light yet highly durable are placed on the existing block railings with the use of a special non-shrinking grout. In this way, a highly durable cross section is constructed. Because this method uses the existing railings, it is possible to conduct the construction work without the generation of waste.



Retaining wall using the “geo rock wall construction method”



Elevated bridge using the “smooth board construction method”

## ESG SECTION

### ENVIRONMENTAL CONSERVATION ACTIVITIES

At JR Hakata City, JR Nagasaki City, JR Oita City, and JR Kagoshima City, the various waste generated by the tenants of commercial facilities is sorted, and food waste is used as fertilizer or material for land reclamation.

#### Management of Chemical Substances

In order to reduce the environmental burden, in accordance with laws and regulations, Kyushu Railway Company appropriately manages and disposes of chemical substances that affect the environment.

Chemical substances used by the Company are principally rolling stock paint and items used in maintenance. They are managed appropriately in accordance with the PRTR Law (Law concerning Pollutant Release and Transfer Register).

In FY2019/3, reports on release amounts, etc., at two worksites —the Kokura Rolling Stock Center and the Kumamoto General Rolling Stock Center — were made to related local governments.

To combat CO<sub>2</sub> and NO<sub>x</sub> (nitrogen oxide), we will replace diesel train cars with DENCHA dual energy charge train cars and YC1 series storage battery-equipped diesel-electric train cars. In this way, we will aim to improve energy consumption efficiency and limit emissions of CO<sub>2</sub> and NO<sub>x</sub>.

#### ■ Initiatives for Waste at Commercial Facilities

We have installed waste processing facilities at JR Hakata City, which operates multiple commercial facilities, such as Amu Plaza Hakata. Waste is sorted into 19 categories, of which 15 are recycled. This includes food waste, of which 100% is reused as fertilizer or livestock feed. In addition, we have introduced waste scales, which are used to track the amount of waste generated by tenants in the facility. In these ways, we are working to reduce the amount of waste.



Waste processing machine installed at JR Hakata City

#### ■ Completion of Environmentally Friendly Offices

The JR Kyushu Kumamoto Regional Office, which was completed in March 2018, uses a variety of technologies that reflect consideration for the environment. In this way, we are working to reduce the amount of energy consumed. LED lighting is used throughout the facility, thereby contributing to reductions in electricity consumption and longer lifespans for lighting equipment. In addition, the design allows in a large amount of natural light even through the building is under elevated tracks, and low-emissivity double-glazed glass, which has a high level of thermal insulation, has been used. In these ways, we are reducing the amount of energy consumed.

In the construction of buildings, we use the CLT construction method, which has superior thermal insulation properties. We are participating in a verification program for the Ministry of the Environment, and we are working to verify the energy and CO<sub>2</sub> reduction effects. Verification is expected to lead to the further adoption of the CLT construction method.



Kumamoto Regional Office

#### ■ Efforts at the Multipurpose Complex in the Ropponmatsu District

At Ropponmatsu 421, the greening of certain sections of the roof has produced energy-saving effects due to the thermal insulation effect and the shielding of solar radiation. In addition, the facility uses water-saving toilets, and water recycled by Fukuoka City is used as toilet rinse water. In these ways, the facility reflects attention to reducing the use of water resources.



Greened sections of Ropponmatsu 421's roof

### Third-Party Opinion Regarding the Environmental Initiatives of the JR Kyushu Group

In a cabinet meeting held on June 11, 2019, the government decided on a long-term growth strategy under the Paris Agreement. The government confirmed that the ultimate goal is a decarbonized society, and that it will implement bold policies targeting the realization of the long-term objective of an 80% reduction in greenhouse gases by 2050. Accordingly, the government has positioned the promotion of innovation and green finance as essential measures, and is emphasizing the importance of providing support by expanding green investment and ESG finance for companies that demonstrate superior environmental friendliness. Looking at JR Kyushu's recent environmental initiatives report, the Company has already started to advance initiatives that anticipate this trend. JR Kyushu is demonstrating an aggressive approach to highlighting its position as a recipient of green investment.

From this fiscal year, the Company has strengthened its environmental management system, including Group companies, and further enhanced its governance (G). In addition, looking at environmental (E) initiatives, in particular, through the aggressive introduction of energy-saving rolling stock, JR Kyushu was able to achieve the objective for reducing unit energy consumption, as included in the Company's Low-Carbon Society Action Plan, 12 years ahead of the target year. This was a significant achievement. The operating segments of the DENCHA dual energy charge train have been expanded to the Fukuoka Metropolitan Area. DENCHA is visible to 1.5 million residents as a tangible sign of JR Kyushu's serious initiatives. These efforts can be expected to make a significant reduction in environmental burden and in energy costs. The power storage facilities at the Karatsu transformer substation on the Chikuhō Line are another point worthy of mention. These facilities started operation last fall. The initiative to use electrical power as soon as it is created, without wasting energy, is an example of how small things can add up and make a significant difference.

Incidentally, used wooden railroad ties have been utilized in place of firewood for campfires at college campus festivals, thereby helping create memories for the young students. Over the past 13 years, JR Kyushu has replaced about 417,000 wooden railroad ties with concrete ties. In addition to reducing waste and preserving forest resources, this should also lead to reductions in labor and expenses due to the decrease in the replacement frequency. In addition, another noteworthy initiative is the Group's use of certified paper products made with wood resources that reflect consideration for forest conservation.

Working together with local communities to implement active participation in and support for environmental initiatives has become a part of JR Kyushu's corporate culture. The Fukuoka City Regional Council on Warming Countermeasures was the first regional council to be established and registered in accordance with the Act on Promotion of Global Warming Countermeasures. JR Kyushu has been working as the regional council's managing company since the council was established. In addition, package delivery lockers, which were introduced last year, have been increased. These lockers not only provide convenience to railway users but also reduce the burden on delivery workers by decreasing the need for redeliveries. In that sense, this is a social contribution that extends beyond JR Kyushu itself.

August 2019

Fukuoka University Professor Emeritus,  
Former Chair of Central Environment Council

Naohito Asano

# FINANCIAL SECTION

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Note: Our consolidated financial statements are prepared in accordance with Japanese GAAP, which differs in certain significant respects from accounting principles generally accepted in other countries, including U.S. GAAP and IFRS.



# FINANCIAL SECTION

## CONSOLIDATED FIVE-YEAR SUMMARY

Kyushu Railway Company and Consolidated Subsidiaries  
Years ended March 31

	FY2015/3	FY2016/3	FY2017/3	FY2018/3	(Billions of yen) FY2019/3
<b>Operating Revenues</b> .....	357.4	377.9	382.9	413.3	<b>440.3</b>
Transportation Segment .....	174.5	180.9	176.4	183.7	<b>185.0</b>
Real Estate Segment .....	53.5	62.0	67.4	69.4	<b>72.6</b>
Retail and Restaurant Segment.....	90.1	96.2	100.4	103.1	<b>104.0</b>
Construction Segment.....	80.3	88.4	79.3	88.0	<b>91.7</b>
Other Segment .....	56.1	58.1	60.9	67.4	<b>89.8</b>
<b>Operating Income (Loss)</b> .....	12.7	20.8	58.7	63.9	<b>63.8</b>
Transportation Segment .....	(13.2)	(10.5)	25.7	29.2	<b>27.4</b>
Real Estate Segment .....	18.4	20.4	22.6	23.2	<b>23.7</b>
Retail and Restaurant Segment.....	2.4	3.4	3.4	3.6	<b>3.4</b>
Construction Segment.....	4.3	6.1	5.9	6.2	<b>6.5</b>
Other Segment .....	1.6	2.4	2.5	2.4	<b>3.5</b>
<b>EBITDA</b> .....	61.4	69.1	73.2	81.8	<b>85.4</b>
Transportation Segment .....	25.8	27.0	28.5	34.3	<b>34.4</b>
Real Estate Segment .....	25.1	28.4	31.1	32.0	<b>33.1</b>
Retail and Restaurant Segment.....	4.0	4.9	5.1	5.3	<b>5.0</b>
Construction Segment.....	5.1	6.8	6.7	7.0	<b>7.5</b>
Other Segment .....	2.5	3.3	3.3	3.9	<b>6.3</b>
<b>Net Income (Loss) Attributable to Owners of the Parent</b> .....	15.0	(433.0)	44.7	50.4	<b>49.2</b>
<b>Capital Investment Amounts (Non-consolidated)</b> .....	55.0	59.3	60.0	47.2	<b>72.0</b>
<b>Depreciation Costs (Non-consolidated)</b> .....	28.7	29.3	7.0	9.6	<b>11.8</b>
<b>Net Cash Provided by Operating Activities</b> .....	46.1	63.4	28.5	87.6	<b>41.4</b>
<b>Net Cash Provided by (Used in) Investing Activities</b> .....	(69.2)	9.0	(18.3)	(68.3)	<b>(74.6)</b>
<b>Net Cash Provided by (Used in) Financing Activities</b> .....	19.8	(40.0)	(0.6)	(9.1)	<b>5.6</b>
<b>Total Assets</b> .....	1,140.9	646.6	676.6	749.3	<b>801.4</b>
<b>Total Liabilities</b> .....	369.7	340.9	328.2	366.1	<b>380.7</b>
<b>Total Equity</b> .....	771.2	305.7	348.4	383.2	<b>420.7</b>
<b>Per Share Figures (Yen):</b>					
Net Income .....	93.83	(2,706.81)	279.70	315.07	<b>307.75</b>
Net Assets.....	4,790.51	1,876.72	2,144.00	2,357.27	<b>2,592.83</b>
Dividends .....	—	—	38.50	83.00	<b>93.00</b>
<b>Financial Ratio (%):</b>					
Equity Ratio .....	67.2	46.4	50.7	50.3	<b>51.80</b>
Operating Income to Operating Revenues .....	3.6	5.5	15.3	15.5	<b>14.50</b>
Payout Ratio.....	—	—	13.8	26.3	<b>30.20</b>
<b>Others:</b>					
Number of Passengers (Millions) .....	319	330	331	337	<b>338</b>
Number of Employees .....	16,740	16,838	16,922	17,297	<b>17,765</b>
Number of Shares Outstanding.....	320,000	320,000	160,000,000	160,000,000	<b>160,000,000</b>

### Notes:

- Figures for each segment are figures before the segment change in April 2019.
- Segment operating revenues, segment operating income (loss), and segment EBITDA are numerical values before eliminating intersegment transactions.
- Segment EBITDA comprises operating income + cost of depreciation.  
Transportation Group EBITDA for FY2016/3 and previous fiscal years comprises operating income + cost of depreciation + earnings from use of the Management Stabilization Fund, while EBITDA for FY2017/3 and subsequent fiscal years comprises operating income + cost of depreciation.
- On August 18, 2016, the Company conducted a stock split at a ratio of 500 shares for each share of common stock. Calculations of net income per share and net assets per share were made under the assumption that the stock split had occurred at the beginning of FY2014/3.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Overview

We conduct transportation operations in the Kyushu region of Japan, including the largest railway network in the region. We also operate a number of non-transportation businesses, including the leasing and sale of real estate, hotels, retail stores and restaurants, and construction. These businesses directly or indirectly benefit from and are supported by the strength of our railway business and the strength of the JR Kyushu brand. For the year ended March 31, 2019, we recorded consolidated operating revenues of ¥440,358 million, consolidated operating income of ¥63,885 million, and consolidated net income attributable to owners of the parent of ¥49,240 million. For the same period, our consolidated EBITDA was ¥85,402 million. We categorize our business into five reportable segments. For more information, please refer to the "Review of Operations" section.

### Results of Operations

#### Operating Revenues

Operating revenues increased 6.5% from the previous consolidated fiscal year, to ¥440,358 million. This increase was due in part to the consolidation of Caterpillar Kyushu Ltd.

#### Operating Expenses

Operating expenses rose 7.7% from the previous consolidated fiscal year, to ¥376,473 million.

Within operating expenses, transportation, other services, and cost of sales increased 7.7% from the previous consolidated fiscal year, to ¥273,001 million. This increase was due mainly to the consolidation of Caterpillar Kyushu and to higher depreciation costs at JR Kyushu.

Selling, general and administrative expenses increased 7.9% from the previous consolidated fiscal year, to ¥103,471 million. This increase was due to Caterpillar Kyushu becoming a consolidated subsidiary and other factors.

#### Operating Income

Operating income decreased 0.1% from the previous consolidated fiscal year, to ¥63,885 million.

Furthermore, while the ratio of operating income to operating revenues in the previous consolidated fiscal year was 15.5%, it was 14.5% in the consolidated fiscal year under review.

#### Non-Operating Income and Expenses

Non-operating income decreased 2.4% from the previous consolidated fiscal year, to ¥3,817 million.

Non-operating expenses were up 40.5% from the previous consolidated fiscal year, to ¥1,163 million. This increase was mainly attributable to an increase in interest expense.

#### Ordinary Income

Ordinary income decreased 0.8% from the previous consolidated fiscal year, to ¥66,539 million.

In addition, while the ratio of ordinary income to operating revenues in the previous consolidated fiscal year was 16.2%, it was 15.1% in the consolidated fiscal year under review.

#### Extraordinary Gains and Losses

The balance of extraordinary gains and losses improved ¥110 million from the previous consolidated fiscal year, to extraordinary losses of ¥2,101 million.

This was mainly because, although losses related to the heavy rain that occurred in July 2018 were recorded, there was a decline in losses related to events that occurred in the previous consolidated fiscal year—the heavy rain in northern Kyushu in July 2017 and Typhoon No. 18 in 2017.

#### Net Income Attributable to Owners of the Parent

Net income attributable to owners of the parent was down 2.3% from the previous consolidated fiscal year, to ¥49,240 million.

### Factors Affecting Revenues by Segment

#### Transportation Group

##### ■ Railway business

The operating revenues of our railway business consist of sales of passenger tickets (including commuter passes), including for both conventional lines and the Shinkansen. Revenues from sales of passenger tickets are generally a function of train fares and passenger volume. A base fare is required for all passenger services, while a surcharge is added to applicable fares for the use of express trains and "green car" upper-class seats. The express service surcharge is higher for the Shinkansen than for other express trains. We generally calculate our fares in proportion to travel distance under a system in which the per-kilometer fare gradually decreases as the travel distance increases. Commuter passes enable the worker or student who owns the pass to take unlimited rides on a specified route for periods of one, three, or six months. The regular one-month commuter passes are sold at a discount compared with the total passenger ticket price that would be applicable if the passenger purchased two tickets per day for 30 days. Further discounts are applied for three- and six-month commuter passes.

Coupon tickets for multiple rides and a variety of special tickets, such as two-ticket packs provided at a discounted price, are sold at station ticket windows and machines. In addition, there are discount tickets that can only be purchased via the Internet. Travelers from overseas can use the JR Kyushu Rail Pass discount ticket. During the valid period of the pass, travelers can use JR lines any number of times, including reserved seats.

Passenger volume is affected by a number of factors, including economic conditions, demographics, competition with alternative modes of transportation, tourist demand, weather and natural disasters, and holidays.

## FINANCIAL SECTION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### ■ Other businesses

The operating revenues of our hydrofoil ferry and bus businesses are generally affected by similar factors as our railway business, although fewer passengers use them for commuting purposes. Other businesses in the Transportation segment include car rental and temporary parking lots, the net revenues of which are primarily affected by general economic factors.

#### Real Estate and Hotels Group

##### ■ Leasing business

Operating revenues from the leasing business in this segment depend primarily upon the amount of aggregate available leasable space, occupancy rates, and rent levels. Occupancy rates in our commercial, residential, and office leasing businesses are generally high, and specifically, our major station buildings have had average annual occupancy rates of close to 100%. Most of our commercial retail leases consist of a minimum fixed amount and variable rent that correlate with the relevant tenant's revenues attributable to the relevant space that can be influenced by the performance of our tenants. Operating revenues in the hotel business are affected by the total number of rooms available, occupancy rates, and pricing. Operating revenues in our hotel business are subject to seasonal fluctuations, particularly in the case of our resort hotels for which demand increases significantly during the summer months.

##### ■ Condominium sales business

Operating revenues in our condominium sales business are derived from the sales prices of our condominium units to the general public that are sold under the MJR brand. We generally aim to sell all available units within a given development prior to the completion of construction. Sales prices and lead times for condominiums are affected by general economic conditions, such as the interest rate environment and government policies (including taxation policies), as well as the location and supply conditions in the localized housing market.

#### Retail and Restaurant Group

Operating revenues in our Retail and Restaurant segment are generally affected by the number of locations, customer volume, and average spend per customer.

Particularly for retail and restaurant locations within and around our railway network, customer volume is affected by passenger volume on our trains. Many of our offerings are designed to be both attractive to customers and conveniently located for easy access while traveling or commuting. Additionally, the general economic factors that affect customers' propensity to engage in leisure activity on our train lines generally tend to affect their inclination to shop and dine out as well. Volume is affected by competition with both regional and national chains of convenience stores, drugstores, and restaurants, in addition to free-standing retail stores and restaurants. Volume is also affected by competition with other commercial facilities, such as department stores and shopping malls, which may have both retail and restaurant offerings in competition with ours.

Average spend per customer is affected by our product mix, shifts in customer preferences, and the general economic environment, influencing which products our customers will purchase and how frequently they do so.

#### Construction Group

Operating revenues in the Construction segment are derived from contracts with customers for the construction of railway-related projects, buildings, and other civil engineering projects, as well as consulting and other construction service contracts. Revenues from construction contracts for which the percentage of completion can be reliably estimated are recognized by the percentage-of-completion method. The percentage of completion is calculated by using the total cost incurred as a percentage of the estimated total cost. The completed-contract method is applied to construction contracts for which the percentage of completion cannot be reliably estimated.

Operating revenues from construction projects are based primarily on the contract prices and other terms of contracts we enter into with customers, either through negotiation or a bidding process. Our sales in a given fiscal period depend primarily on the size and number of projects that are currently in process or under construction during that period, and on our progress on and completion of those projects.

More than half of our operating revenues in the Construction segment are derived from transactions with Group companies. Third-party customers of the Construction segment include other railway operators and railway-related businesses, as well as other public- and private-sector customers.

Key factors that affect demand for our construction services, particularly in the case of external customers, include investment in railway projects and general economic and market conditions.

## FINANCIAL SECTION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Cash Flows

Net cash provided by operating activities was ¥41,473 million, down ¥46,215 million from the previous consolidated fiscal year, mainly due to a decrease related to the collection of trade receivables.

Net cash used in investing activities was ¥74,619 million, up ¥6,239 million from the previous consolidated fiscal year. This was mainly due to purchases of fixed assets.

Net cash provided by financing activities was ¥5,644 million, up ¥14,842 million from the net cash used in financing activities recorded in the previous consolidated fiscal year. This was mainly attributable to the issuance of bonds.

As a result of the factors above, from the end of the previous consolidated fiscal year, cash and cash equivalents, end of year was ¥36,865 million, down ¥27,514 million from the end of the previous consolidated fiscal year.

#### Dividend Policy

We consider the return of profits to shareholders to be an important component of our business, and we place importance on the provision of stable shareholder returns over the long term.

The decision-making bodies for the payment of dividends from retained earnings is the Board of Directors for interim dividends and the General Meeting of Shareholders for year-end dividends. As stipulated by the Articles of Incorporation, the Company may, by resolution of the Board of Directors, distribute interim dividends with a record date of September 30 of each year. The Company's basic policy is to pay dividends—an interim dividend and a year-end dividend—from retained earnings twice a year.

During the period up to FY2019/3, the Company aimed to pay a stable dividend targeting a consolidated dividend payout ratio of around 30%. The dividend for each fiscal year was determined by giving overall consideration to various matters while discerning future trends in business performance.

In accordance with this policy and based on a comprehensive evaluation of operating results in the fiscal year under review and other factors, we issued a year-end dividend of ¥51.50 per share. Including the interim dividend of ¥41.50 per share, the annual dividend was ¥93.00 per share.

As indicated in the JR Kyushu Group Medium-Term Business Plan 2019-2021—Toward the Next Growth Stage, which was announced in March 2019, over the period through FY2022/3, the Company will aim for a total payout ratio of 35% while providing stable dividends and implementing share repurchases depending on the situation.

Furthermore, the Company intends to allocate internal reserves to investments for maintaining and upgrading railway facilities and to growth investments in order to contribute to the sustainable development of the Kyushu region through city-building initiatives that leverage the distinctive characteristics of local communities, centered on safe, secure mobility services.

## RISK FACTORS

Of the items included in this report, those that may have a significant impact on the judgment of investors are indicated in this section. However, there may be other risk factors that are not included in this list.

Forward-looking statements in this section are based on the assessments of the JR Kyushu Group (the “Group”) as of March 31, 2019.

### 1. Risks Associated with Changes in the Economy of Japan and Kyushu

The Group’s operations, including transportation, construction, real estate and hotels, retail and restaurant operations, and other businesses, are mainly based in the Kyushu region of Japan. The Group’s operations are therefore affected not only by the Japanese economy in general, including the planned increase in Japan’s national sales tax and other economic measures implemented by the Japanese government, but also by the Kyushu region’s economy (particularly Fukuoka City and other major metropolitan areas). In the Transportation Group business, employment conditions and student enrollment in Kyushu, particularly in and around Fukuoka City, could affect railway transportation revenue (commuter passes). A decline in the number of business travelers and tourists owing to a slow-down in the Japanese economy or the economy of Kyushu could affect railway transportation revenue (ordinary tickets). In the Real Estate and Hotels Group, changes in commercial facilities, hotels, and residential demand, in Fukuoka City and other major metropolitan areas, interest rate levels, and monetary policy may affect rent levels, occupancy rates, and sales prices for real estate.

In addition, construction demand in Kyushu and Japan as a whole could affect Construction Group order value, and changes in consumption and other factors in Kyushu and Japan as a whole could affect the Group’s Retail and Restaurant Group. Any changes in the areas above could affect the Group’s businesses, earnings, and its financial condition.

### 2. Risks Related to the Medium-Term Business Plan

In March 2019, the Group announced the JR Kyushu Group Medium-Term Business Plan 2019–2021—Toward the Next Growth Stage. The Group may not be able to achieve railway transportation revenue in line with its plans if demand for Shinkansen or conventional lines declines more than expected owing to population decline, regulatory, economic, or other factors or if we are unable to accurately gauge and respond to customer demand. Also, if online ticket sales or yield management do not progress in line with expectations or if cost reductions through increased efficiency, workforce reductions, etc., in the railway business diverge from the Group’s forecast, it may not be able to achieve the goals set out in the Medium-Term Business Plan.

Also, the Group may be unable to take advantage of an increase in overseas tourists to sufficiently expand sales owing to factors related to the competitive environment or changes in customer preferences. Furthermore, the Group’s real estate development projects could be unsuccessful as a result of unanticipated costs, demographic changes, or regulatory, economic, or other factors. Also, the know-how and experience accumulated by the Group might prove ineffective when extending its businesses outside of Kyushu and this could put it at a disadvantage. Such factors may result in the Group being unable to achieve the goals of the Medium-Term Business Plan. Furthermore, due to the highly interconnected nature of the Group’s Transportation Group and Real Estate and Hotels Group businesses, risks that adversely affect one of these businesses may also adversely affect the other.

In addition, the Group has made a number of assumptions and estimates in formulating its Medium-Term Business Plan, including estimates regarding future population changes, the number of foreign tourists, labor costs, and other expenses. In addition, all of the Group’s businesses are exposed to the risks outlined in this report under the section titled Risk Factors.

If the Group fails to implement any of its business initiatives, or if any of its forecasts prove inaccurate or insufficient, or if it is unable to sufficiently respond to any of the inherent risks in its businesses, it may affect the ability of the Group to achieve the goals of its Medium-Term Business Plan.

## FINANCIAL SECTION

### RISK FACTORS

#### 3. Regulatory Risks

##### Regulatory Risks in the Railway Business

We manage our railway business based on the Railway Business Act. While we are no longer subject to the Act Concerning Passenger Railway Companies and the Japan Freight Railway Company of Japan (the “JR Companies Act”), we are still required to manage operations in accordance with the Guidelines on Matters to Be Considered for the Foreseeable Future (the “Guidelines”) that are stipulated in a supplementary provision of the JR Companies Act. Please see below for details.

##### (1) Railway Business Act (Act No. 92. of 1986)

Under the Railway Business Act, we are required to obtain the permission of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) for each type of line and railway business operated (Article 3). We must also receive approval from the MLIT for the upper limit for rail fares and surcharges. We are able to set or change the fares within the approved range as long as we provide the MLIT with advance notice (Article 16). We are also required to notify the MLIT at least one year in advance regarding business suspension or withdrawal (Article 28, paragraphs 1 and 2). The Group may be prohibited from making major changes to its railway business based on the plans of the MLIT or for reasons deemed to be related to the public interest.

##### (2) Partial amendment to the JR Companies Act (2015, Law No. 36)

i. Exclusion from provisions of the JR Companies Act  
The JR Companies Act was established in December 1986 in order to govern the investment and establishment of passenger and freight railway companies amid the privatization of Japanese National Railways and establish the purpose and scope of business operations conducted by these companies. The companies subject to the JR Companies Act were required to receive approval from the MLIT for such management decisions as the issuance of shares or the selection of a representative director. The act also establishes regulations requiring that these companies give consideration to the interests of small and medium-sized businesses.

In addition to the regulations stipulated by the Railway Business Law, the Company had been subject to government regulations under the JR Companies Act. However, with the implementation of the amended JR Companies Act on April 1, 2016, ahead of the complete privatization of the Company, the Company is no longer subject to the provisions of the JR Companies Act.

##### ii. Guidelines

Article 2 of the amended JR Companies Act enables the MLIT to issue guidelines relating to matters that should be considered for the foreseeable future (Guidelines) with respect to the management of the Company or any companies that may acquire all or a part of the railway operations of the Company as a result of mergers, etc., (new companies) as designated by the MLIT on or after the date of enactment of the amended JR Companies Act. Those guidelines were issued in December 2015 and implemented on April 1, 2016. The content of the guidelines is as follows.

- Items relating to ensuring alliances and cooperation among the companies (among the new companies or among the new companies and Hokkaido Railway Company, Shikoku Railway Company, freight companies, East Japan Railway Company, Central Japan Railway Company, West Japan Railway Company, or companies designated by the MLIT on or after the date of enactment of the amended JR Companies Act involved in the management of all or part of the former JR railway operations as a result of asset transfers, mergers, partitions, or successions (2001, Law No. 61)) with respect to the establishment of appropriate passenger fares and surcharges, the unhindered utilization of railway facilities, and other factors relating to railway operations.
- Items relating to the appropriate maintenance of railway routes currently in operation reflecting trends in transportation demand and other changes in circumstances following the restructuring of Japanese National Railways and items relating to ensuring users' convenience through the maintenance of stations and other railway facilities.
- Items stating that the new companies should avoid actions that inappropriately obstruct business activities or infringe upon the interests of small and medium-sized companies operating businesses in the operational areas of the new companies that are similar to the businesses of the new companies.

The MLIT is empowered to issue guidance and advice to the new companies on compliance with the Guidelines (supplementary provision, Article 3). If the new companies act in a manner contrary to the guidelines without justifiable reason, the MLIT can order them to take the recommended measures (supplementary provision, Article 4).

The Company operates its businesses in accordance with these guidelines and we do not expect any of these provisions to have a significant effect on our operations.



## FINANCIAL SECTION

### RISK FACTORS

#### Risks Related to the Establishment and Changes to Fares and Surcharges

The Railway Business Act requires JR Kyushu to follow certain procedures when seeking to set or change fares and surcharges. If the Company is unable to flexibly change fares and surcharges based on these procedures for any reason, its earnings could be affected. Details of these procedures are as follows.

##### (1) Procedures for approval of fares and surcharges

The Railway Business Law stipulates that railway operators are required to obtain the approval of the MLIT when setting or changing the upper limit for passenger fares and Shinkansen limited express surcharges (fares and surcharges) (Railway Business Law, Article 16, Item 1).

Railway operators may, after giving prior notification, set or change fares and surcharges within those upper limits and set or change the limited express surcharges on conventional lines and other surcharges (Railway Business Law, Article 16, Items 3 and 4).

Below, we provide a recent example of the process followed when a major private railway company received approval from the MLIT.

In order to improve the convenience of users when restructuring Japanese National Railways, a system is currently in place under which the total fares or other costs associated with customers or cargo traveling between two or more transportation providers can be decided based on contracts between the companies involved. This system generally allows for lower fares for longer travel distances. Furthermore, this system does not interfere with transportation providers' ability to establish their own pricing systems.

##### (2) The Group's stance on fare revisions

i. Except for fare revisions to reflect sales tax hikes in April 1989, April 1997, and April 2014, JR Kyushu has implemented only one fare hike since the start of operations in April 1987. This was implemented on January 10, 1996, which, on average, raised fares by 7.8%. Viewed from a broad management perspective, we believe the timely implementation of fare revisions will be necessary to secure appropriate profit levels.

ii. Our first mission is to ensure profitability and improve efficiency through streamlining measures. However, we also feel it is necessary to maintain a reasonable level of profit in order to fund future capital investment and strengthen our financial position.

iii. Capital investment has a major impact on capital costs in the railway business and we evaluate the necessity of each project while keeping in mind our mission to provide safe and reliable transport.

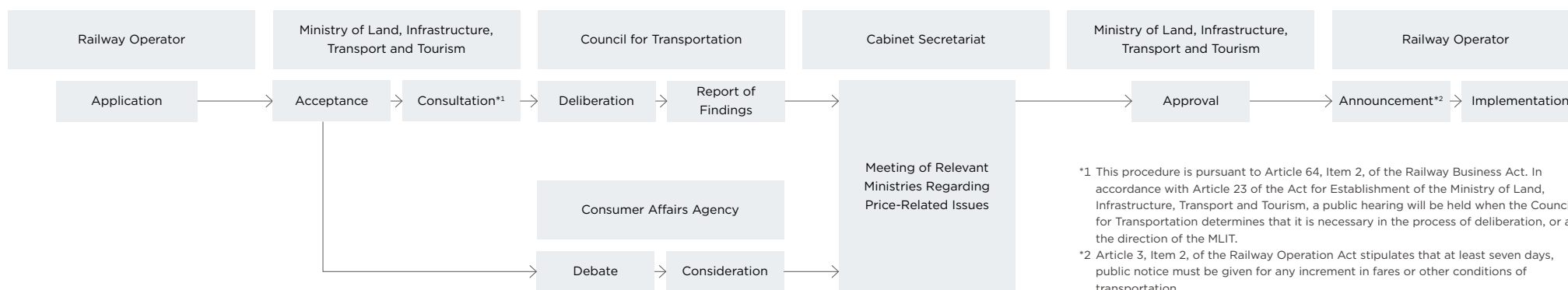
We recognize the need to conduct capital expenditures based upon clearly defined management responsibility.

##### (3) View of Ministry of Land, Infrastructure and Transport

The position of the Ministry of Land, Infrastructure and Transport regarding fare revisions is as follows.

i. The MLIT will approve applications for the revision of the upper limit of fares from railway operators after conducting inspections to determine that the fares do not exceed the sum of reasonable costs and profits (total-cost) that can be expected to be incurred through the efficient management of those companies (Railway Business Act, Article 16, Item 2).

A three-year period is stipulated for the calculation of costs.



## FINANCIAL SECTION

### RISK FACTORS

- ii. Even when the railway operator operates non-railway businesses, the calculation of total cost, which comprises reasonable costs and profits including required dividend payments to shareholders, is based on railway operations only. Further, operators are required to submit for inspection capital expenditure plans to improve transportation capabilities as a means to ease crowding of commuter transport and for other improvements of passenger services. The capital expenditures necessary for such enhancements is included in the calculation of total cost.
- iii. In calculating total cost, regarding capital invested in relevant businesses, a rate-based formula will be used to estimate capital costs (including interest expenses and dividend distributions) wherein fair and appropriate returns will be awarded based on judgments regarding opportunity costs.

Total cost = Operating expenses, etc.,\*<sup>1</sup> + Business compensation

- Business compensation = Assets utilized in Operational return (rate base) × Operational return rate
- Assets utilized in Operational return = fixed assets used in the railway business + construction in progress + deferred assets + operating capital\*<sup>2</sup>
- Operational return rate = Equity ratio\*<sup>3</sup> × Return rate on equity\*<sup>4</sup> + Borrowed capital ratio\*<sup>3</sup> × Return rate on borrowed capital\*<sup>4</sup>

\*<sup>1</sup> With respect to comparable costs among railway operators, a "yardstick formula" is used to encourage indirect competition among operators in order to encourage enhanced management efficiency. The results of those comparisons are issued at the end of every fiscal year and form the basis for cost calculation.

\*<sup>2</sup> Operating capital = Operating expenses and a portion of inventory

\*<sup>3</sup> The equity ratio is 30%, while the borrowed capital ratio stands at 70%.

\*<sup>4</sup> The return rate on equity is the average of the subscriber bond yield, the all-industry average return rate on equity, and the required level of dividends on equity. The return rate on borrowed capital is the actual average rate on loans, etc.

- iv. Providing that prior notification is given to the MLIT, railway operators can set or change fares and surcharges and other charges within the upper approved limits. However, the MLIT can issue directives requiring changes in fares and surcharges during specified periods if the fares and surcharges submitted are deemed to fall within the following categories (Railway Business Law, Article 16, Item 5).
- The changes would lead to unjustifiable discrimination in the treatment of certain passengers.
  - There is concern that the changes would give rise to unfair competition with other railway transportation operators.

#### Regarding Special Tax Measures

Pursuant to Article 15-2, Item 2 of the Supplementary Provisions to the Local Tax Law, the Company has been deemed eligible to reduce fixed assets used in the railway business subject to fixed asset taxes and city planning taxes to 50% of their standard tax assessment value up to FY2017/3 and, pursuant to Article 15-3, Item 1 of the Supplementary Provisions to the Local Tax Law, reduce fixed assets used in the business succeeded directly to the Company from Japanese National Railways subject to fixed asset taxes and city planning taxes to three-fifths of their standard tax assessment value up to FY2017/3 (by our calculations, this resulted in FY2016/3 tax savings of roughly ¥5.6 billion and ¥500 million, respectively). In addition, pursuant to Article 9, Item 1 of the Supplementary Provisions to the Local Tax Law, the Company has been deemed eligible for special tax measures pertaining to capital ratios related to corporate enterprise tax (by our calculations, this resulted in FY2016/3 tax savings of roughly ¥300 million).

These special tax measures were reviewed along with tax system reforms carried out in FY2017/3 and it was determined that they were to be eliminated at the end of FY2019/3.

#### 4. Relating to the Real Estate and Hotels Group

The Real Estate and Hotels Group invests large sums of money in projects that require long periods of time to become profitable. Owing to external factors beyond our control, the amount of time and money required to complete these projects may increase and the expected level of earnings may not be achieved.

The Group may be forced to hold completed properties meant for sale in inventory for long periods of time, which could force it to recognize impairment losses. Also, if sales of tenants in our station building commercial facilities decline owing to deterioration in the operating environment or if the appeal of the products of our tenants declines, the portion of rent income tied to sales value could decline and this could impact the Group's earnings. In addition, declining demand could result in the loss of major tenants, higher vacancy rates, and lower rents for our rental properties, and prices of condominium could decline.

Following the completion of its real estate projects, the Group may be liable for unforeseen losses, damages, or injuries to third parties at properties it owns or costs to remedy construction defects.

Any of these risks could have a material adverse effect on the Group's businesses, earnings, and its financial condition.

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#### 5. Relating to Population Trends

The Group's main area of operations is Kyushu, where the rate of population decline is greater than in other regions of Japan and the ratio of elderly residents is expected to remain high.

Depopulation and aging of the population of Kyushu could result in a decrease in the number of commuters and travelers and this could impact the businesses, earnings, and financial position of the Transportation Group. In addition, depopulation could lead to a decline in consumption and a decline in the number of people using station building commercial facilities, drugstores, and convenience stores and a decline in the number of people renting apartments or purchasing condominiums, which could impact the Real Estate and Hotels Group and the Retail and Restaurant Group businesses, earnings, and financial position of the Real Estate and Hotels Group and the Retail and Restaurant Group.

#### 6. Relating to Competition

Each of the Group's businesses faces competition. The Transportation Group competes with other railway operators and other transportation service providers, including bus service operators, the regional highway network, airlines, and passenger ship operators, based on factors such as safety, fares, transit time, number of rolling stock units in service, comfort, convenience, attractiveness, brand appeal, and financing. In particular, the highway network in Kyushu is widely used and covers many of the locations serviced by the Group's Shinkansen and express trains.

The commercial real estate leasing business of the Real Estate and Hotels Group competes with operators of other commercial facilities including shopping centers based on such factors as convenience, the ability to attract customers, rent and other lease terms, brand appeal, and financing. In addition, in the hotel business, the Group competes with other hotel businesses in such areas as brand strength, cost, convenience, and location appeal. In the residential leasing and condominium businesses, the Group competes with other developers and property owners based on such factors as location, convenience, price, attractiveness, brand appeal, and financing. The

Construction Group competes with other construction companies from all over Kyushu and other regions of Japan. The Retail and Restaurant Group competes with similar retailers based on such factors as convenience, price, attractiveness of facilities, and customer satisfaction.

If the Group is unable to remain competitive, whether due to changes in customer preferences, evolving customer needs and its ability to respond to them, changes in technology, consolidation of its competitors or other factors, its businesses, earnings, and financial position could be materially and adversely affected.

#### 7. Relating to the Group's Earnings Structure

The ratio of the Group's fixed costs—such as labor, maintenance, and depreciation costs—to net sales is high, particularly in the Transportation Group and the Real Estate and Hotels Group. Also, the public nature of the Group's businesses as well as applicable regulations and other factors may significantly restrict its ability to take cost-reduction measures.

As a result, the Group's ability to increase profits in the Transportation Group by cutting costs when fixed costs are high is limited. Similarly, in its station building and real estate leasing businesses for rental apartments, operating costs generally do not necessarily decrease in line with declines in rental income. Accordingly, decreases in market rent levels or occupancy rates or the negotiation of lease terms unfavorable to the Group may therefore significantly affect operating income from such businesses.

#### 8. Relating to Growth in Electric Power Costs, Labor Costs, and Other Operating Costs

If electric power costs rise owing to rising fuel prices and other factors, this could negatively affect the Group's businesses in general, particularly the railway business. Also, the public nature of the Group's business as well as applicable regulations and other factors may significantly restrict its ability to pass on the impact of these higher costs in the form of higher fares and it may not be able to offset such increases with earnings growth.

Many of the Group's businesses require a large labor force and, in recent years, labor costs in Japan have been increasing. Additionally, owing to the declining and aging population, the Group may also encounter a tighter supply-demand balance in the labor market in the future. As a result, it may need to offer enhanced employment conditions to secure human resources.

In the Construction Group and the Real Estate and Hotels Group, construction costs have been driven up by rising construction material and labor costs and this may not only adversely impact the Group's earnings and financial position, but may also result in customers delaying capital investment, which could have an adverse impact on the earnings and financial position of companies in the Construction Group. Additionally, if it becomes difficult to pass on the impact of rising raw material costs in the Retail and Restaurant Group by raising prices of goods and services provided by the Group, or if inflation in Japan or abroad or yen depreciation results in higher costs, this could have an adverse material impact on the Group's businesses, earnings, and financial position.

#### 9. Relating to Natural Disasters and Accidents

The Group's operations are diverse in scope, but are geographically concentrated in Kyushu. The Group has substantial fixed assets such as railways, rolling stock, and real estate that could be impaired by such serious disasters as earthquakes, volcanic eruptions, tsunamis, typhoons, landslides, heavy rains, heavy snowfall, floods or pandemics; man-made disasters such as wars, acts of terrorism or armed conflict; core infrastructure failures such as power grid failures; and other localized disasters, particularly those affecting Kyushu. If this occurs, large-scale repairs of the Group's assets may be necessary or all or a portion of the Group's operations may be unable to continue to operate or may suffer extensive damage. A major disaster in Kyushu or the Fukuoka metropolitan area, where the Group's operations are concentrated, may result in a sizable adverse material impact on the Group's businesses, earnings, and financial position. Also, in the event of an injury, etc., to the Group's customers or other third parties as a result of such a disaster, the Group may be subject to a major lawsuit or claims may be

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made against it. Such a disaster could have an adverse impact on the public's perception of the safety and reliability of the Group's services or facilities, thereby damaging society's trust in the Group or having an adverse impact on demand for the Group's services.

In the event of a major accident on the Group's railway network, the Group may be subject to a major lawsuit by a third party or claims may be made against it. In addition, the Group could incur heavy expenses for the repair or replacement of its lines, it could lose income owing to the halt of operations, and it could suffer damage to its reputation and loss of society's trust. Due to the highly integrated structure of the Group's railway network and its Shinkansen operations, a relatively minor accident can have a wide-ranging adverse impact on railway operations and disasters or damage affecting railway lines outside of Kyushu can also have a serious impact on the Group's railway operations, including Kyushu Shinkansen operations, thereby having an adverse impact on the Group's earnings, raising concerns regarding the Group's railway services and facilities, and possibly damaging society's trust in the Group's non-railway businesses or the value of the Group's brand.

Although the Group maintains insurance for personal and property damages, its coverage against damage or liability caused by earthquakes and other natural disasters may not be sufficient to cover all losses and damages. Damage to assets beyond the scope of this insurance or of an amount above the limits of coverage of this insurance could have an adverse material impact on the Group's businesses, earnings, and financial position.

#### 10. Relating to the Value of the Group's Assets

The Group owns a significant amount of property, plant and equipment and other fixed assets including land and other real estate. If there is a change in the operating environment or decline in profitability that leads management to believe that investments made in these fixed assets cannot be recovered, the Group would be required to recognize a loss on impairment. Also, if the assets are sold at less than book value, the Group will be required to post a loss on the sale of assets.

In FY2016/3, the Group recorded large impairment losses attributable to assets related to the reversal of the Management Stabilization Fund. As nearly the full value of fixed assets for railway business was written down in connection with the reversal of the Management Stabilization Fund, management does not believe there is a high risk of further impairment losses on the fixed assets for railway business currently held by the Group. However, as the Group plans to continue to make sizable investments in the railway business, if earnings in the railway business fall below expectations, fixed assets for railway business could be subject to impairment losses.

While the Group will strive to remain profitable, if events like those described above occur again, this could have an adverse material impact on the Group's businesses, earnings, and financial position.

#### 11. Relating to a Decline in the Number of Tourists

The Group's businesses and its growth strategy may be impacted by trends in the tourism market in Kyushu, including trends in the number of overseas tourists, especially those from other parts of Asia, such as South Korea, Taiwan, China, and Hong Kong. The tourism market in Kyushu may be affected by various factors including economic conditions both in Japan and overseas (especially regional economic instability in Asia), foreign exchange rates, political developments, feelings about Japan in general among potential tourists, natural disasters, abnormal or extreme weather conditions, accidents, outbreaks of infectious diseases, government promotion of tourism, and competition from other tourist destinations in Japan. If, owing to the abovementioned factors, the number of tourists in Kyushu declines, or if the Group is unable to take advantage of demand from tourists in Kyushu, this could have an adverse material impact on the Group's growth strategies, businesses, earnings, and financial position.

#### 12. Relating to New Shinkansen Lines

##### Construction Plans for New Shinkansen Lines

New Shinkansen lines are those lines based on the plan set out in the Nationwide Shinkansen Railway Development Law (1970, Law No. 71). Finalized in 1973, that plan called for the development of the Hokkaido Shinkansen line (Aomori-Sapporo), the Tohoku Shinkansen line (Morioka-Aomori), the Hokuriku Shinkansen line (Tokyo-Osaka), and the Kyushu Shinkansen line (Fukuoka-Kagoshima, Fukuoka-Nagasaki). When Japanese National Railways was privatized in 1987, the Company was designated as the operator of the Kyushu Shinkansen line (Kagoshima Route [Fukuoka-Kagoshima], Western Kyushu Route [Fukuoka-Nagasaki]).

On March 13, 2004, the Kyushu Shinkansen began servicing the route between Shin-Yatsushiro and Kagoshima Chuo, and on March 12, 2011, the service of this line was extended to Hakata. Roughly 38 years after the first plan was announced, it was finally possible to take the Sanyo and Kyushu Shinkansen directly from Shin Osaka to Kagoshima Chuo.

Regarding the Western Kyushu Route of the Kyushu Shinkansen, the line between Takeo Onsen and Isahaya was approved following an agreement with the government and ruling party in December 2004 stating that, "Regarding management of the parallel conventional lines, we will consider and quickly come to a conclusion on the feasibility of constructing railways in Saga Prefecture with the cooperation of Nagasaki Prefecture. Construction will begin when preparations have been completed. We plan to use free gauge train (FGT) rolling stock."

Based on the results of these studies, Saga Prefecture, Nagasaki Prefecture, and the Company reached a basic agreement on December 16, 2007, that the Company would fully manage the line between Hizen-Yamaguchi and Isahaya based on the so-called "scheme of separating infrastructure and operation." Based on this, Super Express service between Takeo Onsen and Isahaya was approved and construction began on March 26, 2008.

It was decided at the meeting of the examination committee for the development of new Shinkansen lines held on

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December 24, 2009, that construction should begin on the Western Kyushu Route of the Kyushu Shinkansen between Isahaya and Nagasaki after a public review held on December 24, 2009, confirmed the following five conditions: 1) there is a reasonable outlook for achieving stable revenues, 2) costs are likely to be balanced by incomes, 3) there is a reasonable prospect for achieving adequate returns on the investment, 4) JR Kyushu's partners approved JR Kyushu as an operator, and 5) agreement has been reached with relevant municipalities regarding the separation of management of parallel conventional lines. Based on the conclusion at the meeting for the operations of new Shinkansen lines held on December 26, 2011, (confirmation by government and ruling parties) that revenues from the project would likely exceed costs on a consistent basis, the approval of the project was granted in April 2012 at the meeting of the examination committee for the development of new Shinkansen lines since returns on the investment would exceed the required rates of return and, upon completion of approval procedures by the operator and local governments, the project was approved on June 29, 2012.

This agreement views the portion of the rail on which construction had already begun (between Takeo Onsen and Isahaya) and the new portion (between Isahaya and Nagasaki) as a single business (including double-track construction between Hizen-Yamaguchi and Takeo Onsen on the Sasebo Line) using FGT rolling stock and the target for start of operations on the portion between Isahaya and Nagasaki was established at roughly 10 years from the start of construction. Construction by the Japan Railway Construction, Transport and Technology Agency (JRTT) is ongoing.

Owing to delays in the development of FGT rolling stock, on March 29, 2016, the Company, Saga Prefecture, Nagasaki Prefecture, the review board of the ruling party Shinkansen promotion project team for the Kyushu Shinkansen (Western Kyushu Route), the Ministry of Land, Infrastructure and Transport, and the JRTT agreed to use full specification rolling stock on the relevant portion of the line when it is completed in FY2023/3 and use conventional express rolling stock between Hakata and Takeo Onsen and have passengers change trains at

Takeo Onsen Station (FGT, see the agreement between the six parties below).

Subsequently, on July 14, 2017 the Ministry of Land, Infrastructure, Transport and Tourism's Free Gauge Technology Evaluation Committee determined that issues remain regarding the safety and economic feasibility of FGT rolling stock. In response to this and other matters, with consideration for the development status of FGT rolling stock, on July 19, 2018, at a review board meeting, a temporary plan for making optimal progress with regard to the Kyushu Shinkansen (Western Kyushu Route) was implemented. Furthermore, a policy was announced stating that the introduction of FGT rolling stock on the Western Kyushu route must be abandoned, and that it would be necessary to select either the full-specification rolling stock method or the mini-Shinkansen method, following comprehensive deliberations regarding the advantages and disadvantages of these two methods.

#### Cost Burden of the Development of New Shinkansen Lines

National government, local governments, and the JR Companies assume the cost of new Shinkansen lines constructed by JRTT. JR companies pay for the following two types of costs (the Company pays for the first type only).

- 1) Usage fees and other charges paid by the JR Company as the operator of the new Shinkansen lines
- 2) A portion of the transfer proceeds for existing Shinkansen facilities

In October 1997, the opening of the Takasaki-Nagano segment of the Hokuriku Shinkansen line was accompanied by new standards for the amount of usage fees paid by the JR Companies as the operator of new Shinkansen lines.

Those usage fees are now regulated by the Japan Railway Construction, Transport and Technology Agency Law (2015, Law No. 392, hereinafter, the enforcement ordinance) Article 6.

The enforcement ordinance stipulates that JRTT will calculate the amount of usage fees based on the benefits received by the operator of said Shinkansen line after opening and the sum of taxes and management fees paid by JRTT for railway facilities leased. Of those, the benefits received as the operator

are calculated by comparing the estimated revenues and expenses generated by the new segment of Shinkansen line and related line segments after opening with the revenues and expenses that would likely be generated by parallel conventional lines and related line segments if the new segment of the Shinkansen line was not opened. The expected benefits are the difference between the amount that the operator of the new Shinkansen line should receive as a result of operation and the amount that would be received if the new Shinkansen line did not commence services. Specifically, expected benefits are calculated based on expected demand and expected revenues and expenses over a 30-year period after opening. Further, a part of the usage fees, which are calculated based on the expected benefits, is fixed for the 30-year period after commencing services. In addition, the taxes and maintenance fees are included in calculations of corresponding benefits as an expense of the operator of the Shinkansen line after opening.

The JRTT, which constructs the new Shinkansen line, receives construction costs and owns the facilities. After completion of construction, the Group leases these facilities and, after the start of operations, pays usage fees and other charges (please see 1) and during the construction period, the JRTT does not, in principle, directly bear the construction costs.

Pursuant to the Amended JR Companies Act and the ministerial ordinance on the drawing down of the Management Stabilization Fund of Kyushu Railway Company (2015, MLIT ministerial ordinance 61), as the fixed portion of the lease payment for the Kyushu Shinkansen (between Shin-Yatsushiro and Kagoshima Chuo and between Hakata and Shin-Yatsushiro) for the period from April 1, 2016, until 30 years after the opening of each section of the line, the Group made a lump-sum payment of the full amount (approximately ¥220.5 billion) to the JRTT on the final day of FY2016/3.

The leasing fee for the Shinkansen facility to be paid by the Company, as the operator of the lines, to the JRTT, as the partner that carried out construction, starting from the start of operations on the Kyushu Shinkansen (Western Kyushu Route), has not yet been determined.



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#### Treatment of Conventional Lines Running Parallel to New Shinkansen Lines

At the time of the start of operation of the Kyushu Shinkansen (Kagoshima route) between Shin-Yatsushiro and Kagoshima Chuo (March 2004), conventional lines running parallel to new Shinkansen lines (Kagoshima Main Line between Yatsushiro and Sendai) will be spun off to be managed by Hisatsu Orange Railway Co., Ltd.

In addition, the Nagasaki Main Line between Hizen-Yamaguchi and Isahaya running parallel to the Kyushu Shinkansen (Western Kyushu Route) will not be spun off, and at the time of the start of operation in FY2022/3, infrastructure and operation will be separated and, for a period of three years, the Group will maintain a certain level of railway service and the six partners have agreed to maintain operations for 23 years after the start of operation.

#### The Company's Stance on the Construction of New Shinkansen Lines

Of the leasing costs mentioned in (page 61), some are determined based on an estimate of revenues expected to be generated. We will be required to pay these fixed leasing costs regardless of the actual revenues generated, meaning that our results of operations in the railway business may be materially and adversely affected if revenues from operations in the railway business are insufficient to cover them.

Also, if the start of operation is postponed owing to construction delays, or if earnings from operations are lower than expected, the Group's results of operations in other businesses may be materially and adversely affected.

In addition, at a review board meeting on March 27, 2019, the Company expressed the opinion that the operation of Shinkansen infrastructure with relay-type technology for a long period of time or on a permanent basis would lead to an extremely limited regional revitalization effect, and accordingly it would not be possible for the Company to accept this. The Company requested the full opening as soon as possible.

Furthermore, on February 6, 2019, the Japan Railway Construction, Transport and Technology Agency (JRTT) filed a change approval application for construction implementation plans (Takeo Onsen-Nagasaki), covering a construction

budget increase, etc., with the Ministry of Land, Infrastructure, Transport and Tourism. On November 28, 2018, at a meeting of the review board of ruling party Shinkansen promotion project team, the Company expressed the opinion that increasing the leasing costs in line with the new Shinkansen line construction expenses would be a major deviation from the new Shinkansen line scheme, and this was something the Company could not accept.

#### 13. Relating to Lawsuits

Due to the nature of the Group's businesses, it is subject to risks from legal proceedings such as lawsuits from third parties and regulatory actions. If a lawsuit or other legal proceedings are brought against the Group, the resolution of such proceedings may require considerable time and money and, in the case of a major lawsuit that garners the interest of society, if the Group is forced to pay damages or in the event of an adverse judgment or an out-of-court settlement, this could have an adverse impact on society's trust in the Group, and the Group's businesses, earnings, and financial position.

#### 14. Relating to Information Technology (IT)

The Group relies heavily on various IT systems to safely and successfully operate its various businesses, particularly the railway business. IT systems are also used by other companies to which the Group's operations are closely linked, such as other railway operators, utility providers, telecommunication service providers, and financial institutions, which the Group conducts transactions with. Any accident, damage, hacking incident, computer virus incident, human error, or malfunction involving the Group's information technology systems or IT systems of companies with which the Group conducts transactions could cause a wide range of problems including railway delays or malfunctions, failures or delays in ticketing or reservations, or increased risk of rolling stock collisions or accidents. A major malfunction in these IT systems could adversely affect its business operations and result in a reduction of its earnings and an increase in repair, replacement, and investment costs, and could have an adverse impact on the Group's safety and on society's trust in the Group, and the Group's businesses, earnings, and financial position.

#### 15. Relating to Rumors

Reports of actual or alleged incidents involving the Group's businesses including accidents, misconduct or criminal activity, data privacy breaches, or other scandals could have a negative impact on society's trust in not only the business directly involved, but on trust in the Group as a whole and could have an adverse impact on the Group's businesses, earnings, and financial position.

Furthermore, accidents or other scandals occurring at other companies in the industries in which we operate could result in negative publicity that could harm the relevant industry as a whole and, indirectly, the reputation of the Group as a whole and the reputation of the Group's companies that operate in the relevant industry. For example, rumors and hearsay involving the Group or the industries in which we operate could be reported via media organizations or parties concerned with market, via postings on the Internet or social networking services, or anonymous letters or e-mails. This could have a negative impact on the Group, its products and services, the public perception of its businesses, society's trust in the Group, and the Group's businesses, earnings, and financial position.

#### 16. Relating to Protection of Personal Data

As a corporate group engaged in transportation services, construction, real estate and hotels, retail and dining, and other businesses, the Group regularly collects and handles a variety of personal and company information. The Group is therefore responsible for protecting personal information under the provisions of the Personal Information Law (2003, Law No. 57).

Leakage of personal information, such as customer information, or other important information could result in claims for damages and regulatory actions. Also, the Group may be required to spend time and incur additional expenses to implement corrective measures. In addition, such incidents could cause the Group to lose customers by disrupting the Group's operations or reduce society's trust in the Group, thereby impacting the Group's businesses, earnings, and financial position.

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#### 17. Relating to Financial Assets

In accordance with the enforcement ordinance, the Group reversed its Management Stabilization Fund and holds financial assets such as Japanese bonds as a source of funds used to conduct capital investment in railway business assets in order to maintain and improve its railway network. As of the end of March 2019, over half (book value base) of these financial assets were highly liquid, but if the value of these financial assets declines due to trends in interest rates or earnings at issuers or deterioration in their condition, this could have a negative impact on the Group's businesses, earnings, and financial position.

#### 18. Relating to Third-Party Service Providers and Business Partners

The Group depends on third-party service providers in various aspects of its businesses. For example, in the real estate and hotels business, it depends on subcontractors for the execution of certain aspects of construction and on third-party sales agents to manage the leasing and sale of residential properties. In the retail and restaurant and other businesses, it relies on third-party producers, wholesalers, and manufacturers for the procurement of raw materials and products. In addition, in its convenience store business, the Group relies on its franchise relationship with FamilyMart Co., Ltd. If services performed by or materials purchased from third parties or the parties that the third parties rely on do not meet the Group's standards, problems or accidents may occur that have a sizable adverse impact on society's trust in the Group, and the Group's businesses, earnings, and financial position.

#### 19. Relating to Losses Associated with the Retirement Benefit System

Costs and obligations related to the Group's retirement benefit plans are calculated based on future retirement benefits that are calculated based on pension actuarial assumptions. However, if there is a change in the discount rate assumptions, or if actual conditions differ from assumptions owing to rapid changes in the interest rate environment or other factors, costs and obligations related to the Group's retirement benefit plans may increase. Also, if the Group's retirement benefit plans are restructured, additional obligations could result. This could have an adverse impact on the Group's businesses, earnings, and financial position.

#### 20. Relating to Environmental Regulations

The Group owns real estate mainly as part of its Transportation Group business, Real Estate and Hotels Group business, and Other Group business. When acquiring real estate, the Group conducts environmental assessments to discover hazardous or toxic substances in the soil, groundwater, and buildings, including asbestos. However, there can be no assurance that these assessments are adequate to fully uncover the existence or prior use of all toxic substances. Under the Soil Contamination Countermeasures Act of Japan (2002, Law No. 53), a landowner is required to conduct soil contamination assessments in a variety of circumstances. When it is determined that human health is likely to be harmed due to soil contamination, the landowner may be ordered by the relevant authorities to remove the harmful substances regardless of whether the owner is responsible for or has knowledge of said contamination. The Building Standards Act (1950, Law No. 201) and the

Air Pollution Control Act of Japan (1968, Law No. 97) requires the removal of, or certain other actions relating to, asbestos in connection with the demolition, renovation, and major repairs of existing buildings. The presence of hazardous or toxic substances may adversely affect the Group's ability to sell, lease, or develop the real estate or borrow using the real estate as collateral. In addition, such real estate could fall in value, and the Group might be required to incur substantial costs to remedy the underlying hazard. If actual harm to human health were to result from the presence of such substances, the Group could be liable for damages. This could have an adverse impact on the Group's businesses, earnings, and financial position.

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## CONSOLIDATED BALANCE SHEETS

Kyushu Railway Company and Consolidated Subsidiaries  
As of March 31, 2018, and 2019

	(Millions of Yen)	
	FY 2018/3	FY 2019/3
<b>ASSETS</b>		
Current assets		
Cash and time deposits .....	15,064	<b>16,971</b>
Notes and accounts receivable-trade .....	42,833	<b>52,275</b>
Fares receivable .....	2,294	<b>2,732</b>
Securities .....	65,077	<b>19,926</b>
Merchandise and finished goods .....	15,024	<b>21,809</b>
Work in process .....	23,364	<b>22,703</b>
Raw materials and supplies .....	6,586	<b>6,819</b>
Other .....	30,272	<b>38,485</b>
Allowance for doubtful accounts .....	(115)	<b>(95)</b>
Total current assets .....	200,400	<b>181,627</b>
Non-current assets		
Property, plant and equipment		
Buildings and fixtures (net) .....	222,772	<b>241,558</b>
Machinery, rolling stock and vehicles (net) .....	20,928	<b>31,607</b>
Land .....	105,153	<b>129,344</b>
Leased assets, net .....	10,726	<b>14,909</b>
Construction in progress .....	23,551	<b>35,843</b>
Other (net) .....	7,557	<b>8,057</b>
Net property, plant and equipment .....	390,690	<b>461,321</b>
Intangible assets .....	5,908	<b>5,215</b>
Investments and other assets		
Investment securities .....	22,687	<b>24,403</b>
Deferred tax assets .....	61,184	<b>55,086</b>
Net defined benefit assets .....	819	<b>882</b>
Money held in trust .....	55,783	<b>56,901</b>
Other .....	12,770	<b>17,461</b>
Allowance for doubtful accounts .....	(854)	<b>(1,416)</b>
Total investments and other assets .....	152,391	<b>153,318</b>
Total noncurrent assets .....	548,990	<b>619,855</b>
<b>Total assets .....</b>	<b>749,391</b>	<b>801,483</b>

	(Millions of Yen)	
	FY 2018/3	FY 2019/3
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Notes and accounts payable-trade .....	38,480	<b>33,132</b>
Short-term loans .....	4,528	<b>9,002</b>
Current portion of long-term debt .....	5,793	<b>3,845</b>
Payables .....	52,632	<b>57,139</b>
Accrued income taxes .....	8,047	<b>5,573</b>
Fare deposits received with regard to railway connecting services .....	1,597	<b>1,731</b>
Railway fares received in advance .....	5,319	<b>5,821</b>
Accrued bonuses .....	9,260	<b>8,996</b>
Other .....	39,065	<b>47,072</b>
Total current liabilities .....	164,724	<b>172,314</b>
Non-current liabilities		
Debt .....	—	<b>20,000</b>
Long-term debt .....	77,001	<b>75,119</b>
Allowance for safety and environmental measures .....	3,198	<b>1,879</b>
Allowance for earthquake-damage losses .....	7,125	<b>4,613</b>
Liability for retirement benefits .....	63,426	<b>58,803</b>
Asset retirement obligations .....	1,545	<b>1,603</b>
Other .....	49,167	<b>46,405</b>
Total noncurrent liabilities .....	201,465	<b>208,425</b>
Total liabilities .....	366,190	<b>380,739</b>
<b>EQUITY</b>		
Common stock		
Authorized-640,000,000 shares;		
Issued-160,000,000 shares in FY2018/3 and FY2019/3 .....	16,000	<b>16,000</b>
Capital surplus .....	234,270	<b>233,983</b>
Retained earnings (Deficit) .....	124,997	<b>160,558</b>
Total common stock .....	375,268	<b>410,541</b>
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities .....	9,981	<b>11,677</b>
Deferred gains or losses on hedges .....	(47)	<b>129</b>
Foreign currency translation adjustments .....	133	<b>112</b>
Defined retirement benefit plans .....	(8,171)	<b>(7,608)</b>
Total accumulated other comprehensive income .....	1,895	<b>4,312</b>
Non-controlling interests .....	6,037	<b>5,890</b>
Total equity .....	383,201	<b>420,743</b>
<b>TOTAL LIABILITIES AND EQUITY .....</b>	<b>749,391</b>	<b>801,483</b>

## FINANCIAL SECTION

### CONSOLIDATED STATEMENTS OF INCOME

Kyushu Railway Company and Consolidated Subsidiaries  
Years ended March 31, 2018, and 2019

	(Millions of Yen)	
	FY 2018/3	FY 2019/3
OPERATING REVENUES	413,371	<b>440,358</b>
OPERATING EXPENSES		
Transportation, other services and cost of sales.....	253,518	<b>273,001</b>
Selling, general and administrative expenses.....	95,889	<b>103,471</b>
Total operating expenses.....	349,408	<b>376,473</b>
OPERATING INCOME	63,963	<b>63,885</b>
NON-OPERATING INCOME		
Interest income.....	57	<b>69</b>
Dividend income.....	305	<b>397</b>
Gains on investment securities.....	1,085	<b>831</b>
Gain on assets held in trust.....	1,773	<b>1,849</b>
Other.....	688	<b>670</b>
Total non-operating income.....	3,910	<b>3,817</b>
NON-OPERATING EXPENSES		
Interest expense.....	698	<b>945</b>
Other.....	129	<b>217</b>
Total non-operating expenses.....	827	<b>1,163</b>
ORDINARY INCOME.....	67,045	<b>66,539</b>
EXTRAORDINARY GAINS		
Construction grants received.....	13,418	<b>16,360</b>
Other.....	3,253	<b>2,199</b>
Total extraordinary gains.....	16,672	<b>18,560</b>
EXTRAORDINARY LOSSES		
Losses from provision for cost reduction of fixed assets.....	13,317	<b>16,176</b>
Disaster-damage losses.....	1,212	<b>847</b>
Provision for loss on disaster.....	2,677	<b>446</b>
Other.....	1,676	<b>3,191</b>
Total extraordinary losses.....	18,883	<b>20,661</b>
INCOME BEFORE INCOME TAXES.....	64,834	<b>64,438</b>
INCOME TAXES.....	9,973	<b>10,060</b>
Current.....	4,036	<b>4,666</b>
Deferred.....	14,009	<b>14,727</b>
NET INCOME.....	50,824	<b>49,711</b>
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS.....	414	<b>471</b>
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT.....	50,410	<b>49,240</b>

### CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

Kyushu Railway Company and Consolidated Subsidiaries  
Years ended March 31, 2018, and 2019

	(Millions of Yen)	
	FY 2018/3	FY 2019/3
NET INCOME.....	50,824	<b>49,711</b>
OTHER COMPREHENSIVE INCOME		
Unrealized gain on available-for-sale securities.....	(319)	<b>1,678</b>
Deferred gains or losses on hedges.....	(47)	<b>176</b>
Foreign currency translation adjustments.....	(2)	<b>(23)</b>
Defined retirement benefit plans.....	(3,499)	<b>562</b>
Total other comprehensive income.....	(3,867)	<b>2,394</b>
COMPREHENSIVE INCOME.....	46,957	<b>52,105</b>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent.....	46,516	<b>51,657</b>
Non-controlling interests.....	440	<b>448</b>

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Kyushu Railway Company and Consolidated Subsidiaries  
Years ended March 31, 2018, and 2019

## For the fiscal year ended March 31, 2018

(Millions of Yen)

	Shareholders' equity					
	Common stock	Capital surplus	Retained earnings	Total Shareholders' equity		
Balance at beginning of current year.....	16,000	234,263	86,987	337,250		
Changes of items during the year						
Dividends of surplus .....			(12,400)	(12,400)		
Net income attributable to owners of the parent .....			50,410	50,410		
Changes in the ownership interest by purchases of shares of consolidated subsidiaries .....		7		7		
Net changes of items other than shareholders' equity .....						
Total changes of items during the year.....	—	7	38,010	38,017		
Balance at end of current year.....	16,000	234,270	124,997	375,268		

	Accumulated other comprehensive income					Non-controlling interests	Total equity
	Unrealized gain on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current year.....	10,312	—	132	(4,655)	5,789	5,408	348,447
Changes of items during the year							
Dividends of surplus .....							(12,400)
Net income attributable to owners of the parent .....							50,410
Changes in the ownership interest by purchases of shares of consolidated subsidiaries .....							7
Net changes of items other than shareholders' equity .....	(330)	(47)	0	(3,516)	(3,893)	629	(3,264)
Total changes of items during the year.....	(330)	(47)	0	(3,516)	(3,893)	629	34,753
Balance at end of current year.....	9,981	(47)	133	(8,171)	1,895	6,037	383,201

## For the fiscal year ended March 31, 2019

(Millions of Yen)

	Shareholders' equity					
	Common stock	Capital surplus	Retained earnings	Total Shareholders' equity		
Balance at beginning of current year.....	16,000	234,270	124,997	375,268		
Changes of items during the year						
Dividends of surplus .....			(13,680)	(13,680)		
Net income attributable to owners of the parent .....			49,240	49,240		
Changes in the ownership interest by purchases of shares of consolidated subsidiaries .....		(287)		(287)		
Net changes of items other than shareholders' equity .....						
Total changes of items during the year.....	—	(287)	35,560	35,273		
Balance at end of current year.....	16,000	233,983	160,558	410,541		

	Accumulated other comprehensive income					Non-controlling interests	Total equity
	Unrealized gain on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current year.....	9,981	(47)	133	(8,171)	1,895	6,037	383,201
Changes of items during the year							
Dividends of surplus .....							(13,680)
Net income attributable to owners of the parent .....							49,240
Changes in the ownership interest by purchases of shares of consolidated subsidiaries .....							(287)
Net changes of items other than shareholders' equity .....	1,696	176	(20)	563	2,416	(147)	2,269
Total changes of items during the year.....	1,696	176	(20)	563	2,416	(147)	37,542
Balance at end of current year.....	11,677	129	112	(7,608)	4,312	5,890	420,743



## FINANCIAL SECTION

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Kyushu Railway Company and Consolidated Subsidiaries  
Years ended March 31, 2018, and 2019

	(Millions of Yen)	
	FY 2018/3	FY 2019/3
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income taxes .....	64,834	<b>64,438</b>
Depreciation costs .....	17,914	<b>21,928</b>
Losses from provision for cost reduction of fixed assets .....	13,317	<b>16,176</b>
Earthquake-damage losses .....	1,212	<b>847</b>
Increase in provision for loss on disaster .....	2,677	<b>446</b>
Increase (Decrease) in allowance for doubtful accounts .....	141	<b>542</b>
Increase (Decrease) in liability for retirement benefits .....	(4,260)	<b>(3,910)</b>
Increase (Decrease) in allowance for safety and environmental measures .....	(2,170)	<b>(1,318)</b>
Interest and dividends income .....	(363)	<b>(467)</b>
Interest expense .....	698	<b>945</b>
Construction grants received .....	(13,418)	<b>(16,360)</b>
Insurance income accompanying disasters .....	—	<b>(1,000)</b>
(Increase) decrease in trade receivables .....	9,913	<b>(9,881)</b>
(Increase) decrease in inventories .....	(4,834)	<b>(6,154)</b>
Increase (Decrease) in trade payables .....	(1,882)	<b>(4,709)</b>
Gain on assets held in trust .....	(1,773)	<b>(1,849)</b>
Other .....	3,486	<b>(5,060)</b>
Subtotal .....	85,493	<b>54,612</b>
Proceeds from insurance income .....	—	<b>1,000</b>
Interest and dividends income received .....	383	<b>476</b>
Interest expense paid .....	(619)	<b>(872)</b>
Gain on assets held in trust received .....	1,780	<b>1,853</b>
Loss on disaster paid .....	(3,019)	<b>(3,205)</b>
Income taxes (paid) refund .....	3,672	<b>(12,389)</b>
Net cash provided by operating activities .....	87,689	<b>41,473</b>

	(Millions of Yen)	
	FY 2018/3	FY 2019/3
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment, and Intangible assets .....	(82,323)	<b>(105,937)</b>
Purchases of marketable securities .....	(41,600)	<b>—</b>
Proceeds from redemption of marketable securities .....	43,500	<b>15,600</b>
Purchases of investment securities .....	(4,386)	<b>(2,552)</b>
Proceeds from construction grants received .....	15,643	<b>15,253</b>
Other .....	786	<b>3,016</b>
Net cash provided by (used in) investing activities .....	(68,379)	<b>(74,619)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in short-term loans payable .....	(1,177)	<b>4,544</b>
Proceeds from long-term loans payable .....	5,739	<b>2,051</b>
Repayment of long-term loans payable .....	(791)	<b>(5,793)</b>
Payments for long-term accounts payable .....	(336)	<b>(341)</b>
Proceeds from issuance of bonds .....	—	<b>20,000</b>
Proceeds from lease and guarantee deposits received .....	947	<b>1,420</b>
Repayments of lease and guarantee deposits received .....	(1,256)	<b>(1,104)</b>
Cash dividends paid .....	(12,400)	<b>(13,680)</b>
Cash dividends paid to non-controlling shareholders .....	(48)	<b>(54)</b>
Other .....	126	<b>(1,397)</b>
Net cash used in financing activities .....	(9,197)	<b>5,644</b>
Effect of exchange rate change on cash and cash equivalents .....	4	<b>(14)</b>
Net increase (decrease) in cash and cash equivalents .....	10,116	<b>(27,514)</b>
Cash and cash equivalents, beginning of year .....	54,263	<b>64,379</b>
Cash and cash equivalents, end of year .....	64,379	<b>36,865</b>

# CORPORATE INFORMATION

## Overview

<b>Company Name:</b>	Kyushu Railway Company
<b>Date Established:</b>	April 1, 1987
<b>Head Office:</b>	3-25-21 Hakata-ekimae, Hakata-ku, Fukuoka 812-8566, Japan
<b>Capital:</b>	¥16 billion



## History

### FY1950/3

- Establishes Japanese National Railways

### FY1988/3

- Establishes Kyushu Railway Company
- Launches travel business
- Establishes the current JR Kyushu Retail, Inc.
- Establishes the current JR Kyushu Tetsudou Eigyou Co., Ltd.
- Establishes the current JR Kyushu Agency Co., Ltd.

### FY1989/3

- Establishes the current JR Kyushu Financial Management Company
- Launches D&S Train Yufuin no Mori

### FY1990/3

- Adjusts fares and charges to accompany the introduction of consumption tax
- Establishes the current JR Kyushu System Solutions Inc.
- Establishes the current JR Kyushu Resort Development Co., Ltd.
- Establishes the current JR Kyushu Fast Foods Inc.
- Makes the current Kyushu Electric System Company a subsidiary
- Makes the current KSK. Ltd. a subsidiary

### FY1991/3

- Establishes the current JR Kyushu Consultants Company
- Torrential rains damage the Houhi Line
- Establishes the current JR Kyushu Secom Inc.
- Establishes the current JR Kyushu Huis Ten Bosch Hotel Co., Ltd
- Starts regular Beetle 2 international hydrofoil ferry services between Fukuoka, Japan, and Busan, South Korea

### FY1992/3

- Announces the medium-term business plan "Action 21" (1991-1995)
- Makes the current JR Kyushu-Rent-A-Car&Parking. Co., Ltd. a subsidiary
- Makes the current JR Kyushu Trading Co., Ltd., a subsidiary
- Reopens entire Houhi Line (repaired damage caused by torrential rains in 1990)

### FY1993/3

- Establishes TRANDOR LTD.
- Launches the Tsubame limited express
- Opens the current JR Kyushu Hotel Blossom Fukuoka

### FY1994/3

- Torrential rains damage Ryugamizu Station on the Nippo line

### FY1995/3

- Great Hanshin Earthquake occurs

### FY1996/3

- Opens the current Hotel Okura JR Huis Ten Bosch
- Establishes Kokura Terminal Building Inc.
- Adjusts fares for the first time as JR Kyushu (7.8% fare adjustment rate)
- Establishes the current JR Kyushu Food Service Inc.

### FY1997/3

- Announces the medium-term business plan "New Action 21" (1996-2000)
- Launches the Miyazaki Kuko Line

### FY1998/3

- Adjusts fares and charges to accompany the revised consumption tax rate
- Establishes Houhi Line Rapid Transit Railway Maintenance Company
- Launches general operations system
- Opens Amu Plaza Kokura in the Kokura Station Building
- Derailment on the Chikuhi Line at Imajuku Station
- Makes the current JR Kyushu Maintenance Co., Ltd. a subsidiary

### FY1999/3

- Opens Station Hotel Kokura
- Establishes the Nagasaki Terminal Building Inc.
- Establishes current business alliance (concludes basic agreement) between JR Kyushu Retail, Inc. and the convenience store business am/pm Japan Co., Ltd.

### FY2000/3

- Establishes the current JR Kyushu Hotels Inc.
- Launches Houhi Line between Kumamoto and Higo-Ozu
- Introduces first JR Kyushu automatic ticket gates in Minami-Fukuoka Station
- Establishes the current JR Kyushu Building Management Co., Ltd.
- Moves Fukuoka head office

## History

### FY2001/3

- Establishes the current JR Kyushu Housing Company
- Opens Amu Plaza Nagasaki in the Nagasaki Station Building
- Opens JR Kyushu Hotel Nagasaki
- Establishes the current JR Kyushu Bus Company
- Completes the general operations system JACROS

### FY2002/3

- Establishes the northern Kyushu head office, combining the Kitakyushu and Fukuoka head offices
- Announces the Medium-Term Business Plan “G-vision ‘03” (2001–2003)
- Opens JR Kyushu Hotel Kagoshima
- JR Kyushu Food Service Inc. opens Umay in Akasaka, Tokyo
- Collision on the Kagoshima Line between Ebitsu and Kyoikudaimae

### FY2003/3

- Makes Sanki Construction Co., Ltd. a subsidiary
- Establishes JR Kyushu Life Service Co., Ltd.
- Establishes Kagoshima Terminal Building Inc.
- Makes KYUTETSU CORPORATION a subsidiary

### FY2004/3

- Surpasses two million passengers serviced on the Beetle hydrofoil ferry
- Derailment on the Nagasaki Line between Oe and Hizen-Nagata
- Launches the Kyushu Shinkansen from Shin-Yatsushiro and Kagoshima-Chuo
- Begins operating D&S Trains Hayato no Kaze, Kyushu Odan Tokkyu, and saburo/Shinpei
- Opens JR Kyushu Hotel Kumamoto

### FY2005/3

- Announces the medium-term business plan “JR Kyushu Group Medium-Term Business Plan 2004–2006” (2004–2006)
- Opens Amu Plaza Kagoshima in the Kagoshima-Chuo Station building

### FY2006/3

- Establishes JR Kyushu Jet Ferry Inc.
- Opens JR Hotel Yakushima

### FY2007/3

- Opens private nursing home SJR Betsuin
- Surpasses 10 million passengers serviced on the Kyushu Shinkansen Tsubame

### FY2008/3

- Announces medium-term business plan “DASH 2011” (2007–2011)
- Makes the current JR KYUSHU DRUG ELEVEN CO., LTD., a subsidiary
- Opens JR Kyushu Hotel Kokura
- Makes the current JR Kyushu Linen Co., Ltd., a subsidiary

### FY2009/3

- Establishes council to promote urban development in Hakata
- Launches IC card ticketing service SUGOCA

### FY2010/3

- Begins operating D&S Train SL Hitoyoshi
- Launches interoperable IC card ticketing service SUGOCA
- Begins operating D&S Train Umisachi-Yamasachi

### FY2011/3

- Opens Shanghai office
- Establishes the current JR Kyushu Farm Co., Ltd.
- Establishes Shanghai JR Kyushu Food Service Inc.
- Opens JR Hakata City in Hakata Station (Amu Plaza Hakata in the Hakata Station Building)
- Begins interoperation with JR Central's TOICA and JR West's ICOCA cards
- Begins operation of the entire Kyushu Shinkansen line, providing through service to the Sanyo Shinkansen line
- Begins operating D&S Train Ibusuki no Tamatebako
- Great East Japan Earthquake occurs

### FY2012/3

- Begins operating D&S Train Aso Boy!
- Wins awards in three categories at the Cannes Lions international advertising festival for Congratulations Kyushu! campaign celebrating the full opening of the Kyushu Shinkansen line
- Begins operating D&S Train Let's Take the A-Train
- Opens JR Kyushu Hotel Miyazaki
- Opens Akasaka Umay (Jing'an Temple) Shanghai

### FY2013/3

- Announces the medium-term business plan “Tsukuru 2016” (2012–2016)
- Launches Japan wide interoperable IC card transportation service

### FY2014/3

- Opens JR Kyushu Hotel Blossom Hakata Chuo
- Establishes JR Kyushu Senior life support, Inc.
- Resumes operations between Miyaji and Bungo-Taketa on the Hohi Line (damaged by torrential rains in northern Kyushu in 2012)
- Begins operations of the world's first cruise train Seven Stars in Kyushu

### FY2015/3

- Adjusts fares and charges to accompany the rise in consumption tax rate
- Opens JR Kyushu Hotel Blossom Shinjuku
- Launches Smart Support Station service on the Kashii Line

### FY2016/3

- Opens JR Oita City in Oita Station (Amu Plaza Oita in Oita Station building)
- Opens JR Kyushu Hotel Blossom Oita
- Launches D&S Train Aru Ressha
- Makes Oyama Yumekobo, Inc. a subsidiary

### FY2017/3

- Revises JR Company Law
- 2016 Kumamoto earthquakes occur
- Opens JR JP Hakata Building
- Announces the medium-term business plan JR Kyushu Group Medium-Term Business Plan 2016–2018
- “Seven Stars in Kyushu” wins the first Nihon Service Award conferred by the prime minister
- Is listed on the Tokyo Stock Exchange First Section and the Fukuoka Stock Exchange
- Launches D&S Train Kawasemi Yamasemi

### FY2018/3

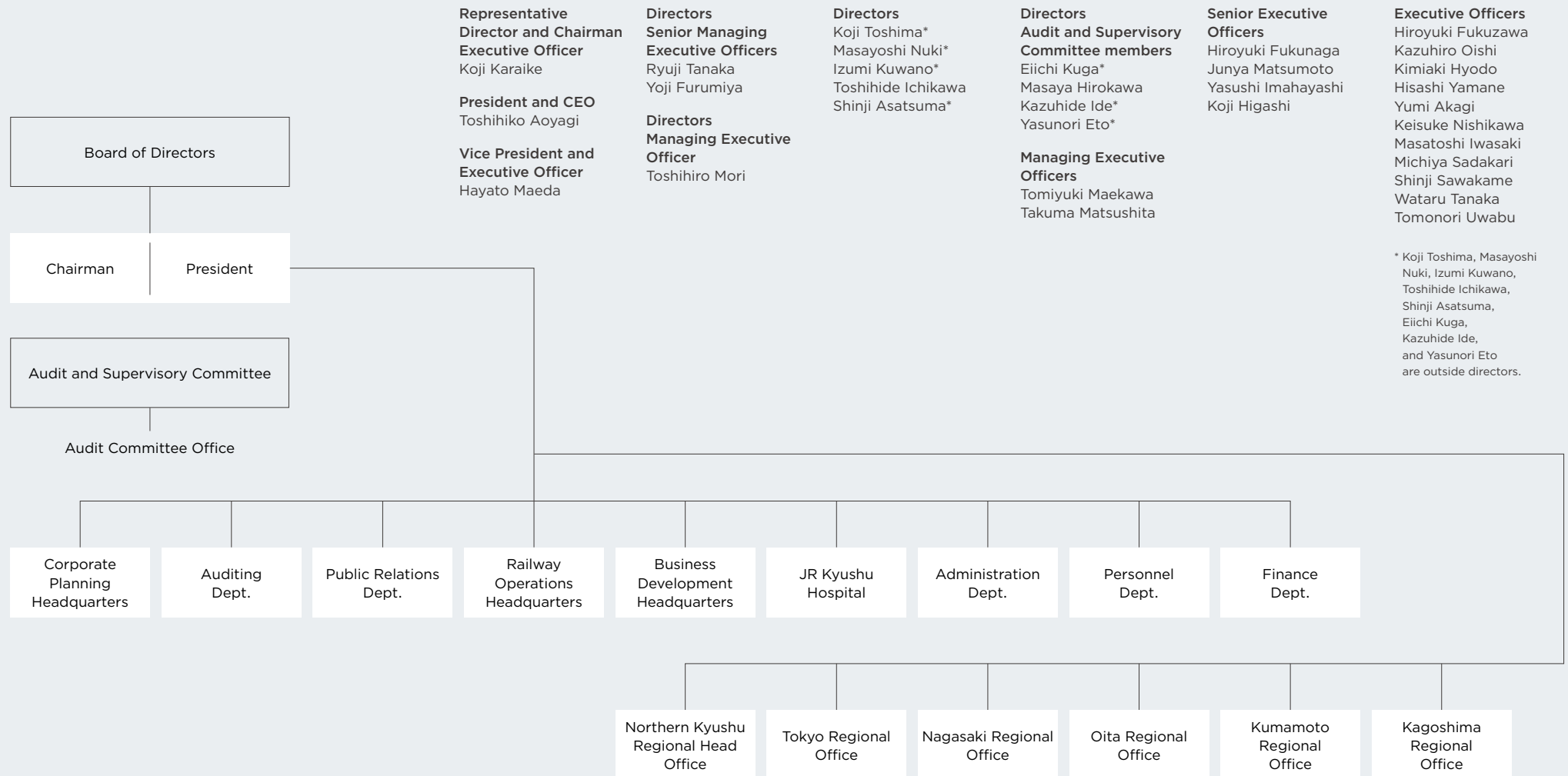
- Establishes of Bangkok office
- Opens JR Kyushu Hotel Blossom Naha
- Opens Drug Eleven Kyobashi store (our first Drug Eleven branded drugstore in Tokyo)
- Opens Ropponmatsu development project
- Makes Caterpillar Kyushu Ltd., a subsidiary
- Launches Smart Support Station services at some stations in Oita City
- Opens Higo Yokamon Market commercial facilities below Kumamoto Station
- July 2017 Northern Kyushu torrential rains occur
- 2017 Typhoon No. 18 occurs

### FY2019/3

- Occurrence of heavy rain in July 2018
- Restoration of the entire Kyudai Main Line
- Start of strategic alliance with Alibaba Group
- Grand opening of Mojiko Station on the Kagoshima Main Line
- Announcement of JR Kyushu Group Medium-Term Business Plan 2019–2021

# ORGANIZATIONAL CHART / DIRECTORS AND CORPORATE AUDITORS

As of June 21, 2019



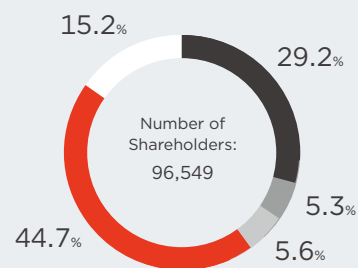
# INVESTOR INFORMATION

As of March 31, 2019

Stock Exchange Listings	Tokyo Stock Exchange, First Section Fukuoka Stock Exchange
Securities Code	9142
Business Year	April 1 to March 31 of the following year
Record Date for Voting Rights	Every March 31
Ordinary General Meeting of Shareholders	Meeting held every June
Record Date for Dividends	Year-end: Every March 31 Interim: Every September 30
Share Unit Number	100 shares
Total Number of Authorized Shares	640,000,000 shares
Total Number of Issued Shares	160,000,000 shares

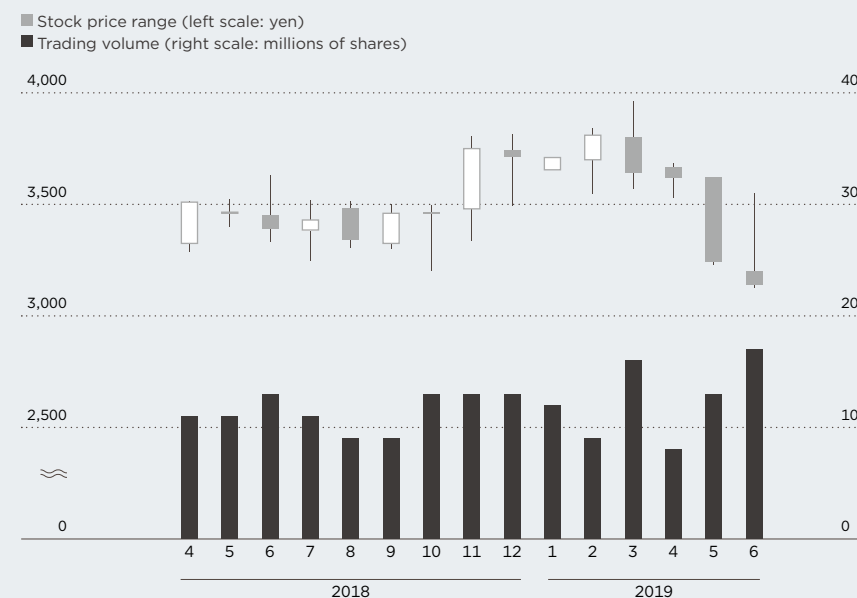
Major Shareholders	% Voting rights
The Master Trust Bank of Japan, Ltd. (Trust Account)	6.31
CGMI PB CUSTOMER ACCOUNT Standing proxy: Citibank, N.A., Tokyo Branch	5.23
Japan Trustee Services Bank, Ltd. (Trust Account)	4.02
THE CHASE MANHATTAN BANK, N.A. LONDON SPECIAL ACCOUNT NO.1 Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department	3.74
STATE STREET BANK WEST CLIENT - TREATY 505234 Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department	2.89
MSIP CLIENT SECURITIES Standing proxy: Morgan Stanley MUFG Securities Co., Ltd.	2.04
Taiyo Life Insurance Company	2.00
The Master Trust Bank of Japan, Ltd. (Trust Account 5)	1.95
Mizuho Securities Co., Ltd.	1.68
JP MORGAN CHASE BANK 385151 Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department	1.58

Distribution of Share Ownership by Type of Shareholder



■ Japanese financial institutions  
 ■ Japanese securities firms  
 ■ Other Japanese corporations  
 ■ Foreign institutions  
 ■ Japanese individuals, and others

Stock Price Range / Trading Volume



		2018	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018	2019	2019	2019	2019	2019	2019	2019
		Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.			
JR Kyushu	High	3,515	3,525	3,630	3,520	3,515	3,500	3,495	3,805	3,815	3,795	3,840	3,960	3,685	3,620	3,550			
	Low	3,290	3,400	3,330	3,250	3,305	3,300	3,200	3,335	3,495	3,650	3,545	3,570	3,530	3,230	3,125			
Nikkei Average (¥)		22,468	22,202	22,305	22,554	22,865	24,120	21,920	22,351	20,015	20,773	21,385	21,206	22,259	20,601	21,276			
TOPIX (Points)		1,777	1,747	1,731	1,753	1,735	1,817	1,646	1,667	1,494	1,567	1,608	1,592	1,618	1,512	1,551			

Notes:

- Based on prices on the First Section of the Tokyo Stock Exchange
- The closing prices for the Nikkei Index and TOPIX are recorded at the end of the period (month).



