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CONSOLIDATED FIVE-YEAR SUMMARY

	Former Segments			New Segments		(billions of yen)
	FY2016/3	FY2017/3	FY2018/3	FY2019/3	FY2020/3	
OPERATING REVENUES	377.9	382.9	413.3	440.3	432.6	
Transportation Segment	180.9	176.4	183.7	185.0	181.8	173.7
Real Estate and Hotels Segment	62.0	67.4	69.4	72.6	90.0	90.7
Retail and Restaurant Segment	96.2	100.4	103.1	104.0	104.0	104.6
Construction Segment	88.4	79.3	88.0	91.7	93.8	99.3
Other Segment	58.1	60.9	67.4	89.8	72.6	72.1
OPERATING INCOME (LOSS)	20.8	58.7	63.9	63.8		49.4
Transportation Segment	(10.5)	25.7	29.2	27.4	27.4	19.8
Real Estate and Hotels Segment	20.4	22.6	23.2	23.7	25.4	19.1
Retail and Restaurant Segment	3.4	3.4	3.6	3.4	3.4	2.8
Construction Segment	6.1	5.9	6.2	6.5	6.2	6.5
Other Segment	2.4	2.5	2.4	3.5	2.2	2.2
EBITDA	69.1	73.2	81.8	85.4		75.0
Transportation Segment	27.0	28.5	34.3	34.4	34.3	29.5
Real Estate and Hotels Segment	28.4	31.1	32.0	33.1	35.6	30.5
Retail and Restaurant Segment	4.9	5.1	5.3	5.0	5.0	4.4
Construction Segment	6.8	6.7	7.0	7.5	7.2	7.6
Other Segment	3.3	3.3	3.9	6.3	4.1	4.3
NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT	(433.0)	44.7	50.4	49.2		31.4
CAPITAL INVESTMENT AMOUNTS (NON-CONSOLIDATED)	59.3	60.0	47.2	72.0		75.4
DEPRECIATION COSTS (NON-CONSOLIDATED)	29.3	7.0	9.6	11.8		15.4
NET CASH PROVIDED BY OPERATING ACTIVITIES	63.4	28.5	87.6	41.4		60.4
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	9.0	(18.3)	(68.3)	(74.6)		(76.9)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(40.0)	(0.6)	(9.1)	5.6		3.3
TOTAL ASSETS	646.6	676.6	749.3	801.4		828.5
TOTAL LIABILITIES	340.9	328.2	366.1	380.7		410.2
TOTAL EQUITY	305.7	348.4	383.2	420.7		418.2
PER SHARE FIGURES (YEN)						
Net Income	(2,706.81)	279.70	315.07	307.75		198.16
Net Assets	1,876.72	2,144.00	2,357.27	2,592.83		2,630.51
Dividends	—	38.5	83.00	93.00		93.00
FINANCIAL RATIO (%)						
Equity Ratio	46.4	50.7	50.3	51.8		49.9
Operating Income to Operating Revenues	5.5	15.3	15.5	14.5		11.4
Payout Ratio	—	13.8	26.3	30.2		46.9
OTHERS						
Number of Passengers (Million)	330	331	337	338		337
Number of Employees	16,838	16,922	17,297	17,765		17,450
Number of Shares Outstanding (Thousand)	320	160,000	160,000	160,000		157,301

- *1 Operating revenues, operating income or losses, and EBITDA for each segment are before cancellation of transactions between segments.
- *2 EBITDA for each segment consists of operating income plus depreciation costs, except for the Transportation Group in the fiscal year ended March 2016. EBITDA for the Transportation Group in that year consisted of operating income plus depreciation costs and revenue from the operation of the Management Stabilization Fund. From the fiscal year ended March 2017 onward, EBITDA for the Transportation Group consists of operating income plus depreciation costs.
- *3 On August 18, 2016, our shares were split, with each common share becoming 500 shares. Net income per share and net assets per share are calculated as if our stock split has always been in effect.
- *4 Our consolidated results and financial situation for the fiscal year ended March 2016 are affected by factors such as the impairment loss on fixed assets for our railway business.
- *5 Changes such as the Partial Amendments to Accounting Standard for Tax Accounting (ASBJ Statement No. 28, February 16, 2018) were enacted from the beginning of the fiscal year ended March 2019. These accounting standards have been applied retroactively to key management indexes for the fiscal year ended March 2018.
- *6 Our Board Benefit Trust (BBT) was introduced from the fiscal year ended March 2020. When calculating the net assets per share for the fiscal year ended March 2020, common shares in JR Kyushu that were held in trust and recorded as treasury stock are included in the treasury stock deducted from the total issued shares at the end of the fiscal year. When calculating the net income per share for the fiscal year ended March 2020, common shares in JR Kyushu that were held in trust and recorded as treasury stock are included in the treasury stock deducted from the average number of shares throughout the fiscal year.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

We conduct transportation operations in the Kyushu region of Japan, covering 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 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 fiscal year ended March 2020, we recorded consolidated operating revenues of ¥432.644 billion, consolidated operating income of ¥49.406 billion, and consolidated net income attributable to owners of the parent of ¥31.495 billion. For the same period, our consolidated EBITDA was ¥75.090 billion.

Results of Operations

Operating Revenues

Factors such as the COVID-19 pandemic caused a decrease in revenue in our railway and other businesses, resulting in our first decrease in operating revenues in 10 years. Operating revenues decreased 1.8% from the previous consolidated fiscal year to ¥432.644 billion.

Operating Expenses

Operating expenses increased 1.8% from the previous fiscal year to ¥383.238 billion. Transportation, other services and cost of sales increased 0.1% from the previous fiscal year to ¥273.4 billion. This is attributable to increased sales in the construction business. Selling, general and administrative expenses increased 6.2% from the previous fiscal year to ¥109.838 billion. This is due to an increase in taxes as a result of the elimination of special tax measures for our company and an increase in depreciation costs.

Operating Income

Operating income decreased 22.7% from the previous consolidated fiscal year to ¥49.406 billion. Furthermore, the ratio of operating income to operating revenues was 14.5% in the previous consolidated fiscal year and 11.4% in this consolidated fiscal year.

Non-Operating Income and Expenses

Non-operating income decreased 25.0% from the previous fiscal year to ¥2.863 billion. This is attributable to a decrease in gains from our long-term investments. Non-operating expenses increased 42.3% from the previous fiscal year to ¥1.655 billion. This is due to an increase in interest expenses.

Ordinary Income

Ordinary income decreased 23.9% from the previous fiscal year to ¥50.613 billion. Furthermore, the ratio of ordinary income to operating revenues was 15.1% in the previous fiscal year and 11.7% in this fiscal year.

Extraordinary Gains and Losses

The balance of extraordinary gains and losses worsened by ¥5.421 billion from the previous fiscal year to extraordinary losses of ¥7.522 billion. This is attributable to impairment losses incurred during the construction of the new hydrofoil ferry QUEEN BEETLE.

Net Income Attributable to Owners of the Parent

Net income attributable to owners of the parent decreased 36.0% from the previous fiscal year to ¥31.495 billion.

Segment Overview (Operating Revenues)

Transportation Segment

Operating revenues in the transportation segment decreased 4.5% from the previous fiscal year to ¥173.730 billion. This is attributable to a reduction in revenues from railway transportation on Shinkansen and conventional lines, which fell 2.7% to ¥147.381 billion from the previous fiscal year, due to the impact of the COVID-19 pandemic. Passenger-kilometers on Shinkansen trains fell 4.0% year-on-year to ¥1.950 billion. Commuter pass revenue increased 2.9% from the previous fiscal year to ¥2.817 billion and non-commuter pass revenue decreased 5.2% to ¥49.507 billion. Overall revenue fell 4.8% to ¥52.325 billion. Passenger-kilometers on conventional lines fell 2.0% year-on-year to ¥7.108 billion. Commuter pass revenue increased 0.2% from the previous fiscal year to ¥29.779 billion and non-commuter pass revenue decreased 2.3% to ¥65.276 billion. Overall revenue fell 1.5% to ¥95.055 billion.

Construction Segment

Operating revenues in the construction segment increased 5.9% from the previous fiscal year to ¥99.385 billion. This is attributable to an increase in construction work related to the Nagasaki route of the Kyushu Shinkansen.

Real Estate and Hotels Segment

Operating revenues in the real estate and hotels segment increased 0.8% from the previous fiscal year to ¥90.779 billion. This is attributable to the opening of THE BLOSSOM HIBIYA and THE BLOSSOM HAKATA Premier.

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Retail and Restaurant Segment

Operating revenues in the retail and restaurant segment increased 0.6% from the previous fiscal year to ¥104.657 billion. This is attributable to an increase in revenue from fast food outlets following an increase in the number of locations.

Other Segment

Operating revenues in other segment decreased 0.7% from the previous fiscal year to ¥72.191 billion. This is attributable to the transfer of the leasing and installment financing business.

Financial Status Analysis

Total assets as of the end of the fiscal year under review increased 3.4% year-on-year to ¥828.590 billion. Due to a decrease in securities and other factors, current assets fell 11.2% year-on-year to ¥161.293 billion. Fixed assets increased 7.7% from the end of the previous consolidated fiscal year to ¥667.297 billion due to factors such as an increase tangible fixed assets (property, plant, and equipment).

Meanwhile, total liabilities increased 7.8% compared to the previous fiscal year to ¥410.291 billion. Due to an increase in the current portion of long-term debt and other factors, current liabilities rose 16.2% to ¥200.248 billion. Despite a decline in long-term debt, non-current liabilities were up 0.8%, to ¥210.043 billion as a result of the issuance of bonds and other factors.

Furthermore, total equity decreased 0.6% compared to the previous fiscal year to ¥418.298 billion. This is attributable to the payment of dividends, the acquisition and cancellation of treasury stock, and other factors.

Cash Flows

Net cash provided by operating activities totaled ¥60.468 billion, up ¥18.994 billion year-on-year due to an increase related to the collection of trade receivables and other factors.

Net cash used in investment activities was ¥76.943 billion, up

¥2.324 billion year-on-year, due to the purchase of non-current assets and other factors.

Net cash provided by financing activities came to ¥3.369 billion, down ¥2.275 billion year-on-year as a result of the payment of dividends and other factors.

As a result of the above, cash and cash equivalents at the end of the fiscal year decreased ¥13.047 billion year-on-year to ¥23.817 billion.

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. Over the period to the fiscal year ending March 2022, we will aim for a consolidated dividend payout ratio of 35%, with a minimum dividend per share of ¥93.0. In addition, we will implement treasury stock repurchases as the situation requires in order to increase capital efficiency. Based on this policy, our end-of-year dividends were ¥46.50 per share based on an overall decision encompassing factors such as business performance. Annual dividends of ¥93 per share were also paid in addition to the interim dividends of ¥46.50 per share. Furthermore, we intend 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 and community development initiatives that leverage the distinctive characteristics of local communities, centered on safe, reliable mobility services.

In addition, the Articles of Incorporation state that JR Kyushu may, by resolution of the Board of Directors, distribute interim dividends with a record date of September 30 of each year. Our policy is to pay dividends from retained earnings twice a year, an interim dividend and a year-end dividend. The decision-making bodies for the annual payment of dividends from retained earnings is the Board of Directors for interim dividends and the General Meeting of Shareholders for year-end dividends.

Risk Factors

Our railway network connects Kyushu's major cities through services such as the Kyushu Shinkansen. In addition to the railway business, we are developing businesses centered around Kyushu in fields that are highly compatible with the railway business, including our real estate (station building commercial facilities, condominiums, hotels, etc.), retail and restaurant businesses.

Of the items included in this report relating to factors such as the current business and financial situation, those that may have a significant impact on the judgment of investors are indicated in this section.

However, it should be noted that this is not a comprehensive list of all risks related to JR Kyushu Group and its contents are based on the assessment of the JR Kyushu Group as of the end of the fiscal year ended March 2020.

Risk Factors

1. Risks related to infectious diseases
2. Risks related to population trends such as declining birthrate and aging population
3. Risks related to natural disasters
4. Risks related to economic trends and international affairs
5. Risks related to the Medium-Term Business Plan
6. Risks related to information technology (IT)
7. Risks related to protection of personal data
8. Risks related to competition
9. Risks related to the value of the group's assets
10. Risks related to third-party service providers and business partners
11. Risks related to environmental regulations
12. Risks related to the Transportation Group
13. Risks related to the Real Estate and Hotels Group (Refer to our Business Risks booklet for details.)

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CONSOLIDATED BALANCE SHEETS

Kyushu Railway Company and Consolidated Subsidiaries

	FY2019/3	FY2020/3
(millions of yen)		
ASSETS		
Current assets		
Cash and time deposit	16,971	23,817
Notes and accounts receivable-trade	52,275	38,707
Fares receivable	2,732	4,126
Securities	19,926	—
Merchandise and finished goods	21,809	19,702
Work in process	22,703	28,364
Raw materials and supplies	6,819	7,574
Other	38,485	39,082
Allowance for doubtful accounts	(95)	(82)
Total current assets	181,627	161,293
Non-current assets		
Property, plant and equipment		
Buildings and fixtures (net)	241,558	268,654
Machinery, rolling stock and vehicles (net)	31,607	32,578
Land	129,344	147,736
Leased assets (net)	14,909	19,953
Construction in progress	35,843	40,133
Other (net)	8,057	8,935
Net property, plant and equipment	461,321	517,992
Intangible assets	5,215	6,280
Investments and other assets		
Investment securities	24,403	38,835
Deferred tax assets	55,086	51,768
Net defined benefit assets	882	720
Other	74,362	52,537
Allowance for doubtful accounts	(1,416)	(838)
Total investments and other assets	153,318	143,024
Total non-current assets	619,855	667,297
Total assets	801,483	828,590

	FY2019/3	FY2020/3
(millions of yen)		
LIABILITIES AND EQUITY		
Current liabilities		
Notes and accounts payable trade	33,132	32,460
Short-term loans	9,002	10,572
Current portion of long-term debt	3,845	30,421
Payables	57,139	63,841
Accrued income taxes	5,573	3,666
Fare deposits received with regard to railway connecting services	1,731	1,175
Railway fares received in advance	5,821	4,720
Accrued bonuses	8,996	8,922
Other	47,072	44,467
Total current liabilities	172,314	200,248
Non-current liabilities		
Debt	20,000	40,000
Long-term debt	75,119	60,556
Lease obligations	5,424	10,482
Allowance for safety and environmental measures	1,879	1,609
Provision for loss on disaster	4,613	1,732
Liability for retirement benefits	58,803	53,801
Asset retirement obligations	1,603	1,690
Other	40,981	40,171
Total non-current liabilities	208,425	210,043
Total liabilities	380,739	410,291
EQUITY		
Shareholders' equity		
Common stock	16,000	16,000
Capital surplus	233,983	224,024
Retained earnings (deficit)	160,558	176,329
Treasury stock	—	(599)
Total common stock	410,541	415,754
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	11,677	4,422
Deferred gains or losses on hedges	129	15
Foreign currency translation adjustments	112	158
Defined retirement benefit plans	(7,608)	(7,057)
Total accumulated other comprehensive income	4,312	(2,461)
Non-controlling interests	5,890	5,004
Total equity	420,743	418,298
TOTAL LIABILITIES AND EQUITY	801,483	828,590

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CONSOLIDATED STATEMENTS OF INCOME

Kyushu Railway Company and Consolidated Subsidiaries

(millions of yen)

	FY2019/3	FY2020/3
OPERATING REVENUES	440,358	432,644
OPERATING EXPENSES		
Transportation, other services and cost of sales	273,001	273,400
Selling, general and administrative expenses	103,471	109,838
Total operating expenses	376,473	383,238
OPERATING INCOME	63,885	49,406
NON-OPERATING INCOME		
Interest income	69	71
Dividend income	397	443
Gains on assets held in trust	1,849	1,330
Other	1,501	1,016
Total non-operating income	3,817	2,863
NON-OPERATING EXPENSES		
Interest expense	945	1,298
Other	217	357
Total non-operating expenses	1,163	1,655
ORDINARY INCOME	66,539	50,613
EXTRAORDINARY GAINS		
Construction grants received	16,360	29,419
Other	2,199	5,055
Total extraordinary gains	18,560	34,475
EXTRAORDINARY LOSSES		
Losses from provision for cost reduction of fixed assets	16,176	29,333
Impairment losses	910	7,939
Disaster-damage losses	847	682
Provision for loss on disaster	446	686
Other	2,281	3,355
Total extraordinary losses	20,661	41,997
INCOME BEFORE INCOME TAXES	64,438	43,091
INCOME TAXES		
Current	10,060	6,916
Deferred	4,666	4,181
Total income taxes	14,727	11,097
NET INCOME	49,711	31,993
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	471	498
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	49,240	31,495

CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

(millions of yen)

	FY2019/3	FY2020/3
NET INCOME	49,711	31,993
OTHER COMPREHENSIVE INCOME		
Unrealized gain on available-for-sale securities	1,678	(7,272)
Deferred gains or losses on hedges	176	(114)
Foreign currency translation adjustments	(23)	60
Defined retirement benefit plans	562	533
Total other comprehensive income	2,394	(6,792)
COMPREHENSIVE INCOME	52,105	25,200
Total comprehensive income attributable to:		
Owners of the parent	51,657	24,722
Non-controlling interests	448	478

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Kyushu Railway Company and Consolidated Subsidiaries

(millions of yen)

	FY2019/3	FY2020/3
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income taxes	64,438	43,091
Depreciation costs	21,928	26,748
Impairment loss	910	7,939
Losses from provision for cost reduction of fixed assets	16,176	29,333
Loss on disaster	847	682
Increase in provision for loss on disaster	446	686
Increase (Decrease) in allowance for doubtful accounts	542	(516)
Increase (Decrease) in liability for retirement benefits	(3,910)	(4,527)
Increase (Decrease) in allowance for safety and environmental measures	(1,318)	(270)
Interest and dividends income	(467)	(515)
Interest expense	945	1,298
Construction grants received	(16,360)	(29,419)
Insurance income accompanying disasters	(1,000)	—
(Increase) decrease in trade receivables	(9,881)	6,160
(Increase) decrease in inventories	(6,154)	(3,940)
Increase (Decrease) in trade payables	(4,709)	(1,672)
Gains on assets held in trust	(1,849)	(1,330)
Other	(5,970)	(366)
Subtotal	54,612	73,378
Proceeds from insurance income	1,000	—
Interest and dividends income received	476	507
Interest expense paid	(872)	(994)
Gain on assets held in trust received	1,853	1,394
Loss on disaster paid	(3,205)	(4,422)
Income taxes (paid) refund	(12,389)	(9,394)
Net cash provided by operating activities	41,473	60,468

(millions of yen)

	FY2019/3	FY2020/3
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment, and Intangible assets	(105,937)	(109,947)
Proceeds from redemption of marketable securities	15,600	—
Purchases of investment securities	(2,552)	(21,706)
Proceeds from sale of money held in trust	—	12,259
Proceeds from construction grants received	15,253	17,998
Collection of short-term loans receivable	0	16,647
Other	3,016	7,805
Net cash provided by (used in) investing activities	(74,619)	(76,943)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in short-term loans payable	4,544	995
Proceeds from long-term loans payable	2,051	15,550
Repayment of long-term loans payable	(5,793)	(4,034)
Payments for long-term accounts payable	(341)	(345)
Proceeds from issuance of bonds	20,000	20,000
Proceeds from lease and guarantee deposits received	1,420	1,380
Repayments of lease and guarantee deposits received	(1,104)	(937)
Purchases of treasury stocks	—	(10,598)
Cash dividends paid	(13,680)	(15,680)
Cash dividends paid to non-controlling shareholders	(54)	(72)
Other	(1,397)	(2,887)
Net cash used in financing activities	5,644	3,369
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	(14)	58
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(27,514)	(13,047)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	64,379	36,865
CASH AND CASH EQUIVALENTS, END OF YEAR	36,865	23,817