



(Translation)

June 7, 2019

To Our Shareholders,

Kyushu Railway Company
President and CEO Toshihiko Aoyagi

**Supplementary Explanation Regarding Proposals
At the 32nd Annual General Meeting of Shareholders**

We recently learned that Institutional Shareholder Services, Inc. (hereinafter “ISS”) has opposing views regarding agenda items to be voted on at the 32nd Annual General Meeting of Shareholders.

As such, we would like to explain in the below document how our view of the agenda items in question differs from the view of ISS.

We would like to ask you, our shareholders, to take into account our explanation and hope that it will increase your understanding of this matter.

(1) Agenda Item 7: Implementation of Share Buyback (Shareholder Proposal): Our View:

ISS has announced their support for Agenda Item 7: Implementation of Share Buyback (Shareholder Proposal). Our view of this proposal is as shown below.

As stated in “JR Kyushu Group Medium-Term Business Plan 2019-2021” announced on March 19, 2019, our operating income is expected to decline due to higher expenses resulting from the elimination of special tax measures, higher depreciation, and other factors. In this circumstance, we plan to utilize debt capacity as capital expenditure will reach 340 billion yen (divided between growth investment of 210 billion yen and maintenance and upgrade investment of 130 billion yen) and will exceed consolidated operating cash flow total. This investment is being made to implement the 2030 Long-Term Vision that increases corporate value in the medium-to long-term and contributes to the sustainable development of Kyushu through initiatives of “city-building” and “mobility services.” Capital expenditure will be focused in areas such as the transportation segment to establish “mobility service” through maintenance and upgrade as well as growth investments, and in the real estate/hotel segment. Investment in the real estate and hotels segment will contribute to “city building” initiatives to increase population along the railway lines for increased profitability in the railways and related business. Central to this will be investments in Kumamoto Station and Nagasaki Station for future growth as well as maintenance and upgrade.

Let’s look at the capital structure. Because of the expectation of losses at the time of breakup and privatization in April of 1987, a Management Stabilization Fund (of 387.7 billion yen) was established without bearing debts. In each fiscal period, operating income from the Fund offset operating losses and was invested in new facilities for the Railway



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Segment and this resulted in a strong capital structure. We understand that there are important issues related to our financial strategy and we have appointed a new director candidate, Mr. Toshihiro Mori, as our CFO. We understand that promoting both financial and operational strategy in an integrated manner is necessary for sustainable increase of our corporate value. We aim to balance capital efficiency and financial soundness by realizing medium-to-long-term growth through the aforementioned investments while at the same time appropriately fulfilling our social role by handling the risks of population decline and intensified natural disasters such as earthquakes and torrential rain, etc. in Kyushu in an agile and flexible manner.

However, we believe that Agenda Item 7 which requires the expenditure of 72.0 billion yen, equivalent to nearly half of retained earnings and the use of large-scale debt financing to implement the share buyback ignores financial soundness and is aimed solely at short-term shareholder returns. This action would weaken our ability to respond to business risks, damage our trust among local societies which after all are the source of corporate value, and sacrifice future growth. For these reasons, we are opposed to Agenda Item 7.

(2) Agenda Item 9 and 10: Election of Three Directors to the Board (Shareholder Proposal): Our View:

ISS has recommended that shareholders support shareholder proposals, Agenda Items 9 and 10, to elect Mr. Toshiya Justin Kuroda and Mr. Keigo Kuroda as Outside Directors. ISS reasons that because both nominees have experience in real estate and allocating capital and that experience would be useful in the reevaluation of current and future investment plans. Our view of this proposal is as shown below.

In Agenda Item 2, we nominated Mr. Toshihide Ichikawa of Mitsui Fudosan Co. and Mr. Shinji Asatsuma of Kansai Paint Co. as outside director nominees. At Mitsui Fudosan Co., Mr. Ichikawa was focused on housing development and the commercial building business and had a strong record of performance in city building, all while he also performed his duties as a director to supervise and monitor the firm. During his time at Kansai Paint Co., Mr. Asatsuma primarily worked in administrative roles and thus has a wealth of knowledge and experience in finance and accounting. We think that by adding both nominees to the Board, we will secure adequate knowledge and experience of real estate and capital allocation which will be fully utilized in the management of our company.

We oppose the candidates nominated in the shareholder proposal as we think that the management structure of 11 candidates for Director (Excluding Audit Committee Members) as stated in Agenda Item 2 is the best alignment to achieve the goals of the medium-term business plan.

Furthermore, ISS has opposed Agenda Item 2: Candidate 7: Mr. Koji Toshima, the longest-serving independent director who has served on the board for 7 years. This recommendation is made in order to create one open position on the board assuming that the nominees in the shareholder proposal are elected. If the candidates are all elected, that



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would create 13 board members where the current ceiling as determined by the Articles of Incorporation is 12. Last year, we transitioned to a Company with an Audit and Supervisory Committee and we think it is important from the point of view of continuity to have Mr. Toshima, who currently serves as the chairman of the Nomination and Compensation Advisory Committee, continue his position as we continue to promote governance reform under the new design this year. Additionally, as the two candidates nominated in the shareholder proposal are unnecessary, there is no need to add an open position on the Board.

Moreover, ISS is also opposing Agenda Item 4: Candidate 14: Mr. Kazuhide Ide. The reason ISS gives for the recommendation is that Mr. Ide is a former executive director of a bank which is now affiliated with Mizuho Financial Group and that Mizuho Securities, which belongs to the Mizuho Financial Group, is the 9th largest shareholder of our company as of March 2019. ISS questions his independence based on their guidelines. Mr. Ide left his position as a Director at the Dai-Ichi Kangyo Bank in 1997 and 22 years have passed since then. Given that this 9th largest share holding at Mizuho Securities is a broker account and is not a strategic (cross-shareholding) holding we can conclude that Mr. Ide has satisfied the criteria as an independent director.

(3) Agenda Item 8: Revision to a Portion of the Articles of Incorporation (Change to a Company with a Three Committees Structure) (Shareholder Proposal): Our View:

ISS has recommended that shareholders support the shareholder proposal, Revision to a Portion of the Articles of Incorporation (Change to a Company with a Three Committees Structure). Our view of this proposal is as shown below.

Following the approval of our shareholders at the 2018 Annual General Meeting of Shareholders, our Board transitioned to a Company with Audit and Supervisory Committee Structure which includes audit committee members who have full voting rights as members of the Board. We aimed to further enrich our corporate governance both by strengthening the audit and supervisory functions of the board and also by delegating authority to directors on some important business matters as a means to realize swift and efficient operations and so as to further improve corporate value. In order to further separate decision-making and supervisory functions from the day to day execution of business, we also introduced the Executive Officer System which clarifies the division of business execution in line with the changes in organizational design. Additionally, to promote the medium-term business plan, this year we are changing the framework of our governance by implementing measures such as establishing a Nomination and Compensation Advisory Committee, clarifying the role of the CFO, and increasing the number of outside directors.

In the first place, there is no single absolutely correct answer as to a company's corporate structure and the adoption of a company with a three committees structure is not always the best solution. We believe that a company with an audit and supervisory committee structure is the best format to strengthen corporate governance and at this stage various



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measures are already underway. It has been only one year since we transitioned to a company with an audit and supervisory committee structure. We believe it would be inefficient to transition from this structure to a company with a three committee structure without examining the effect of these measures. It could lead to confusion in management and is not realistic at all, and we are opposed to Agenda Item 8.

We oppose Agenda Item 8 because we believe it is important to confirm the effectiveness of all governance reform measures.

We ask you, our shareholders, to understand our reasoning and consider our arguments when exercising your votes.