

(Translation)

**Consolidated Financial Results
for the Three-Month Period Ended June 30, 2019
(Japanese GAAP)**

August 5, 2019

Company name: Kyushu Railway Company
Stock exchange listings: Tokyo and Fukuoka
Securities code: 9142
URL: <http://www.jrkyushu.co.jp/>
Representative: Toshihiko Aoyagi, President and CEO
Contact: Shinji Hatai, General Manager, Public Relations Department
Tel.: +81-92-474-2541

Scheduled date for filing of quarterly report: August 8, 2019
Scheduled date of dividend payment commencement: —
Preparation of supplementary explanations for financial results: Yes
Holding of a briefing on quarterly financial results: None

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

**1. Consolidated Financial Results for the Three-Month Period Ended June 30, 2019
(From April 1, 2019 to June 30, 2019)**

(1) Consolidated operating results

(Percentages show year-on-year changes.)

	Operating revenues		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2019	100,471	1.6	15,489	(3.6)	16,096	(6.9)	12,365	(7.9)
June 30, 2018	98,909	4.5	16,067	(4.0)	17,292	0.6	13,431	(0.5)

(Note) Comprehensive income: Three months ended June 30, 2019: ¥12,234 million [(20.9%)]
Three months ended June 30, 2018: ¥15,468 million [17.1%]

	Net income per share — basic	Net income per share — diluted
Three months ended	Yen	Yen
June 30, 2019	77.28	—
June 30, 2018	83.95	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2019	784,029	424,665	53.4
As of March 31, 2019	801,483	420,743	51.8

(Reference) Shareholders' equity: As of June 30, 2019: ¥418,865 million
As of March 31, 2019: ¥414,853 million

2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Year ended March 31, 2019	Yen —	Yen 41.50	Yen —	Yen 51.50	Yen 93.00
Year ending March 31, 2020	—				
Year ending March 31, 2020 (Forecast)		46.50	—	46.50	93.00

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

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2020 (April 1, 2019 to March 31, 2020)

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

	Operating revenues		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	442,300	0.4	56,600	(11.4)	57,200	(14.0)	42,500	(13.7)	265.63

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

Notes

- (1) Changes in significant subsidiaries during the three months ended June 30, 2019 (changes in specified subsidiaries affecting the scope of consolidation): No
- (2) Application of special accounting treatment in preparing the quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates and restatement of revisions
 - i Changes in accounting policies with revision of accounting standards: No
 - ii Changes in accounting policies other than the above: No
 - iii Changes in accounting estimates: No
 - iv Restatement of revisions: No
- (4) Number of shares outstanding (common stock)

i Number of shares issued and outstanding at end of period (including treasury stock)	As of June 30, 2019	160,000,000 shares	As of March 31, 2019	160,000,000 shares
ii Number of shares of treasury stock at end of period	As of June 30, 2019	—	As of March 31, 2019	—
iii Average number of shares during the period	As of June 30, 2019	160,000,000 shares	As of June 30, 2018	160,000,000 shares

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

Explanation of Appropriate Uses of Performance Forecasts and Other Important Items

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

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

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○(Financial results presentation materials)

Financial Results for the First Quarter of FY2020/3 (Cumulative total for the three-month period from April to June)

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Qualitative Information on Consolidated Operating Results

In the three-month period ended June 30, 2019, Japan's economy recorded modest growth. Exports and production were influenced by the deceleration of overseas economies, but consumer spending was increasingly solid against a background of steady improvements in the job market and wages.

Amid these conditions, in accordance with the JR Kyushu Group Medium-Term Business Plan 2019–2021 — Toward the Next Growth Stage, we worked to advance three priority initiatives — Further strengthen our management foundation, Further strengthen our earnings power in key businesses, and Growth and evolution in new business areas. In addition, we implemented initiatives in the areas of ESG, safety and service, and development of human resources.

As a result, operating revenues in the three-month period ended June 30, 2019, increased 1.6% year on year, to ¥100,471 million.

Operating income was down 3.6%, to ¥15,489 million; EBITDA rose 1.3%, to ¥21,378 million; ordinary income declined 6.9%, to ¥16,096 million; and net income attributable to owners of the parent decreased 7.9%, to ¥12,365 million.

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

Business performance by segment is as follows. From the three-month period ended June 30, 2019, the reportable segment classifications have been changed, and in the following year-on-year comparisons the figures for the same period of the previous fiscal year have been reclassified in accordance with the segment classifications after the change.

a. Transportation Group

In the railway business, we carried out our business operations with safety and service as our foundation. At the same time, we worked to secure revenues by fully utilizing our transportation network, centered on the Kyushu Shinkansen, and implementing various management initiatives from the perspective of our customers. In terms of safety initiatives, in order to create a safety-oriented corporate culture for the entire JR Kyushu Group, we engaged in activities that promoted safety under the slogan of “One more time. Is that OK? Let's be sensitive to safety.” For safety investments, we updated rolling stock and steadily carried out the replacement of aging facilities.

In regard to services, we continued to exercise the 5S (sort, set in order, shine, standardize, sustain) methodology as a basic part of daily operations and the foundation of our services, and we made efforts to see that customer can enjoy comfortable use of transportation services by welcoming them with a smile and through pleasant greetings. In addition, we expanded the introduction of the “JR-KYUSHU FREE Wi-Fi,” a free, public wireless LAN service available in major stations and on “Design & Story” trains. Also, in regard to the use of Twitter to provide information on train operating conditions in multiple languages, we began to utilize Korean and Chinese accounts in addition to our Japanese and English accounts. In these ways, we worked to provide diverse, customer-focused services.

In marketing, we worked to increase our earning power in key fields — the Shinkansen, short-distance, and inbound — and implemented city-building initiatives that leverage the appeal of railways. For the Kyushu Shinkansen, we took steps to promote usage, implementing the “Go! Waku Waku Trip with MICKEY” project from May 2019. As for our “JR Kyushu Internet Reservation Service,” we enhanced our lineup of products available only online and implemented campaigns. In these ways, we advanced the shift toward usage of the Internet.

Moreover, to capture inbound demand, we promoted direct sales and advance seat reservation services through “JR KYUSHU RAIL PASS Online Booking,” a specialized reservation website for the “JR Kyushu Rail Pass.” In addition, we communicated information on and encouraged sales of the pass in a manner that catered to specific countries and regions, primarily South Korea, Taiwan, Hong Kong, and China. We also undertook initiatives to boost the recognition level of the Kyushu brand and to encourage visitors to Kyushu. These initiatives included a variety of measures to promote Kyushu’s natural environment, food, hot springs, and historical culture and the hospitality of local community members, such as the cruise train “Seven Stars in Kyushu” and our 11 “Design & Story” trains.

Turning to transportation, we implemented detailed transportation-oriented initiatives coordinated with events and the seasons, and we made concerted efforts to establish an efficient transportation organization that meets the demand for each train line. At the same time, we worked to further enhance our transportation network, which is centered on the Kyushu Shinkansen. Also, due to the impacts of heavy rain that occurred in northern Kyushu in July 2017, we implemented substitute forms of transportation between Soeda Station and Yoake Station on the Hitahikosan Line. Moreover, with regard to operations between Higo-Ozu Station and Aso Station on the Houhi Main Line, which were suspended due to the impacts of the 2016 Kumamoto earthquakes, we are cooperating and making coordinated efforts with the central and local governments and advancing work targeting the resumption of service within FY2021/3.

In our passenger ship business, we concluded an agreement with the Busan Tourism Organization, aiming to attract tourists to the Busan region and to promote the tourism exchange business between Kyushu and Busan. Through this agreement, we worked to expand demand for travel via hydrofoil ferry.

For our bus business, we worked to promote usage of the high-speed bus B&S Miyazaki, which connects with the Kyushu Shinkansen, and other high-speed bus routes, thereby securing profits.

Targeting the establishment of new mobility services, in other words “Mobility as a Service,” we worked in cooperation with other transportation companies, etc. In May 2019, we reached an agreement with Odakyu Electric Railway Co., Ltd., calling for implementing data collaboration on the shared data platform being developed by Odakyu Electric Railway and for expanding collaboration related to the consideration of services. In addition, we concluded a business alliance agreement with DAIICHI KOUTSU SANGYO Co., Ltd., to increase the convenience of transportation services. In addition, to celebrate this alliance, from June 2019 we implemented a campaign — Let’s Take a Taxi with an Internet Train Reservation and SUGOCA.

As a result of the above efforts, the Transportation Group recorded operating revenues of ¥44,178 million, up 3.0% year on year; operating income of ¥9,916 million, up 6.2%; and EBITDA of ¥12,128 million, up 11.0%.

b. Construction Group

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

As a result, the Construction Group posted operating revenues of ¥12,403 million, down 4.1% year on year; operating loss of ¥503 million, compared with operating loss of ¥305 million in the same period of the previous fiscal year, and negative EBITDA of ¥242 million, compared with negative EBITDA of ¥72 million in the same period of the previous fiscal year.

c. Real Estate and Hotels Group

As for the real estate lease business, we implemented aggressive sales activities for “Kokura-shuku — 30 steps of bystreet from station,” which opened in March 2019, and we renovated Amu Plaza Hakata in April 2019. In addition, we actively held events that utilized the station squares of each station building. In these ways, we worked to expand earnings.

In the real estate sale business, sales were recorded from “MJR the Garden Kagoshima-Chuo”, “MJR Oita Ekimae The Residence”, and other condominium buildings, and we sought to promote sales of “MJR the Garden Kami-Kumamoto Ekimae”, “MJR the Garden Miyazaki Ekimae”, and other condominium buildings.

In the hotel business, we actively engaged in sales activities at JR Kyushu Station Hotel Kokura, which we opened after a renovation last year. We also worked to expand earnings by bolstering revenue management at existing hotels. In these ways, we worked to expand earnings.

In April 2019, with the objectives of strengthening governance, leveraging economies of scale to bolster marketing capabilities and increase management efficiency, and enhancing human resources development skills, we established intermediate holding companies to oversee the station building companies and hotel companies.

As a result, the Real Estate and Hotels Group posted operating revenues of ¥19,736 million, up 5.7% year on year; operating income of ¥5,059 million, down 16.5%; and EBITDA of ¥7,698 million, down 10.0%.

d. Retail and Restaurant Group

Turning to our retail business, we moved forward with the opening of new drugstores and convenience stores.

For the restaurant business, we took steps to expand our business area, such as opening our first cafe in Tokyo.

As a result, the Retail and Restaurant Group recorded operating revenues of ¥26,009 million, up 2.0% year on year; operating income of ¥761 million, up 6.2%; and EBITDA of ¥1,145 million, up 2.9%.

e. Other Groups

For the construction machinery sales and rental business, we worked to secure earnings through aggressive sales activities.

As a result, Other Groups posted operating revenues of ¥16,107 million, down 0.1% year on year; operating income of ¥364 million, down 12.1%; and EBITDA of ¥819 million, up 13.3%.

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

(2) Qualitative Information on Consolidated Financial Position

Total assets as of June 30, 2019, decreased 2.2% compared with the previous fiscal year-end, to ¥784,029 million. Current assets decreased 9.5%, to ¥164,426 million, following the collection of notes and accounts receivable–trade. Despite an increase due to the acquisition of property, plant and equipment, non-current assets decreased 0.0%, to ¥619,603 million, due principally to a decline in money held in trust.

Meanwhile, total liabilities decreased 5.6% compared with the previous fiscal year-end, to ¥359,363 million. Current liabilities fell 7.1%, to ¥160,018 million, due to payment of payables. Non-current liabilities were down 4.4%, to ¥199,345 million, as a result of a decrease in long-term debt and other factors.

Furthermore, total equity increased 0.9% compared with the previous fiscal year-end, to ¥424,665 million, due to increases in retained earnings and other factors.

(3) Qualitative Information on Consolidated Performance Outlook

In regard to our full-year forecasts for the fiscal year ending March 31, 2020, there have been no revisions to the forecasts announced on May 13, 2019.

Moreover, the performance outlook was prepared based on information available as of the release date of these materials, and there are cases where actual performance differs from outlook figures due to various factors that arise going forward.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Consolidated Balance Sheets

(Millions of Yen)

	FY 2019/3 (As of March 31, 2019)	FY 2020/3, First Quarter (As of June 30, 2019)
ASSETS		
Current assets		
Cash and time deposits	16,971	27,504
Notes and accounts receivable–trade	52,275	34,351
Fares receivable	2,732	2,511
Securities	19,926	22,000
Merchandise and finished goods	21,809	21,537
Work in process	22,703	31,793
Raw materials and supplies	6,819	8,681
Other	38,485	16,134
Allowance for doubtful accounts	(95)	(88)
Total current assets	181,627	164,426
Non-current assets		
Property, plant and equipment		
Buildings and fixtures (net)	241,558	240,579
Machinery, rolling stock and vehicles (net)	31,607	31,574
Land	129,344	132,161
Lease assets (net)	14,909	14,861
Construction in progress	35,843	42,110
Other (net)	8,057	8,001
Net property, plant and equipment	461,321	469,288
Intangible assets	5,215	5,020
Investments and other assets		
Investment securities	24,403	24,306
Deferred tax assets	55,086	53,038
Net defined benefit assets	882	799
Money held in trust	56,901	51,190
Other	17,461	17,369
Allowance for doubtful accounts	(1,416)	(1,410)
Total investments and other assets	153,318	145,294
Total noncurrent assets	619,855	619,603
Total assets	801,483	784,029

(Millions of Yen)

	FY 2019/3 (As of March 31, 2019)	FY 2020/3, First Quarter (As of June 30, 2019)
LIABILITIES		
Current liabilities		
Notes and accounts payable–trade	33,132	22,846
Short-term loans	9,002	9,542
Current portion of long-term debt	3,845	11,845
Payables	57,139	37,140
Accrued income taxes	5,573	1,139
Fare deposits received with regard to railway connecting services	1,731	1,450
Railway fares received in advance	5,821	6,437
Accrued bonuses	8,996	6,103
Other	47,072	63,513
Total current liabilities	172,314	160,018
Non-current liabilities		
Debt	20,000	20,000
Long-term debt	75,119	67,108
Allowance for safety and environmental measures	1,879	1,879
Allowance for disaster-damage losses	4,613	4,326
Liability for retirement benefits	58,803	57,834
Asset retirement obligations	1,603	1,613
Other	46,405	46,583
Total noncurrent liabilities	208,425	199,345
Total liabilities	380,739	359,363
NET ASSETS		
Shareholders' equity		
Common stock	16,000	16,000
Capital surplus	233,983	233,983
Retained earnings (Deficit)	160,558	164,683
Total shareholders' equity	410,541	414,666
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	11,677	11,494
Gain (loss) on deferred hedges	129	48
Foreign currency translation adjustments	112	133
Defined retirement benefit plans	(7,608)	(7,477)
Total accumulated other comprehensive income	4,312	4,198
Non-controlling interests	5,890	5,800
Total net assets	420,743	424,665
TOTAL LIABILITIES AND NET ASSETS	801,483	784,029

(2) Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Income Statements

Consolidated Cumulative First Quarter

(Millions of Yen)

	FY 2019/3, First Quarter (Three months ended June 30, 2018)	FY 2020/3, First Quarter (Three months ended June 30, 2019)
OPERATING REVENUES	98,909	100,471
OPERATING EXPENSES		
Transportation, other services and cost of sales	58,771	59,115
Selling, general and administrative expenses	24,070	25,866
Total operating expenses	82,841	84,981
OPERATING INCOME	16,067	15,489
NON-OPERATING INCOME		
Interest income	17	20
Dividend income	221	247
Gain on assets held in trust	550	436
Other	692	244
Total non-operating income	1,481	949
NON-OPERATING EXPENSES		
Interest expense	218	298
Other	37	44
Total non-operating expenses	256	342
ORDINARY INCOME	17,292	16,096
EXTRAORDINARY GAINS		
Construction grants received	598	1,763
Other	19	136
Total extraordinary gains	617	1,899
EXTRAORDINARY LOSSES		
Losses from provision for cost reduction of fixed assets	592	1,744
Other	74	36
Total extraordinary losses	666	1,780
INCOME BEFORE INCOME TAXES	17,243	16,215
INCOME TAXES		
Current	1,614	1,786
Deferred	2,206	2,072
Total income taxes	3,820	3,858
NET INCOME	13,422	12,356
NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	(8)	(9)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	13,431	12,365

Quarterly Consolidated Comprehensive Income Statements
Consolidated Cumulative First Quarter

(Millions of Yen)

	FY 2019/3, First Quarter (Three months ended June 30, 2018)	FY 2020/3, First Quarter (Three months ended June 30, 2019)
NET INCOME	13,422	12,356
OTHER COMPREHENSIVE INCOME		
Unrealized gain on available-for-sale securities	1,645	(195)
Gain (loss) on deferred hedges	170	(81)
Foreign currency translation adjustments	(21)	25
Defined retirement benefit plans	250	129
Total other comprehensive income	2,045	(122)
COMPREHENSIVE INCOME	15,468	12,234
TOTAL COMPREHENSIVE INCOME		
ATTRIBUTABLE TO:		
Owners of the parent	15,470	12,252
Non-controlling interests	(2)	(17)

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

None

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

None

(Segment Information)

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

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

(Millions of Yen)

	Reportable Segment				Others (Note 1)	Total	Adjustment (Note 2)	Quarterly Consolidated Statements of Income (Note 3)
	Transportation	Construction	Real Estate and Hotels	Retail and Restaurant				
Operating Revenues								
Outside Customers	41,610	5,462	17,623	25,413	8,799	98,909	—	98,909
Inside Group	1,262	7,475	1,053	79	7,319	17,190	(17,190)	—
Total	42,873	12,937	18,677	25,493	16,118	116,100	(17,190)	98,909
Segment income (loss)	9,340	(305)	6,059	716	415	16,226	(159)	16,067

(Notes) 1. "Others" represents categories of business that are not included in reportable segments and includes the construction machinery sales and rental business, etc.

2. The ¥159 million deduction from segment income (loss) reflects the elimination of intersegment transactions.

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

FY 2020/3, First Quarter (Three-Month Period Ended June 30, 2019)

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

(Millions of Yen)

	Reportable Segment				Others (Note 1)	Total	Adjustment (Note 2)	Quarterly Consolidated Statements of Income (Note 3)
	Transportation	Construction	Real Estate and Hotels	Retail and Restaurant				
Operating Revenues								
Outside Customers	42,355	5,441	18,698	25,937	8,037	100,471	—	100,471
Inside Group	1,823	6,962	1,038	71	8,069	17,965	(17,965)	—
Total	44,178	12,403	19,736	26,009	16,107	118,436	(17,965)	100,471
Segment income (loss)	9,916	(503)	5,059	761	364	15,598	(109)	15,489

(Notes) 1. "Others" represents categories of business that are not included in reportable segments and includes hotel operations, the construction machinery sales and rental business, etc.

2. The ¥109 million deduction from segment income (loss) reflects the elimination of intersegment transactions.

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

2. Matters Related to Changes in Reportable Segments

From the three-month period ended June 30, 2019, the segment categories have been changed in order to recognize segment sales and profits in a more practical manner and to steadily advance segment management. As a result, the previous segment classifications, the Transportation segment, the Construction segment, the Real Estate segment, the Retail and Restaurant segment, and the Other segment, have been changed to the Transportation segment, the Construction segment, the Real Estate and Hotels segment, the Retail and Restaurant segment, and the Other segment.

Segment information for the three-month period ended June 30, 2018, has been prepared based on the segment classifications after the change.

(Significant Subsequent Events)

Damage was sustained primarily by railway facilities due to heavy rain in various parts of Kyushu in July 2019. While we expect to incur repair and other expenses as a result, amount estimations cannot be rationally made at this time as we are currently investigating the details of this damage.