（Translation）

# Matters for Internet Disclosure Under Laws and Regulations and the Articles of Incorporation

**34th Fiscal Year (April 1, 2020 to March 31, 2021)**
**Systems for Ensuring the Appropriateness of Business Activities and the Operation Status of the Systems**
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**Kyushu Railway Company**

In accordance with laws and regulations and the Company’s Articles of Incorporation, this information is posted on the Company’s website (https://www.jrkyushu.co.jp) to provide it to shareholders.

## 6 Systems for Ensuring the Appropriateness of Business Activities and the Operation Status of the Systems

The Board of Directors resolved the following with regard to the system for ensuring that the business execution of directors of the Company and Group companies complies with laws, regulations and the Articles of Incorporation, and other systems for ensuring the appropriateness of operations.

### (1) System for Ensuring the Business Execution of Directors and Employees of the Company and Group Companies Complies with Laws, Regulations, and the Articles of Incorporation

The Company has formulated the JR Kyushu Group's Code of Ethics to serve as a standard that works to reinforce corporate ethics with each officer (including corporate officers, which includes senior corporate officers; the same applies hereinafter) and employee of the Company and Group companies and ensure compliance with laws and regulations. The Administration Department has been put in charge of implementing this code group-wide and also carries out employee training and other initiatives. In addition, the Audit and Supervisory Committee conducts audits and other tasks with respect to the Company's directors, while the Auditing Department, which acts as the internal audit function, audits the status of compliance with laws and regulations among employees of the Company and Group companies, and reports regularly to the Board of Directors and the Audit and Supervisory Committee.

### (2) System for Storing and Managing Information Related to the Business Execution of Directors of the Company

In accordance with regulations for the management of written documents, information related to the business execution of the Company's directors is recorded in written documents and through an electromagnetic medium (hereinafter, "documents, etc.," collectively) is then stored. The documents, etc., can be viewed at any time by the Company's directors.

### (3) Regulations and Other Systems for Managing the Risk of Loss at the Company and Group Companies

Securing railway safety is the most important management issue for the Company. In accordance with safety management regulations created based on the revised Railway Business Act, which was enacted in October 2006, the Company has established a safety management system and works to ensure, maintain, and improve transportation safety. Safety promotion committees have been established at the head office and each branch office. These committees carry out initiatives toward preventing operational accidents and work-related injuries. Through training and other methods, these committees make thorough efforts to ensure the Company can make prompt responses in the event of large-scale accidents or natural disasters. For risks that would have a significant impact on the Company's business operations, the Company will establish regulations at each division that oversees operations and put in place crisis management systems in order to ensure that an appropriate response is made in the event an issue arises.

The Company has established the Group Executive Committee, which oversees the management of Group companies. The Group Executive Committee is made up of mainly the Company's corporate officers. The Committee ensures that systems are in place that allow for management to be conducted in an appropriate manner. In addition, the Committee supervises and monitors the management of Group companies by holding discussions on key management issues for the JR Kyushu Group based on regulations for business administration at affiliated companies. Furthermore, in addition to establishing relevant departments and designating officers (meaning "corporate officers," hereinafter the same) to help support and oversee Group management, the Company works to improve its governance by assigning its officers and employees to work as part-time directors and part-time auditors at Group companies.

**(4) Systems for Ensuring Effective Business Execution by Directors of the Company and Group Companies**

The Company's Board of Directors delegates a portion of authority to the directors for execution of important operations when necessary on the basis of the Articles of Incorporation and resolutions of the Board of Directors. Meanwhile, the Company's Board of Directors also determines the area in charge undertaken by each corporate officer, and ensures that systems are in place to allow each director and corporate officer to perform his or her assigned work in an efficient manner. In addition, the Company clarifies the authority and responsibilities of each director, corporate officer and employee through the Guidelines on Administrative Authorities, thereby securing an effective system for business execution.

For Group companies, the Company ensures an effective system for business execution through the establishment of regulations related to the division concerning segregation of duties, the chain of command, authority, decision making, and other organizational matters.

**(5) Systems for Ensuring the Appropriateness of Business Activities at the Company and Group Companies**

In order to establish corporate ethics and reinforce compliance with laws and regulations, the Company and Group companies have formulated the JR Kyushu Group's Code of Ethics and established the JR Kyushu Group Corporate Ethics Committee, which deliberates issues related to corporate ethics and compliance. Furthermore, the Company operates the JR Kyushu Group Corporate Ethics Hotline (hereinafter, "the Corporate Ethics Hotline"), which serves as a means for employees of the Company or Group companies, as well as employees of business partners, to directly provide information regarding actions that may potentially be in violation of laws and regulations. The Company and Group companies maintain a resolute attitude toward antisocial forces, such as crime syndicates, companies affiliated with crime syndicates, and corporate extortionists, and rejects any kind of relationship with such organizations.

**(6) Systems for Reporting to the Company Facts Pertaining to Business Execution of Group Company Directors and Employees**

The Company has provided regulations for business administration at affiliated companies. Group executive strategy and other crucial items are communicated through review and reporting systems for the Group Executive Committee, which comprises corporate officers connected to the Company. Moreover, the Company ensures a system for regular reporting on Group companies' operating results and financial conditions.

**(7) Items Regarding Employees Who Are to Assist with the Duties of the Company's Audit and Supervisory Committee**

The Company's Audit and Supervisory Committee members have the authority to instruct Audit and Supervisory Committee Office employees on items necessary to activities of the Audit and Supervisory Committee. In addition, Audit and Supervisory Committee Office employees will not receive guidance from directors (excluding directors who are Audit and Supervisory Committee members) or others with regard to those instructions.

**(8) Systems for Reporting to Audit and Supervisory Committee by Company and Group Company Directors and Employees**

The Company ensures a system for Company and Group company directors, corporate officers, and employees to promptly report conduct to Audit and Supervisory Committee that may be in violation of laws, etc., or behavior that will have a major impact on the Company or Group companies. Moreover, matters provided for in laws and regulations, the implementation status of internal audits and the contents of messages provided through the Corporate Ethics Hotline are regularly reported to Audit and Supervisory Committee, as stipulated by law.

Regarding the Corporate Ethics Hotline, the privacy of persons making reports will be strictly observed, and that such persons will not be treated adversely by reason of the report or consultation to the Hotline.

**(9) Items Regarding Policy on Prepayment of Fees or Reimbursement Procedures and Costs or Discharge of Debt for Performance of Duties by the Company's Audit and Supervisory Committee Members**

The Company secures a budget for views related to the execution of audits on a yearly basis.

**(10) Other Systems for Securing Effective Auditing by Audit and Supervisory Committee**

The Company's Audit and Supervisory Committee conducts regular roundtable discussions with the president and outside directors (excluding directors who are Audit and Supervisory Committee members). Moreover, Audit and Supervisory Committee regularly conduct roundtable discussions with the Internal Audit Department, accounting auditors, and Group company auditors, thus strengthening cooperation.

The overview of the operation status of the systems for ensuring the appropriateness of business activities is as follows.

**(1) Initiatives for Establishing Corporate Ethics and Reinforcing Compliance with Laws and Regulations**

1 At the JR Kyushu Group Corporate Ethics Committee, the status of initiatives regarding corporate ethics in the Group, the operation status of the Corporate Ethics Hotline, etc. were reported.

2 The Company provided training and education on compliance with laws and regulations for officers and employees of the Company and Group companies.
In addition, we conducted a survey in the entire Group in order to ascertain employee awareness of corporate ethics.

3 In order to eliminate any relationship with anti-social forces, the Company worked to include exclusion clauses in contracts, etc. and conduct thorough credit investigations.

**(2) Initiatives for Ensuring the Appropriateness and Effectiveness of the Business Execution of Directors and Employees**

1 Minutes of meetings of the Board of Directors and documents, etc. related to the business execution of directors were recorded and stored appropriately in accordance with laws, regulations, etc.

2 In order to secure the effectiveness of the Board of Directors, the Company carried out an investigation using interviews, questionnaires, etc. for the directors to analyze and evaluate that effectiveness. The results of the investigation were reported to the Board of Directors, the related issues were shared among them, and various improvements were made based on the investigation results.

3 The Auditing Department conducts internal audits of the Company and Group companies and reports the results of the audits to the Board of Directors and the Audit and Supervisory

Committee.

4 The Company made partial changes to the organization to secure a more effective system for business execution.

**(3) Initiatives for Managing the Risk of Loss**

1 The Safety Promotion Committee established measures for preventing the occurrence and recurrence of railway accidents, transport disruptions, etc. The Safety Promotion Committee also ensured that the measures are disseminated to Group companies, and strongly promoted the measures to unite the entire Group.

2 The Company conducted audits, etc. in regard to a safety control structure through the Audit and Supervisory Committee and Safety Management Department.

3 The Group Executive Committee held appropriate discussions and issued reports on important matters related to Group management. The Group Executive Committee also reported the operating results of Group Companies and other information to the Company's Board of Directors.

**(4) Initiatives for Securing Effective Auditing by the Audit and Supervisory Committee**

1 The Company secured a budget for expenses deemed necessary for the execution of duties by Audit and Supervisory Committee Members.

2 The Audit and Supervisory Committee regularly exchanged opinions with the president and outside directors (excluding directors who are Audit and Supervisory Committee members).

3 The Audit and Supervisory Committee regularly received reports from the Auditing Department on the status of internal audits and other matters, as well as regularly exchanged opinions with accounting auditors and Group company auditors on the status of audits, issues, etc.

# Consolidated Statements of Changes in Net Assets
(From April 1, 2020 to March 31, 2021)

(Millions of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at the beginning of current period | 16,000 | 224,024 | 176,329 | (599) | 415,754 |
| Changes during current period | | | | | |
| Dividends of surplus | | | (7,314) | | (7,314) |
| Loss attributable to owners of the parent | | | (18,984) | | (18,984) |
| Disposal of treasury stock | | | | 4 | 4 |
| Capital increase of consolidated subsidiaries | | (7) | | | (7) |
| Purchase of shares of consolidated subsidiaries | | 4 | | | 4 |
| Change in scope of consolidation | | | (12) | | (12) |
| Net changes in items other than shareholders' equity during current period | | | | | |
| Total changes during current period | — | (2) | (26,311) | 4 | (26,309) |
| Balance at the end of current period | 16,000 | 224,021 | 150,017 | (594) | 389,445 |

| | Accumulated other comprehensive income | | | | | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remeasure-ments of defined benefit plans | Total accumulated other comprehensi-ve income | | |
| Balance at the beginning of current period | 4,422 | 15 | 158 | (7,057) | (2,461) | 5,004 | 418,298 |
| Changes during current period | | | | | | | |
| Dividends of surplus | | | | | | | (7,314) |
| Loss attributable to owners of the parent | | | | | | | (18,984) |
| Disposal of treasury stock | | | | | | | 4 |
| Capital increase of consolidated subsidiaries | | | | | | | (7) |
| Purchase of shares of consolidated subsidiaries | | | | | | | 4 |
| Change in scope of consolidation | | | | | | | (12) |
| Net changes in items other than shareholders' equity during current period | 2,656 | (15) | (345) | 909 | 3,205 | 214 | 3,419 |
| Total changes during current period | 2,656 | (15) | (345) | 909 | 3,205 | 214 | (22,890) |
| Balance at the end of current period | 7,079 | — | (186) | (6,148) | 743 | 5,218 | 395,408 |

(Note) The above figures are rounded down to the nearest ¥1 million.

## Notes to Consolidated Financial Statements

### I Notes on Important Matters for Basis of Presentation of Consolidated Financial Statements

### 1. Scope of consolidation

(1) The scope of consolidation includes 42 companies including significant subsidiaries indicated in “8 Major parent companies and subsidiaries” of the Business Report.

JR KYUSHU DRUG ELEVEN CO., LTD, a portion of whose shares was transferred on May 28, 2020, has been excluded from the scope of consolidation from the fiscal year under review and category changed to an affiliate accounted for under the equity method.

Shanghai JR Kyushu Food Service Inc., which was previously a consolidated subsidiary, has been excluded from the scope of consolidation from the fiscal year under review due to its decreased significance.

(2) Names of major non-consolidated subsidiaries

Names of main non-consolidated subsidiaries: 12 companies, including Kyutetsu Built Co., Ltd.

Reasons for excluding from the scope of consolidation

All of the non-consolidated subsidiaries are small in scale, and their total assets, operating revenue, net income (multiplied by the Company’s ownership percentage) and retained earnings (multiplied by the Company’s ownership percentage) do not have a material effect on the consolidated financial statements and have therefore been excluded from the scope of consolidation.

### 2. Application of equity method

(1) There are no non-consolidated subsidiaries accounted for under the equity method.

(2) There are four affiliates, including JR Kyushu Secom Inc., accounted for under the equity method.

JR KYUSHU DRUG ELEVEN CO., LTD, a portion of whose shares was transferred on May 28, 2020, has been excluded from the scope of consolidation from the fiscal year under review, and category has been changed to an affiliate accounted for under the equity method.

AHJ Ekkamai Company Limited and AJ Charoen Nakhon Company Limited have been included in the scope of affiliates applying the equity method from the fiscal year under review due to their increased significance.

(3) Kyutetsu Built Co., Ltd. and other non-consolidated subsidiaries not accounted for under the equity method, and Hakata Station Building Co., Ltd. and other affiliates are excluded from the scope of applying the equity method as they will have minimal impact on net income (multiplied by the Company’s ownership percentage) and retained earnings (multiplied by the Company’s ownership percentage) and are not material as a whole.

(4) Special notes on application of equity method

Among those affiliates to which the equity method is applied whose fiscal year-end and consolidated fiscal year-end differ, the non-consolidated financial statements of the most recent fiscal year of each subsidiary are used.

**3. Fiscal years of consolidated subsidiaries**

Of the consolidated subsidiaries, the fiscal year-end of Manbou Corp. is the end of February, and the fiscal year-end of–JR Kyushu Capital Management (Thailand) Co., Ltd. and JR Kyushu Business Development (Thailand) Co., Ltd. is the end of December. The consolidated financial statements of these subsidiaries were prepared using the non-consolidated financial statements dated as of those dates. However, the adjustments needed for consolidation were made for all the important transactions between consolidated companies that took place between those dates and the consolidated fiscal year-end.

**4. Accounting policies**

(1) Basis and method of valuation of significant assets

(i) Securities

Held-to-maturity debt securities: Stated at amortized cost (straight-line method).

Other securities (including money held in trust): Those with a market price are stated at fair value based on the market price as of the fiscal year-end. (Unrealized gains and losses are included in a separate component of net assets, and cost of sales is determined based on the moving-average method.) Those without market value are stated at cost, determined by the moving-average method.

Investments in limited liability investment partnerships and similar investments (defined as securities in Article 2, paragraph (2) of the Financial Instruments and Exchange Act (Act No. 25 of April 13, 1948)) are measured at net amounts equivalent to the equity interest in the partnerships based on their latest available financial statements whose reporting date is stipulated in the partnership agreement.

(ii) Derivatives

Stated at fair value.

(iii) Inventories

The cost method (method to write down book value due to lower profitability) is adopted as the basis of valuation.

Merchandise: Stated mainly using the specific identification method.

Real estate for sale: Stated using the specific identification method.

Costs on uncompleted construction contracts: Stated using the specific identification method.

Supplies: Stated mainly using the moving-average method.

Other: Stated mainly using the last purchase price method.

(2) Depreciation method for significant depreciable assets

(i) Property, plant and equipment (excluding lease assets)

Stated mainly using the declining-balance method. (The straight-line method is used for facilities attached to buildings and fixtures acquired on or after April 1, 2016.) However, the following assets are stated using the following methods.

Replacement assets of fixed assets for railway business: Stated using the replacement method.

Buildings (excluding facilities attached to buildings): Stated mainly using the straight-line method.

(ii) Intangible assets (excluding lease assets)

Software: Internal-use software is stated using the straight-line method. The amortization period is the internal useful life (5 years).

Other intangible assets: Stated using the straight-line method.

(iii) Lease assets

Lease assets in finance lease transactions that do not transfer ownership: Depreciated using the straight-line method with the lease term as the useful life and a residual value of zero.

(iv) Long-term prepaid expenses: Stated using the straight-line method.

(3) Accounting standards for significant allowances

(i) Allowance for doubtful accounts

To prepare for losses from bad debt, an estimated uncollectible amount is provided at the amount estimated by either using the historical rate of credit loss in the case of general receivables, or based on individual consideration of collectibility in the case of specific receivables such as highly doubtful receivables.

(ii) Accrued bonuses

To prepare for the payment of employee bonuses, the estimated amount to be paid is stated.

(iii) Allowance for safety and environmental measures

To prepare for the expenses for safety and environmental measures, repairs, etc. for railway facilities, etc. to ensure safe railway operations, the estimated costs are stated.

(iv) Allowance for disaster-damage losses

To prepare for disaster recover expenses, etc., the estimated costs are stated.

(4) Accounting method for retirement benefits

(i) Method of attributing projected retirement benefits to periods

When calculating retirement benefit obligations, the benefit formula method is used to attribute the projected retirement benefits to the period until the end of the current fiscal year.

(ii) Method of amortization of actuarial gain or loss and past service cost

Actuarial gain or loss is mainly amortized on a straight-line basis over periods (12 years) within the average remaining years of service of the employees in the year following the year in which the gain/loss was incurred.

Past service cost is mainly amortized on a straight-line basis over periods (19 years) within the average remaining years of service of the employees.

(5) Significant hedge accounting method

Deferred hedge accounting is applied.

(6) Recognition of net sales of completed construction contracts and cost of sales of completed construction contracts

The percentage-of-completion method is applied to construction contracts for which the outcome is deemed to be certain by the end of the fiscal year under review, and the completed-contract method is applied to other construction contracts. The cost-to-cost method is used to estimate the percentage of completion at the end of the fiscal year under review for construction to which the percentage-of-completion method is applied.

(7) Treatment of construction grants

The Company receives construction grants from municipal governments and others to aid in construction and improvement of railways and other properties, such as construction of elevated railway tracks for grade separation and construction for widening railway crossings.

Such construction grants are recognized by deducting the amount equivalent to the contribution for construction received at the completion of the construction directly from the acquisition cost of the fixed assets.

In the consolidated statements of income, the construction grants received are recognized in extraordinary gains, and the amount deducted directly from the acquisition cost of the fixed assets is recognized in extraordinary losses as losses from provision for cost reduction of fixed assets.

(8) Treatment of consumption taxes

Consumption taxes are accounted for using the tax-exclusion method.

(9) Amortization of goodwill and negative goodwill

Goodwill and negative goodwill (arising from transactions that occurred on or before March 31, 2010) are amortized using the straight-line method, mostly over 20 years.

(10) Adoption of the Consolidated Taxation System

During the consolidated fiscal year under review, the Company and some consolidated subsidiaries in Japan filed an application to adopt the consolidated taxation system, and this system will be adopted from the following consolidated fiscal year. Accordingly, from the consolidated fiscal year under review, accounting treatments were made assuming the adoption of the consolidated taxation system in accordance with the Revised Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1) (ASBJ PITF No.5, January 16, 2015) and the Revised Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2) (ASBJ PITF No.7, January 16, 2015).

(11) Adoption of the tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

As for the items subject to the transition to the group tax sharing system established under the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 8 of 2020), as well as to the review of the non-consolidated taxation system in association therewith, the Company and some consolidated subsidiaries in Japan have not applied the provisions of paragraph (44) of the Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, Feb. 16, 2018) but applied the provisions of the Income Tax Act before the amendment to the amounts of deferred tax assets and deferred tax liabilities, by virtue of paragraph (3) of the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (ASBJ PITF No. 39, March 31, 2020)

**II Notes on Changes in Presentation**

(Notes - Consolidated statements of income)

(i) Loss on investment securities

Loss on investment securities (23 million yen in the previous fiscal year), which was previously listed as “Other” under non-operating expenses, is listed separately from the fiscal year under review due to its increased monetary significance with respect to non-operating expenses.

(ii) Gain on sales of subsidiaries and affiliates’ stocks

Gain on sales of subsidiaries and affiliates’ stocks (764 million yen in the previous fiscal year), which was previously listed as “Other” under extraordinary gains, is listed separately from the fiscal year under review due to its increased monetary significance with respect to extraordinary gains.

(Changes following application of “Accounting Standard for Disclosure of Accounting Estimates”)

The “Accounting Standard for Disclosures of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) has been applied from the fiscal year under review, and (Notes on Accounting Estimates) is included in the notes to the consolidated financial statements.

**III Notes on Accounting Estimates**

1. Recoverability of deferred tax assets

(1) Amount of deferred tax assets stated in the consolidated financial statements for the fiscal year under review:

¥55,252 million

(2) Information on the nature of significant accounting estimates related to the identified items

(i) Calculation method

The Company and some consolidated subsidiaries in Japan will adopt the consolidated taxation system from the following consolidated fiscal year. Accordingly, from the consolidated fiscal year under review, accounting treatments were made assuming the adoption of the consolidated taxation system.

The Group recognizes deferred tax assets for tax loss carryforwards and deductible temporary differences to the extent that they are expected to reduce future tax liabilities after estimating future taxable income based on earning capability and tax planning.

(ii) Key assumptions

The Group estimates the amount of future taxable income based on earning capability and tax planning, mainly based on its business plans.

In particular, the Group's business performance, including railway, real estate and hotels, are affected from the decline in transportation demand and slump in consumer spending due to the population refraining from going out and cancellation of events and other activities on account of the COVID-19 pandemic. For this reason, based on the information available at the time of creating the consolidated financial statements, and considering factors such as income trends under the circumstances, the Group assumes that the pandemic will have a continuous impact for a certain period of time based on the information currently available.

(iii) Impact on the next fiscal year's consolidated financial statements

Deferred tax assets are primarily attributable to the impairment loss of the non-current assets of the Company's railway business, the recovery of which heavily depends on future taxable income.

Since there are many uncertainties regarding the impact of the COVID-19 pandemic, changes in the timing and amount of taxable income and changes to the effective tax rate due to tax reforms could have a significant impact on the consolidated financial statements for the next fiscal year and thereafter.

2. Impairment loss on non-current assets

(1) Amount of non-current assets recorded in the consolidated financial statements for the fiscal

year under review:

| | |
|---|---|
| Property, plant and equipment | ¥532,021 million |
| Intangible assets | ¥3,940 million |

(2) Information on the nature of significant accounting estimates related to the identified items

(i) Calculation method

The Group assesses whether there is any indication of impairment on assets and asset groups. If there is an indication for the possibility of an impairment loss, then impairment loss will be tested based on the undiscounted future cash flows of the asset or asset group concerned. When it is judged that assets or asset groups should have impairment losses recognized, their carrying value is reduced to the recoverable amount and the amount of the reduction is recorded as an impairment loss.

(ii) Key assumptions

For the testing of impairment loss on non-current assets, certain assumptions are made including future cash flows, discount rates, etc. In particular, the Group's business performance including railways, real estate and hotels are affected by the decline in transportation demand and a slump in consumer spending due to the population refraining from going out and cancellation of events and other activities on account of the COVID-19 pandemic. For this reason, based on the information available at the time of creating the consolidated financial statements, and considering factors such as income trends under the circumstances, the Group assumes that the pandemic will have a continuous impact for a certain period of time based on the information currently available.

(iii) Impact on next fiscal year's consolidated financial statements

Since there are many uncertainties regarding the impact of the COVID-19 pandemic, differences between future cash flows and their estimated amounts could have a significant impact on the consolidated financial statements for the next fiscal year and thereafter.

3. Provision for loss on disaster

(1) Amount of provision for loss on disaster recorded in the consolidated financial statements for the fiscal year under review:
¥3,773 million

(2) Information on the nature of significant accounting estimates related to the identified items

(i) Calculation method
If the Group suffers damage due to a disaster, a provision for loss on disaster is recorded, in accordance with the extent of damage, for the expenses, etc., expected to be incurred for restoration in the next fiscal year and thereafter.

(ii) Key assumptions
In estimating provision for loss on disaster, the Group estimates for the recovery plans and construction, etc., in accordance with the extent of damage based on actual results for restoration of damage required in past disasters.

(iii) Impact on next year's consolidated financial statements
With regard to disaster recovery work, any significant changes in the estimates for the recovery plan and construction could have a significant impact on the consolidated financial statements for the next fiscal year and thereafter.

(3) Provision for loss on disaster that cannot be rationally estimated
Due to heavy rain in July 2020, train services have been suspended on the Hisatsu line in Kyushu between Yatsushiro and Yoshimatsu stations (86.8 km operating distance). The majority of the line in the section was laid along the Kuma River, and the impact of the torrential rain has caused damages in over 400 places, including railroad disasters and bridges being washed away. The national government, Kumamoto prefectural government, and local governments are currently formulating specific flood control measures for the entire area of the Kuma river basin. The Group has considered the situation, and while it is possible that expenses could arise going forward, it is difficult to reasonably estimate the amounts at this time. Therefore, in the fiscal year under review, the Group has not recorded possible expenses that may be incurred in provision for loss on disaster.

## IV Additional Information

(Introduction of Board Benefit Trust (BBT))

As approved at the 32nd Annual General Meeting of Shareholders held on June 21, 2019, the Company introduced a new share-based remuneration plan called the "Board Benefit Trust (BBT)" (the "Plan") for the Company's directors (excluding outside directors and directors who are Audit and Supervisory

Committee members) and its senior corporate officers (the "Directors, etc.").

(i) Overview of transactions

The Plan is a share-based remuneration plan under which the Company's shares are acquired through a trust using money contributed by the Company as the financial funds, and the Directors, etc. are provided with the Company's shares and an amount of money equivalent to the market value of the Company's shares (the "Company's Shares, etc.") through the trust in accordance with the Rules on Provision of Shares to Officers established by the Company.

The Directors, etc. shall receive the Company's Shares, etc. upon their retirement from office, in principle.

(ii) Shares of the Company remaining in the Trust

The shares of the Company remaining in the trust are recognized as treasury stock under equity at the book value in the trust (excluding incidental expenses). The book value of said treasury stock at the end of the fiscal year under review was 594 million yen and the number of shares was 184,600 shares.

## V Notes to Consolidated Balance Sheet

1. Pledged assets

| | |
|---|---|
| Securities | ¥12 million |
| Merchandise and finished goods | ¥60 million |
| Investment securities | ¥136 million |
| Other (investments and other assets) | ¥193 million |
| Total: | ¥401 million |

A portion of the above securities, investment securities and other (investments and other assets) are deposited to the Fukuoka Legal Affairs Bureau as a warranty against defects on housing construction in accordance with the Act for Secure Execution of Defect Housing Warranty Liability.

2. Accumulated depreciation of property, plant and equipment ¥763,870 million
3. Reduction entry due to construction grants received in fixed assets (cumulative)
¥416,081 million

## VI Notes to Consolidated Statement of Income

1. Impairment loss

The Group determines the asset groups by each business or property based on the classifications in managerial accounting. For railway business assets, the Group identifies entire railway lines as a single asset group because the railway network generates cash flows as a whole. In addition, the Group identifies idle assets that are not expected to be used in the future as separate asset groups. As a result, for discontinued businesses and assets that were determined to be disposed of or for which the recoverable amounts have declined to a lower level than originally expected, the book value under non-current assets is reduced to the recoverable amount and the amount of the reduction in the current fiscal year is recognized as "impairment loss" (6,580 million yen) under extraordinary losses.

(Millions of Yen)

| Major applications | | Type | Place | Amount |
|---|---|---|---|---|
| Rental assets | 2 | Buildings and fixtures etc. | Tokyo Metropolis, etc. | 5,628 |
| Retail stores, etc. | 67 | Buildings and fixtures, etc. | Fukuoka Prefecture, etc. | 951 |
| Idle assets, etc. | 1 | Buildings and fixtures, etc. | Fukuoka Prefecture. | 1 |
| Total | | | | 6,580 |

The recoverable amounts of these asset groups are calculated based on net sale value or value in use. If the recoverable amount is calculated using value in use, the future cash flows are determined using a discount rate of 4.0%. In addition, if the recoverable amount is calculated using net sale value, the property tax-appraised value of non-current assets is determined based on reasonable adjustments, etc.

2. Disaster-damage losses and provision for loss on disaster

Expenditures and estimated expenditures of the recovery expenses, etc. associated with the "recovery of Hitahikosan Line" and "heavy rain in July 2020" are recognized in "disaster-damage losses" and "provision for loss on disaster" respectively under extraordinary losses.

## VII Notes to Consolidated Statements of Changes in Net Assets

1. Class and total number of shares outstanding as of the end of the fiscal year under review

Common stock 157,301,600 shares

2. Dividends

(1) Dividends paid

| Resolution | Class of shares | Total dividend amount (millions of yen) | Dividends per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Annual General Meeting of Shareholders held on June 23, 2020 | Common stock | 7,314 | 46.5 | March 31, 2020 | June 24, 2020 |

Note: The total amount of dividends includes 8 million yen in dividends for the shares of the Company's stock held by the trust as trust assets of the Board Benefit Trust (BBT).

(2) Among the dividends whose record date falls within the fiscal year under review, those whose effective date will fall within the next fiscal year

| Resolution (scheduled) | Class of shares | Total dividend amount (millions of yen) | Source of dividends | Dividends per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| Annual General Meeting of Shareholders held on June 23, 2021 | Common stock | 14,629 | Retained earnings | 93.0 | March 31, 2021 | June 24, 2021 |

Note: The total amount of dividends includes 17 million yen in dividends for the shares of the Company's stock held by the trust as trust assets of the Board Benefit Trust (BBT).

**VIII Notes on Financial Instruments**

1. Status of financial instruments

The Group invests in securities, etc. and raises funds via issuance of bonds and borrowings from banks and other financial institutions.

Customer credit risk associated with notes and accounts receivable–trade is managed under appropriate credit control policies. Investment securities are mainly stocks, and the Group checks the fair values of listed shares on a quarterly basis.

Bonds and borrowings are used for working capital (mainly short term) and capital expenditures (long term).

The Group executes derivative transactions in accordance with internal regulations and within the scope necessary for the underlying transactions, and does not engage in speculative transactions.

2. Fair value of financial instruments

The carrying amounts in the Consolidated Balance Sheets, fair values and unrealized gains and losses as of March 31, 2021 (the Group's fiscal year-end) are as follows. Financial instruments whose fair values are deemed to be extremely difficult to determine are not included in the following table (see Note 2).

(Millions of Yen)

| | | Carrying amount(*1) | Fair value(*1) | Unrealized gain/(loss) |
|---|---|---|---|---|
| (1) | Cash and time deposits | 22,927 | 22,927 | — |
| (2) | Notes and accounts receivable–trade | 50,857 | 50,857 | — |
| (3) | Fares receivable | 1,059 | 1,059 | — |
| (4) | Investment securities | 73,890 | 73,916 | 26 |
| (5) | Notes and accounts payable–trade | (31,942) | (31,942) | — |
| (6) | Short-term loans | (6,885) | (6,885) | — |
| (7) | Payables | (47,952) | (47,952) | — |
| (8) | Accrued income taxes | (2,749) | (2,749) | — |
| (9) | Fare deposits received with regard to railway connecting services | (3,060) | (3,060) | — |
| (10) | Bonds | (80,000) | (79,567) | 433 |
| (11) | Long-term debt | (164,057) | (164,115) | 57 |
| (12) | Derivative transactions(*2) | (182) | (182) | — |

(*1) Amounts shown in parentheses are net liabilities.

(*2) Assets and liabilities from derivative transactions are net. Amounts shown in parentheses are net liabilities.

(Note) 1 Method of calculating the fair value of financial instruments

(1) Cash and time deposits, (2) Notes and accounts receivable–trade and (3) Fares receivable

The carrying amounts are used as fair values as these items are settled within a short period of time and the fair values are approximately equal to the carrying amounts.

(4) Investment securities

The fair value of investment securities is based on prices for shares obtained from stock exchanges and prices for bonds obtained from exchanges or quotes from financial institutions.

(5) Notes and accounts payable–trade, (6) Short-term loans, (7) Payables, (8) Accrued income taxes and (9) Fare deposits received with regard to railway connecting services

The carrying amounts are used as fair values as these items are settled within a short period of time and the fair values are approximately equal to the carrying amounts.

(10) Bonds

The fair value of corporate bonds is based on market prices.

(11) Long-term debt (including current portion of long-term debt)

The fair value of long-term debt with fixed interest rates is determined by discounting the total amount of principal and interest payment to present value using an interest rate expected to be applied for a similar new loan.

(12) Derivative transactions

Derivative transactions are based on prices provided by financial institutions.

(Note) 2 Financial instruments whose fair values are deemed to be extremely difficult to determine

Investments in unlisted equity securities (carrying amount: 9,151 million yen) and investments in partnerships (carrying amount: 4,216 million yen) were not included in "(4) Investment securities" because their fair values are deemed to be extremely difficult to determine as they do not have market prices and future cash flows could not be estimated.

**IX Notes on Rental Properties**

1. Status of rental properties

The Company and some of its subsidiaries own commercial buildings for rent.

2. Fair value of investment and rental properties

(Millions of Yen)

| Carrying amount | Fair value |
|---|---|
| 265,056 | 337,230 |

(Notes)

1 The carrying amount is the acquisition cost less accumulated depreciation.

2 For the fair values at the end of the fiscal year under review, the amounts for significant properties are calculated by the Company based on Real Estate Appraisal Standards, etc., and the amounts for other properties are calculated by the Company based on certain appraisal values and indicators that are considered to appropriately reflect market prices.

3 Assets under construction or development are not included in the above table because it is extremely difficult to determine their fair values.

## X Notes on Per Share Information

1. Net assets per share ¥2,483.43
2. Net loss per share ¥120.83

(Note)

When calculating net assets per share, the Company's shares remaining in the Board Benefit Trust (BBT) recognized as treasury stock under shareholders' equity are included in the treasury stock excluded from the number of shares issued and outstanding at end of period (184,600 shares at the end of the fiscal year under review).

In addition, when calculating net loss per share, the shares are included in the treasury stock excluded from the average number of shares during the period (184,975 shares for the fiscal year under review).

## XI Other Notes

(Business combination)

Business Divestitures

1. Overview of business divestitures

(1) Name of successor company

TSURUHA Holdings, Inc. (hereinafter, "TSURUHA")

(2) Name and business activities of the divested subsidiary

Name of subsidiary: JR KYUSHU DRUG ELEVEN CO., LTD. (hereinafter, "the concerned company")

Business activities: Retail sales of pharmaceuticals, cosmetics, daily-use items, etc.; dispensing pharmacy operations

(3) Main reason for business divestiture

The TSURUHA Group has drugstores and dispensing pharmacies throughout Japan and, while contributing to local communities while leveraging their strengths in business formats and store names that are aligned with each region, has achieved increases in profitability through economies of scale. JR Kyushu decided that the best course of action was to aim for further growth for the concerned company as a company that has both local roots and profitable operations, and to that end JR Kyushu decided to transfer 51% of its shares in the concerned company to TSURUHA, thereby facilitating further growth in the concerned company's sales and corporate value. This will enable the concerned company to utilize the business know-how and other management resources of the TSURUHA Group while leveraging its own strengths and characteristics.

(4) Date of business divestiture

May 28, 2020

(5) Other matters related to outline of transaction including legal form

Partial transfer of issued shares of the concerned company whereby the consideration received is cash only.

2. Outline of the accounting treatment implemented

(1) Amount of gain or loss on the transfer

| | |
|---|---|
| Gain on sale of shares of subsidiaries and associates | ¥9,144 million |

(2) Appropriate carrying amount and main breakdown of assets and liabilities of divested business

| | |
|---|---|
| Current assets | ¥13,327 million |
| Non-current assets | ¥10,612 million |
| Total assets | ¥23,939 million |
| Current liabilities | ¥12,974 million |
| Non-current liabilities | ¥1,576 million |
| Total liabilities | ¥14,551 million |

(3) Accounting treatment

The difference between the consolidated carrying amount and sales price of the transferred shares is recorded as "Gain on sale of shares of subsidiaries and associates" under "Extraordinary gains."

3. Name of reportable segment in which the divested business was included

Retail and Restaurant Group

4. Gain or loss of the divested business recorded on the Consolidated Statements of Income for the fiscal year ended March 31, 2021

| | |
|---|---|
| Net sales | ¥12,440 million |
| Operating loss | ¥74 million |

## Non-Consolidated Statements of Changes in Net Assets

(From April 1, 2020 to March 31, 2021)

(Millions of yen)

| | Shareholders' equity | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Capital surplus | | | Retained earnings | | |
| | | | | | Other retained earnings | | |
| | Share capital | Legal capital surplus | Other capital surplus | Total capital surplus | Reserve for tax purpose reduction entry of non-current assets | Retained earnings brought forward | Total retained earnings |
| Balance at beginning of period | 16,000 | 171,908 | 52,113 | 224,022 | 7,638 | 102,838 | 110,477 |
| Changes during current period | | | | | | | |
| Dividends of surplus | | | | | | (7,314) | (7,314) |
| Loss | | | | | | (11,145) | (11,145) |
| Provision of reserve for tax purpose reduction entry of non-current assets | | | | | 47 | (47) | — |
| Disposal of treasury stock | | | | | | | |
| Net changes in items other than shareholders' equity during current period | | | | | | | |
| Total changes during current period | — | — | — | — | 47 | (18,507) | (18,459) |
| Balance at end of period | 16,000 | 171,908 | 52,113 | 224,022 | 7,686 | 84,330 | 92,017 |

| | Shareholders' equity | | Valuation and translation adjustments | Total net assets |
|---|---|---|---|---|
| | Treasury shares | Total shareholders' equity | Valuation difference on available-for-sale securities | |
| Balance at beginning of period | (599) | 349,900 | 4,390 | 354,291 |
| Changes during current period | | | | |
| Dividends of surplus | | (7,314) | | (7,314) |
| Loss | | (11,145) | | (11,145) |
| Provision of reserve for tax purpose reduction entry of non-current assets | | — | | — |
| Disposal of treasury stock | 4 | 4 | | 4 |
| Net changes in items other than shareholders' equity during current period | | | 2,203 | 2,203 |
| Total changes during current period | 4 | (18,454) | 2,203 | (16,250) |
| Balance at end of period | (594) | 331,445 | 6,594 | 338,040 |

(Note) The above figures are rounded down to the nearest ¥1 million.

## Notes to Non-Consolidated Financial Statements

### I Notes on Significant Accounting Policies

1. Basis and method of valuation of securities

(1) Shares in subsidiaries or affiliates: Stated at cost using the moving average method.

(2) Other securities (including money held in trust): Those with a market price are stated at fair value based on the market price as of the fiscal year-end. (Unrealized gains and losses are included in a separate component of net assets, and cost of sales is determined based on the moving-average method.) Those without market value are stated at cost, determined by the moving-average method.

Investments in limited liability investment partnerships and similar investments (defined as securities under Article 2, paragraph (2) of the Financial Instruments and Exchange Act (Act No. 25 of April 13, 1948)) are measured at net amounts equivalent to the equity interest in the partnerships based on their latest available financial statements whose reporting date is stipulated in the partnership agreement.

2. Basis and method of valuation of inventories

The cost method (method to write down book value due to lower profitability) is adopted as the basis of valuation.

(1) Real estate for sale: Stated using the specific identification method.

(2) Costs on uncompleted construction contracts: Stated using the specific identification method.

(3) Supplies: Stated using the moving-average method.

3. Depreciation method for non-current assets

(1) Property, plant and equipment (excluding lease assets)

Replacement assets of fixed assets for railway business: Stated using the replacement method.

Buildings: Stated using the straight-line method.

Property, plant and equipment other than the above-mentioned: Stated using the declining-balance method.

Fixtures acquired on or after April 1, 2016, however, are stated using the straight-line method.

(2) Intangible assets (excluding lease assets)

Software: Internal-use software is stated using the straight-line method.

The amortization period is the internal useful life (5 years).

Other intangible assets: Stated using the straight-line method.

(3) Lease assets

Lease assets in finance lease transactions that do not transfer ownership: Depreciated using the straight-line method with the lease term as the useful life and a residual value of zero.

(4) Long-term prepaid expenses: Stated using the straight-line method.

4. Accounting standards for allowances

(1) Allowance for doubtful accounts

To prepare for losses from bad debt, an estimated uncollectible amount is provided at the amount estimated by either using the historical rate of credit loss in the case of general receivables, or based on individual consideration of collectibility in the case of specific receivables such as highly doubtful receivables.

(2) Provision for investment losses

To prepare for loss on investments in subsidiaries and affiliated companies, the provision for losses is stated in an amount deemed to be necessary in consideration of the financial position of the company as well as investment recoverability.

(3) Accrued bonuses

To prepare for the payment of employee bonuses, the estimated amount to be paid is stated.

(4) Provision for point card certificates

To prepare for use of JR KYUPO points granted to members of SUGOCA Card, JQ Card and JR Kyushu Web, an amount predicted at the end of the fiscal year under review to be used in the future is stated.

(5) Allowance for retirement benefits

To prepare for payment of employees' retirement benefits, the allowance for retirement benefits is stated according to such liability for retirement benefits as was estimated at the end of the fiscal year under review.

The term attribution method for estimated retirement benefits is based on the benefit formula method. Any actuarial gain or loss is accounted for as cost from the fiscal year following the occurrence in an amount prorated using the straight-line method over a given number of years (12 years) within average remaining employee service years at the time of the occurrence in the fiscal year.

(6) Allowance for safety and environmental measures

To prepare for the expenses for safety and environmental measures, repairs, etc. for railway facilities, etc. to ensure safe railway operations, the estimated costs are stated.

(7) Allowance for disaster-damage losses

To prepare for disaster recover expenses, etc., the estimated costs are stated.

(8) Provision for guarantee obligations

To prepare for loss on debt guarantees for subsidiaries and affiliated companies, an amount deemed to be required individually is stated.

5. Treatment of construction grants

The Company receives construction grants from municipal governments and others to aid in construction and improvement of railways and other properties, such as construction of elevated railway tracks for grade separation and construction for widening railway crossings.

Such contributions are recognized by deducting the amount equivalent to the contribution for construction received at the completion of the construction directly from the acquisition cost of the fixed assets.

In the non-consolidated statements of income, the construction grants received are recognized in extraordinary gains, and the amount deducted directly from the acquisition cost of the fixed assets is recognized in extraordinary losses as losses from provision for cost reduction of fixed assets.

6. Accounting method for retirement benefits

The method for accounting for an unrecognized actuarial gain or loss for retirement benefits differs from the method for doing so in consolidated financial statements.

7. Treatment of consumption taxes

Consumption taxes are accounted for using the tax-exclusion method.

**II Notes on Changes in Presentation**

(Statements of income)

(i) Loss on investment securities

“Loss on investment securities” (23 million yen in the previous fiscal year), which was previously listed in “Other” under non-operating expenses is listed separately from the fiscal year under review due to its increased monetary significance with respect to non-operating expenses.

(ii) Gain on sales of subsidiaries and affiliates' stocks

“Gain on sales of subsidiaries and affiliates’ stocks” (1,159 million yen in the previous fiscal year), which was previously listed in “Other” under extraordinary gains, is listed separately from the fiscal year under review due to its increased monetary significance with respect to extraordinary gains.

(iii) Impairment loss

“Impairment loss” (928 million yen in the previous fiscal year), which was previously listed in “Other” under extraordinary losses, is listed separately from the fiscal year under review due to its increased monetary significance with respect to extraordinary losses.

(Changes following application of “Accounting Standard for Disclosure of Accounting Estimates”)

The “Accounting Standard for Disclosures of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) has been applied from the beginning of the fiscal year under review, and (Notes on

Accounting Estimates) is included in the notes to the non-consolidated financial statements.

**III Notes on Accounting Estimates**

1. Recoverability of deferred tax assets
   (1) Amount of deferred tax assets stated in the non-consolidated financial statements for the fiscal year under review:
   ¥46,123 million
   (2) Information on the nature of significant accounting estimates related to the identified items
   Calculation method for the amount stated in (1) above is as described in "1. Recoverability of deferred tax assets" under "III Notes on Accounting Estimates" of the notes to consolidated financial statements.
2. Impairment loss on non-current assets
   (1) Amount of non-current assets recorded in the non-consolidated financial statements for the fiscal year under review:

| | |
|---|---|
| Fixed assets for railway business | ¥98,064 million |
| Fixed assets for other businesses | ¥298,052 million |
| Fixed assets relating to both businesses | ¥17,153 million |
| Construction in progress | ¥24,133 million |

   (2) Information on the nature of significant accounting estimates related to the identified items
   Calculation method for the amount stated in (1) above is as described in "2. Impairment loss on non-current assets" under "III Notes on Accounting Estimates" of the notes to consolidated financial statements.
3. Provision for loss on disaster
   (1) Amount of provision for loss on disaster recorded in the non-consolidated financial statements for the fiscal year under review:
   ¥3,773 million
   (2) Information on the nature of significant accounting estimates related to the identified items
   Calculation method for the amount stated in (1) above is as described in "3. Provision for loss on disaster" under "III Notes on Accounting Estimates" of the notes to consolidated financial statements.
   (3) Provision for loss on disaster that cannot be rationally estimated
   Due to heavy rain in July 2020, train services have been suspended on the Hisatsu line in Kyushu between Yatsushiro and Yoshimatsu stations (86.8 km operating distance). The majority of the line in the section was laid along the Kuma River, and the impact of the torrential rain has caused damages in over 400 places, including railroad disasters and bridges being washed away. The national government, Kumamoto prefectural government, and local governments are

currently formulating specific flood control measures for the entire area of the Kuma river basin. The Group has considered the situation, and while it is possible that expenses could arise going forward, it is difficult to reasonably estimate the amounts at this time. Therefore, in the fiscal year under review, the Group has not recorded possible expenses that may be incurred in provision for loss on disaster.

## IV Additional Information

(Introduction of Board Benefit Trust (BBT))

As approved at the 32nd Annual General Meeting of Shareholders held on June 21, 2019, the Company introduced a new share-based remuneration plan called the "Board Benefit Trust (BBT)" (the "Plan") for the Company's directors (excluding outside directors and directors who are Audit and Supervisory Committee members) and its senior corporate officers (the "Directors, etc.").

(i) Overview of transactions

The Plan is a share-based remuneration plan under which the Company's shares are acquired through a trust using money contributed by the Company as the financial funds, and the Directors, etc. are provided with the Company's shares and an amount of money equivalent to the market value of the Company's shares (the "Company's Shares, etc.") through the trust in accordance with the Rules on Provision of Shares to Officers established by the Company. The Directors, etc. shall receive the Company's Shares, etc. upon their retirement from office, in principle.

(ii) Shares of the Company remaining in the Trust

The shares of the Company remaining in the trust are recognized as treasury stock under equity at the book value in the trust (excluding incidental expenses). The book value of said treasury stock at the end of the fiscal year under review was 594 million yen and the number of shares was 184,600 shares.

## V Notes to Non-Consolidated Balance Sheets

1. Pledged assets and secured liabilities

Pledged assets

| | |
|---|---|
| Securities | ¥12 million |
| Investment securities | ¥136 million |
| Other investments | ¥193 million |
| Total: | ¥341 million |

The above securities, investment securities and other investments are deposited to the Fukuoka Legal Affairs Bureau as a warranty against defects on housing construction, etc. in accordance with the Act for Secure Execution of Defect Housing Warranty Liability.

2. Accumulated depreciation of property, plant and equipment ¥679,198 million

3. Cumulative value of construction grants subtracted directly from cost of acquisition of non-current assets

| | |
|---|---|
| Fixed assets for railway business | ¥389,524 million |
| Fixed assets for other businesses | ¥17,415 million |
| Fixed assets relating to both businesses | ¥7,340 million |

4. Total value of accounts under non-current assets

| | |
|---|---|
| Property, plant and equipment | |
| Land | ¥129,064 million |
| Buildings | ¥186,893 million |
| Fixtures | ¥57,993 million |
| Vehicles | ¥22,816 million |
| Machinery and rolling stock | ¥11,693 million |
| Tool and furniture | ¥1,720 million |
| Lease assets | ¥1,315 million |
| Intangible assets | |
| Lease assets | ¥0 million |
| Other | ¥1,774 million |

5. Contingent liabilities

(1) Guarantee liabilities

(Guarantee on financial institution loans to subsidiaries and affiliated companies)

| | |
|---|---|
| JR Kyushu Business Development (Thailand) Co., Ltd. | ¥11,929 million |
| AHJ Ekkamai Co., Ltd. | ¥458 million |
| JR Kyushu Capital Management (Thailand) Co., Ltd. | ¥230 million |
| JR Kyushu Farm Co., Ltd. | ¥55 million |

(2) Management guidance memorandums

| | |
|---|---|
| JR Kyushu Farm Co., Ltd. | ¥174 million |

6. Monetary claims and liabilities to subsidiaries and affiliated companies

| | |
|---|---|
| Short-term monetary claims | ¥9,355 million |
| Long-term monetary claims | ¥7,300 million |

| | |
|---|---|
| Short-term monetary liabilities | ¥41,344 million |
| Long-term monetary liabilities | ¥6,795 million |

7. Balances of liability for retirement benefits

| | |
|---|---|
| Liability for retirement benefits | ¥45,558 million |
| Balance of actuarial gain or loss not yet amortized | ¥(8,457 million) |
| Balance of allowance for retirement benefits | ¥37,101 million |

## VI Notes to Non-Consolidated Statements of Income

1. Operating revenue ¥144,727 million
2. Operating expense

| | |
|---|---|
| Transportation, other services and cost of sales | ¥126,172 million |
| Selling, general and administrative expense | ¥10,758 million |
| Taxes | ¥10,815 million |
| Depreciation and amortization | ¥17,573 million |

3. Value of operating transactions with subsidiaries and affiliated companies

| | |
|---|---|
| Operating revenue | ¥23,784 million |
| Operating expense | ¥68,292 million |
| Value of non-operating transactions | ¥28,015 million |

4. Disaster-damage losses and provision for loss on disaster

The repair and other expenses and estimated expenses due to “recovery of Hitahikosan Line” and “heavy rain in July 2020” were recognized in extraordinary losses as disaster-damage losses and provision for loss on disaster respectively.

## VII Notes to Non-Consolidated Statement of Changes in Net Assets

Class and number of treasury stock as of the end of the fiscal year under review

Common stock 184,600 shares

Note: The above treasury stock is the shares of the Company’s stock (184,600 shares) held by the trust as trust assets of the Board Benefit Trust (BBT).

## VIII Notes on Tax Effect Accounting

Deferred tax assets occurred mainly due to impairment losses and allowance for retirement benefits. An amount deducted from deferred tax assets (valuation allowance) stood at 103,109 million yen.

## IX Notes on Transactions with Related Parties

Subsidiaries and affiliated companies

(Millions of Yen)

| Category | Company name | Ratio of voting rights ownership | Relationship with the related parties | Transaction description | Transaction value | Account | Ending balance |
|---|---|---|---|---|---|---|---|
| Subsidiaries | Kyutetsu Corporation Co., Ltd. | Direct ownership 72.7% | Awarding of construction work contracts | Construction work fee (Note 1) | 18,381 | Payables | 10,277 |
| Subsidiaries | JR Kyushu Business Development (Thailand) Co., Ltd. | Direct ownership 49.0%<br>Indirect ownership 24.0% | Capital contribution for a project in Thailand | Debt guarantee (Note 2) | 17,947 | − | − |
| Subsidiaries | JR Kyushu Business Partners Company | Direct ownership 100.0% | Consignment of finance-related services, etc. | Borrowing of funds (Note 3)<br>Lending of funds (Note 4) | 10,000<br>− | Current portion of long-term debt<br>Other current assets | 10,000<br>7,900 |
| Subsidiaries | JR Kyushu Ekibiru Holdings Inc. | Direct ownership 100.0% | Leasing of real estate, etc. | Renting of and leasing out of buildings (Note 5) | 14,749 | Other non-current liabilities<br>Accounts receivable -trade | 3,510<br>478 |

Transaction terms and policy on determining them

(Note 1) Transaction terms are determined through price negotiations each term in consideration of market prices and total costs.

(Note 2) Debt guarantee was provided on bank loans, and debt guarantee fees were determined through consultations in consideration of ordinary guarantee fees.

(Note 3) Transaction terms are determined in consideration of long-term market interest rates.

(Note 4) Transaction terms are determined in consideration of short-term market interest rates. Moreover, since these transactions are conducted as part of short-term and repetitive transactions under the cash management system operated by the Company, the amount of transaction is omitted.

(Note 5) Transaction terms are determined through price negotiations each term in consideration of market prices, etc.

**X Notes to Per-share Information**

1. Net assets per share ¥2,151.52
2. Net loss per share ¥70.94

Note: When calculating net assets per share, the Company's shares remaining in the Board Benefit Trust (BBT) recognized as treasury stock under shareholders' equity are included in the treasury stock excluded from the number of shares issued and outstanding at end of period (184,600 shares at the end of the fiscal year under review).

In addition, when calculating net loss per share, the shares are included in the treasury stock excluded from the average number of shares during the period (184,975 shares for the fiscal year under review).

**XI Other Notes**

(Business combination)

The information is same as that stated in "XI Other Notes (Business combination)" of the Notes to Consolidated Financial Statements.

Any number less than a minimum display unit number is truncated for presentation. However, for non-monetary figures and per-share information, such numbers are rounded off to the nearest minimum display unit number for presentation.