MOVING STRAIGHT AHEAD

JR-KYUSHU

ANNUAL REPORT 2018

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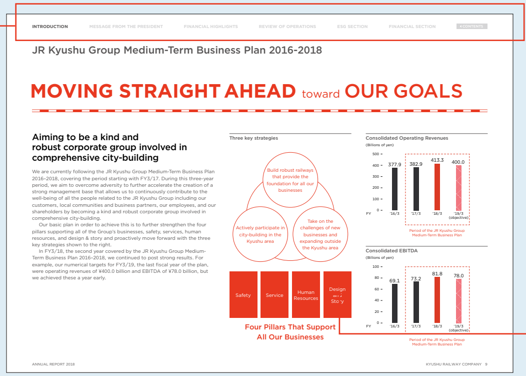

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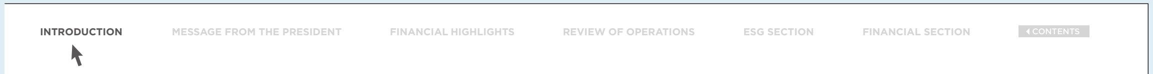

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FORWARD-LOOKING STATEMENTS

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

EDITORIAL POLICY

This annual report was developed for the purpose of imparting a deeper understanding of the Group's operations (JR Kyushu and related companies) to our stakeholders. It is the editors' aim to communicate financial and non-financial information, such as management policies, business strategies, and ESG information, to readers in a concise manner. For those interested, more detailed information is available on the corporate website.

MOVING STRAIGHT AHEAD with OUR VISION

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

JR Kyushu was created following the breakup and privatization of Japanese National Railways in 1987. Since then, we have not only worked steadily to build a strong railway business, but have also leveraged the power of the Group, using our businesses for active city-building (community enhancement and vitalization). Along the way, we have established three pillars that form our code of conduct that each and every employee of the Group can always keep in mind and use as a touchstone. These are Integrity, Growth and Evolution, and Local Community Invigoration. In order to become a corporate group that invigorates Kyushu, Japan, and Greater Asia with safety and service as its foundation, we will leverage the collective strengths of the Group and continue to abide by these three pillars.

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

01

Integrity

Integrity acts as the DNA of the JR Kyushu Group, providing a code of conduct to be passed down from generation to generation. In consideration to our customers, local community members, business partners, employees and their families, shareholders, and all those involved with the JR Kyushu Group, we make concerted efforts to conduct ourselves in a fair and just manner without engaging in any type of dishonest behavior. Through integrity, the JR Kyushu Group will place safety as the foundation of its business operations and provide heart-warming services to its customers.

Strengthening the competitiveness of our railway business

The railway business forms the core of the Group. While we currently have a railway network that covers all of Kyushu, at the time of our establishment, our railways were less competitive compared with other forms of transportation. With passenger safety as our number one priority, we therefore proactively took on the tasks of boosting travel speeds, greatly increasing the number of trains in operation by optimizing schedules, and upgrading our rolling stock. Also, by working to strengthen our customer service, we have made improvements in terms of both physical infrastructure and more intangible aspects of our operations, thereby enhancing our competitiveness.

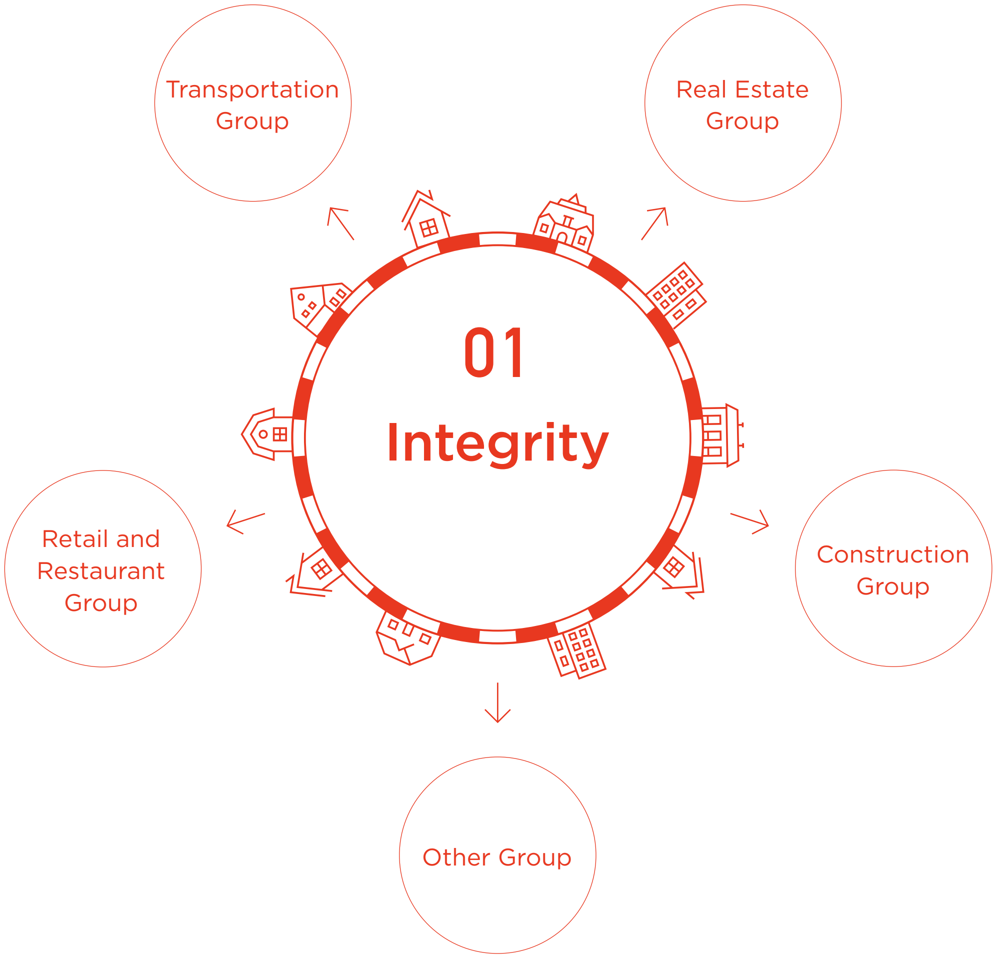
Steady expansion of our range of business operations

In the beginning, our non-railway businesses focused on directly operated stores and restaurants on station premises, but we now focus on expanding into business domains in which we can achieve synergies with our railway business, such as the condominium business, the construction business, passenger ship business, the hotel business, and the station building business. In recent years, we have undertaken M&A and formed business alliances to aggressively enter new business domains such as elderly care, drugstores, and agriculture. Sources other than railway transportation revenues now account for over 60% of total operating revenue.

Integrity: basis for all of our businesses

Currently, the JR Kyushu Group's business segments include the Transportation Group, the Real Estate Group, the Retail and Restaurant Group, the Construction Group, and the Other Group, and integrity is the yardstick by which we measure the operations of all the businesses in these segments.

Without integrity, it is impossible to build trust with the people around us, especially our customers. Through the railway business, the JR Kyushu Group has steadily built up relationships of trust with the people in its region. This trust is the driving force behind a virtuous cycle wherein we develop a variety of businesses in the areas served by our railways, which, in turn, promotes greater use of our railways. Basing the operation of our businesses on integrity also increases the value of the Group's brand, which gives us positive momentum when we enter new business domains.



02

Growth and Evolution

With passion and courage, the JR Kyushu Group will realize growth, which will expand the scale of its business, and evolution, which will transform its organization and business. Giving respect to the unconventional,* the JR Kyushu Group will continue to grow and evolve together with its employees by forging a corporate culture that celebrates new challenges. Through this growth and evolution, the Group will expand its customer base.

* "Giving respect to the unconventional" is the idea of incorporating and listening earnestly to new opinions and approaches that differ from conventional thought. This idea provides the fuel for the Group's growth and evolution.

Kyushu Shinkansen an earnings pillar

The Kyushu Shinkansen line, which in 2011 opened a new line extending service to Hakata, and the Shin-Hakata Station Building, are two projects that symbolize the growth and evolution of the JR Kyushu Group.

The Kyushu Shinkansen is a high-speed railway line between Hakata and Kagoshima-Chuo (288.9 km). The fastest train makes the trip in 1 hour and 16 minutes. Construction of the line began in 1991. Service on the first section (between Shin-Yatsushiro and Kagoshima-Chuo) was launched in 2004 and full service started in 2011. The Kyushu Shinkansen is currently an important earnings pillar supporting the Company's management base and, in FY2018/3, Shinkansen railway transportation revenues totaled ¥54.1 billion, accounting for one-third of all railway transportation revenues.

Focus not on station buildings, but on city-building

In 1998, the JR Kyushu Group opened Amu Plaza Kokura, our first large-scale station building. This was followed by Amu Plaza Nagasaki in 2000 and Amu Plaza Kagoshima in 2004. These are some of the most prominent shopping centers in Japan.

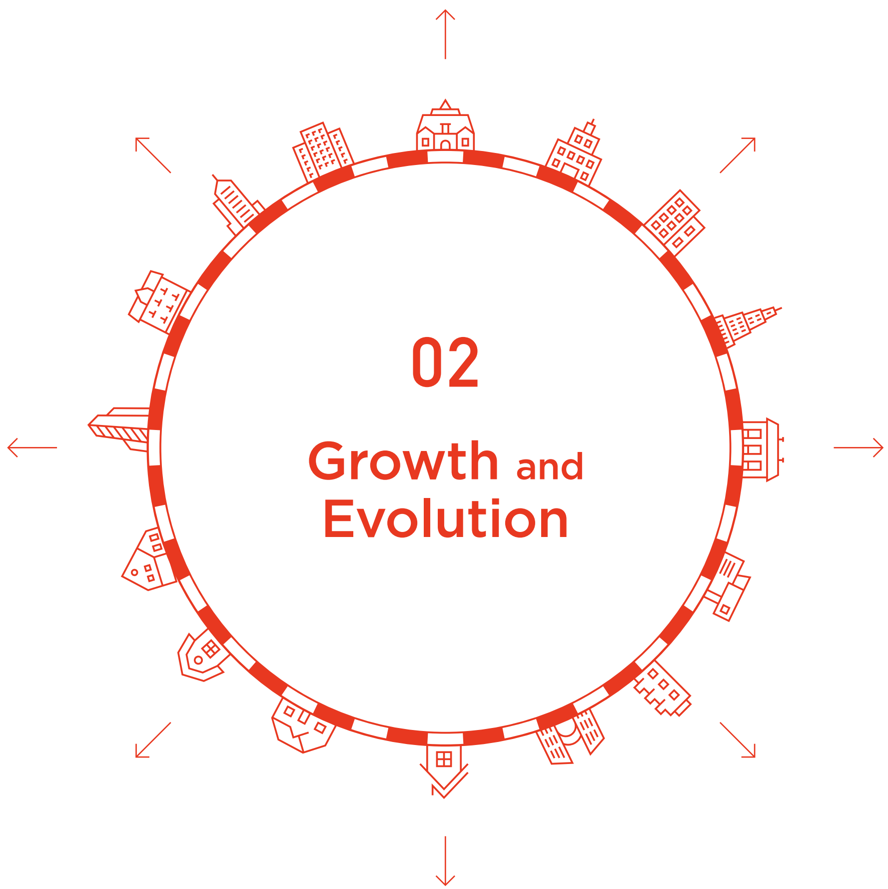
The opening of the Shin-Hakata Station Building represents the culmination of all of the knowledge and experience we have steadily accumulated in the area of station building development. With commercial floor space of over 240,000 square meters, this project is of a much larger scale than any previous station building development project and the Group focused on city-building in its development work. This is also expressed in the name given to the Shin-Hakata Station Building, JR Hakata City.

Since its opening, JR Hakata City has received many visitors, with annual customer traffic* topping 70 million. We have also applied the city-building philosophy developed for JR Hakata City to subsequent station building development projects such as JR Oita City, which opened in 2015.

Developing businesses outside the vicinity of our railways and outside Kyushu

In addition to pursuing growth and evolution in areas around its stations and railways, the JR Kyushu Group is developing businesses outside the vicinity of its railways and outside Kyushu. In 2017, we completed the redevelopment of Kyushu University's Ropponmatsu Campus, our first city-building project beyond the confines of JR Kyushu railway lines. Outside of Kyushu, we opened Akasaka-Umaya (restaurant) in Tokyo in 2002, JR Kyushu Hotel Blossom Shinjuku in Tokyo in 2014, and JR Kyushu Hotel Blossom Naha in Okinawa in 2017. We are also expanding to other Asian countries, opening Shanghai-Umaya restaurant in Shanghai, China, in 2012 and entering the serviced apartment business in Bangkok, Thailand, in 2017.

* Total annual customer traffic for Amu Plaza Hakata, Hakata Hankyu, AMU EST, and Hakata Deitos Annex.



03

Local Community Invigoration

The JR Kyushu Group will set Kyushu, Japan, and Greater Asia as the base of its operations. The Group cannot invigorate itself if it does not first invigorate the communities in which it operates. Accordingly, the Group will invigorate local communities by building better transportation networks and towns and creating enriched lifestyles for community members.

Business development closely tied to local communities

The JR Kyushu Group operates a variety of businesses with close ties to local communities, including the railway business, and unless local residents make use of our services, our Group cannot succeed. We also recognize that, as areas where the Group conducts business become more attractive, the number of visitors increases and these areas become more lively, which leads to more business opportunities.

Therefore, in addition to actively developing businesses that contribute to making areas livelier, the JR Kyushu Group focuses on efforts to deepen ties with local communities.

Conveying the attractiveness of local areas

Our D&S Trains (Design & Story Trains) are tourist trains that feature unique designs and stories from the regions in which they operate. We currently have 11 different D&S Trains in operation. Each of these trains expresses the attractiveness of the regions they represent and they are very highly regarded both inside and outside their local areas.

Also, in 2013, in order to convey the attractiveness of Kyushu to the world, we began operation of Seven Stars in Kyushu, the first ever luxury sleeper train in Japan to tour Kyushu. This train takes passengers on a tour of Kyushu that shows them the beauty of the island, starting with the interior of the train's cars, which are luxuriously decorated with colorful, traditional handicrafts from Kyushu. Since operation of this train was launched, reservation requests have far surpassed capacity and it has been enjoyed by passengers from all over Japan and by tourists from overseas. It has also been beloved by local communities, as we also often see residents of areas surrounding our railway lines smiling and waving at the Seven Stars in Kyushu train as it passes. This train continues to convey the attractiveness of Kyushu to the world.

Invigorating Kyushu, Japan, and Greater Asia

The operations of the JR Kyushu Group have extended beyond Kyushu to all over Japan and to other countries in Asia. However, just as in Kyushu, if these regions are not invigorated, it is impossible for our businesses located there to achieve continuous growth.

The JR Kyushu Group will thus continue with a wide range of measures designed to invigorate the regions in which it operates.

JR Kyushu Group Medium-Term Business Plan 2016–2018

MOVING STRAIGHT AHEAD toward OUR GOALS

Aiming to be a kind and robust corporate group involved in comprehensive city-building

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

Our basic plan in order to achieve this is to further strengthen the four pillars supporting all of the Group's businesses—safety, service, human resources, and design & story—and proactively move forward with the three key strategies shown to the right.

In FY2018/3, the second year covered by the JR Kyushu Group Medium-Term Business Plan 2016–2018, we continued to post strong results. For example, our numerical targets for FY2019/3, the last fiscal year of the plan, were operating revenues of ¥400.0 billion and EBITDA of ¥78.0 billion, but we achieved these a year early.

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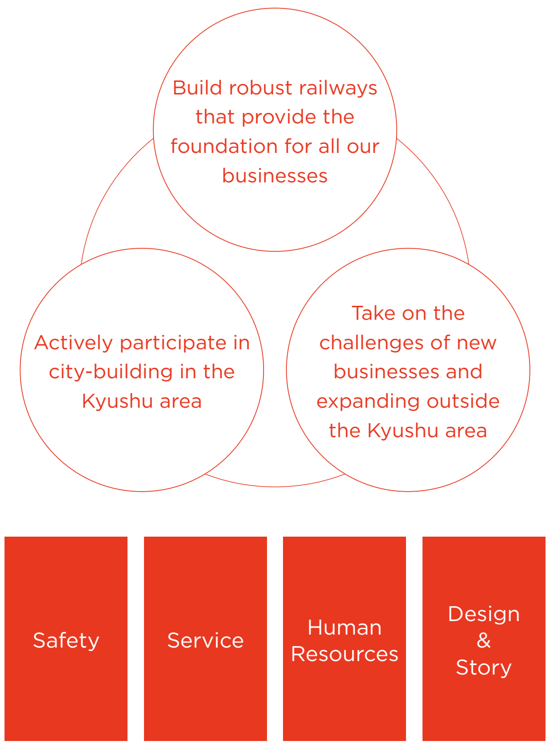
For details of the Medium-Term Business Plan, please refer to the file on the Company's web site.

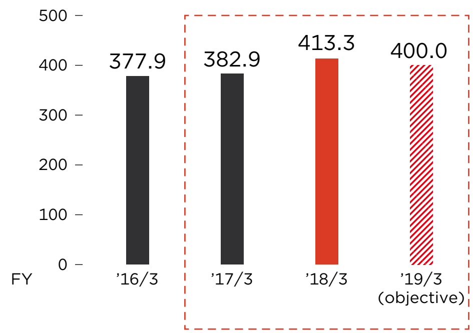
Three Key Strategies



Four Pillars That Support All Our Businesses

Consolidated Operating Revenues

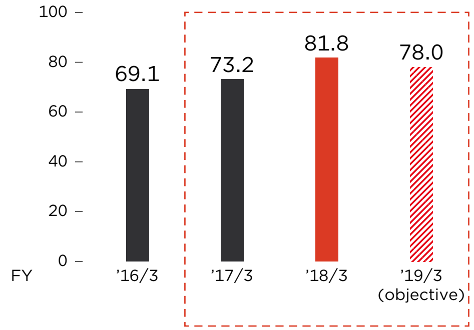
(Billions of yen)



Period of the JR Kyushu Group Medium-Term Business Plan

Consolidated EBITDA

(Billions of yen)



Period of the JR Kyushu Group Medium-Term Business Plan

MESSAGE FROM THE PRESIDENT

Toshihiko Aoyagi
Representative Director and President, Corporate Officer

“We will move single-mindedly and directly toward becoming the company we aim to be.”

Three Key Strategies

The JR Kyushu Group Medium-Term Business Plan 2016–2018 (hereinafter, the Medium-Term Business Plan) covers the three-year period ending in FY2019/3 and we have come to the end of the second year covered by the Medium-Term Business Plan. First, I would like to talk about the progress that we have made on the three key strategies identified in the Medium-Term Business Plan. These are 1) Build robust railways that provide the foundation for all our businesses, 2) Actively participate in city-building in the Kyushu area, and 3) Take on the challenges of new businesses and expanding outside the Kyushu area.

Build robust railways that provide the foundation for all our businesses

The starting point in building robust railways is safety. In the Group’s safety plan, we set forth the goals of “eradicating accidents that could result in the deaths or injuries of customers or in the deaths of employees.” In April 2017, we established a new three-year Medium-Term Safety Plan, which launched efforts to achieve “unshakable safety.” We are making steady progress in investing in safety measures including the replacement of obsolete facilities and measures to prevent damage from torrential rains and installing guardrails on Shinkansen lines to prevent derailing. While we had already been installing these Shinkansen guardrails for some time in line with our plan,

> **I view this as evidence that we are making steady progress in 'building robust railways.'**

following the 2016 Kumamoto earthquakes, we conducted a review of installation conditions and decided to take additional measures. Through measures like this, the JR Kyushu Group will improve the safety of our railways step by step.

As implied in the phrase "building robust railways," we will focus on efforts increase earnings potential and achieve efficient business operations that can withstand any business environment.

With regard to increasing earnings potential, we will work with the local community, using the Kyushu Shinkansen, Seven Stars in Kyushu,*1 and D&S (Design & Story) Trains*2 to communicate the attractiveness of Kyushu and rail travel, thereby raising the value of the brands of the Kyushu region and the JR Kyushu Group. In addition, as part of our efforts in the area of yield management, we are promoting the use of our Internet Reservation Service. In FY2016/3, we accepted roughly 1.75 million online reservations and this rose to approximately 2.9 million in FY2018/3. In addition, as a means to take advantage of inbound demand from overseas tourists visiting Japan, we have been promoting sales of the JR Kyushu Rail Pass, which offers an all-you-can-ride service to tourists from overseas, by strengthening tie-ups with overseas travel agencies and airlines. Through these efforts, annual JR Kyushu Rail Pass sales have topped 200,000 units in the past three years.

In the area of achieving efficient business operations, we are moving forward with the development of suburban-style rolling stock and diesel–electric hybrid rolling stock. We plan for these highly energy-efficient railway cars to become next-generation standard models and we expect them to contribute to cutting costs in the future. Moving forward, we will continue to improve customer safety and service while taking on technological innovations and working toward efficient business operations by increasing the number of stations offering Smart Support Station*3 services.

In FY2018/3, railway facilities were damaged by torrential rains in northern Kyushu in July 2017 and Typhoon No. 18, which struck Kyushu in September, and we had to temporarily halt services on some lines. However, thanks to the efforts described above, railway transportion revenues reached a record-high ¥151.1 billion. I view this as evidence that we are making steady progress in building robust railways.

However, we are not finished with our efforts to build robust railways. In addition to making continued steady progress regarding our Medium-Term Safety Plan, we will maintain our proactive efforts to increase earnings potential and achieve efficient business operations.

Operations were resumed in July 2018 on the Kyudai Main Line which was damaged by torrential rains in northern Kyushu and in December 2017 on the Nippo Main Line in October 2017 on the Houhi Main Line which were damaged by Typhoon No. 18.

*1 Japan's first cruise train, which began operation in 2013
*2 Tourist trains with a special design and a background story about the area in which they operate
*3 A method enabling support center operators to monitor safety and offer guidance to customers through cameras and intercoms installed in stations where personnel are not always assigned

Actively participate in city-building in the Kyushu area

JR Hakata City, opened in 2011, continues to perform well. Partly owing to synergistic benefits from facilities in the area of Hakata Station, including JRJP Hakata Building, an office building opened in 2016, FY2018/3 tenant sales rose 6.5% YoY to ¥113.0 billion. In addition, we have seen ripple effects including a 3% increase in income from short-distance travel in the Fukuoka City area. We see evidence that our city-building efforts focused on areas near stations has made a sizable contribution to growth in railway transportation revenues. All of our other station buildings, including JR Oita City in Oita Station, which opened in 2015, have also achieved sales growth, providing evidence that the JR Kyushu Group's station building strategy is making smooth progress in all the regions in which we operate.

Further, in September of 2017, we completed the Ropponmatsu Development Project on land formerly occupied by Kyushu University, our first effort at city-building outside the areas served by our railways. Ropponmatsu 421, a complex that is part of the Ropponmatsu Development Project and includes commercial facilities, a science

"The JR Kyushu Group will contribute to creating a lively Kyushu while working to increase the corporate value of the Group."

museum, and a graduate school greatly surpassed our forecast in terms of customer traffic. I believe the success of this project is the result of the experience the JR Kyushu Group has accumulated in the area of city-building.

For example, when we embarked on the JR Hakata City development project, together with corporations and groups located near Hakata Station and Fukuoka City, we formed the Hakata City-Building Promotion Council and moved forward with the development in cooperation with the local community. We approached the Ropponmatsu Development Project in the same way and began planning only after hearing the opinions of the local community. Thanks to this approach, I believe we built a city that many people are happy with.

By continuing to develop a wide range of businesses that achieve synergies with our existing businesses, especially our railway business, the JR Kyushu Group will contribute to creating a lively Kyushu while working to increase the corporate value of the Group.

Take on the challenges of new businesses and expanding outside the Kyushu area

In October 2017, the Company converted Caterpillar Kyushu Co., Ltd. (hereinafter, Caterpillar Kyushu) into a consolidated subsidiary, thereby entering a new business. Caterpillar Kyushu is engaged in the sale and leasing of construction equipment and we expect to achieve synergies in a wide range of fields including use of construction equipment by construction subsidiaries in the JR Kyushu Group, expansion of the leasing business by working with financing subsidiaries, and partnerships in the manufacturing of rolling stock and machinery. Another reason we made Caterpillar Kyushu into a consolidated subsidiary is that we believe the trust we have earned in the railway business through our focus on safety and service is also relevant to the construction machinery business. After welcoming Caterpillar Kyushu into the Group and engaging in practical discussions with its management, we believe we can achieve all of the goals that we had when we made this acquisition and it is our strong conviction that we have added a new force to the Group that we can bring to bear in our efforts to vitalize local communities.

We have also launched substantial initiatives in the development of businesses outside Kyushu. In December 2017, we acquired a serviced apartment in Bangkok, Thailand, our first step into the overseas real estate business.

This is the first time the Group has taken on the challenges of entering the Thai market or the serviced apartment business. In May 2017, we set up an office in Bangkok and began information gathering and consideration of how to move forward in the Thai real estate market. JR Kyushu has a long relationship with Thailand. For example, we have had a technical cooperation agreement with the State Railway of Thailand (SRT) since 2013 and I have visited the country myself many times. Based on this, we decided that when the Group was ready to enter the overseas real estate market, Thailand was a good match in terms of the scale and growth potential of the market. Also, the serviced apartment business has characteristics similar to both the condominium and hotel businesses and targets foreign expat businesspeople and travelers. In recent years, the number of expats in Bangkok has been rising and we expect stable growth in demand. Thailand also hosts many foreign tourists and is one of the most popular tourist destinations in the world. We therefore believe that the JR Kyushu Group can leverage the knowhow we have accumulated in the condominium and hotel businesses and our human resources in this market. We also formed a business tie up with a local corporation with businesses in China and Southeast Asia and long experience in the serviced apartment business and we began operations in April 2018. We also hope to apply the knowhow gained through serving overseas customers by operating this serviced apartment in our domestic businesses.

We are also expanding in Japan outside the Kyushu area and, in June 2017, opened JR Kyushu Hotel Blossom Naha. In July 2017, we began construction on the Shinbashi 1 Chome Hotel Project in Tokyo, scheduled to be opened in autumn of Business. We have therefore started all of the projects planned in our current Medium-Term Business Plan.

"We view our target management figures as no more than checkpoints. We will not be satisfied with simply reaching these goals, but we will continue to aim higher."

Target Management Figures

As a result of our steady efforts in the three key strategies identified in the Medium-Term Business Plan, FY2018/3 operating revenues increased for the eighth consecutive year, rising 8.0% from the previous consolidated fiscal year, to a record-high ¥413.3 billion. Operating income rose 8.9%, to ¥63.9 billion, ordinary income increased 10.7%, to ¥67.0 billion, net income attributable to owners of the parent was up 12.6%, to ¥50.4 billion, and EBITDA*4 increased by 11.7% to ¥81.8 billion, all of which were record highs. The Medium-Term Plan targets operating revenue of ¥400.0 billion and EBITDA of ¥78.0 billion in FY2019/3, the final year covered by the Plan. However, we have already surpassed these goals a year ahead of target.

As JR Kyushu was first listed on a stock exchange in October 2016, the target management figures in the current Medium-Term Business Plan can be viewed as our first promise to investors. Looking back on the past two years, we experienced unexpected events that caused considerable damage to our railway facilities including the Kumamoto earthquakes of 2016 and torrential rains in northern Kyushu in July 2017 and Typhoon No. 18 in 2017. I am very pleased that we were able to keep our first promise to investors, even amid these adverse circumstances. However, we view our target management figures as no more than checkpoints. We will not be satisfied with simply reaching these goals, but we will continue to aim higher.

Also, although we planned to make a total of ¥190.0 billion in investments in plant and equipment over the three-year period covered by the Medium-Term Business Plan, investment has outpaced our initial forecast, as we invested ¥69.4 billion in FY2017/3 and ¥68.7 billion in FY2018/3. We also plan to make investments in the real estate leasing businesses in FY2019/3 and we now expect to invest ¥239.0 billion, well above our initial forecast. While we initially expected to invest ¥80.0 billion in growth, we now expect to make growth-targeted investments of over ¥130.0 billion. I believe that such aggressive investment in growth was one of the drivers that enabled us to reach our target management figures earlier than initially expected.

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

Outlook for Next Medium-Term Business Plan

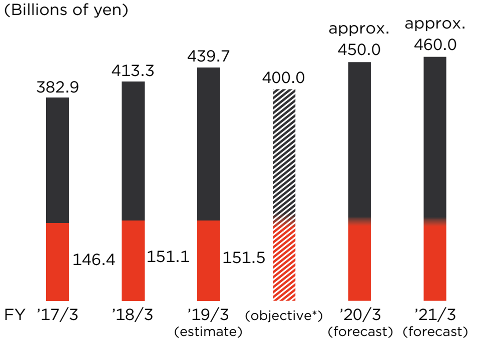
FY2019/3 is the final year covered by the current Medium-Term Business Plan. During this year, we will build a bridge to our next Medium-Term Business Plan by continuing to make progress on the three key strategies mentioned above and accelerate the construction of a strong business base to ensure the vitality of our business activities over the long term.

While we are still in the process of formulating the quantitative targets of our next Medium-Term Business Plan, we will not change our stance of taking on the challenge of working tirelessly to achieve our goals. With that in mind, I would like to discuss the outlook for our businesses up to FY2021/3. In FY2020/3 we expect a decline in railway business EBITDA owing to the ending of the temporary reduction on the fixed asset tax. However, we expect our efforts in all of our businesses to result in FY2021/3 earnings outstripping FY2018/3 levels and we expect continued growth in operating revenues and EBITDA.

Medium-Term Business Plan Outlook

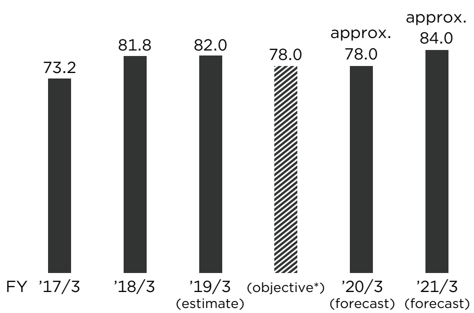
Consolidated Operating Revenues

(Billions of yen)



Consolidated EBITDA

(Billions of yen)



■ Revenue from railway traffic ■ Revenue from sources other than railway traffic

* JR Kyushu Group Medium-Term Business Plan 2016-2018 Target Management figures

> "I believe that working together and 'resolutely continuing to take on challenges' is the most important thing for the Group."

Pursuing Sustainable Growth

I believe the Company's operations are materialized through synergies between the railway business and the non-railway businesses, and the source of those synergies is the vitality of Kyushu. Without a Kyushu that has vitality, there can be no sustainable growth for the JR Kyushu Group. I really want the JR Kyushu Group and the local people to join together and have Kyushu be a place characterized by vitality. By doing so, I am certain that a vigorous JR Kyushu Group can continue to be active for a long time to come.

One concrete example is our city-building efforts centered on our station building business. Station buildings vitalize cities, especially businesses in the areas around the station, by attracting a large number of visitors. Then, when cities become more lively, even more people visit them, the revenues from the station buildings increase, and there is a rise in the number of railway users. Vitalization of an area through city-building thereby creates a virtuous cycle for JR Kyushu Group businesses.

However, because city-building can take five-to-ten years, these projects must be viewed from a long-term perspective. For example, we are moving steadily forward with the Kumamoto Station Project according to plan, with facilities scheduled to open in the spring 2021. Also, we are planning a development project in the Nagasaki Station area ahead of the start of operations on the Nagasaki route of the Kyushu Shinkansen, scheduled for the spring 2022. We are also moving ahead with plans in Miyazaki and Kagoshima. In all of these projects, we are working with local residents to promote comprehensive city-building while always keeping in mind local community invigoration.

Furthermore, the most important thing is that, in our efforts to achieve sustainable growth, the JR Kyushu Group always continues to abide by the three pillars that form our code of conduct: Integrity, Growth and Evolution, and Local Community Invigoration and comes together with the feeling of "resolutely continuing to take on challenges." I believe that setting ever higher goals and "resolutely continuing to take on challenges" is deeply engrained in the culture of the JR Kyushu Group and I hope to lead the way in encouraging this feeling.

ESG Efforts

Environmental conservation activities

Trains are more environmentally friendly than other vehicles. Therefore, we believe the best way for the Group to contribute to environmental protection is by increasing the number of travelers using trains by fully committing to growing our railway business.

We are also working to make our railways more environmentally friendly. In 2016, after a development period of about five years, DENCHA, Japan's first AC electrified dual energy charge train started commercial service. Also, as mentioned above, we are making progress in the development of suburban-type rolling stock. We will make further contributions to the creation of a low-carbon society not only by continuing with current efforts, but also by proactively and systematically pushing forward with technological innovation.

Social contribution initiatives

We see local community invigoration as our most important social contribution and our most important initiative is working together with local residents to conduct city building, mainly through the station building business. We also continuously implement many initiatives to promote local community invigoration. For example, we have been holding JR Kyushu Walks, for roughly 20 years. These events, where participants enjoy walking together, feature courses starting out at train stations and have been well-received as they contribute to a healthy and lively local society. Group employees and local residents work together to plan courses and offer special gifts, etc. to participants. At first, JR Kyushu Walks drew 100-200 participants, but in 2016, the total number of participants grew to over 1.5 million. In this way, these events contribute to local community invigoration. We aim to be a company that achieves sustainable growth by constantly communicating with local residents and maintaining close ties with society.

Corporate governance

Our transition to a company with audit and supervisory committee structure was approved at the 2018 Annual General Meeting of Shareholders. This transition was undertaken to strengthen the auditing and oversight functions of the Board of Directors by creating a system in which Audit and Supervisory Committee members with decision-making authority will also serve as members of the Board of Directors and, by delegating a portion of authority for important operational execution matters to directors, realize swifter and more efficient operations. At the same time, we introduced an executive officer system and carried out extensive reform of our management system. The introduction of an executive officer system clarified the division of operational execution authority in order to clearly separate management decision-making and oversight functions from operational execution functions, thereby enhancing the speed and functionality of operational execution. By appointing individuals with substantial operational execution expertise as executive officers, we are working to bolster our competitiveness and thereby improve corporate performance.

I have continuously told the entire Company that we must conduct management with greater speed and I believe that this change in our management structure will enhance awareness of the importance of speed not only among managers, but also among regular employees. Following the transition to a company with audit and supervisory committee structure, the Board of Directors is composed of 13 directors (including four who are Audit and Supervisory Committee members), including six of whom are outside directors (including three outside directors who are also Audit and Supervisory Committee members).

With this step, we have technically put in place the necessary structure for strengthened corporate governance, but the most important factor is putting it into practice. In order to do this, I believe it is very important to even more deeply imbue all Group employees with Integrity, one of the three pillars that form our code of conduct, which I consider the Group's DNA. Finally, as for opinions obtained through communication with shareholders and investors, by actively using these opinions in management through, for example, discussing reports on them at Board of Directors' meetings, we will increase medium- to long-term corporate value.

Message to Shareholders and Investors

Kyushu Railway Company regards returning profits to shareholders as an important management policy, and its basic policy is to make dividend payments in a stable and continuous manner in accordance with operating results. Regarding cash dividends, while paying attention to maintaining adequate internal reserves, in order for us to realize steady shareholder returns, until FY2019/3, we will aim to pay stable dividends per share by targeting a consolidated dividend payout ratio of approximately 30%. Based on this policy, taking into account our operating results in the fiscal year, we set the dividend for FY2018/3 at ¥83 per share. Furthermore, in FY2019/3, in conformity with the aforementioned policy, we plan to pay a total annual dividend of ¥83 per share. I would like to note that, in order to build up safety, which is the foundation of all of our businesses, we will allocate our internal reserves to investments for maintaining and upgrading mainly our railway facilities as well as to growth investments for maintaining our construction of a strong business foundation.

The railway business has formed the core of the JR Kyushu Group's operations for over 30 years and synergies between the railway business and non-railways businesses have been the driving force behind our growth. Listing our shares on the stock market has given us an opportunity to communicate the abovementioned strengths of the Group and the potential of Kyushu, our main base of operations, to investors around the world. In order for shareholders and investors to better understand our businesses and business model, we strive to communicate extensively while providing fair and timely disclosure of information.

We reached the quantitative management targets in the current Medium-Term Business Plan a year early. I view this as evidence that the Group will avoid stagnation, not fear change, and, with courage and boldness, continue to take up the challenge of Growth and Evolution while also moving directly and unwaveringly toward its ideal of becoming "a corporate group that invigorates Kyushu, Japan, and Greater Asia with safety and service as its foundation." In the future, I would like to ask our shareholders and investors for even greater support and understanding of the Group's businesses.

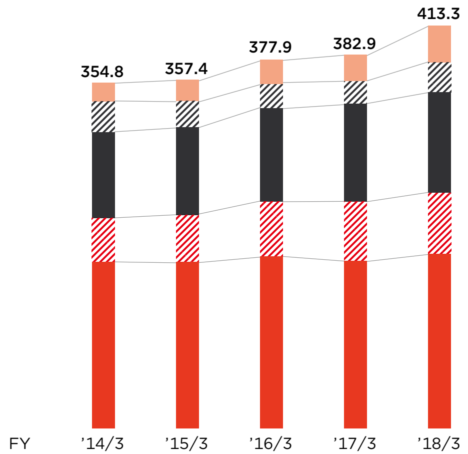
August 2018

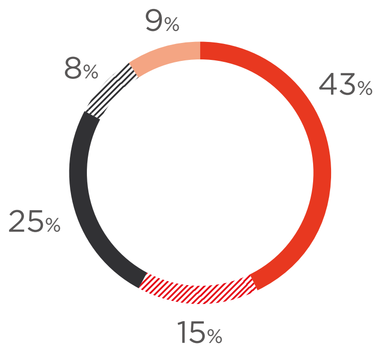
Toshihiko Aoyagi

Toshihiko Aoyagi
Representative Director and President, Corporate Officer

FINANCIAL HIGHLIGHTS

Consolidated Operating Revenues (Billions of yen)





Transportation Group
¥178.7billion

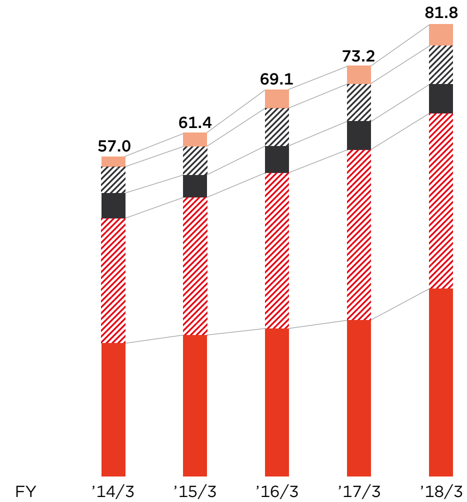
Real Estate Group
¥62.9billion

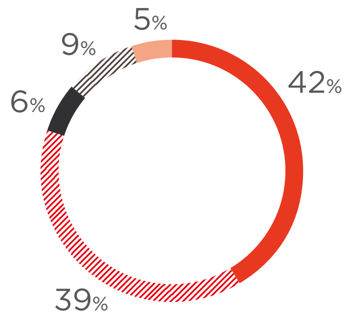
Retail and Restaurant Group
¥102.8billion

Construction Group
¥31.1billion

Other Group
¥37.6billion

Consolidated EBITDA (Billions of yen)





Transportation Group
¥34.3billion

Real Estate Group
¥32.0billion

Retail and Restaurant Group
¥5.3billion

Construction Group
¥7.0billion

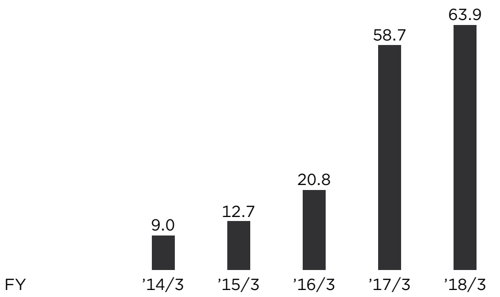
Other Group
¥3.9billion

Notes:
1. Operating revenues by segment are attributable to external customers, and EBITDA by segment is before intersegment eliminations.
2. EBITD A for FY2016/3 and previous fiscal years comprises operating income + cost of depreciation + earnings from use of the Management Stabilization Fund, while EBITDA for FY2017/3 comprises operating income + cost of depreciation.
3. Each percentage, which is indicated by the percent sign (%), is the percentage of the total accounted for by each business segment.

FINANCIAL HIGHLIGHTS

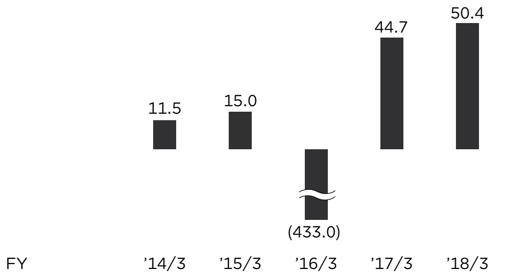
Operating Income

■ Operating income (Billions of yen)



Net Income Attributable to Owners of the Parent

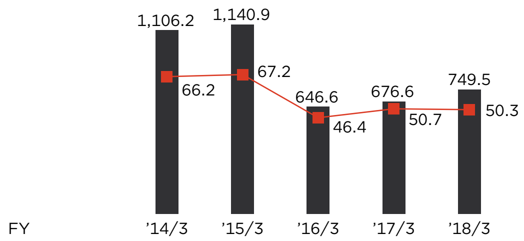
■ Net income attributable to owners of the parent (Billions of yen)



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

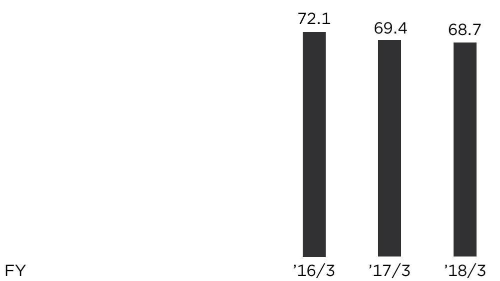
Total Assets / Equity Ratio

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



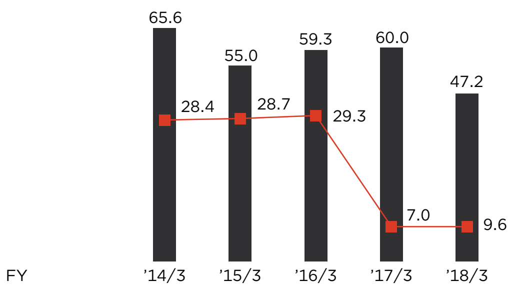
Capital Investment Amounts (Consolidated)

■ Capital investment amounts (Billions of yen)



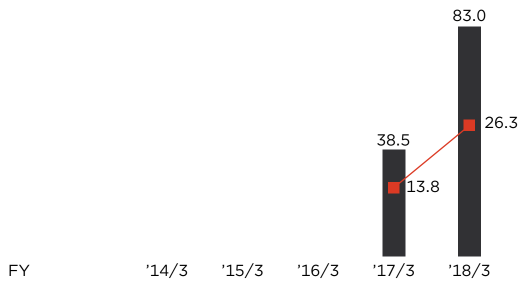
Capital Investment Amounts / Depreciation Costs (Non-Consolidated)

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



Dividends per Share /Dividend Payout Ratio

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



REVIEW OF OPERATIONS

TRANSPORTATION GROUP

REAL ESTATE GROUP

RETAIL AND RESTAURANT GROUP

CONSTRUCTION GROUP

OTHER GROUP

REVIEW OF OPERATIONS

TRANSPORTATION GROUP

Segment Overview

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

Consolidated Subsidiaries (as of May 31, 2018)

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

Note: JR Kyushu Maintenance Co., Ltd. changed its name to JR Kyushu Service Support Co., Ltd. after carrying out an absorption-type merger of JR Kyushu Tetsudou Eigyou Co., Ltd. on July 1, 2018.

FY2018/3 Results

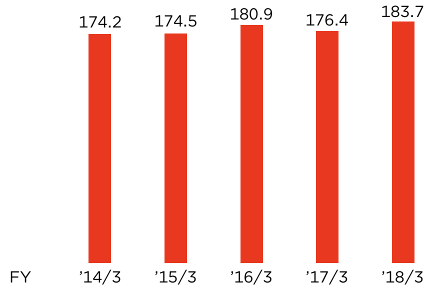
Operating Revenues	YoY	EBITDA	YoY
¥183.7billion	4.2% ↗	¥34.3billion	20.5% ↗

Operating revenues in the Transportation segment were ¥183.7 billion, an increase of ¥7.3 billion, or 4.2%, compared with the previous fiscal year. Operating income came to ¥29.2 billion, up ¥3.4 billion, or 13.6%, compared with the previous fiscal year, and EBITDA was ¥34.3 billion, an increase of ¥5.8 billion, or 20.5%.

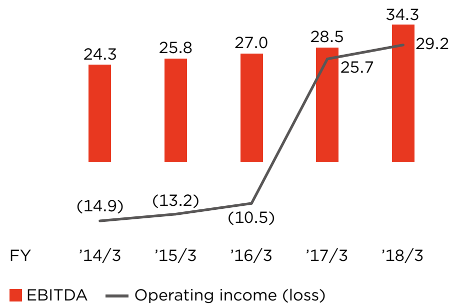
Operating revenues, operating income, and EBITDA all increased on a rebound from the impact of the earthquakes that struck Kumamoto in 2016.

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

Operating Revenues
(Billions of yen)



EBITDA/Operating Income (Loss)
(Billions of yen)



REVIEW OF OPERATIONS

TRANSPORTATION GROUP

FY2018/3 Initiatives

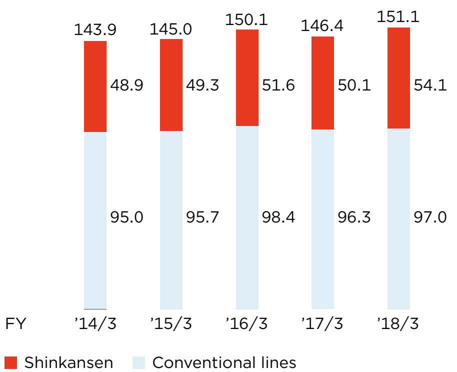
In the railway business, we continued to develop operations founded on safety and service quality. At the same time, we fully utilized our network centered on the Kyushu Shinkansen to deploy sales measures from the customer's perspective in order to secure profits.

We promoted sales of all our planned tickets with the purpose of encouraging the use of railways, primarily the Kyushu Shinkansen. At the same time, we implemented various campaigns aimed at transporting passengers to target areas. Furthermore, not only did we work to improve the convenience of our Internet Reservation Service, we also made efforts to increase awareness of the Kyushu brand and encourage customers to visit Kyushu. In addition, for the "JR Kyushu Rail Pass," a mainstay product geared toward customers from overseas, we introduced a direct online sales system and a seat reservation service, also providing information and sales promotions catering to customers from specific countries and regions.

In our travel business, we have rolled out a variety of products, including products for domestic travel via railways centered on Kyushu, an area of strength for the Company, while broadening the range of products offered online. We also promoted sales of products for travel to and from South Korea that make use of the hydrofoil ferry service Beetle, as well as products for overseas travel that leverage our alliance with JTB Corporation. In our passenger ship business, we promoted efforts to provide high-quality transportation services in such ways as renovating our Beetle hydrofoil ferries. For our bus business, we introduced Internet-exclusive discount tickets through our Internet Reservation Service for the high-speed bus B&S Miyazaki, which connects with the Kyushu Shinkansen, thereby improving convenience levels for our customers. In addition, we endeavored to secure earnings through such means as rolling out limited-time discount campaigns for our other high-speed bus routes.

Railway Transportation Revenues

(Billions of yen)



Making loyalty points more convenient by integrating three types of points into JR KYUPO

Starting in July 2017, we integrated three types of loyalty points* into one system called JR KYUPO.

In addition, by offering integrated registration allowing customers to use the points they have earned from the three original services, we transformed the system into a convenient and easy-to-understand point program.

Also, in March 2018, JR KYUPO Point Mall, an online shopping mall where members can use JR KYUPO points, and a service allowing customers to convert JR Hotel Members (JRHM) points into JR KYUPO points were launched.

We will continue to improve our services in order to make our point program more attractive to customers.

* 1) E-rail points, which can be used for the Internet Reservation Service, 2) JQ Points, which can be used with JQ-CARD credit cards, and 3) SUGOCA Points, which can be used with SUGOCA smart cards used for public transport.

JR KYUPO Services

Recovery from natural disasters

In July 2017, bridges and railways in northern Kyushu, mainly on the Kyudai Main Line and the Hitahikosan Line, were severely damaged by torrential rains. In September of the same year, Typhoon No. 18 struck Kyushu, damaging facilities on the Nippo Main Line and the Houhi Main Line. In FY2018/3, the Company posted extraordinary losses of roughly ¥3.8 billion from damages related to these natural disasters.

Operation of the Houhi Main Line resumed in October 2017, operation of the Nippo Main Line resumed in December 2017, and operation of the Kyudai Main Line resumed in July 2018. Regarding Houhi Main Line services between Higo-Ōzu Station and Aso Station, which were discontinued due to the impact of the earthquakes that struck Kumamoto in 2016, we are working with the national government and local governments to restore service as soon as possible.

The Group will continue to focus on building durable railways in order to minimize the impact of natural disasters.

Repair work on the Kyudai Main Line

REVIEW OF OPERATIONS

REAL ESTATE GROUP

Segment Overview

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

Consolidated Subsidiaries (as of May 31, 2018)

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

FY2018/3 Results

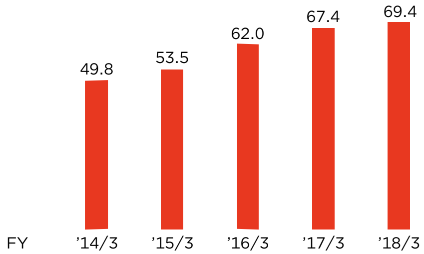
	Operating Revenues	YoY	EBITDA	YoY
	¥69.4billion	2.9%	¥32.0billion	2.9%

Operating revenues in the Real Estate segment were ¥69.4 billion, an increase of ¥1.9 billion, or 2.9%, compared with the previous fiscal year. Operating income came to ¥23.2 billion, an increase of ¥0.5 billion, or 2.4%, while EBITDA was ¥32.0 billion, up ¥0.8 billion, or 2.9%. Operating revenues, operating income, and EBITDA all increased year on year thanks to strong growth of revenue from real estate leases.

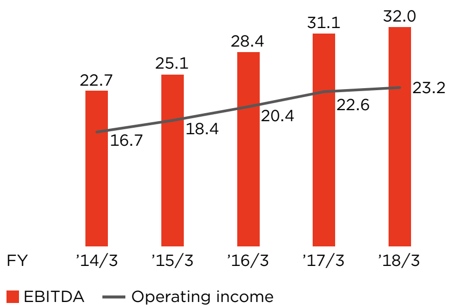
Our real estate lease business recorded ¥49.0 billion in operating revenues before intersegment eliminations, operating income of ¥20.6 billion, and EBITDA of ¥29.4 billion.

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

Operating Revenues
(Billions of yen)



EBITDA/Operating Income
(Billions of yen)



REVIEW OF OPERATIONS

REAL ESTATE GROUP

FY2018/3 Initiatives

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

In our station building business, we are promoting attractive and lively city-building centered on train stations and rooted in local communities. Also, we are maximizing synergistic effects with the railway business with the aim of improving the value of our stations and station buildings. In FY2018/3, we opened the new commercial facility Higo Yokamon Ichiba beneath Kumamoto Station and conducted renovations and actively held events at other buildings. In these ways, we made concerted efforts to secure profits.

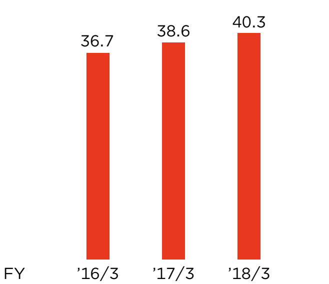
For our apartment business, we are working to secure stable profits by promoting the development of new apartment rentals, mainly in city centers. In June 2017, we acquired a new rental apartment building in the Tokyo metropolitan area. In addition, outside the vicinity of the railways we operate, we opened Ropponmatsu 421 in order to promote a lively downtown area with strong connections to local society.

We also established JR Kyushu Business Development (Thailand) Co., Ltd. in Bangkok, Thailand, and the company has entered the Thai real estate market by acquiring serviced apartments.

In the real estate sales business, the condominium sales business is active in all areas of Kyushu, and our MJR series has grown into a popular brand of buildings in Kyushu that sell out quickly after they are put on the market. The Company sold units in MJR Akasaka Tower, MJR the Garden Oe, and MJR the Garden Kagoshima Chuo.

Station Building Business Revenues

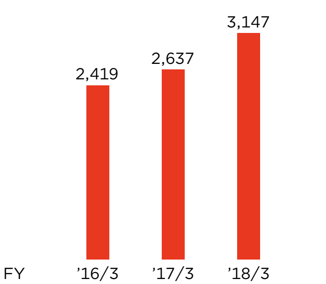
(Billions of yen)



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

Number of Units at Rental Apartments (Aggregate)

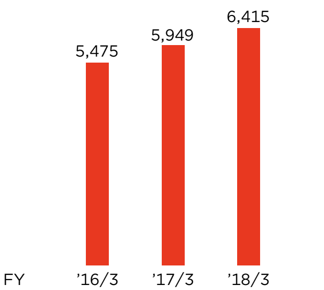
(Units)



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

Number of Sold Condominiums (Aggregate)

(Condominiums)



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

Entered serviced apartment business in Thailand

In December 2017, we entered the overseas real estate market for the first time by acquiring a serviced apartment building in Bangkok, Thailand. In order to operate this property, we have formed a business alliance with ONYX Hospitality Group, which operates real estate businesses in China and Southeast Asia. Operations started in April 2018 under ONYX's Shama brand, winner of AHF Asia Hotel Awards for five consecutive years. Shama has also been well received as a high-end services apartment brand. This property has 429 guest rooms and is the largest lodging facility operated by the JR Kyushu Group.

This is the first step in our mission to take on challenges involving new businesses and areas outside of Kyushu by moving into the Southeast Asian market.

Shama Lakeview Asoke Bangkok opened in April 2018

Completion of Ropponmatsu Development Project

In 2014, the Group acquired the land on which the former Kyushu University campus in the Ropponmatsu area of Fukuoka City was located. Thereafter, we have been conducting interactive city-building that unites people who visit and people who live, work, and study in the city. In February 2017, construction was completed on the 351 units of the MJR Ropponmatsu condominium complex. Meanwhile, in September 2017 Ropponmatsu 421—which includes commercial facilities, a graduate school, and a science museum—was completed, along with SJR Ropponmatsu, a private residential home for the elderly with 113 units. Thus, over a period of three years, the Group successfully completed its first city-building project outside the area served by its railway lines.

In the future as well, without limiting ourselves to areas along our railway lines, we will actively engage in city-building for projects that not only contribute to our growth but also lead to improvements in the attractiveness of local communities.

Ropponmatsu 421, opened in September 2017 (center of photo)

REVIEW OF OPERATIONS

RETAIL AND RESTAURANT GROUP

FY2018/3 Results

Operating Revenues	¥103.1billion	YoY 2.7% ↗
EBITDA	¥5.3billion	YoY 2.8% ↗

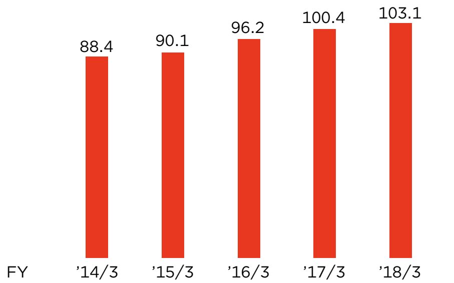
Operating revenues in the Retail and Restaurant segment were ¥103.1 billion, an increase of ¥2.7 billion, or 2.7%, compared with the previous fiscal year. Operating income was ¥3.6 billion, an increase of ¥0.1 billion, or 5.0%, while EBTIDA came to ¥5.3 billion, up ¥0.1 billion, or 2.8%.

In the retail business and the restaurant business, we aggressively opened new stores and restaurants, opening our first drugstore in Tokyo, our first café in Osaka, and a tonkatsu restaurant, a new format for us.

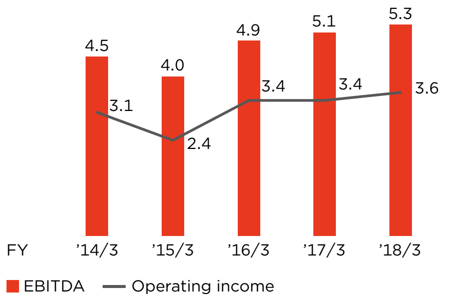
In the agriculture business, we worked to increase earnings by opening a branch of Yaoya Kyuchan, a grocery store that sells seasonal vegetables from Kyushu, in Ropponmatsu 421.

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

Operating Revenues
(Billions of yen)



EBITDA/Operating Income
(Billions of yen)



Segment Overview

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

Consolidated Subsidiaries (as of May 31, 2018)

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

Note: Buntetsu Kaihatsu Co., Ltd. was liquidated on April 1, 2017.

REVIEW OF OPERATIONS

CONSTRUCTION GROUP

Segment Overview

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

Consolidated Subsidiaries (as of May 31, 2018)

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

Note: KSK. Ltd. changed its name to JR Kyushu Engineering Co., Ltd. after acquiring a portion of JR Kyushu Maintenance Co., Ltd.'s businesses through an absorption-type company split on July 1, 2018.

FY2018/3 Results

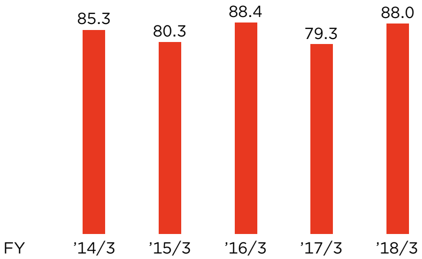
Operating Revenues	YoY	EBITDA	YoY
¥88.0billion	10.9% ↗	¥7.0billion	4.4% ↗

Operating revenues in the Construction segment were ¥88.0 billion, an increase of ¥8.6 billion, or 10.9%, compared with the previous fiscal year. Operating income was ¥6.2 billion, up ¥0.3 billion, or 5.4%, and EBITDA came to ¥7.0 billion, an increase of ¥0.2 billion, or 4.4%.

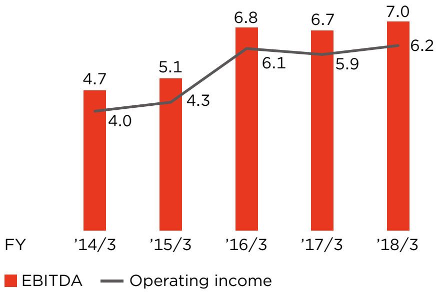
In the construction business, work orders have been received for the construction of elevated tracks and Shinkansen-related, condominium-related, and other projects, with construction being steadily executed. Cost reductions were also pursued.

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

Operating Revenues
(Billions of yen)



EBITDA/Operating Income
(Billions of yen)



OTHER GROUP

Segment Overview

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

Consolidated Subsidiaries (as of May 31, 2018)

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

Notes: JR Kyushu Secom Inc. is an equity-method affiliate of the Company.

FY2018/3 Results

Operating Revenues	YoY	EBITDA	YoY
¥67.4billion	10.6% ↗	¥3.9billion	18.3% ↗

Operating revenues in the Other segment were ¥67.4 billion, an increase of ¥6.4 billion, or 10.6%, compared with the previous fiscal year. Operating income came to ¥2.4 billion, a decrease of ¥0.1 billion, or 5.2%, while EBITDA was ¥3.9 billion, up ¥0.6 billion, or 18.3%.

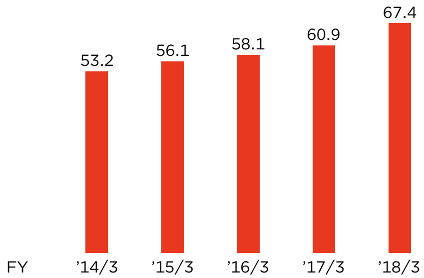
In the hotel business, we worked to expand our area of operations, opening our first hotel in Okinawa, the JR Kyushu Hotel Blossom Naha, and holding the grand opening for Okuhita Onsen Umehibiki in Oita Prefecture.

In the seniors business, we opened our fifth facility, SJR Ropponmatsu, a private residential home for the elderly. We worked to improve services to make our facilities more attractive to customers.

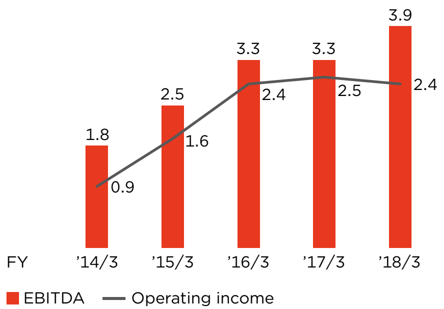
In October 2017, meanwhile, the Company acquired shares of Caterpillar Kyushu Co., Ltd. and converted it into a consolidated subsidiary, thereby entering the construction machinery sales and rental business.

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

Operating Revenues
(Billions of yen)



EBITDA/Operating Income
(Billions of yen)



ESG SECTION

SAFETY

CORPORATE GOVERNANCE

SOCIAL CONTRIBUTION INITIATIVES

ENVIRONMENTAL CONSERVATION ACTIVITIES

ESG SECTION

SAFETY

Policy on Ensuring Railway Safety

The JR Kyushu Group establishes a Medium-Term Safety Plan in order to ensure the safety of its railways. In the safety plan (2017–2019), we set forth the goals of "eradicating accidents that could result in the deaths or injuries of customers or in the deaths of employees," "eradicating, to achieve the preceding goal, dangerous accidents and events that threaten to have such an impact," and, finally, "reducing other accidents and events." In order to achieve those goals, we established an action plan that contains five major items—"improvement of the safety management system, "development of human resources who support safety," "improving, maintaining, and upgrading facilities and the like to ensure safety," "strengthening disaster-damage prevention measures," and "initiatives for stable transportation"—and we implemented initiatives in line with the action plan.

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

Safety Control Structure

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

Safety Promotion Committee

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

Action Plan for the Medium-Term Safety Plan	FY2017/3 Priority Action Items
Improvement of the safety management system 1) Smooth implementation of a PDCA cycle that includes safety audits, safety checks, and full safety checks 2) Initiatives for the whole Group that include safety conferences, safety discussion gatherings, and meetings and trainings in each department 3) Reduction of potential risks by promptly responding to views expressed by employees about safety	• Improvement of education for transportation safety management and work safety and health management • Enhancement of the safety control structure that includes the Group
Development of human resources who support safety: 1) Implementation of study trainings at the Safety Promotion Building and follow-ups at each workplace 2) Various study trainings and applied education and trainings; on-site tours of safety promotion projects and technical guidance projects; and various abnormal-event response trainings 3) Establishment of risk management, and educational materials-based education to prevent work-related accidents	• Improvement of safety education • Improvement of training to increase capabilities to respond when accidents and disasters occur • Promotion of measures to reduce incidents and operation errors
Development of measures for facilities and the like to ensure safety: 1) Development of facilities that provide back-ups in the event of human errors and thereby increase the degree of safety 2) Prevention of dangerous events involving train cars and facilities 3) Initiatives to reduce railway accidents	• Promotion of measures to prevent railway accidents • Promotion of measures to eliminate incidents. • Inculcation of repair management based on the results and cycles of train car and facility checks • Implementation of measures to prevent recurrence of impediments due to building limits; thorough management of building limits
Strengthening measures for reducing and preventing damage from disasters 1) Earthquake and tsunami measures 2) Measures to prevent fallen rocks, trees, bamboo, and other fallen objects 3) Strengthening of measures to prevent damage caused by rainfall on Shinkansen tunnel openings and urban areas with the network of old railway lines 4) Measures to prevent damage by animals (deer), such as expansion of fence installations to prevent intrusions by deer and implementation of effective cautious operation 5) Emergency alerts in accordance with the level of railway terrorism crisis management	• Promotion of earthquake and tsunami measures • Promotion of disaster-damage prevention measures in anticipation of such events as torrential rain and very heavy snowfall • Promotion of measures to prevent fallen rocks and trees
Initiatives for stable transportation: 1) Carrying out the disposal of aging cars, refurbishment work, engine replacement for internal-combustion engine cars, etc. 2) Taking measures to prevent shelling, including planned rail replacement and rail resurfacing 3) Introducing multiple train detectors for track circuit devices, taking measures to prevent cable damage, and carrying out planned facility upgrades for interlocking devices and the like 4) Carrying out planned upgrades of railway facilities and equipment and planned replacement of obsolete equipment	• Promotion of measures to prevent breakdowns of train cars and facilities • Promotion of measures to prevent disasters caused by animals • Promotion of efforts for prompt restoration of operations following typhoons, snowstorms, etc.

ESG SECTION

SAFETY

Specific Initiatives

Expenditures Related to Railway-Related Safety

Investments in safety facilities are made in a planned manner every year. The main safety investment projects in FY2017/3 were as follows. Furthermore, roughly ¥22.9 billion was invested into the replacement of aged equipment, security and disaster prevention, stable transportation measures and vehicle-related investments, and roughly ¥33.1 billion yen was spent as repair expenses for the maintenance and management of railway facilities, for a total of ¥56.0 billion.

Main Safety Investment Projects

Replacement of obsolete facilities
Upgrades of substation facilities, improvements to bridges
Safety and disaster-damage prevention measures
Measures to prevent Shinkansen derailment, adoption of railway grade separations, measures prevent falling rocks and the like, seismic reinforcement
Measures for stable transportation
Change of wooden sleepers to prestressed concrete ties, and change of crossing sleepers to synthesis ties
Train car projects
Replacement of aged trains (introduction of the DENCHA dual energy charge train)

Safety Promotion Campaigns

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

In FY2018/3, under the slogan of "confirming safety from all aspects" we carried out Safety Promotion Campaign 2017. In order to collect employee views on safety, which mean "opinions and awareness" and "unsafe incident experiences,"* the Company built an internal network system. By disclosing and sharing that information with all employees over the internal network, we have been able to prevent accidents and risks before they materialize.

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

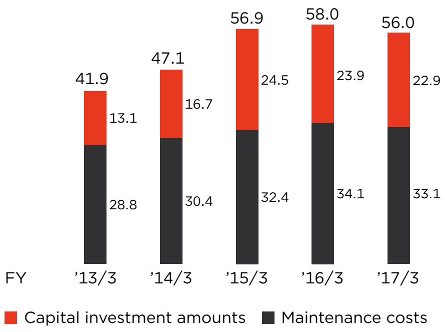
Education and Training

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

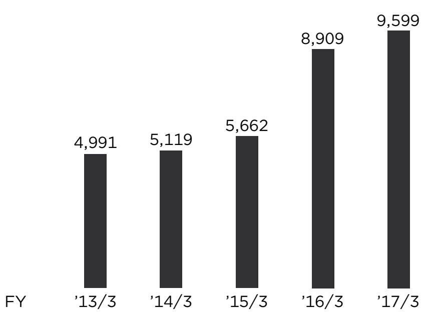
Furthermore, the Company conducts emergency response trainings that consist of comprehensive disaster-preparedness drills for the Kanmon undersea tunnel, large-scale hypothesized earthquake drills, comprehensive derailment recovery drills, tunnel evacuation guidance drills, and massive-tsunami evacuation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

Expenditures on Safety

(Billions of yen)



Number of Employee Views on Safety



Shift to Automatic Train Stops

With the revision of an Ordinance of the Ministry of Land, Infrastructure, Transport and Tourism, it became required that, if a train reaches a critical speed in a slow-down section, such as a crossing or turn-out, the train be brought to a stop or slowed down by an automatic train stop (ATS). Kyushu Railway Company newly developed the safety-enhanced ATS-DK system from the conventional ATS-SK system, and it carried out work to replace ATS-SK systems with ATS-DK systems. At the end of FY2017/3, the replacement work for all the cars on the network of old railway lines, except the cars on the Chikuhi Line, was completed. Furthermore, the upgrades for aboveground facilities (places upgraded by June 2016) have also been completed.

ESG SECTION

SAFETY

Occurrences of Railway Accidents and the Like

In FY2017/3, the number of railway accidents that occurred was 34, which matches FY2009/3 for having the lowest number of incidents ever. There were two train accidents involving derailment caused by the Kumamoto earthquakes in 2016. Furthermore, there was one case, referred to as "incidents," of situations recognized as having a risk that a railway accident would occur.

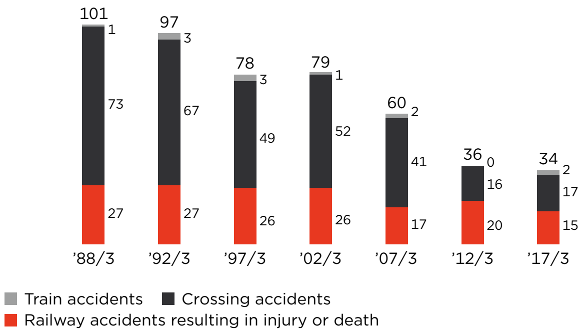
In addition, there were 449 cases of transport disorders. Transport disorders mean cases where, for causes other than railway accidents, train service was suspended, a passenger train was delayed for 30 minutes or more, or a train other than a passenger train was delayed for an hour or more. There were 318 cases that resulted mainly from disasters involving rainfall, strong wind, or earthquakes, 56 cases that resulted from persons moving onto the tracks or other causes not due to the Company, and 75 cases that were due to causes directly resulting from the Company, such as railway personnel or train cars and facilities.

Antiterrorism Measures

In accordance with guidance from the Ministry of Land, Infrastructure, Transport, and Tourism and other government entities, Kyushu Railway Company remains vigilant against terrorism. Specifically, in addition to taking such measures as increasing security patrols by our own employees or others, installing security cameras, and making trash cans transparent, with broadcasts, in-car telops, and posters, we have been asking for customers to cooperate by reporting whenever they discover any suspicious objects on station premises or inside train cars.

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

Railway Accident Occurrences



Train accidents:
Train collision accidents, train derailment accidents, train fire accidents
Crossing accidents:
On a railway crossing, a train or train car collides with a person, motor vehicle, etc., or the train or train car comes into contact with them.
Railway accidents resulting in injury or death:
Cases where an injury or death results from operation of a train or train car

Utilization of Training Lines

On the Higashi-Kokura training line, we have set up a variety of facilities, including a training room where lectures are given, training railway tracks that extend to a total length of approximately 600 meters, and electrical equipment, and in the employee training center, we are carrying out practical education and emergency response trainings. In March 2016, a new lecture room was completed in an effort to further enhance knowledge and skill development, thereby allowing us to conduct educational activities in a professional manner.

Higashi-Kokura training line

Implementation of Study Training at the Safety Promotion Building

The Safety Promotion Building was completed in January 2011. It is based on the principle of providing education for understanding the meaning of basic operations and safety measures without losing the substance of the lessons learned from the past major accidents, and education for cultivating employees who can conduct themselves to ensure the safety of customers and employees. In the future, mainly through employee-participation trainings, Kyushu Railway Company will strive to develop employees who address safety even more actively.

Safety Promotion Building

ESG SECTION

CORPORATE GOVERNANCE

Basic Approach

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

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

Basic Explanation on Organizational Structure

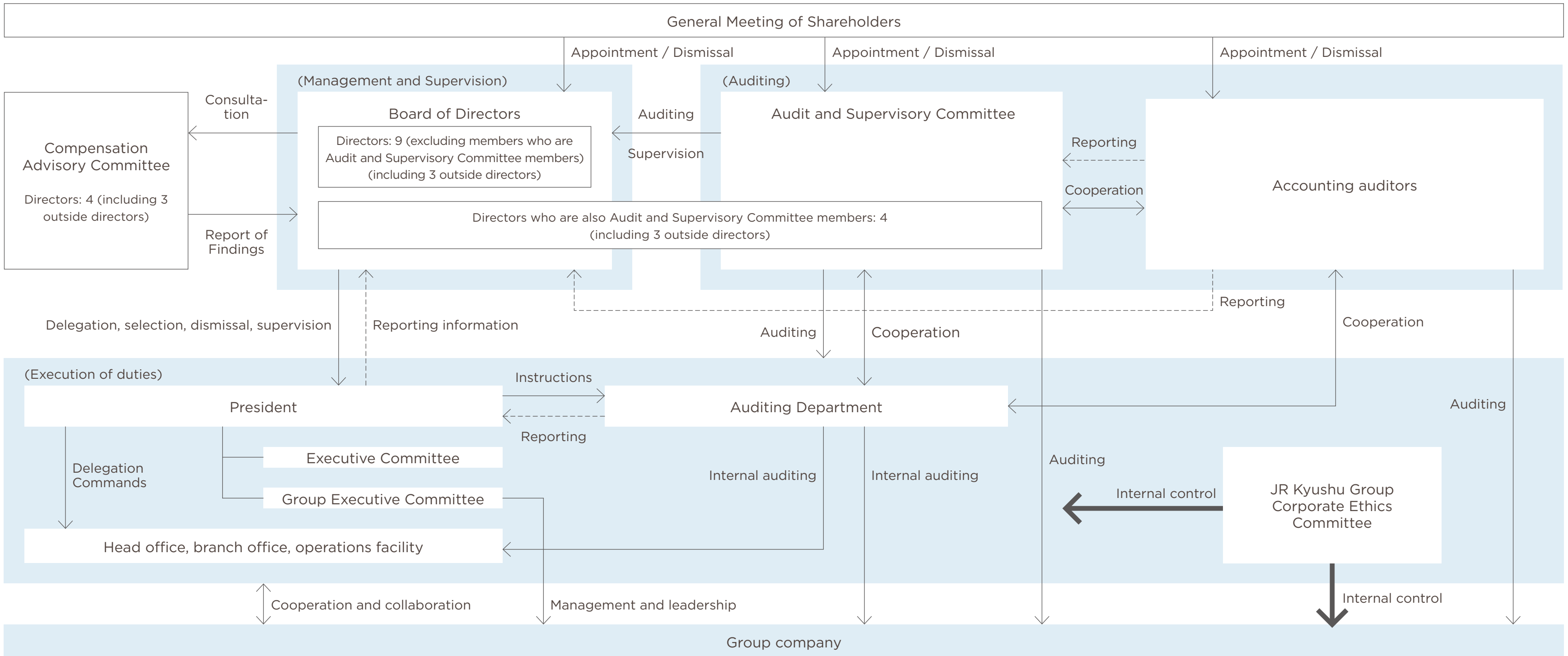
JR Kyushu transitioned to the Company with Audit and Supervisory Committee system described in the Companies Act of Japan from June 2018, in addition to introducing an executive officer system. These actions were taken in order to strengthen the supervisory functions of the Board of Directors, accelerate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

The Board of Directors

The Board of Directors makes decisions on matters determined by law and important matters stipulated by the rules of the Board of Directors. The Board also supervises the business execution of senior executive officers and officers. The Board of Directors meets once a month, as a general rule, and consists of nine directors (excluding directors who are Audit and Supervisory Committee members) and four directors who are also members of the Audit and Supervisory Committee. In addition, six outside directors have been appointed in order to further strengthen the supervisory function over the Board of Directors.

In addition, the Company has established the Executive Committee, which in principle meets once a month. In accordance with the stipulations in the Articles of Incorporation, the committee deliberates items determined by the Board of Directors regarding the delegation of authority as well as important items pertaining to the Company's operation. Furthermore, the Company has set up the Group Executive Committee, which deliberates management strategies such as the JR Kyushu Group's management vision and the allocation of management resources as well as important items related to

Corporate Governance Structure



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For more information on the Company's corporate governance structure, please refer to the Corporate Governance Report (English version) on the Company's website.

individual Group companies. By overseeing the management of Group companies, the Group Executive Committee work to enhance the Group's comprehensive strengths.

Audit and Supervisory Committee

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

Compensation Advisory Committee

The Company has established the Compensation Advisory Committee, which serves as an advisory body to the Board of Directors. The Compensation Advisory Committee, which comprises the president and three outside directors (chaired by an outside director), makes reports to the Board of Directors related to determining compensation amounts for directors (excluding directors who are also Audit and Supervisory Committee members). By doing so, the committee works to strengthen the transparency and objectiveness of the decision-making process for director compensation (excluding directors who are also Audit and Supervisory Committee members).

The structure of the Company's corporate governance is as illustrated in the schematic diagram on page 30.

Internal Control Systems

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

Audits by the Audit and Supervisory Committee

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

Relationship with Outside Directors

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

- Outside Director Masayoshi Nuki is the chair of Kyushu Electric Power Company, with which the Company engages in transactions such as the payment of electric fees.
- Outside Director Izumi Kuwano is the president of Tamanoyou Co., Ltd., with which the Company engages in transactions including payment of lodging fees. Ms. Kuwano is also an outside director at Oita Bank, Ltd., with which the Company engages in transactions such as the borrowing of funds.
- Outside Director Kazuhide Ide is the chair of Chikuho Bank, Ltd., with which the Company engages in transactions such as the borrowing of funds.

Work History of Outside Directors

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

Eiichi Kuga (Audit and Supervisory Committee member)

Apr. 1981	Joined National Police Agency
Apr. 2006	Director-General of Kagoshima Prefectural Police
Sept. 2007	Director-General of Tokyo Metropolitan Government Office for Youth Affairs and Public Safety
Sept. 2009	Director-General of Security Dept. of Tokyo Metropolitan Police Department
Feb. 2011	Director-General of Kanagawa Prefectural Police
Apr. 2013	Director-General of Imperial Guard Headquarters
Dec. 2015	Advisor, Nippon Life Insurance Company
June 2016	Full-time Audit & Supervisory Board member, Kyushu Railway Company
June 2018	Full-Time Director and Audit and Supervisory Committee Member, Kyushu Railway Company (current)

Kazuhide Ide (Audit and Supervisory Committee member)

Apr. 1964	Joined The Kangyo Bank Ltd. (currently Mizuho Financial Group, Inc.)
Apr. 1989	Manager of Related Business Department of Planning Division, The Dai-Ichi Kangyo Bank, Ltd. (currently Mizuho Financial Group, Inc.)
June 1990	Manager of Lottery Department, The Dai-Ichi Kangyo Bank, Ltd.
June 1992	Director, Manager of Personnel and Planning Dept., The Dai-Ichi Kangyo Bank, Ltd.
May 1994	Director, Manager of Personnel Dept., The Dai-Ichi Kangyo Bank, Ltd.
Apr. 1995	Director and Managing Officer, The Dai-Ichi Kangyo Bank, Ltd.
Apr. 1997	Advisor, The Chikuho Bank, Ltd.
June 1997	Representative Director and Vice President, The Chikuho Bank, Ltd.
Apr. 1999	Representative Director and President, The Chikuho Bank, Ltd.
Apr. 2006	Representative Director and Chairman, The Chikuho Bank, Ltd.
June 2012	Director and Chairman, The Chikuho Bank, Ltd.
June 2015	Outside Audit & Supervisory Board member, Kyushu Railway Company
June 2016	Chairman, The Chikuho Bank, Ltd. (current)
June 2018	Director and Audit and Supervisory Committee Member, Kyushu Railway Company (current)

Yasunori Eto (Audit and Supervisory Committee member)

Apr. 1995	Appointed as a public prosecutor
Apr. 2009	Deputy Chief Prosecutor, Kagoshima District Public Prosecutors Office
Apr. 2011	Public prosecutor, Osaka District Public Prosecutors Office
Sept. 2011	Retired as Public prosecutor
Oct. 2011	Registered as an attorney at law Bengoshi Hojin Hino Sogo Law Office (current)
June 2018	Director and Audit and Supervisory Committee Member, Kyushu Railway Company (current)

Director Compensation

To ensure that a director is provided an appropriate level of compensation based on his or her role and responsibilities, the Company has in place a system that takes into account a director' s motivation toward improving business performance and corporate value. When determining compensation levels, reports are made by the Compensation Advisory Committee, which comprises the president as well as outside directors, to the Board of Directors, which then decides on compensation amounts based on these reports. These amounts are held within a limit set in advance at the General Meeting of Shareholders.

Compensation to directors and auditors in FY2018/3 was as follows. Individual compensation amounts are not listed as there is no director or auditor whose individual compensation amount on a consolidated basis exceeds ¥100 million.

Category	Remuneration amount (millions of yen)	Total amount of remuneration, etc., by type (millions of yen)		Number of persons paid
		Basic remuneration	Link to business performance	
Directors (excluding outside directors)	¥447	¥430	¥16	20
Auditors (excluding outside auditors)	¥ 36	¥ 36	–	1
Outside officers	¥ 56	¥ 56	–	6
Total	¥540	¥523	¥16	27

Notes
1. Director compensation amounts do not include the employee portion of compensation for directors who double as employees.
2. The above amounts include compensation paid to four directors who resigned at the conclusion of the 30th Ordinary General Meeting of Shareholders held on June 23, 2017, due to the expiration of their terms of office.

Internal Audits

The Company has established the Auditing Department at its head office to serve as an institution for conducting internal audits. The department consists of 11 members. Internal audits are carried out for the purpose of gaining an accurate understanding of the management activities of JR Kyushu and its Group companies as well as for improving operational efficiency through appropriate advice and recommendations and contributing to sound business development. Specifically, the Auditing Department carries out audits of the head office, branch offices, on-site operations, and Group companies based on auditing plans for each fiscal year. The department reports the results of these audits to the president.

Accounting Auditor

In regard to accounting auditors, the Company has an auditing agreement with Deloitte Touche Tohmatsu LLC. In FY2018/3, three certified public accountants conducted auditing duties for the Company. These three individuals were assisted by 12 other certified public accountants and 9 other individuals.

Additionally, compensation for accounting auditors is determined through the approval of the Board of Auditors after examining and confirming the content of the accounting auditors' auditing plan, the status of the plan's execution, and its basis for calculating the estimated compensation. The compensation paid to the certified public accountants who served as accounting auditors in FY2018/3 was as follows.

Category	Compensation based on audit and certification duties (millions of yen)	Compensation based on non-auditing duties (millions of yen)
Submitting Company	¥ 71	¥16
Consolidated Subsidiaries	¥ 52	–
Total	¥123	¥16

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

Collaboration between Auditors, the Accounting Auditor, and the Audit and Supervisory Committee

Auditors, the accounting auditor, and the Audit and Supervisory Committee hold liaison meetings where opinions are exchanged regarding each audit plan, the status of audit implementation, and other important matters.

Progress in Establishing a Risk Management Structure

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

Liability Limitation Agreements

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

Statutory Number of Directors

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

Conditions for Director Appointment

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

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

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

Status of Shareholdings

At the end of FY2018/3, the Company had equity holdings in 51 companies for purposes other than solely investment. The book value of these equity holdings totaled ¥14,770 million. In regard to major equity holdings within this amount, the classification of possession as well as the Company name, number of shares held, book value, and holding purpose were as follows.

Company name	Number of shares held (shares)	Book value (millions of yen)	Holding purpose
Kyudenko Corporation	887,800	¥4,643	Maintaining and strengthening relationship in business and regional activities of the Group
Central Japan Railway Company	108,200	2,178	Maintaining and strengthening relationship in the railway business
West Japan Railway Company	269,500	2,002	Maintaining and strengthening relationship in the railway business
East Japan Railway Company	196,100	1,933	Maintaining and strengthening relationship in the railway business
Nishi-Nippon Railroad Co., Ltd.	417,700	1,161	Maintaining and strengthening relationship in business and regional activities of the Group
Kyushu Electric Power Co., Inc.	418,700	530	Maintaining and strengthening relationship in business and regional activities of the Group
Saibugas Co., Ltd.	72,400	199	Maintaining and strengthening relationship in business and regional activities of the Group
T&D Holdings, Inc.	59,950	101	Maintaining and strengthening cooperative relationship
StarFlyer Inc.	20,000	96	Maintaining and strengthening cooperative relationship
Fukuoka Financial Group	118,250	67	Maintaining and strengthening relationship in business and regional activities of the Group
Mizuho Financial Group	212,000	40	Maintaining and strengthening cooperative relationship
Dai-ichi Life Holdings,Inc.	9,700	18	Maintaining and strengthening cooperative relationship
Nishi-Nippon Financial Holdings, Inc.	8,493	10	Maintaining and strengthening relationship in business and regional activities of the Group
GREENLAND RESORT COMPANY LIMITED	13,200	7	Maintaining and strengthening cooperative relationship

ESG SECTION

SOCIAL CONTRIBUTION INITIATIVES

Regional Initiatives

We believe the mission of a railway company is to conduct environmental development (a benefit to local areas), cultivate local traditions and cultures (together with local residents), and serve as a guide through the next stage of progress. To support the health and livelihoods of local residents, we make sure hospitals and nursing care facilities are fully stocked with medical equipment. We also hold walking and sporting events in contribution to regional development. Moreover, we feel certain that our various activities, such as managing the Kyushu Railway History Museum in order to painstakingly protect and preserve railway culture, are services that will inspire the Kyushu of the future. We will actively pursue these activities moving forward.

Operating JR Kyushu Hospital

We operate JR Kyushu Hospital as a comprehensive care hospital focused on acute cancer treatments. This hospital features the most advanced medical equipment, ordering systems, and electronic medical records, and offers safe and high-quality healing services in a complete medical environment. In this way, we are contributing to regional development for peace of mind.

Hosting Discussions with Customers

To improve services at JR Kyushu, we hold two central discussion meetings in addition to local meetings in eight regions across Kyushu for the purpose of gathering customer feedback.
Participating in the Hakata City-Building Promotion Council The Hakata City-Building Promotion Council is an organization focusing on city-building in Fukuoka and that is made up of corporations, organizations, and autonomous councils based around Hakata Station and scholars and experts. JR Kyushu participates in this council in an executive capacity. The goal is to develop Hakata into an attractive locale that is great to live in, work in, and visit. To that end, we will actively collaborate with local residents on city-building efforts.

Holding JR Kyushu Walks

We hold JR Kyushu Walks from JR stations to places of interest around Kyushu.

Initiatives in Support of Cultivating the Next Generation

We actively strive to support the cultivation of the next generation through our basic policies of enabling employees to participate in both work and child-rearing and creating an organization in which all employees can work effectively.

Receiving the Next Generation Certification Mark “Kurumin”

We received the Ministry of Health, Labour and Welfare’s next generation certification mark “Kurumin” in July 2015. The ministry uses this certification mark to acknowledge enterprises that develop action plans in support of child-rearing based on the Law for Measures to Support the Development of the Next Generation, carry out initiatives in line with such plans, and achieve results. As of this time, JR Kyushu has composed four action plans and received the “Kurumin” mark for each one. The action plan currently in progress (from April 1, 2018, to March 31, 2021) includes efforts to create a worker-friendly environment that enables employees to pursue both work and childcare. In order to shape an atmosphere where all employees can adequately display their abilities and be active in the Company, we have established the following three objectives.

Objective 1: Create an environment where all employees can balance child-rearing with their work through the revision of working styles

Objective 2: Raise the number of male employees who take childcare leave beyond the following levels.
Number of male employees taking childcare leave: one or more
Percentage of accumulated paid leave used for the purpose of childcare: 15% or more

Objective 3: Promote the taking of annual paid leave and raise the percentage of paid leave taken to 50% or more





ENVIRONMENTAL CONSERVATION ACTIVITIES

Basic Policy on Environmental Conservation Activities

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

Under the JR Kyushu Group Medium-Term Business Plan 2016–2018, which was established in May 2016, we are aiming to be a kind and robust corporate group involved in comprehensive city-building. Guided by this aim, we are developing businesses deeply rooted in local communities, starting with our railway business. As we work to reach this aim, we have positioned the realization of a sustainable society as an import management policy and are working to achieve this policy through a wide range of environmental conservation activities, which include hard aspects such as enhancing train cars and facilities as well as soft aspects such as environmental beautification activities conducted together with local community members. We are also proactively and systematically promoting technological innovation in such ways as introducing Japan’s first dual charge energy train, DENCHA, which is equipped with a large-capacity storage battery. In the same manner, we are revitalizing local communities with an emphasis on reducing environmental burden through such means as our multipurpose complex in Ropponmatsu, which opened in September 2017. In these ways, we will further contribute to the realization of a low-carbon society going forward.

Environmental Management System

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

In March 1999, in order to continuously implement environmental conservation measures, we established the Ecology Committee, which is chaired by the president, as a body to deliberate and decide on necessary matters including the basic policies. In the committee, four special sub-committees have been established as bodies to plan mainly implementation programs, target setting, results reporting, and activity promotion for various environmental issues. Each sub-committee collaborates with not only internal departments but also Group companies to set forth subjects pertinent to environmental conservation and establish specific targets.

Basic Philosophy

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

Basic Policies

1. By introducing environmental conservation technologies and using originality and ingenuity in relation to them, we will promote efficient energy use and strive to reduce CO2 emissions, which are a cause of global warming.
2. We will not only promote waste reduction and recycling and strive for efficient use of resources but also manage and dispose of environmental pollutants appropriately.
3. We will strive to provide safe and comfortable transportation so that even more customers can use environmentally friendly railways.

Ecology Committee Organizational Chart

Ecology Committee

Chairperson:	President
Sub-Chairperson:	General Manager of the Corporate Planning Headquarters
Committee Members:	Head Office Full-Time Senior Executive Officers, General Manager of the Strategy Management Department, General Manager of the Administration Department, and General Manager of the Finance Department
Control Office:	Business Planning Department

Special Sub-Committee on Environmental Management

Main Activities
- PR activities
- Internal enlightenment activities
- Environmental report preparation

Special Sub-Committee on Energy Management

Main Activities
- Compliance with the Law Regarding the Rationalization of Energy Use
- Reduction of energy consumed
- Studies on introducing new forms of energy

Special Sub-Committee on Environmental Pollutant Management

Main Activities
- Reduction of CO_2 and NOx
- Management of polychlorinated biphenyls (PCBs) and the Pollutant Release and Transfer Register (PRTR)
- Noise control

Special Sub-Committee on Resource Conservation

Main Activities
- Reduction of the amount of waste
- Reduction of consumption of water, fuel, and light
- Recycling of waste
- Green procurement

ESG SECTION

ENVIRONMENTAL CONSERVATION ACTIVITIES

Setting Numerical Targets to Combat Global Warming

In FY2003/3, Kyushu Railway Company established the JR Kyushu Voluntary Plan as a voluntary action plan to help combat global warming, and we accomplished the targets set forth in this plan in FY2011/3.

In September 2015, we formulated the JR Kyushu Low-Carbon Society Action Plan as a set of new voluntary targets, and we have been carrying out initiatives accordingly, such as introducing energy-saving train cars, to further contribute to combating global warming.

JR Kyushu Low-Carbon Society Action Plan

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

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

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

Specific Initiatives

■ Introduction of Energy-Saving Train Cars

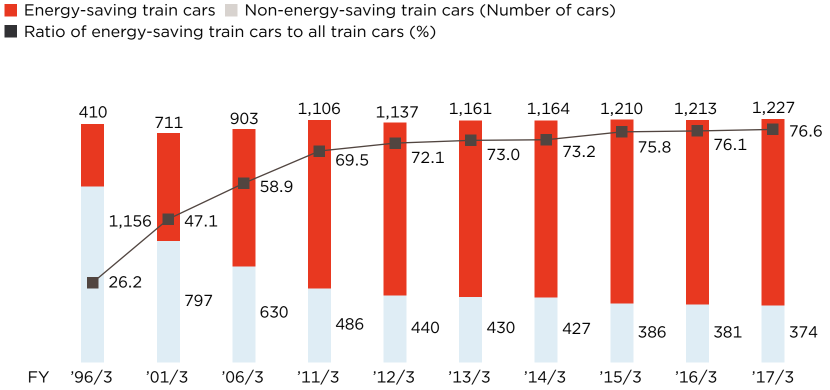
The introduction of energy-saving train cars is an initiative that Kyushu Railway Company has been constantly implementing since its establishment.

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

In FY2017/3, the percentage of all our train cars that are energy-saving cars reached 76.6%.

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

Change in Number and Percentage of Energy-Saving Train Cars



Renewal of the 811 Series

In April 2017, we commenced operations of renewed train cars in the 811 series of suburban trains, which represent the first train type created by Kyushu Railway Company after its establishment as a company. Under the concept of "old is new—a train that blends tradition and innovation," these renewed train cars have been fitted with all-new equipment. For these cars, we updated the drive motors and control equipment and renewed the VVVF control system through the application of a SiC hybrid module, which achieves high levels of energy efficiency. At the same time, we worked to reduce the environmental burden of these cars by changing all interior lighting to LED lighting.

Renewed 811 series train cars

ESG SECTION

ENVIRONMENTAL CONSERVATION ACTIVITIES

■ Reduction of Unit Energy Consumption

In the railway division, through initiatives including the introduction of energy-saving train cars and the introduction of LED equipment, in FY2017/3 we reduced our unit energy consumption* by 0.8% from the level in FY2012/3.

In the future, by working on various energy-saving initiatives, we will promote more efficient business activities.

* Unit energy consumption, an indicator that expresses energy use efficiency, is a numerical value calculated by dividing energy use by production volume, total building floor area, or some other numerical value that has a close relationship with energy consumption. In the case of passenger railway companies, unit energy consumption is calculated as the energy used in order for one car to travel one kilometer, and it is calculated by the following equation.

Unit energy consumption = energy consumption (of electricity, fuel, etc.) ÷ train running distance in kilometers

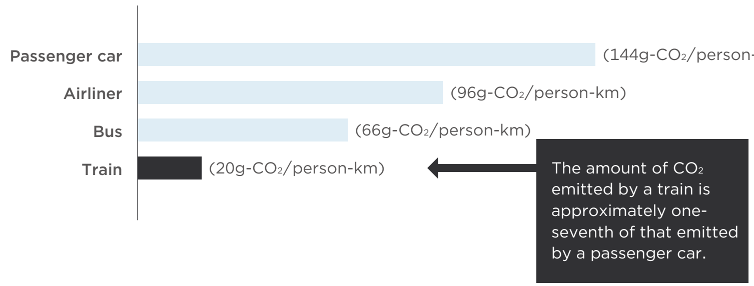
■ Reduction of Construction Waste

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

With regard to the construction of new structures under elevated train lines, in the pile work, we use steel pipe piles in a construction method that does not use concrete or cement fluid. Thus, because there is no discharge of such industrial waste as muddy water and surplus soil, and no water contamination from cement, the method contributes to reducing the environmental burden.

Furthermore, since cement mixer trucks and other construction vehicles do not need to come and go, the method also helps reduce pollution such as noise pollution and exhaust gas.

■ Comparison of Amount of CO_2 Emitted When Carrying One Person One Kilometer (FY2016/3)



Source: Website of the Ministry of Land, Infrastructure, Transport and Tourism (CO_2 Emissions from the Transportation Sector)

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

Express Trains

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

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

Suburban Trains

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

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

ESG SECTION

ENVIRONMENTAL CONSERVATION ACTIVITIES

Management of Chemical Substances

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

To combat CO_2 and NOx (nitrogen oxide), we are replacing diesel train cars with DENCHA dual energy train cars and swapping old engines that run on diesel fuel with anti-exhaust gas engines. In this way, we are improving energy consumption efficiency and limiting emissions of CO_2 and NOx. By FY2017/3, 92% of our diesel trains have been equipped with anti-exhaust gas engines.

Reduction of CO_2 Emissions throughout the Entire Transportation System

By providing services that combine the respective characteristics of railway punctuality and automobile mobility, Kyushu Railway Company will further improve convenience for its customers and promote use of railways. In this way, we are aiming to reduce CO_2 emissions throughout the entire transportation system.

Efforts at the Multipurpose Complex in the Ropponmatsu District

In September 2017, we opened a multipurpose complex in the Ropponmatsu district of Fukuoka City. The complex comprises Ropponmatsu 421, which is made up of academic institutions and commercial areas, and the residence-style private retirement home SJR Ropponmatsu. This multipurpose complex functions as a newly built "city," and we have introduced various facilities and systems within the complex that help reduce its environmental burden.

For example, we use LED lighting in the majority of the complex's interior and have introduced highly efficient air conditioning systems in the areas of the complex that are shared between facilities. In these ways, we are working to conserve energy and reduce CO_2 emissions throughout the entire complex.

In addition, at Ropponmatsu 421, we have promoting the greening of certain sections of the roof, which has helped provide insulation effects and conserve energy through the shielding of solar radiation. This greening has also helped control CO_2 emissions. Furthermore, we have been working to conserve water resources in various ways, including not only the introduction of water-saving toilets but also the use of water recycled by Fukuoka City as rinse water.

Greened sections of Ropponmatsu 421's roof

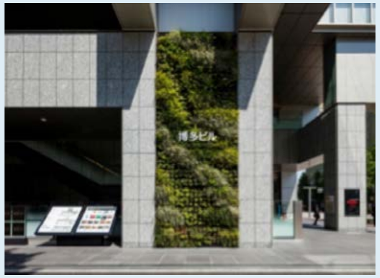
The gas-engine micro cogeneration system introduced at SJR Ropponmatsu

Efforts at the JRJP Hakata Building

In April 2016, we opened the JRJP Hakata Building as part of our efforts to protect the environment by realizing a harmonious coexistence with nature in urban areas. Through this building, we work to achieve balance between convenience for visitors and consideration for the surrounding natural environment.

The offices located inside the JRJP Hakata Building utilize LED lighting. In addition, the automated system for control lighting installed on the building's windows helps reduce excessive light during the daytime, thereby realizing a consistent level of brightness throughout the day. Furthermore, these windows use multilayered glass that reduces heat burning, which helps curtail heat from sunlight and realize energy conservation.

To combat the heat island effect and reduce CO_2 emissions, we are promoting the greening of the building's walls and roof. The plants used in these green efforts help ease water runoff from rain and prevent urban flood disasters. Also, we are working to recycle rainwater in an effort to reduce the amount of valuable water resources the building uses.



Greened walls

Greened roof

ESG SECTION

ESG DATA

Environmental

Climate change

		Consolidated/ Non-consolidated	Unit	FY2017/3
CO_2 emissions		Non-consolidated	Thousand t-CO_2	397
Amount of energy used	Amount of electricity used	Non-consolidated	Thousand kWh	662,918
	Amount of energy used in the railway business	Non-consolidated	Thousand kWh	646,500
	Amount of gas used	Non-consolidated	Thousand m³	589
Percentage of energy-conserving train cars		Non-consolidated	%	76.6

Water

	Consolidated/ Non-consolidated	Unit	FY2017/3
Amount of water resources used	Non-consolidated	Thousand m³	654

Social

Customers (Operating results of the railway business)

	Consolidated/ Non-consolidated	Unit	FY2018/3
Railway line networks	Non-consolidated	km	2,273.0
Kilometers traveled by passenger cars	Non-consolidated	Thousand km	300,470
Number of passengers	Non-consolidated	Thousand passengers	337,176
Passenger kilometers	Non-consolidated	Thousand passenger km	9,336,633
Boarding efficiency	Non-consolidated	%	29.9
Number of stations	Non-consolidated	Stations	567
Number of train cars	Non-consolidated	Train cars	1,652
Electrification percentage	Non-consolidated	%	59

Employees

		Consolidated/ Non-consolidated	Unit	FY2018/3
Number of employees	Total	Consolidated	Person	17,297
	Male	Non-consolidated	Person	7,313
	Female	Non-consolidated	Person	1,546
	Total	Non-consolidated	Person	8,859
Number of female managers		Non-consolidated	Person	29
Percentage of female managers		Non-consolidated	%	5.3
Average years of service		Non-consolidated	Year	15.5
Average age		Non-consolidated	Years old	40.8
Average annual salary		Non-consolidated	Thousand yen	5,396
Percentage of employees with disabilities		Non-consolidated	%	2.3

Note: As of April 1, 2018 (Percentage of employees with disabilities is as of June 1, 2018)

Governance

Corporate governance

		Consolidated/ Non-consolidated	Unit	July 2018
Number of directors	Male	Non-consolidated	Person	11
	Female	Non-consolidated	Person	2
	Total	Non-consolidated	Person	13
Of the above, number of directors that are also Audit and Supervisory Committee members	Male	Non-consolidated	Person	3
	Female	Non-consolidated	Person	1
	Total	Non-consolidated	Person	4
Percentage of independent outside directors		Non-consolidated	%	46.2
Percentage of female directors		Non-consolidated	%	15.4
Number of executive officers		Non-consolidated	Person	14

Remuneration

		Consolidated/ Non-consolidated	Unit	FY2018/3
Officer remuneration	Director remuneration*	Non-consolidated	Million yen	447
	Audit and Supervisory Committee member remuneration*	Non-consolidated	Million yen	36
	Outside officer remuneration	Non-consolidated	Million yen	56
	Total	Non-consolidated	Million yen	540

* Excludes outside directors and outside Audit and Supervisory Committee members

Accounting auditors

		Consolidated/ Non-consolidated	Unit	FY2018/3
Accounting auditor remuneration	Auditing expenses	Consolidated	Million yen	123
	Non-auditing expenses	Consolidated	Million yen	16

FINANCIAL SECTION

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For further information about the Company's financial information, please refer to the corporate website.

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

FINANCIAL SECTION

CONSOLIDATED FIVE-YEAR SUMMARY

Kyushu Railway Company and Consolidated Subsidiaries
Years ended March 31

Billions of yen

	FY2014/3	FY2015/3	FY2016/3	FY2017/3	FY2018/3
Operating Revenues	354.8	357.4	377.9	382.9	**413.3**
Transportation Segment	174.2	174.5	180.9	176.4	**183.7**
Real Estate Segment	49.8	53.5	62.0	67.4	**69.4**
Retail and Restaurant Segment	88.4	90.1	96.2	100.4	**103.1**
Construction Segment	85.3	80.3	88.4	79.3	**88.0**
Other Segment	53.2	56.1	58.1	60.9	**67.4**
Operating Income (Loss)	9.0	12.7	20.8	58.7	**63.9**
Transportation Segment	(14.9)	(13.2)	(10.5)	25.7	**29.2**
Real Estate Segment	16.7	18.4	20.4	22.6	**23.2**
Retail and Restaurant Segment	3.1	2.4	3.4	3.4	**3.6**
Construction Segment	4.0	4.3	6.1	5.9	**6.2**
Other Segment	0.9	1.6	2.4	2.5	**2.4**
EBITDA	57.0	61.4	69.1	73.2	**81.8**
Transportation Segment	24.3	25.8	27.0	28.5	**34.3**
Real Estate Segment	22.7	25.1	28.4	31.1	**32.0**
Retail and Restaurant Segment	4.5	4.0	4.9	5.1	**5.3**
Construction Segment	4.7	5.1	6.8	6.7	**7.0**
Other Segment	1.8	2.5	3.3	3.3	**3.9**
Net Income (Loss) Attributable to Owners of the Parent	11.5	15.0	(433.0)	44.7	**50.4**
Capital Investment Amounts (Non-consolidated)	65.6	55.0	59.3	60.0	**47.2**
Depreciation Costs (Non-consolidated)	28.4	28.7	29.3	7.0	**9.6**
Net Cash Provided by Operating Activities	39.6	46.1	63.4	28.5	**87.6**
Net Cash Provided by (Used in) Investing Activities	(59.0)	(69.2)	9.0	(18.3)	**(68.3)**
Net Cash Provided by (Used in) Financing Activities	22.1	19.8	(40.0)	(0.6)	**(9.1)**
Total Assets	1,106.2	1,140.9	646.6	676.6	**749.5**
Total Liabilities	365.9	369.7	340.9	328.2	**366.3**
Total Equity	740.3	771.2	305.7	348.4	**383.2**
Per Share Figures (Yen):					
Net Income	72.29	93.83	(2,706.81)	279.70	**315.07**
Net Assets	4,578.34	4,790.51	1,876.72	2,144.00	**2,357.27**
Dividends	—	—	—	38.50	**83.00**
Financial Ratio (%):					
Equity Ratio	66.2	67.2	46.4	50.7	**50.3**
Operating Income to Operating Revenues	2.6	3.6	5.5	15.3	**15.5**
Payout Ratio	—	—	—	13.8	**26.3**
Others:					
Number of Passengers (Millions)	323	319	330	331	**337**
Number of Employees	16,904	16,740	16,838	16,922	**17,297**
Number of Shares Outstanding	320,000	320,000	320,000	160,000,000	**160,000,000**

Notes:

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

WEB

For further information about the Company's financial information, please refer to the corporate website.

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

We conduct transportation operations in the Kyushu region of Japan, including the largest railway network in the region. We also operate a number of non-transportation businesses, including the leasing and sale of real estate, retail stores and restaurants, construction and hotels. These businesses directly or indirectly benefit from and are supported by the strength of our railway business and the strength of the JR Kyushu brand. For the year ended March 31, 2018, we recorded consolidated operating revenues of ¥413,371 million, consolidated operating income of ¥63,963 million, and consolidated net income attributable to owners of the parent of ¥50,410 million. For the same period, our consolidated EBITDA was ¥81,832 million. We categorize our business into the five reportable segments. For more information, please refer to the "Review of Operations" section.

Results of Operations

Operating Revenues

Operating revenues increased 8.0% from the previous consolidated fiscal year, to ¥413,371 million. This increase was the result of a rise in railway transportation revenues and the consolidation of Caterpillar Kyushu Co., Ltd. Operating revenues in each of our main segments were reported on in the "Review of Operations" section.

Operating Expenses

Operating expenses rose 7.8% from the previous consolidated fiscal year, to ¥349,408 million.

Transportation, other services and cost of sales increased 7.5% from the previous consolidated fiscal year, to ¥253,518 million. This increase was due mainly to the consolidation of Caterpillar Kyushu.

Selling, general and administrative expenses increased 8.6% from the previous consolidated fiscal year, to ¥95,889 million. This increase was also the result of the consolidation of Caterpillar Kyushu as well as such factors as the rise in expenses that followed the opening of new hotels and other facilities.

Operating Income

Operating income increased 8.9% from the previous consolidated fiscal year, to ¥63,963 million.

Furthermore, while the ratio of operating income to operating revenues in the previous consolidated fiscal year was 15.3%, it stood at 15.5% in the consolidated fiscal year under review.

Non-Operating Profit and Loss

Non-operating income increased 30.4% from the previous consolidated fiscal year, to ¥3,910 million.

Non-operating expenses were down 29.6% from the previous consolidated fiscal year, to ¥827 million. This decrease was mainly attributable to the absence of fees associated with listing, which were recorded in the previous consolidated fiscal year.

Ordinary Income

Ordinary income increased 10.7% from the previous consolidated fiscal year, to ¥67,045 million.

In addition, while the ratio of ordinary income to operating revenues in the previous consolidated fiscal year was 15.8%, it reached 16.2% in the consolidated fiscal year under review.

Extraordinary Gains and Losses

Extraordinary gains decreased 45.5% from the previous consolidated fiscal year, to ¥16,672 million.

Extraordinary losses decreased 46.9% from the previous consolidated fiscal year, to ¥18,883 million. This decrease was mainly because, although losses related to the heavy rain that occurred in northern Kyushu in July 2017 and typhoon No. 18 in 2017 were recorded, the losses related to the Kumamoto earthquakes in 2016 that had been recorded in the previous consolidated fiscal year were absent.

Net Income Attributable to Owners of the Parent

Net income attributable to owners of the parent was up 12.6% from the previous consolidated fiscal year, to ¥50,410 million.

Factors Affecting Revenues by Segment

Transportation Group

■ Railway business

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

We also offer coupon tickets for multiple rides and a variety of special tickets, such as two- and four- ticket packs provided at a discounted price sold at ticket windows and machines as well as discount tickets that are only sold via the Internet. Foreign tourists entering Japan on a short-term visitor basis are also eligible to use any of three "Rail Passes," each of which allows for unlimited use of our trains during the applicable period for the specific pass, including the use of our seat reservation system.

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

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

■ Other businesses

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

Real Estate Group

■ Leasing business

Operating revenues from the leasing business in this segment depend primarily upon the amount of aggregate available leasable space, occupancy rates, and rent levels. Occupancy rates in our commercial, residential, and office leasing businesses are generally high, and specifically, our major station buildings have had average annual occupancy rates of close to 100%. Most of our commercial retail leases consist of a minimum fixed amount and variable rent that correlate with the relevant tenant's revenue attributable to the relevant space that can be influenced based upon the performance of our tenants.

■ Condominium sales business

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

Retail and Restaurant Group

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

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

Average spend per customer is affected by our product mix, shifts in customer preferences, and the general economic environment, influencing which products our customers purchase and how frequently they do so. Average spend is also affected by competition with other retail outlets and restaurants, particularly for leisure spending or higher-quality meals, as customers may choose between our offerings and those of our competitors based on the occasion.

Construction Group

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

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

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

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

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Other Segment

■ Hotel Business

Our hotel business is included in our Other segment. Operating revenues in the hotel business are affected by the total number of rooms available, occupancy rates, and pricing.

Operating revenues in our hotel business are subject to seasonal fluctuations, particularly in the case of our resort hotels with respect to which demand increases significantly during the summer months.

Cash Flows

Net cash provided by operating activities was ¥87,689 million, up ¥59,109 million from the previous consolidated fiscal year, mainly due to an increase from the collection of trade receivables.

Net cash used in investing activities was ¥68,379 million, up ¥50,012 million from the previous consolidated fiscal year. This was mainly due to the rebound from the gain on sales of trusts recorded in the previous fiscal year.

Net cash used in financing activities was ¥9,197 million, up ¥8,504 million from the previous consolidated fiscal year. This was mainly attributable to cash dividends paid.

As a result of the factors above, from the end of the previous consolidated fiscal year, cash and cash equivalents, end of year increased ¥10,116 million, to ¥64,379 million.

Dividend Policy

We consider the return of profits to shareholders to be an important component of our business, and we have made the provision of stable and sustainable dividends based on our results of operations one of our key policies.

The payment of year-end dividends is subject to the approval of our shareholders as part of their approval at the General Meeting of Shareholders, with a record date of March 31 of each year. In addition to year-end dividends, in accordance with our Articles of Incorporation, we may make interim dividends with a record date of September 30 of each year by resolution of our Board of Directors.

In order to achieve steady shareholder returns while taking care to maintain sufficient internal reserves of capital, we are targeting a consolidated dividend payout ratio at a level of approximately 30% for each year until FY2019/3, subject to the level of our future earnings, financial condition, and other factors. Our basic policy is to issue and interim dividend and a year-end dividend, making for two dividends from retained earnings each year. In accordance with this policy and based on a comprehensive evaluation of operating results in the fiscal year under review and other factors, we issued an interim dividend of ¥39 per share and a year-end dividend of ¥44 per share, resulting in an annual dividend of ¥83 per share. For FY2019/3, we intend to issue an annual dividend of ¥83 per share based on the above policy. Furthermore, we plan on allocating internal reserves to investments for maintaining and upgrading railway facilities and growth investments for building a stronger operating foundation with the overall aim of making safety the cornerstone of our operations.

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

Forward-looking statements in this section are based on the assessments of the JR Kyushu Group (the "Group") as of March 31, 2018.

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

The Group's operations, including transportation, construction, real estate, retail and restaurant operations, and other businesses, are mainly based in the Kyushu region of Japan. The Group's operations are therefore affected not only by the Japanese economy in general, including the planned increase in Japan's national sales tax and other economic measures implemented by the Japanese government, but also by the Kyushu region's economy (particularly Fukuoka City and other major metropolitan areas). In the Transportation Group business, employment conditions and student enrollment in Kyushu, particularly in and around Fukuoka City, could affect railway transportation revenue (commuter passes). A decline in the number of business travelers and tourists owing to a slowdown in the Japanese economy or the economy of Kyushu could affect railway transportation revenue (ordinary tickets).

In the Real Estate Group, changes in commercial facilities and residential demand, in Fukuoka City and other major metropolitan areas, interest rate levels, and monetary policy may affect rent levels, occupancy rates, and sales prices for real estate.

In addition, construction demand in Kyushu and Japan as a whole could affect Construction Group order value and consumption and business-related demand in Kyushu and Japan as a whole could affect the Group's hotel business and Retail and Restaurant Group.

Any changes in the areas above could affect the Group's businesses, earnings, and its financial condition.

2. Risks Related to the Medium-Term Business Plan

In May 2016, the Group announced its Medium-Term Business Plan 2016–2018. The Group may not be able to achieve railway transportation revenue in line with its plans if, demand for Shinkansen or conventional lines declines more than expected owing to population decline, regulatory, economic, or other factors or if we are unable to accurately gauge and respond to customer demand. Also, if online ticket sales or yield management do not progress in line with expectations or if costs in the railway business diverge from the Group's forecast, it may not be able to achieve the goals set out in the Medium-Term Business Plan.

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

In addition, the Group has made a number of assumptions and estimates in formulating its Medium-Term Business Plan, including estimates regarding the number of foreign tourists, the impact of the 2016 Kumamoto earthquakes, labor costs, and other expenses. In addition, all of the Group's businesses are exposed to the risks outlined in this report under the section titled Risk Factors.

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

3. Regulatory Risks

Regulatory Risks in the Railway Business

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

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

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

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

i. Exclusion from provisions of the JR Companies Act

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

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

ii. Guidelines

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

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

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

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

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Risks Related to the Establishment and Changes to Fares and Surcharges

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

(1) Procedures for approval of fares and surcharges

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

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

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

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

(2) The Group's stance on fare revisions

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

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

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

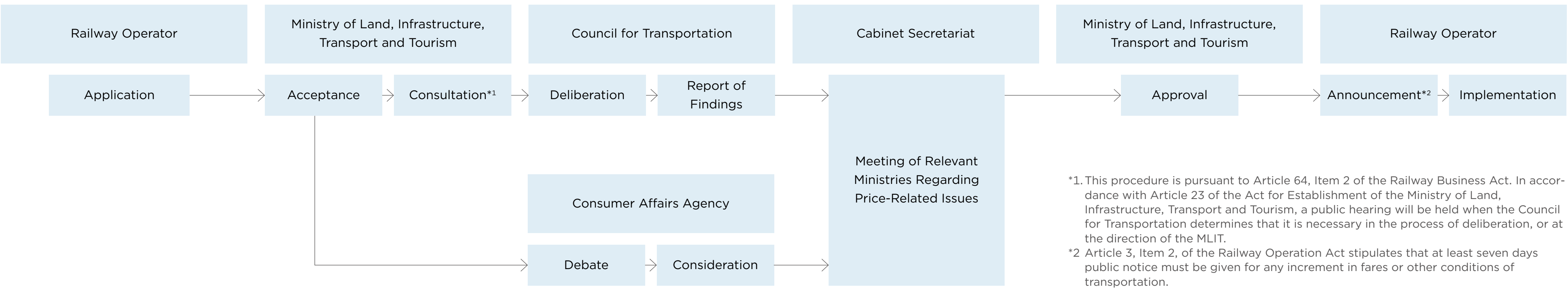
We recognize the need to conduct capital expenditure based upon clearly defined management responsibility.

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

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

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

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



*1. This procedure is pursuant to Article 64, Item 2 of the Railway Business Act. In accordance with Article 23 of the Act for Establishment of the Ministry of Land, Infrastructure, Transport and Tourism, a public hearing will be held when the Council for Transportation determines that it is necessary in the process of deliberation, or at the direction of the MLIT.

*2 Article 3, Item 2, of the Railway Operation Act stipulates that at least seven days public notice must be given for any increment in fares or other conditions of transportation.

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ii. Even when the railway operator operates non-railway businesses, the calculation of total cost, which comprises reasonable costs and profits including required dividend payments to shareholders, is based on railway operations only. Further, operators are required to submit for inspection capital expenditure plans to improve transportation capabilities as a means to ease crowding of commuter transport and for other improvements of passenger services. The capital expenditures necessary for such enhancements is included in the calculation of total cost.

iii. In calculating total cost, regarding capital invested in relevant businesses, a rate-based formula will be used to estimate capital costs (including interest expenses and dividend distributions) wherein fair and appropriate returns will be awarded based on judgments regarding opportunity costs.

- Total cost = Operating cost*1 + Business compensation
- Business compensation = Assets utilized in business compensation (rate base) × Operational return rate
- Assets utilized in business compensation = Equity ratio*3 × Return rate on equity*4 + Borrowed capital ratio*3 × Return rate on borrowed capital*4

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

*2 Operating capital = Operating expenses and a portion of inventory

*3 The equity ratio is 30%, while the borrowed capital ratio stands at 70%.

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

iv. Providing that prior notification is given to the MLIT, railway operators can set or change fares and surcharges and other charges within the upper approved limits. However, the MLIT can issue directives requiring changes in fares and surcharges during specified periods if the fares and surcharges submitted are deemed to fall within the following categories (Railway Business Law, Article 16, Item 5).

- The changes would lead to unjustifiable discrimination in the treatment of certain passengers.
- There is concern that the changes would give rise to unfair competition with other railway transportation operators.

Regarding special tax measures

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

These special tax measures were reviewed along with tax system reforms carried out in FY2017/3 and it was determined that they were to be eliminated following the implementation of interim measures. Details are as follows.

(1) Standards for fixed asset and city planning taxes

i. Regarding fixed asset and city planning taxes on fixed assets used in the business succeeded directly to the Company from Japanese National Railways, the tax standard will be three-fifths of their standard tax assessment value (for FY2017/3 only, this measure will be eliminated starting from FY2018/3).

ii. Interim measures related to tax standards for fixed asset and city planning taxes on fixed assets owned or leased by the Company (to be completely eliminated starting in FY2020/3)

a. FY2017/3: reduced to 50% of standard tax assessment value
b. FY2018/3: reduced to three-fifths of standard tax assessment value
c. FY2019/3: reduced to three-fifths of standard tax assessment value

iii. Other necessary measures

(2) Standards for capital ratios related to corporate tax
The following amounts can be deducted from capital, etc., for each fiscal year as shown below.
a. FY2017/3: amount obtained by deducting capital from capital reserve
b. FY2018/3: three-fourths of the amount obtained by adding capital to capital reserve
c. FY2019/3: one-half of the amount obtained by adding capital to capital reserve

4. Relating to the Real Estate Group

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

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

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

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

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5. Relating to Population Trends

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

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

6. Relating to Competition

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

The commercial real estate leasing business of the Real Estate Group competes with operators of other commercial facilities including shopping centers based on such factors as convenience, the ability to attract customers, rent and other lease terms, brand appeal, and financing. In the residential leasing and condominium businesses, the Group competes with other developers and property owners based on such factors as location, convenience, price, attractiveness, brand appeal, and financing. The Construction Group competes with other construction companies from all over Kyushu and other regions of Japan. The Retail and Restaurant Group competes with similar retailers based on such factors as convenience, price, attractiveness of facilities, and customer satisfaction. In the Other Group, the hotel business competes with other hotel operators based on such factors as brand appeal, cost, convenience, and attractiveness of its physical locations.

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

7. Relating to the Group's Earnings Structure

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

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

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

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

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

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

9. Relating to Natural Disasters and Accidents

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

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

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

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

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

In the fiscal year ended March 31, 2016, the Group recorded large impairment losses attributable to assets related to the reversal of the Management Stabilization Fund. As nearly the full value of fixed assets used in the railway business was written down in connection with the reversal of the Management Stabilization Fund, management does not believe there is a high risk of further impairment losses on the railway business' fixed assets currently held by the Group. However, as the Group plans to continue to make sizable investments in the railway business, if earnings in the railway business fall below expectations, fixed assets used in the railway business could be subject to impairment losses.

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

11. Relating to a Decline in the Number of Tourists

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

12. Relating to New Shinkansen Lines

Construction Plans for New Shinkansen Lines

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

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

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

Based on the results of these studies, Saga Prefecture, Nagasaki Prefecture, and the Company reached a basic agreement on December 16, 2007, that the Company would

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fully manage the line between Hizen-Yamaguchi and Isahaya based on the so-called "scheme of separating infrastructure and operation." Based on this, Super Express service between Takeo Onsen and Isahaya was approved and construction began on March 26, 2008.

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

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

Owing to delays in the development of FGT rolling stock, on March 29, 2016, the Company, Saga Prefecture, Nagasaki Prefecture, the ruling party Shinkansen promotion project team (Western Kyushu Route) review board, the Ministry of Land, Infrastructure and Transport, and the JRTT agreed to use full specification rolling stock on the relevant portion of the line when it is completed in 2022 and use conventional express rolling stock between Hakata and Takeo Onsen and have passengers change trains at Takeo Onsen station (FGT, see the agreement between the six parties below).

Cost Burden of the Development of New Shinkansen Lines

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

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

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

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

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

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

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

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

FINANCIAL SECTION

RISK FACTORS

Treatment of Conventional Lines Running Parallel to New Shinkansen Lines

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

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

The Company's Stance on the Construction of New Shinkansen Lines, including the Kyushu Shinkansen West Kyushu Route using FGT Rolling Stock

Of the leasing costs mentioned in (2 on page 51), some are determined based on an estimate of revenues expected to be generated. We will be required to pay these fixed leasing costs regardless of the actual revenues generated, meaning that our results of operations may be materially and adversely affected if revenues from operations are insufficient to cover them.

The Kyushu Shinkansen (Western Kyushu Route) is expected to use FGT rolling stock. However, this FGT rolling stock technology remains under development by the JRTT. It is necessary to ensure that such technology will provide the required safety, durability, maintainability, and economic feasibility, and issues in the development of FGT rolling stock technology may materially and adversely affect plans for the Western Kyushu Route.

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

Regarding the Kyushu Shinkansen Line West Kyushu Route, in response to the determination on July 14, 2017 by the Ministry of Land, Infrastructure, Transport and Tourism's Free Gauge Technology Evaluation Committee that issues remain regarding the safety and economic feasibility of FGT rolling stock, on July 25, 2017, at a review board meeting, the Company expressed the opinion that operation of FGT rolling stock is likely to be problematic as profitability is doubtful owing to rising FGT rolling stock costs. Also, as safety issues are likely to take a number of years to resolve, concerns have emerged that the operation of Shinkansen infrastructure using relay-type technology, which is expected to have only a limited impact on the effectiveness of development of such infrastructure, will continue over the long term. This issue is therefore expected to become a major challenge for the Company's management.

Considerations Regarding the Development of the Kyushu Shinkansen West Kyushu Route

With respect to the development of the West Kyushu Route following its opening in fiscal 2022 using the face-to-face transfer system, on September 27, 2017, a review board reported to the Ministry of Land, Infrastructure, Transport and Tourism regarding a comparison of the three possible development schemes (including factors such as costs, cost effectiveness, profitability, construction period, and dual track use with the Sanyo Shinkansen) listed below. Consequently, on March 30, 2018, the results of the ministry's comparative analysis were reported at a review board. The chairperson of the Company's internal review board announced plans to come to a preliminary conclusion on these issues around the summer of 2018, after consultation with JR Kyushu, Saga Prefecture, and Nagasaki Prefecture.

1) If free gauge trains are introduced
2) If full-size Shinkansen lines are developed
3) If mini-Shinkansen lines are developed

13. Relating to Lawsuits

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

14. Relating to Information Technology (IT)

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

FINANCIAL SECTION

RISK FACTORS

15. Relating to Rumors

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

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

16. Relating to Protection of Personal Data

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

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

17. Relating to Financial Assets

In accordance with the enforcement ordinance, the Group reversed its Management Stabilization Fund and holds financial assets such as Japanese bonds as a source of funds used to conduct capital investment in railway business assets in order to maintain and improve its railway network. As of the end of March 2018, over half (book value base) of these financial assets were highly liquid, but if the value of these financial assets declines due to trends in interest rates or earnings at issuers or deterioration in their condition, this could have a negative impact on the Group's businesses, earnings, and financial position.

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

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

19. Relating to Losses Associated with the Retirement Benefits System

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

20. Relating to Environmental Regulations

The Group owns real estate mainly as part of its Transportation Group business, Real Estate business, and Other Group business. When acquiring real estate, the Group conducts environmental assessments to discover hazardous or toxic substances in the soil, groundwater, and buildings, including asbestos. However, there can be no assurance that these assessments are adequate to fully uncover the existence or prior use of all toxic substances. Under the Soil Contamination Countermeasures Act of Japan (2002, Law No. 53), a landowner is required to conduct soil contamination assessments in a variety of circumstances. When it is determined that human health is likely to be harmed due to soil contamination, the landowner may be ordered by the relevant authorities to remove the harmful substances regardless of whether the owner is responsible for or has knowledge of said contamination. The Building Standards Act (1950, Law No. 201) and the Air Pollution Control Act of Japan (1968, Law No. 97) requires the removal of, or certain other actions relating to, asbestos in connection with the demolition, renovation, and major repairs of existing buildings. The presence of hazardous or toxic substances may adversely affect the Group's ability to sell, lease, or develop the real estate or borrow using the real estate as collateral. In addition, such real estate could fall in value, and the Group might be required to incur substantial costs to remedy the underlying hazard. If actual harm to human health were to result from the presence of such substances, the Group could be liable for damages. This could have an adverse impact on the Group's businesses, earnings, and financial position.

Financial Section

CONSOLIDATED BALANCE SHEETS

Kyushu Railway Company and Consolidated Subsidiaries
Years ended March 31, 2018, and 2017

(Millions of Yen)

	FY 2017/3	FY 2018/3
ASSETS		
Current assets		
Cash and time deposits	7,337	**15,064**
Notes and accounts receivable–trade	45,843	**42,833**
Fares receivable	1,625	**2,294**
Securities	64,849	**65,077**
Merchandise and finished goods	13,945	**15,024**
Work in process	16,248	**23,364**
Raw materials and supplies	5,978	**6,586**
Deferred tax assets	5,661	**6,336**
Income taxes receivable	9,746	**—**
Other	27,403	**30,272**
Allowance for doubtful accounts	(34)	**(115)**
Total current assets	198,606	**206,736**
Non-current assets		
Property, plant and equipment		
Buildings and fixtures (net)	195,506	**222,772**
Machinery, rolling stock and vehicles (net)	11,794	**20,928**
Land	89,622	**105,153**
Leased assets, net	165	**10,726**
Construction in progress	21,907	**23,551**
Other (net)	7,085	**7,557**
Net property, plant and equipment	326,081	**390,690**
Intangible assets	5,824	**5,908**
Investments and other assets		
Investment securities	17,063	**22,687**
Deferred tax assets	58,102	**55,030**
Net defined benefit assets	667	**819**
Money held in trust	60,109	**55,783**
Other	10,610	**12,770**
Allowance for doubtful accounts	(395)	**(854)**
Total investments and other assets	146,157	**146,237**
Total noncurrent assets	478,063	**542,836**
Total assets	676,669	**749,573**

(Millions of Yen)

	FY 2017/3	FY 2018/3
LIABILITIES AND EQUITY		
Current liabilities		
Notes and accounts payable–trade	37,089	**38,480**
Short-term loans	490	**4,528**
Current portion of long-term debt	791	**5,793**
Payables	45,573	**52,632**
Accrued income taxes	3,817	**8,047**
Fare deposits received with regard to railway connecting services	1,513	**1,597**
Railway fares received in advance	5,191	**5,319**
Accrued bonuses	8,607	**9,260**
Other	31,868	**39,066**
Total current liabilities	134,945	**164,725**
Non-current liabilities		
Long-term debt	77,034	**77,001**
Allowance for safety and environmental measures	5,368	**3,198**
Allowance for earthquake-damage losses	6,012	**7,125**
Liability for retirement benefits	62,504	**63,426**
Asset retirement obligations	1,324	**1,545**
Other	41,032	**49,349**
Total noncurrent liabilities	193,276	**201,647**
Total liabilities	328,222	**366,372**
EQUITY		
Common stock		
Authorized–640,000,000 shares; Issued–160,000,000 shares in FY2017/3 and FY2018/3	16,000	**16,000**
Capital surplus	234,263	**234,270**
Retained earnings (Deficit)	86,987	**124,997**
Total common stock	337,250	**375,268**
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	10,312	**9,981**
Deferred gains or losses on hedges	—	**(47)**
Foreign currency translation adjustments	132	**133**
Defined retirement benefit plans	(4,655)	**(8,171)**
Total accumulated other comprehensive income	5,789	**1,895**
Non-controlling interests	5,408	**6,037**
Total equity	348,447	**383,201**
TOTAL LIABILITIES AND EQUITY	676,669	**749,573**

Financial Section

CONSOLIDATED STATEMENTS OF INCOME

Kyushu Railway Company and Consolidated Subsidiaries
Years ended March 31, 2018, and 2017

(Millions of Yen)

	FY 2017/3	FY 2018/3
OPERATING REVENUES	382,912	**413,371**
OPERATING EXPENSES		
Transportation, other services and cost of sales	235,885	**253,518**
Selling, general and administrative expenses	88,284	**95,889**
Total operating expenses	324,169	**349,408**
OPERATING INCOME	58,743	**63,963**
NON-OPERATING INCOME		
Interest income	293	**57**
Dividend income	106	**305**
Gains on investment securities	245	**1,085**
Gain on assets held in trust	1,699	**1,773**
Other	652	**688**
Total non-operating income	2,998	**3,910**
NON-OPERATING EXPENSES		
Interest expense	695	**698**
Fees associated with listing	286	**—**
Other	194	**129**
Total non-operating expenses	1,176	**827**
ORDINARY INCOME	60,565	**67,045**
EXTRAORDINARY GAINS		
Construction grants received	26,424	**13,418**
Gain on sales of trusts	3,014	**—**
Other	1,170	**3,253**
Total extraordinary gains	30,609	**16,672**
EXTRAORDINARY LOSSES		
Losses from provision for cost reduction of fixed assets	25,275	**13,317**
Provision for loss on disaster	6,012	**2,677**
Earthquake-damage losses	3,058	**1,212**
Other	1,205	**1,676**
Total extraordinary losses	35,551	**18,883**
INCOME BEFORE INCOME TAXES	55,623	**64,834**
INCOME TAXES	5,760	**9,973**
Current	4,865	**4,036**
Deferred	10,626	**14,009**
NET INCOME	44,997	**50,824**
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	246	**414**
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	44,751	**50,410**

COMPREHENSIVE INCOME STATEMENTS

Kyushu Railway Company and Consolidated Subsidiaries
Years ended March 31, 2018, and 2017

(Millions of Yen)

	FY 2017/3	FY 2018/3
NET INCOME	44,997	**50,824**
OTHER COMPREHENSIVE INCOME		
Unrealized gain on available-for-sale securities	(2,481)	**(319)**
Deferred gains or losses on hedges	—	**(47)**
Foreign currency translation adjustments	(13)	**(2)**
Defined retirement benefit plans	360	**(3,499)**
Total other comprehensive income	(2,134)	**(3,867)**
COMPREHENSIVE INCOME	42,862	**46,957**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent	42,619	**46,516**
Non-controlling interests	243	**440**

Financial Section

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Kyushu Railway Company and Consolidated Subsidiaries
Years ended March 31, 2018, and 2017

For the fiscal year ended March 31, 2017

(Millions of Yen)

	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings	Total Shareholders' equity
Balance at beginning of current year	16,000	559,735	(283,381)	292,354
Changes of items during the year				
Net income attributable to owners of the parent			44,751	44,751
Change of scope of consolidation			29	29
Changes in the ownership interest by purchases of shares of consolidated subsidiaries		114		114
Deficit disposition		(325,586)	325,586	—
Net changes of items other than shareholders' equity				
Total changes of items during the year	—	(325,471)	370,368	44,896
Balance at end of current year	16,000	234,263	86,987	337,250

	Accumulated other comprehensive income					
	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total equity
Balance at beginning of current year	12,791	145	(5,015)	7,921	5,469	305,745
Changes of items during the year						
Net income attributable to owners of the parent						44,751
Change of scope of consolidation						29
Changes in the ownership interest by purchases of shares of consolidated subsidiaries						114
Deficit disposition						—
Net changes of items other than shareholders' equity	(2,479)	(13)	360	(2,132)	(61)	(2,194)
Total changes of items during the year	(2,479)	(13)	360	(2,132)	(61)	42,702
Balance at end of current year	10,312	132	(4,655)	5,789	5,408	348,447

For the fiscal year ended March 31, 2018

(Millions of Yen)

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

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

Financial Section

CONSOLIDATED STATEMENTS OF CASH FLOWS

Kyushu Railway Company and Consolidated Subsidiaries
Years ended March 31, 2018, and 2017

(Millions of Yen)

	FY 2017/3	FY 2018/3
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income taxes	55,623	**64,834**
Depreciation costs	14,537	**17,914**
Gain on sales of trusts	(3,014)	**—**
Losses from provision for cost reduction of fixed assets	25,275	**13,317**
Earthquake-damage losses	3,058	**1,212**
Increase in provision for loss on disaster	6,012	**2,677**
Increase (Decrease) in allowance for doubtful accounts	(57)	**141**
Increase (Decrease) in liability for retirement benefits	(5,644)	**(4,260)**
Increase (Decrease) in allowance for safety and environmental measures	(1,937)	**(2,170)**
Interest and dividends income	(400)	**(363)**
Interest expense	695	**698**
Construction grants received	(26,424)	**(13,418)**
(Increase) decrease in trade receivables	(19,343)	**9,913)**
(Increase) decrease in inventories	489	**(4,834)**
Increase (Decrease) in trade payables	2,750	**(1,882)**
Gain on assets held in trust	(1,699)	**(1,773)**
Fees associated with listing	286	**—**
Other	11,948	**3,486**
Subtotal	62,154	**85,493**
Proceeds from insurance income	128	**—**
Interest and dividends income received	412	**383**
Interest expense paid	(604)	**(619)**
Gain on assets held in trust received	1,991	**1,780**
Fees associated with listing paid	(286)	**—**
Loss on disaster paid	(2,141)	**(3,019)**
Income taxes (paid) refund	(33,073)	**3,672**
Net cash provided by operating activities	28,580	**87,689**

(Millions of Yen)

	FY 2017/3	FY 2018/3
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment, and Intangible assets	(93,156)	**(82,323)**
Purchases of marketable securities	(98,890)	**(41,600)**
Proceeds from redemption of marketable securities	95,370	**43,500**
Purchases of investment securities	(8,866)	**(4,386)**
Proceeds from sales of trusts	59,160	**—**
Proceeds from construction grants received	18,622	**15,643**
Other	9,392	**786**
Net cash provided by (used in) investing activities	(18,366)	**(68,379)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in short-term loans payable	(173)	**(1,177)**
Proceeds from long-term loans payable	50	**5,739**
Repayment of long-term loans payable	(889)	**(791)**
Payments for long-term accounts payable	(330)	**(336)**
Proceeds from lease and guarantee deposits received	2,075	**947**
Repayments of lease and guarantee deposits received	(1,149)	**(1,256)**
Cash dividends paid	—	**(12,400)**
Cash dividends paid to non-controlling shareholders	(53)	**(48)**
Other	(222)	**126**
Net cash used in financing activities	(692)	**(9,197)**
Effect of exchange rate change on cash and cash equivalents	10	**4**
Net increase (decrease) in cash and cash equivalents	9,530	**10,116**
Cash and cash equivalents, beginning of year	44,690	**54,263**
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	42	**—**
Cash and cash equivalents, end of year	54,263	**64,379**

CORPORATE INFORMATION

Overview

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

History

FY1950/3
- Establishes Japanese National Railways

FY1988/3
- Establishes Kyushu Railway Company
- Launches travel business
- Establishes the current JR Kyushu Retail, Inc.
- Establishes the current JR Kyushu Tetsudou Eigyou Co., Ltd.
- Establishes the current JR Kyushu Agency Co., Ltd.

FY1989/3
- Establishes the current JR Kyushu Financial Management Company
- Launches D&S Train Yufuin no Mori

FY1990/3
- Adjusts fares and charges to accompany the introduction of consumption tax
- Establishes the current JR Kyushu System Solutions Inc.
- Establishes the current JR Kyushu Resort Development Co., Ltd.
- Establishes the current JR Kyushu Fast Foods Inc.
- Makes the current Kyushu Electric System Company a subsidiary
- Makes the current KSK. Ltd. a subsidiary

FY1991/3
- Establishes the current JR Kyushu Consultants Company
- Torrential rains damage the Houhi Line
- Establishes the current JR Kyushu Secom Inc.
- Establishes the current JR Kyushu Huis Ten Bosch Hotel Co., Ltd
- Starts regular Beetle 2 international hydrofoil ferry services between Fukuoka, Japan, and Busan, South Korea

FY1992/3
- Announces the medium-term business plan “Action 21” (1991–1995)
- Makes the current JR Kyushu-Rent-A-Car&Parking. Co., Ltd. a subsidiary
- Makes the current JR Kyushu Trading Co., Ltd., a subsidiary
- Reopens entire Houhi Line (repaired damage caused by torrential rains in 1990)

FY1993/3
- Establishes TRANDOR LTD.
- Launches the Tsubame limited express
- Opens the current JR Kyushu Hotel Blossom Fukuoka

FY1994/3
- Torrential rains damage Ryugamizu Station

FY1995/3
- Great Hanshin Earthquake occurs

FY1996/3
- Opens the current Hotel Okura JR Huis Ten Bosch
- Establishes Kokura Terminal Building Inc.
- Adjusts fares for the first time as JR Kyushu (7.8% fare adjustment rate)
- Establishes the current JR Kyushu Food Service Inc.

FY1997/3
- Announces the medium-term business plan “New Action 21” (1996–2000)
- Launches the Miyazaki Kuko Line

FY1998/3
- Adjusts fares and charges to accompany the revised consumption tax rate
- Establishes Houhi Line Rapid Transit Railway Maintenance Company
- Launches general operations system
- Opens Amu Plaza Kokura in the Kokura Station building
- Derailment on the Chikuhi Line at Imajuku Station
- Makes the current JR Kyushu Maintenance Co., Ltd., a subsidiary

FY1999/3
- Opens Station Hotel Kokura
- Establishes the Nagasaki Terminal Building Inc.
- Establishes current business alliance (concludes basic agreement) between JR Kyushu Retail, Inc., and the convenience store business am/pm Japan Co., Ltd.

FY2000/3
- Establishes the current JR Kyushu Hotels Inc.
- Launches Houhi Line between Kumamoto and Higo-Ozu
- Introduces first JR Kyushu automatic ticket gates in Minami-Fukuoka Station
- Establishes the current JR Kyushu Building Management Co., Ltd.
- Moves Fukuoka head office

FY2001/3
- Establishes the current JR Kyushu Housing Company
- Opens Amu Plaza Nagasaki in the Nagasaki Station building
- Opens JR Kyushu Hotel Nagasaki
- Establishes the current JR Kyushu Bus Company
- Completes the general operations system JACROS

History

FY2002/3
- Establishes the northern Kyushu head office, combining the Kitakyushu and Fukuoka head offices
- Announces the Medium-Term Business Plan “G-vision ‘03” (2001–2003)
- Opens JR Kyushu Hotel Kagoshima
- JR Kyushu Food Service Inc. opens Umaya in Akasaka, Tokyo
- Collision on the Kagoshima Line between Ebitsu and Kyoikudaimae

FY2003/3
- Makes Sanki Construction Co., Ltd., a subsidiary
- Establishes JR Kyushu Life Service Co., Ltd.
- Establishes Kagoshima Terminal Building Inc.
- Makes KYUTETSU CORPORATION a subsidiary

FY2004/3
- Surpasses two million passengers serviced on the Beetle hydrofoil ferry
- Derailment on the Nagasaki Line between Oe and Hizen-Nagata
- Launches the Kyushu Shinkansen from Shin-Yatsushiro and Kagoshima-Chuo
- Begins operating D&S Trains Hayato no Kaze, Kyushu Odan Tokkyu, and Isaburo/Shinpei
- Opens JR Kyushu Hotel Kumamoto

FY2005/3
- Announces the medium-term business plan “JR Kyushu Group Medium-Term Business Plan 2004–2006” (2004–2006)
- Opens Amu Plaza Kagoshima in the Kagoshima-Chuo Station building

FY2006/3
- Establishes JR Kyushu Jet Ferry Inc.
- Opens JR Hotel Yakushima

FY2007/3
- Opens private nursing home SJR Betsuin
- Surpasses 10 million passengers serviced on the Kyushu Shinkansen Tsubame

FY2008/3
- Announces medium-term business plan “DASH 2011” (2007–2011)
- Makes the current JR KYUSHU DRUG ELEVEN CO., LTD., a subsidiary
- Opens JR Kyushu Hotel Kokura
- Makes the current JR Kyushu Linen Co., Ltd., a subsidiary

FY2009/3
- Establishes council to promote urban development in Hakata
- Launches IC card ticketing service SUGOCA

FY2010/3
- Begins operating D&S Train SL Hitoyoshi
- Launches interoperable IC card ticketing service SUGOCA
- Begins operating D&S Train Umisachi-Yamasachi

FY2011/3
- Opens Shanghai office
- Establishes the current JR Kyushu Farm Co., Ltd.
- Establishes Shanghai JR Kyushu Food Service Inc.
- Opens JR Hakata City in Hakata Station (Amu Plaza Hakata in the Hakata Station building)
- Begins interoperation with JR Central’s TOICA and JR West’s ICOCA cards
- Begins operation of the entire Kyushu Shinkansen line, providing through service to the Sanyo Shinkansen line
- Begins operating D&S Train Ibusuki no Tamatebako
- Great East Japan Earthquake occurs

FY2012/3
- Begins operating D&S Train Aso Boy!
- Wins awards in three categories at the Cannes Lions international advertising festival for Congratulations Kyushu! campaign celebrating the full opening of the Kyushu Shinkansen line
- Begins operating D&S Train Let’s Take the A-Train
- Opens JR Kyushu Hotel Miyazaki
- Opens Akasaka Umaya (Jing’an Temple) Shanghai

FY2013/3
- Announces the medium-term business plan “Tsukuru 2016” (2012–2016)
- Surpasses 100 million visitors at JR Hakata City
- Launches Japan wide interoperable IC card transportation service

FY2014/3
- Opens JR Kyushu Hotel Blossom Hakata Chuo
- Establishes JR Kyushu Senior life support, Inc.
- Resumes operations between Miyaji and Bungo-Taketa on the Hohi Line (damaged by torrential rains in northern Kyushu in 2012)
- Begins operations of the world’s first cruise train Seven Stars in Kyushu

FY2015/3
- Adjusts fares and charges to accompany the rise in consumption tax rate
- Opens JR Kyushu Hotel Blossom Shinjuku
- Launches Smart Support Station service on the Kashii Line

FY2016/3
- Opens after-school facility Kids JR Takatori
- Opens JR Oita City in Oita Station (Amu Plaza Oita in Oita Station building)
- Opens JR Kyushu Hotel Blossom Oita
- Opens Yaoya Kyuchan in Chihaya
- Launches D&S Train Aru Ressha
- Makes Oyama Yumekobo, Inc., a subsidiary

FY2017/3
- Revises JR Company Law
- 2016 Kumamoto earthquakes occur
- Opens JR JP Hakata Building
- Announces the medium-term business plan JR Kyushu Group Medium-Term Business Plan 2016–2018
- “Seven Stars in Kyushu” wins the first Nihon Service Award conferred by the prime minister
- Is listed on the Tokyo Stock Exchange First Section
- Launches D&S Train Kawasemi Yamasemi

FY2018/3
- Establishes of Bangkok office
- Opens JR Kyushu Hotel Blossom Naha
- Opens Drug Eleven Kyobashi store (our first Drug Eleven branded drugstore in Tokyo)
- Opens Kids JR Roppongi after-school childcare facility
- Opens SJR Ropponmatsu elderly living facility
- Opens Ropponmatsu development project
- Acquires of shares of Caterpillar Kyushu Ltd.
- Opens Okuhita Onsen Umehibiki hot spring resort
- Establishes current business alliance in Thai serviced apartment operation business with ONYX Hospitality Group
- Launches Smart Support Station services at some stations in Oita City
- Opens Higo Yokamon Market commercial facilities below Kumamoto Station
- July 2017 Northern Kyushu torrential rains occur
- 2017 Typhoon No. 18 occurs

ORGANIZATIONAL CHART / DIRECTORS AND CORPORATE AUDITORS

As of June 22, 2018

Representative Director and Chairman Corporate Officer
Koji Karaike

Representative Director and President Corporate Officer
Toshihiko Aoyagi

Senior Managing Directors Corporate Officers
Hayato Maeda
Ryuji Tanaka

Managing Directors Corporate Officers
Yoji Furumiya
Masaya Hirokawa

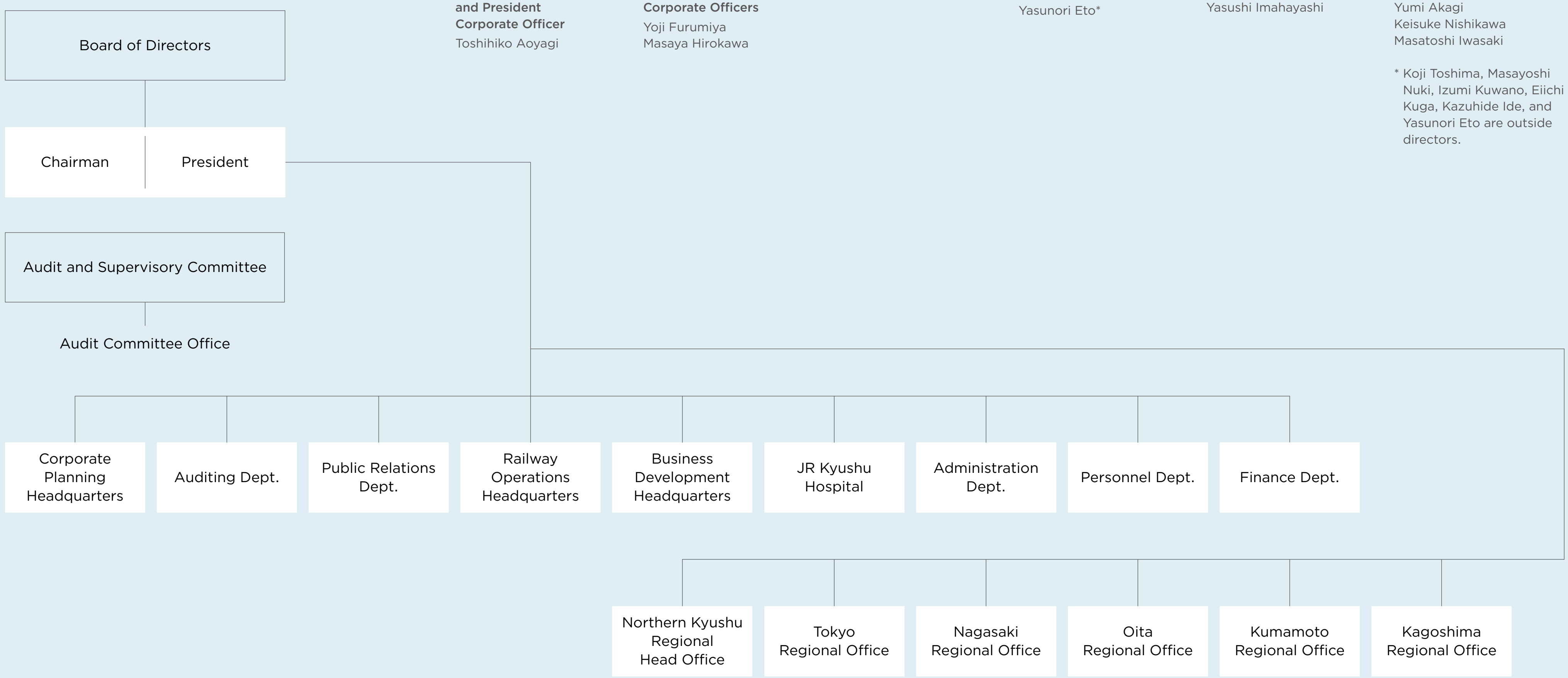
Directors
Koji Toshima*
Masayoshi Nuki*
Izumi Kuwano*

Directors
Audit and Supervisory Committee members
Eiichi Kuga*
Yasuko Goto
Kazuhide Ide*
Yasunori Eto*

Senior Executive Officers
Tomiyuki Maekawa
Hiroyuki Fukunaga
Junya Matsumoto
Takuma Matsushita
Toshihiro Mori
Yasushi Imahayashi

Executive Officers
Hiroyuki Fukuzawa
Kazuhiro Oishi
Koji Higashi
Kimiaki Hyodo
Hisashi Yamane
Yumi Akagi
Keisuke Nishikawa
Masatoshi Iwasaki

* Koji Toshima, Masayoshi Nuki, Izumi Kuwano, Eiichi Kuga, Kazuhide Ide, and Yasunori Eto are outside directors.

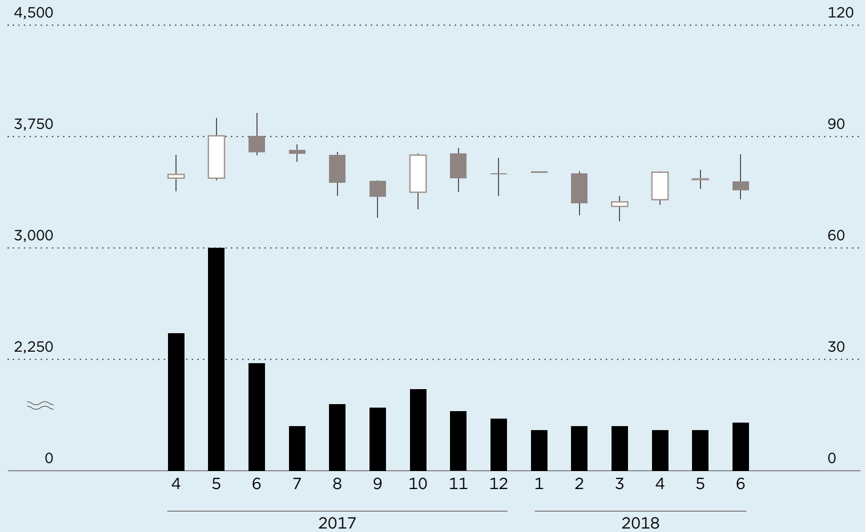


INVESTOR INFORMATION

As of March 31, 2018

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

Stock Price Range / Trading Volume



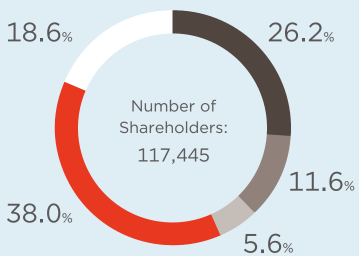
		2017 Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	2018 Jan.	Feb.	Mar.	Apr.	May	Jun.
JR Kyushu	High	3,625	3,875	3,910	3,695	3,645	3,455	3,635	3,675	3,605	3,640	3,515	3,350	3,515	3,525	3,630
	Low	3,380	3,455	3,625	3,580	3,350	3,205	3,260	3,380	3,350	3,475	3,220	3,180	3,290	3,400	3,330
Nikkei Average (¥)		19,197	19,651	20,033	19,925	19,646	20,356	22,012	22,725	22,765	23,098	22,068	21,454	22,468	22,202	22,305
TOPIX (Points)		1,532	1,568	1,612	1,619	1,617	1,675	1,766	1,792	1,818	1,837	1,768	1,716	1,777	1,747	1,731

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

Major Shareholders

Major Shareholders	% Voting rights
Morgan Stanley MUFG Securities Co., Ltd.	5.55
The Master Trust Bank of Japan, Ltd. (Trust Account)	4.80
JP Morgan Securities Japan Co., Ltd.	3.39
STATE STREET BANK WEST CLIENT - TREATY 505234 Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department	2.84
Japan Trustee Services Bank, Ltd. (Trust Account)	2.75
Taiyo Life Insurance Company	2.00
The Master Trust Bank of Japan, Ltd. (Trust Account 5)	1.90
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC) Standing proxy: MUFG Bank, Ltd.	1.88
GOLDMAN, SACHS & CO. REG Standing proxy: Goldman Sachs Japan Co., Ltd.	1.82
Meiji Yasuda Life Insurance Company	1.51

Distribution of Share Ownership by Type of Shareholder



- Japanese financial institutions
- Japanese securities firms
- Other Japanese corporations
- Foreign institutions
- Japanese individuals and others

JR-KYUSHU

For More Information:

Strategy Management Department
Corporate Planning Headquarters (IR)
E-mail: ir.info@jrkyushu.co.jp
URL: http://www.jrkyushu.co.jp/company/ir_eng