

(Translation)

April 30, 2020

To whom it may concern:

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Name of Representative: Toshihiko Aoyagi, President and CEO

Securities Code: 9142

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Notice Regarding Change of Subsidiary (Share Transfer)

Kyushu Railway Company (hereinafter, “JR Kyushu”) announces that, at a Board of Directors meeting held on April 30, 2020, it has resolved to transfer to TSURUHA Holdings, Inc. (hereinafter, “TSURUHA”), a portion of its holdings of the shares of JR KYUSHU DRUG ELEVEN CO.,LTD. (hereinafter, “Drug Eleven” or “the concerned company”), and that JR Kyushu and TSURUHA have concluded a share transfer agreement.

After this transfer, JR Kyushu will continue to hold 49% of the shares of Drug Eleven. Accompanying this transfer, from the fiscal year ending March 31, 2021, Drug Eleven will no longer be a consolidated subsidiary of JR Kyushu, and JR Kyushu plans to account for Drug Eleven as an equity-method affiliate.

1. Reason for the Transfer

Drug Eleven operates in accordance with its corporate philosophy of finding joy in the health, beauty, and satisfaction of customers and contributing to local communities with a feeling of gratitude. On that basis, Drug Eleven has developed the drugstore business, principally in the Kyushu and Okinawa regions, as a core subsidiary in the JR Kyushu Group’s Retail and Restaurant segment. In particular, Drug Eleven has rolled out stores in a variety of formats in line with local community characteristics and customer usage scenarios. These include stores in stations and station buildings that leverage the Group’s distinctive strengths. In this way, Drug Eleven has supported the Group’s city-building initiatives and has worked to enhance its consultation capabilities for the health and beauty of customers.

On the other hand, the drugstore industry is currently undergoing dramatic change, and the overall market growth rate is sluggish. In this setting, competitors are aggressively opening stores, and company consolidation and reorganization initiatives are accelerating the move toward a state of oligopoly in the industry. The business environment continues to be challenging. In response, JR Kyushu considered a variety of alternatives to support the further growth of Drug Eleven in the years ahead.

In accordance with its philosophy of providing customers with an enriched and comfortable lifestyle, the TSURUHA Group aims to be “Japan’s best drugstore chain” while contributing

to local communities through health and beauty. The TSURUHA Group had 2,138 drugstores and dispensing pharmacies in Japan (as of April 15, 2020). The TSURUHA Group's operating companies strive to contribute to local communities while leveraging their strengths in business formats and store names that are aligned with each region. In addition, the TSURUHA Group has achieved increases in profitability through economies of scale resulting from the expansion of its business, including increased buying power resulting from growth in the scale of sales, system consolidation/sharing, lower store-opening costs, etc.

After considering various options, JR Kyushu decided that the best course of action was to aim for further growth for Drug Eleven as a company that has both local roots and profitable operations, and to that end JR Kyushu decided to transfer a portion of its shares in Drug Eleven to TSURUHA, thereby facilitating further growth in Drug Eleven's sales and corporate value. This will enable Drug Eleven to utilize the business know-how and other management resources of the TSURUHA Group while leveraging its own strengths and characteristics.

2. Outline of subsidiary subject to change (as of February 29, 2020)

(1)	Name	JR KYUSHU DRUG ELEVEN CO.,LTD.		
(2)	Location	1-2-1 Kawakubo, Onojo-shi, Fukukoka		
(3)	Position and name of representative	President: Yasushi Imahayashi		
(4)	Business activities	Retail sales of pharmaceuticals, cosmetics, daily-use items, etc.; dispensing pharmacy operations		
(5)	Capital stock	¥100 million		
(6)	Date of establishment	June 16, 1989		
(7)	Major shareholder and shareholding ratio	Kyushu Railway Company: 100%		
(8)	Relationship between the listed company and the company concerned	Capital relationship	JR Kyushu holds 100% of the shares of Drug Eleven	
		Personnel relationship	Four of Drug Eleven's directors and two of Drug Eleven's employees are directors or employees of JR Kyushu who have been dispatched from JR Kyushu or are working concurrently with their positions at JR Kyushu.	
		Business relationship	Drug Eleven has lease contracts, etc., with JR Kyushu	
(9)	Operating results and financial condition of the company concerned for the most recent three years			
	Fiscal year	Fiscal year ended February 2017	Fiscal year ended February 2018	Fiscal year ended February 2019
	Net assets	¥5,825 million	¥6,622 million	¥7,304 million
	Total assets	¥17,695 million	¥17,905 million	¥18,416 million
	Net sales	¥49,740 million	¥51,231 million	¥51,972 million
	Operating income	¥1,469 million	¥1,431 million	¥1,337 million
	Ordinary income	¥1,521 million	¥1,519 million	¥1,398 million
	Net income	¥771 million	¥796 million	¥681 million

3. Outline of company purchasing the shares (as of May 15, 2019)

(1)	Name	TSURUHA Holdings, Inc.	
(2)	Location	20-1-21 Kita 24 Jo-higashi, Higashi-ku, Sapporo-shi	
(3)	Position and name of representative	President: Masashi Horikawa	
(4)	Business activities	Management guidance and supervision of drugstores conducting sales of pharmaceuticals, cosmetics, daily-use items, etc.	
(5)	Capital stock	¥10,023 million	
(6)	Date of establishment	June 1, 1963	
(7)	Major shareholders and shareholding ratios	Aeon Co., Ltd.	13.06%
		STATE STREET CLIENT OMNIBUS ACCOUNT OM02 (Standing proxy: The Hong Kong and Shanghai Banking Corporation Limited, Tokyo Branch, Custody Department)	5.37%
		The Master Trust Bank of Japan, Ltd. (Trust Account)	4.45%
		THE CHASE MANHATTAN BANK 385036 (Standing proxy: Mizuho Bank, Ltd., Settlement Business Department)	3.68%
		RBC IST 15 PCT LENDING ACCOUNT – CLIENT ACCOUNT (Standing proxy: Citibank, N.A., Tokyo Branch)	3.18%
(8)	Consolidated net assets	¥220,214 million	
(9)	Consolidated total assets	¥372,293 million	
(10)	Relationship between the listed company and the company concerned	Capital relationship	There are no matters requiring mention.
		Personnel relationship	There are no matters requiring mention.
		Business relationship	There are no matters requiring mention.
		Status as a related party	There are no matters requiring mention.

4. Number of transferred shares, transfer price, and status of shareholding before and after the transfer

(1) Number of shares owned before transfer	5,221,076 shares (Number of voting rights: 5,221,076) (Ratio of voting rights: 100.0%)
(2) Number of transferred shares	2,662,749 shares (Number of voting rights: 2,662,749) (Ratio of voting rights: 51.0%)
(3) Transfer price	The transfer price will not be disclosed due to the duty of confidentiality among the parties, but it will be determined through negotiations with the other party after a fair process.
(4) Number of shares owned after transfer	2,558,327 shares (Number of voting rights: 2,558,327) (Ratio of voting rights: 49.0%)

5. Schedule

(1) Date of resolution of the Board of Directors	April 30, 2020
(2) Date of conclusion of share transfer contract	April 30, 2020
(3) Effective date of share transfer	May 28, 2020 (planned)

6. Future outlook

Accompanying this transfer, from the fiscal year ending March 31, 2021, Drug Eleven will no longer be a consolidated subsidiary of JR Kyushu, and JR Kyushu plans to account for Drug Eleven as an equity-method affiliate. The consolidated results forecast for the fiscal year ending March 2021 is currently under consideration.