RISK FACTORS

The Group's operations are mainly based in the Kyushu region of Japan. In addition to the railway business, which includes the Kyushu Shinkansen and other facets of its railway network that connect major cities in the Kyushu region, these operations also cover real estate highly synergistic with the railway business (station building commercial facilities, condominiums, and hotels, etc.), as well as its retail and restaurant businesses.

Of the business conditions, management conditions, and other items included in this report, those that may have a significant impact on the judgement of investors have been included in this section.

Please note that the items listed here are determined by the Group as of the end of March 2020, but do not cover all risks applicable to the Group.

1. Risks Related to Spread of Infection

With the rapid spread of COVID-19 from around February 2019, socioeconomic activity has been severely restricted. This has affected the Group via a large decrease in railway use, reduced rental income from temporary closures or shorter business hours at station building and other commercial facilities, higher vacancy at hotels, and lower sales at convenience stores and restaurants within station buildings.

As of the date of publication, the Japanese government has lifted the state of emergency, but the timeframe for the resolution of the COVID-19 situation is unclear. As a consequence, it is difficult at this time for the Group to make a reasonable estimate regarding when and to what extent the impact of the situation on the Group's results of operations and financial position will be eased. Furthermore, even if the COVID-19 situation is resolved, there remains a possibility that demand for the Group's railways, station building commercial facilities, hotels, restaurants and other operations will decline over the medium- to long-term if the proliferation of working from home or online lessons leads to an increasing tendency for people to avoid commuting and contact.

Therefore, if international or domestic outbreak and spread of serious infectious diseases, such as severe acute respiratory syndrome (SARS), new strains of influenza, or COVID-19, cause a decline in overall economic activities as a result of self-quarantine or restrictions on inbound or other forms of human movement, reduction of corporate activities, disruptions in the supply chain, or other factors, there may be a corresponding decline in demand for the Group's business, which could affect results of operations and financial position.

If there is a risk of serious infectious disease in Japan or overseas, we will establish a headquarters for countermeasures and work promptly to implement measures in cooperation with government-affiliated organizations and local governments to prevent infection and ensure business continuity. However, if an infection proves to be particularly strong, a large number of employees and contractors are among those affected, business continuity may be impacted.

2. Relating to Population Trends Stemming from the Declining Birthrate, Aging Population

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.

To address ongoing depopulation, the Group will work to increase the number of people living along railway lines by developing station buildings and condominiums to increase the value of these areas. At the same time, the Group is working to increase the number of people coming and going from these areas for business and tourism, and by capturing inbound demand, achieved by leveraging the benefit of Kyushu being geographically close to various Asian countries. These actions serve to secure income for the railway business and stimulate consumerism in the Kyushu area. For instance, one year after the Hakata Station building was opened in March 2011, short distance revenue in the Fukuoka Metropolitan Area increased 11% year on year.

Future depopulation and aging of the population of Kyushu could result in a decrease in commuter pass revenue and non-commuter pass revenue from people traveling for business or recreation. In such a case, results of operations and financial position for the Transportation Group may be affected. In addition, depopulation could lead to a decline in consumption and a decline in the number of people using station building commercial facilities and stores and a decline in the number of people renting apartments or purchasing condominiums, which could impact the results of operations and financial position of the Real Estate and Hotels Group and the Retail and Restaurant Group.

3. Relating to Natural Disasters and Accidents

The Group's operations are diverse in scope and geographically concentrated in Kyushu. The Group has substantial fixed assets such as railways, rolling stock, and real estate that could be impaired by such natural disasters as earthquakes, volcanic eruptions, tsunamis, typhoons, landslides, heavy rains, heavy snowfall, or floods, in addition to man-made disasters such as terrorism or armed conflict. If this occurs, large-scale repairs of the Group's assets may be necessary and 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, results of operations, and financial position.

In particular, the 2016 Kumamoto Earthquake on April of that year caused significant damage to the Kyushu Shinkansen and other Group facilities. To account for the recent uptick in the frequency and severity of natural disasters, the Group is investing ¥70.0 billion in safety investments over the three-year Medium-Term Business Plan ending in fiscal 2021, put toward measures concerning shinkansen derailment and seismic retrofitting for Group structures. Furthermore, the Group is working on strengthening both its hard and soft disaster prevention and mitigation measures, which includes desktop training and evacuation training.

4. Relating to Economic Trends and International Situations

The Group operates a variety of businesses, primarily in the Kyushu region, including transportation services, construction, real estate and hotels, and retail and restaurants. Therefore, the Group is affected by the economic conditions of Japan as a whole, including consumption tax increases and economic policies of the government, in addition to the economic conditions of Kyushu, which includes Fukuoka City and other urban areas.

In addition, the number of tourists from overseas, particularly from Korea, China, Taiwan, Hong Kong and other Asian countries and regions nearby may increase or decrease depending on foreign currency exchange rates, political conditions, natural disasters, inclement weather, accidents, spread of infectious disease, or other factors. Changes in these conditions could affect results and financial position.

5. Relating to the Medium-Term Business Plan

The Group announced the JR Kyushu Group Medium-Term Business Plan 2019–2021 "Toward the Next Growth Stage" in March 2019 and determined numerical management targets.

However, if online ticket sales or yield management do not progress in line with expectations or if cost reductions through increased efficiency, workforce reductions, etc., 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.

Furthermore, if future real estate projects are unsuccessful, or the Group is put in a situation where its accumulated know-how and experience is ineffective when extending its businesses outside of Kyushu, the ability of the Group to meet the goals of the

Medium-Term Business Plan may be affected. Moreover, due to the highly interconnected nature of the Group's Transportation Group and Real Estate and Hotels Group businesses, risks that adversely affect one of these businesses may also adversely affect the other.

In addition, 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.

6. Relating to Information Technology (IT)

The Group utilizes various IT systems for safe and appropriate operations of its various businesses, including the railway business. In addition, other companies that have business relationships with the Group utilize IT systems as well. The Group has enacted a digital strategy and is working to enhance IT system security and to improve its response capabilities, which include early incident detection and recovery. However, despite these measures, accidents, damage, cyberattacks, human errors or unauthorized operations within the IT systems of the Group or in systems at companies with business relationships with the Group may result in problems with Group operations, including rail delays, malfunctions, ticketing, and reservations, and may damage trust in the safety and reliability of the Group and thereby affect the Group's results and financial position.

7. Relating to Protection of Personal Data

As a corporate group engaged in railway 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), and is working to maintain internal regulations, strengthen security, and educate employees thoroughly.

However, 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, results, and financial position.

8. Relating to Competition

Each of the Group's businesses faces competition. In addition to railway companies, the Transportation Group competes with other means of transport, including automobiles, buses, aircraft, and ships in terms of safety, cost, transit time, convenience, comfort and other factors. 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 Real Estate and Hotels Group competes with other real estate developers and hotel operators based on such factors as convenience the ability to attract customers, cost, rent and other lease terms, and brand strength. 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.

If the Group is unable to improve of maintain competitiveness, whether due to changes in customer preferences or demands, an inability to keep up with technology, consolidation of its competitors or other factors, its results and financial position could be affected.

9. 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 FY2016/3, the Group recorded large impairment losses attributable to assets related to the reversal of the Management Stabilization Fund on March, 31, 2016. As nearly the full value of fixed assets for 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 fixed assets for railway business 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 for railway business could be subject to impairment losses.

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 2020, over half (book value base) of these financial assets were highly liquid, but it is possible that the value of these financial assets may decline due to trends in interest rates or earnings at issuers or deterioration in their condition. If events like those described above occur again, this could have an adverse material impact on the Group's operating results, and financial position.

10. 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 and Hotels Group, 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 Group and Other Group, 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 Co., Ltd. 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 results, and financial position.

11. Relating to Environmental Regulations

The Group owns real estate mainly as part of its Transportation Group and Real Estate and Hotels Group. 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.

12. Relating to the Transportation Group

(Regarding safety measures)

The Group recognizes that the pursuit of safety in the railway business, its core business, is a mission of the utmost importance and a wellspring of corporate value. Therefore, top management is taking a proactive approach by appropriately operating a PDCA cycle for safety control and implementing safety audits, safety checks, and similar activities, thereby working to further ensure safety.

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, 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.

(Regarding regulatory Risks)

(1) 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.

i. 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.

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

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 in 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.

(2) Risks Related to the Establishment and Changes to Fares and Surcharges

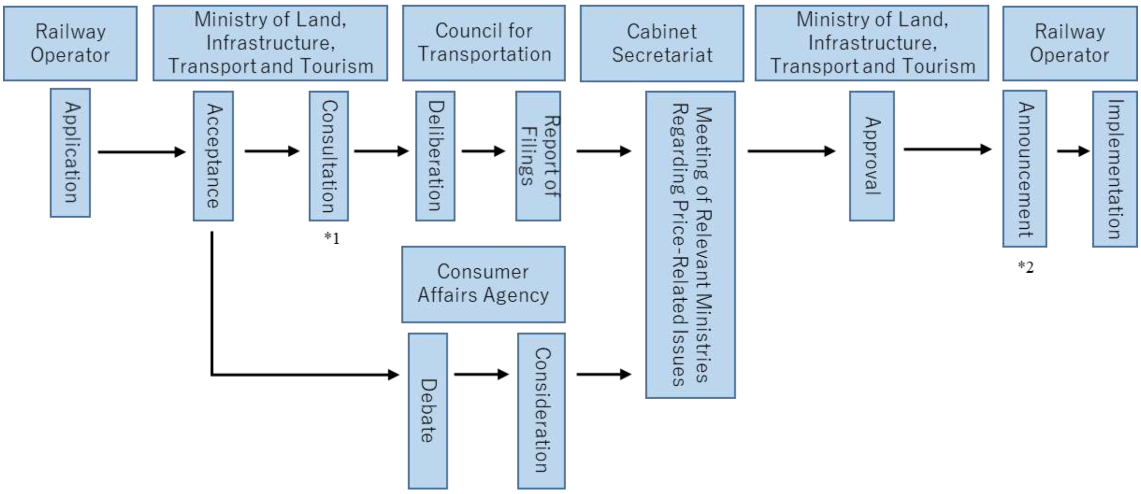
The Railway Business Act requires JR Kyushu to follow certain procedures when seeking to set or change fares and surcharges. If the Company is unable to flexibly change fares and surcharges based on these procedures for any reason, its earnings could be affected. Details of these procedures are as follows.

i. 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.



*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.

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.

ii. The Group's stance on fare revisions

1) Except for fare revisions to reflect sales tax hikes in April 1989, April 1997, April 2014, and October 2019, 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.
2) 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.

3) 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.

iii. View of Ministry of Land, Infrastructure, Transport and Tourism

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

1) 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.

2) 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.

3) 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 expenses, etc.,[*1] + Business compensation

• Business compensation = Assets utilized in Operational return (rate base) ×Operational return rate

• Assets utilized in Operational return = fixed assets used in the railway business + construction in progress + deferred assets + -operating capital[*2]

• Operational return rate = 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.

4) 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).

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

（Relating to New Shinkansen Lines）
1. 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). After the plan was finalized

in 1973, the Group was designated operator of the Kyushu Shinkansen line, (Kagoshima Route [Fukuoka–Kagoshima] and Western Kyushu Route [Fukuoka–Nagasaki]).

On March 13, 2004, the Kagoshima Route of the Kyushu Shinkansen began servicing the route between Shin-Yatsushiro and Kagoshima Chuo, and on March 12, 2011, service of this line was extended to Hakata.

Regarding the Western Kyushu Route of the Kyushu Shinkansen, construction by the Japan Railway Construction, Transport and Technology Agency (JRTT) is ongoing between Takeo Onsen and Nagasaki primarily using full specification rolling stock. In FY2022, we plan to temporarily open business by implementing a relay system which involves using conventional rolling stock between Hakata and Takeo Onsen and having passengers change trains at Takeo Onsen Station.

Regarding the route between Shin-Tosu and Takeo Onsen, the Group originally planned to introduce FGT rolling stock using conventional lines. However, on July 14, 2017 the Ministry of Land, Infrastructure, Transport and Tourism's Free Gauge Technology Evaluation Committee determined that issues remain regarding the safety and economic feasibility of FGT rolling stock. In response to this and other matters, with consideration for the development status of FGT rolling stock, on July 19, 2018, at a meeting of the review board of the ruling party Shinkansen promotion project team for the Kyushu Shinkansen (Western Kyushu Route) (hereinafter referred to as the "review board"), plans to introduce FGT rolling stock were abandoned. At a later review board meeting on August 5, 2019, a basic policy for making optimal progress with regard to the Kyushu Shinkansen (Western Route) was implemented, which emphasized the appropriateness of installing full rolling stock with double-tracks between Shin-Tosu and Takeo Onsen in favor of the relay system at Takeo Onsen Station, which is not a permanent solution. The policy also calls for the Ministry of Land, Infrastructure and Tourism, together with Saga Prefecture, Nagasaki Prefecture and the JR Kyushu Group to hold future consultations and further their investigations into these matters, with a request made to the Ministry of Land, Infrastructure, Transport and Tourism to conduct these consultations and report to the review board.

2. 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).

i. Usage fees and other charges paid by the JR Company as the operator of the new Shinkansen lines

ii. 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.

Regarding the Kyushu Shinkansen (Kagoshima Route), 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 aforementioned route 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.

Regarding the Kyushu Shinkansen (Western Route), 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,

iii. 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 (FY2023/3), 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 related partners (the JR Kyushu Group, Saga Prefecture, Nagasaki Prefecture, the review board, the Ministry of Land, Infrastructure, Transport and Tourism, and the JRTT) have agreed to maintain operations for 23 years after the start of operation.

iv. The Company’s Stance on the Construction of New Shinkansen Lines

Of the leasing costs mentioned in ii, 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 in the railway business may be materially and adversely affected if revenues from operations in the railway business are insufficient to cover them.

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 adversely affected.

In addition, at a review board meeting on March 27, 2019, the Company expressed the opinion that the operation of Shinkansen infrastructure with relay-type technology for a long period of time or on a permanent basis would lead to an extremely limited regional revitalization effect, and accordingly it would not be possible for the Company to accept this. The Company requested the full opening as soon as possible.

Furthermore, on April 12, 2019, the the Ministry of Land, Infrastructure, Transport and Tourism approved a change application for a budget increase and other matters regarding construction implementation plans (Takeo Onsen–Nagasaki) filed by the Japan Railway Construction, Transport and Technology Agency (JRTT). On November 28, 2018, at a meeting of the review board of ruling party Shinkansen promotion project team, the Company expressed the opinion that increasing the leasing costs in line with the new Shinkansen line construction expenses would be a major deviation from the new Shinkansen line scheme, and this was something the Company could not accept.

13. Relating to the Real Estate and Hotels Group

The Real Estate and Hotels Group invests large sums of money in projects that require long periods of time to record profit. Owing to external factors beyond Group control, such as rising construction costs as a result of rising construction material and labor costs, interest rate levels, and monetary policy, the amount of time and money required to complete these projects may increase and the expected level of earnings may not be achieved.

The real estate sales business may be forced to recognize impairment losses if selling prices drop or if completed properties meant for sale need to be held in inventory for long periods of time. The leasing business is susceptible to the loss of major tenants, higher vacancy rates, and lower rents for our rental properties. Also, if sales of tenants in our station building commercial facilities decline, the portion of rent income tied to sales value could decline accordingly. The hotel business is easily affected by economic trends, therefore, continued decline in business activity and personal consumption as a result of economic downturn, declining sales from excessive price competition, or the corresponding negative impact these factors could have on the business' balance could force the Group to record an impairment loss on property, plant and equipment.

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 operating results and its financial condition.