

Other

# Outline of Government’s Regulations on Railway Fares and Charges

## THE PRICE-CAP METHOD UNDER THE TOTAL-COST METHOD

- Railway companies are required to obtain approval from the Minister of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) prior to establishing or adjusting the upper limit on basic railway fares or express charges for Shinkansen services.
- Prior notification is only required to be submitted to the Minister of the MLIT when newly establishing or adjusting basic railway fares or express charges for Shinkansen services, other express train services, or other train services if the amount of the fare or charge after its establishment or after its adjustment is below the upper limit.
- Prior to giving approval for establishing or adjusting the upper limit on basic railway fares, the Minister of the MLIT must confirm that the new upper limit does not exceed “total cost,” which is the sum of the proper operating costs incurred by the relevant railway companies if it were to carry out efficient management and the proper profit calculated pursuant to specified methods.

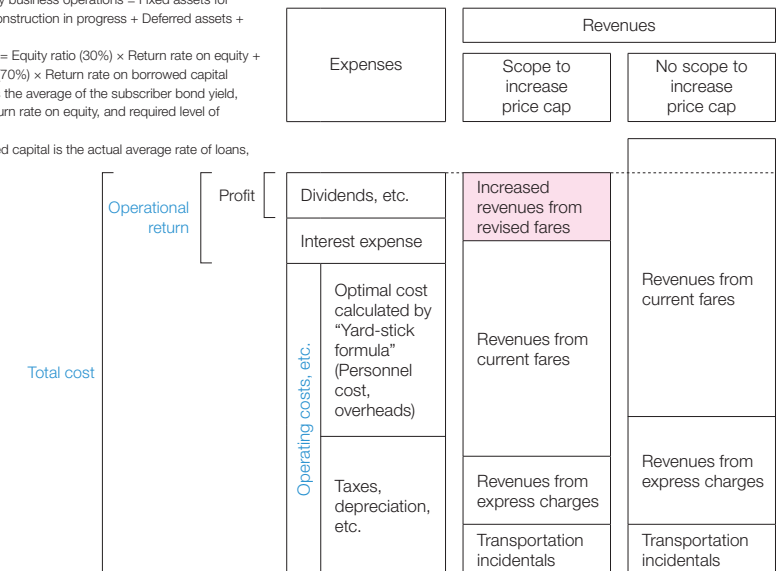
- The calculation of total cost is as follows:

$$\text{Total cost} = \text{Operating costs, etc.} + \text{Operational return}$$

Operating costs, etc. = Optimal cost calculated by “Yard-stick formula” + Taxes, depreciation, etc.

Operational return = Assets utilized in railway business operations (rate base) × Operational return rate

- Notes: 1. Assets utilized in railway business operations = Fixed assets for railway operations + Construction in progress + Deferred assets + Operating capital  
 2. Operational return rate = Equity ratio (30%) × Return rate on equity + Borrowed capital ratio (70%) × Return rate on borrowed capital  
 3. Return rate on equity is the average of the subscriber bond yield, all-industry average return rate on equity, and required level of dividends on equity.  
 4. Return rate on borrowed capital is the actual average rate of loans, etc.



WEST JAPAN RAILWAY COMPANY  
4-24, Shibata 2-chome, Kita-ku,  
Osaka 530-8341, Japan

### Cautionary Statement Regarding Forward-Looking Statements

These Fact Sheets contain forward-looking statements that are based on JR-West’s current expectations, assumptions, estimates and projections about its business, industry, and capital markets around the world. These forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “anticipate,” “estimate” and “plan,” or similar words. These statements discuss future expectations, identify strategies, contain projections of results of operations or of JR-West’s financial condition, or state other forward-looking information. Known or unknown risks, uncertainties and other factors could cause the actual results to differ materially from those contained in any forward-looking statements. JR-West cannot promise that the expectations expressed in these forward-looking statements will turn out to be correct. JR-West’s actual results could be materially different from and worse than expectations. Important risks and factors that could cause actual results to be materially different from expectations include, but are not limited to:

- expenses, liability, loss of revenue or adverse publicity associated with property or casualty losses;
- economic downturn, deflation and population decreases;
- adverse changes for the Company in laws, regulations and government policies in Japan;
- service improvements, price reductions and other strategies undertaken by competitors such as passenger railway and airline companies;
- infectious disease outbreak and epidemic;
- earthquake, other natural disaster risks, and failure of computer telecommunications systems disrupting railway or other operations

All forward-looking statements in these Fact Sheets are made as of May 31, 2022, based on information available to JR-West and JR-West does not undertake to update or revise any of its forward-looking statements or reflect future events or circumstances.