

Kansai International Airport Company, Ltd.

1. Summary of operations implemented using FILP funds

To facilitate air transportation and contribute to the overall development of civil aviation, basic airport facilities (runways, aprons, etc.) and air navigation facilities for aviation at the Kansai International Airport.

Note: Operations not eligible for FILP include the building and administration of passenger and cargo facilities and refueling facilities.

2. Amount of lending under FY 2002 FILP

(Unit : billion yen)

FY 2002 FILP	Estimated outstanding amount of FILP lending at end of FY 2001
28.3	382.6

3. Outcome and social and economic benefits of operations

- In order to appropriately cope with the air transportation demand of the Kansai area which is expected to increase in the future, the 2nd construction project of the airport is absolutely necessary. The project will greatly contribute to the future development of our economy through the expansion of the international and domestic air network and the improvement of users' convenience in passenger and cargo transportation.
- Main features of the 2nd construction project:
 - Airport area: about 540 ha
 - Runway: 4,000 m × 1
 - Operation: 24 hours a day
 - Capacity for landings and takeoffs: about 230,000 a year

(Reference)

Main features of the 1st construction project:

- Airport area: about 510 ha
- Runway: 3,500 m × 1
- Operation: 24 hours a day
- Capacity for landings and takeoffs: about 160,000 a year

Performance in FY 2001 (temporary figures)

- Landings and takeoffs: 121,441/year
- Passengers: 18,750,000
- Cargo: 810,000 tons

4. Estimated policy (subsidy) cost analysis of the project

Outline of estimate

- An estimate has been made for the project to construct basic airport facilities using government guaranteed bonds. Projects with loans provided by the Development Bank of Japan are excluded.
- In order to cope with increasing demand for air transportation, the estimate is about the expansion work of the existing facilities and the 2nd construction project started in FY 1996.
- An analysis has made for a 37-year period during which all interest-bearing debts will be redeemed (35-year period for FY2001).
- Future operational revenue is expected to be based on more severe demand than realistic or conservative cases (considering past results and adding the impact of other airports; in addition, taking into account the effects of terrorism) incorporated in the project prospects publicly announced in November 2000.
- A calculation of revenues and expenses was made based on the analysis assumptions above; and capital investments needed to carry out the operation and corporate tax to the national treasury have been calculated.

Policy (subsidy) cost

(Unit : billion yen)

Category	FY2001	FY2002	Increase/Decrease
1. Subsidies from the national treasury			
2. Opportunity cost of capital investment from the national treasury	91.3	79.2	- 12.1
Subtotal (1+2)	91.3	79.2	- 12.1
3. Money transfer to the national treasury	- 33.5	- 50.3	- 16.8
Subtotal (1+2+3)	57.8	28.9	- 28.9
4. Decreased cost of loss	- 55.7	- 56.6	- 9
Total (1+2+3+4=policy cost)	2.2	- 27.7	- 29.9
Analysis period (years)	35	37	2

Compared with FY2001 (¥2.2 billion), policy cost declined. In spite of a cost increase (approximately ¥27 billion) based on continuing severe demand assumption, Phase II project expenses declined (¥1.56 trillion - ¥1.42 trillion). At the same time, facilities will be improved at minimum when services commence in FY2007 (approximately ¥1.11 trillion) in line with a review of the project scheme. The remaining project (approximately ¥3.1 billion) will be improved in a phased manner according to demand after FY2007 and interest-free loans will be invested as planned. Consequently, the interest rate burden was reduced (approximately - ¥55 billion).

In addition, facility improvement after FY2007 is forwarded in a phased manner according to demand due to a review of the project scheme in the FY2002 analysis. Compared with FY2001, the analysis period is longer.

The case if assumption is changed

(Unit : billion yen)

Changed assumption and extent of change	Increase / decrease in policy cost
Revenue -10%	123

(Reference)

Budgeted amount of subsidies and capital investment in FY 2002

Subsidies: —
Capital investment: ¥0.5 billion

5. Projections in the analysis

- 1) Air transportation is expected to be based on a more severe demand than realistic or conservative demand cases (considering past results and adding the impact of other airports; in addition, taking into account the effects of terrorism) incorporated in the project prospects publicly announced in November 2000.
- 2) The estimate reflects a review of the project scheme decided by memorandum (treatment of phase II of Kansai International Airport).
 - * “Regarding treatment of phase II of Kansai International Airport”
 - (a) In addition to a reduction in project expenses, when services begin in FY2007, facilities are to be improved at minimum; the remaining project will be improved in a phased manner in accordance with demand during and after FY2007.
 - (b) After measures described in (a) are taking, the central and local governments and private sector will invest an amount previously made or provide interest-free loans.

(Unit: 10,000 times/year, billion yen)

FY	Result					Estimated 2001	Planned 2002	Trial assumption	
	1996	1997	1998	1999	2000			2003~2029	2030~2038
Frequency of departures and arrivals	11.8	12.1	11.8	11.8	12.4	12.4	12.2	Increase in 2.4% annually	23.0
Project expenses	8.0	13.9	84.1	107.6	78.5	93.7	51.8	26.4 (※)	0

* Mean value between 2003 ~ 2029

- The total project cost subject to the analysis (the total amount after FY2002) is ¥765.2 billion.

6. Reasons for granting of subsidies, mechanism and underlying laws

(Reason)

The Central Japan International Airport Project contributes to the public interest and the development of the economy and society by facilitating an international hub airport in a major city area without delay and strengthening the international and domestic aviation network. Consequently, during the period of construction, the Special Account for Airport Development furnishes the project with capital investment and interest-free loans to appropriate them for a part of its expenditure.

(Mechanism)

Funds are to be raised on the basis of the following rules:

- Phase 1 project, Phase II project (Upper tier) Capital investment 30% × 2/3
- Phase II project (Lower tier): Capital investment 30% × 2/3, interest-free loans 25% × 2/3

* Reflect of a review of the project scheme

- (1) The project cost is to be reduced, at the same time, when services begin in FY2007, facilities are to be improved at minimum; the remaining project will be improved in a phased manner in accordance with demand during and after FY2007.
- (Note) Of ¥1.56 trillion in the Phase II project cost (¥420 billion for facility improvement cost and ¥1.14 trillion), through land creation cost is reduced by approximately ¥140 billion, approximately ¥1.11 trillion in total (¥210 billion for facility improvement cost and ¥900 billion for land creation cost) will be improved. The remaining project (approximately ¥210 billion for facility improvement cost and ¥100 billion for land creation cost) will developed in a phased manner according to the demand from FY2007.
- (2) After measures described in (1) are taking, the central and local governments and private sector will invest an amount previously made or provide interest-free loans.

(Underlying laws and regulations)

Article 13 of the Kansai International Airport Company, Limited Law;

If, of the profits reported in the settlement of accounts of each operating year, the amount of the profits specified by the government ordinance exceeds the total of the amounts specified in the following provisions, the Company shall pay the exceeded amount to the national treasury within three months of the end of each operating year.

- (1) the amount necessary to pay the dividends at the rate specified by the ordinance of Article 11
- (2) the amount of retained earnings set aside on the provision of Article 288 of the Commercial Code (the Law 48 of the year 1899)
- (3) the amount of development reserve funds for the Kansai International Airport provided for in the next article, if the funds are set aside
- (4) the amounts necessary to conduct the disposal of profits which is required by the ordinance

The law backing the governmental investment:

Clause 2, Article 4 of the Kansai International Airport Company, Limited Law

The government shall always own half or more of the issued stocks of the Company.

7. Special remarks

- 1) The Kansai International Airport Company, Limited is a special corporate body established in October 1984, based on the Kansai International Airport Company Limited Law. It built the airport and opened it in 1994 and is operating it. The company is currently conducting expansion work to start the operation of a second runway in 2007.
- 2) Considering the current economic situation, if the increase ratio of future estimated business revenue falls 0.1% annually compared to the above-mentioned trial assumption, ¥148.4 billion in total operational revenue (equivalent to 2.1% of total revenue) will decrease throughout the analysis period.
- 3) In accordance with the Reorganization and Rationalization Plan for Special Public Corporations, although it is said that “a conclusion can be obtained by the government during FY2002 after the existing aviation administration with respect to the management method of 3 international hub airports is examined in detail for privatization, including a method to separate upper tier private company and lower tier public corporation method, for the time being, detailed contents have not yet been decided. Therefore, the analysis was conducted assuming existing institutional form.

(Reference) **Financial Statements****Balance Sheet**

(Unit : million yen)

Item	End of FY 2000 (Result)	End of FY 2001 (Estimated)	End of FY 2002 (Planned)	Item	End of FY 2000 (Result)	End of FY 2001 (Estimated)	End of FY 2002 (Planned)
(Assets)				(Liabilities and capital)			
Current assets	51,935	37,728	31,776	Current liabilities	107,922	62,311	177,162
Cash and deposits	37,485	30,200	24,197	Accounts payable	937	799	864
Accounts receivable	5,694	4,021	4,062	Bonds payable within 1 year	83,750	37,230	151,301
Securities	4,846	0	0	Loans payable within 1 year	3,853	15,259	15,747
Merchandise, raw materials, stocks	1,431	1,431	1,431	Accrued payments	13,152	2,686	3,055
Other current assets	2,484	2,078	2,089	Accrued expenses	3,399	3,567	3,687
Reserve for bad loans	- 4	- 2	- 2	Income taxes payable	6	6	6
Fixed assets	1,545,211	1,602,244	1,620,558	Advance by customers	1,701	1,645	1,645
Fixed assets for airport operations	1,194,222	1,192,352	1,163,634	Other current liabilities	1,124	1,118	857
Tangible fixed assets	1,383,905	1,413,743	1,415,522	Fixed liabilities	1,071,818	1,141,060	1,024,157
Total depreciation amount	- 196,577	- 227,282	- 256,740	Bonds payable	633,315	681,986	560,142
Intangible fixed assets	6,893	5,891	4,852	Long-term loans payable	411,233	435,174	441,327
Fixed assets for railroad operations	85,906	83,433	80,967	Reserve for retirement benefits	311	374	435
Tangible fixed assets	102,115	102,117	102,117	Leaseholds payable	23,952	20,619	19,447
Total depreciation amount	- 16,212	- 18,685	- 21,151	Other fixed liabilities	3,008	2,907	2,806
Intangible fixed assets	2	1	1	Total liabilities	1,179,740	1,203,371	1,201,319
Fixed assets for other operations	6,345	6,218	6,095	Capital	592,050	627,000	654,000
Tangible fixed assets	7,442	7,457	7,472	From the government	394,700	418,000	436,000
Total depreciation amount	- 1,104	- 1,245	- 1,382	From local governments	120,250	131,275	140,000
Intangible fixed assets	7	6	5	From the private sector	77,100	77,725	78,000
Construction work in progress	256,972	318,564	368,175	Deficit			
Investments	1,766	1,676	1,686	Unappropriated deficit	- 172,945	- 188,557	- 201,492
Deferred assets	1,699	1,842	1,493	(Net loss)	- 15,786	- 15,612	- 12,934
Stock issue costs	112	91	80	Total capital	419,105	438,443	452,508
Bond issue costs	424	530	337				
Discounts on bonds payable	1,162	1,221	1,076				
Total assets	1,598,845	1,641,813	1,653,827	Total liabilities and capital	1,598,845	1,641,813	1,653,827

Income Statement

(Unit : million yen)

Item	FY 2000 (Result)	FY 2001 (Estimated)	FY 2002 (Planned)	Item	FY 2000 (Result)	FY 2001 (Estimated)	FY 2002 (Planned)
(Expenses)				(Revenues)			
Airport operating expenses	89,279	89,173	92,486	Airport operating revenues	113,962	108,815	112,557
Facility operating expenses	35,740	36,320	39,218	Airport dues	26,608	24,948	24,942
Costs of goods sold	8,594	8,194	8,863	Fees for using facilities	67,268	64,668	67,137
Sales and administration expenses	12,557	12,763	13,781	Revenues of directly managed operations	18,891	17,909	19,215
Depreciation	32,388	31,897	30,625	Miscellaneous operating revenues	1,196	1,290	1,263
Expenses for operating railroad	3,897	3,769	3,864	Railroad operating revenues	5,422	5,436	5,417
Operating expenses of facilities	1,082	1,098	1,186	Fees for using facilities	5,422	5,436	5,417
Administration expenses	185	186	201	Non-operating revenue	294	183	25
Depreciation	2,630	2,485	2,477	Extraordinary revenues	68	0	0
Non-operating expenses	42,193	37,097	34,576	Net loss	15,786	15,612	12,934
Interest expenses	41,245	36,297	33,856				
Other non-operating expenses	949	800	720				
Extraordinary losses	156	0	0				
Corporation tax, inhabitants tax and enterprise tax	6	6	6				
Total	135,531	130,046	130,933	Total	135,531	130,046	130,933

Note: Totals may not correspond due to rounding off.