

New Kansai International Airport Co., Ltd.

<http://www.nkiac.co.jp/>

1. Summary of operations implemented using FILP funds

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

Note: Operations not eligible for FILP include the building and administration of passenger and cargo facilities and refueling facilities in Kansai International Airport, and Osaka International Airport.

2. Amount of lending under FY2019 FILP

(Unit: billion yen)

FY2019 FILP	Estimated outstanding amount of FILP lending at the end of FY2018
150.0	376.9

3. Estimated policy cost analysis of the project

(1) Policy cost

(Unit: billion yen)

Category	FY2018	FY2019	Fluctuation
1. Government expenditure (subsidies, etc.)	-	-	-
2. Government revenue (payments to the government, etc.)*	-37.4	-33.2	+4.3
3. Opportunity cost of capital investments, etc.	-47.2	-63.6	-16.4
Total (1+2+3=policy cost(A))	-84.7	-96.8	-12.1
Analysis period (years)	41 years	40 years	-1 year

(2) Breakdown of policy cost by the time of the provision of funds

(Unit: billion yen)

Category	FY2018	FY2019	Fluctuation
(A) Policy cost (previously cited)	-84.7	-96.8	-12.1
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	32.0	27.8	-4.3
2) Policy cost expected to be newly accrued during the analysis period	-116.7	-124.6	-7.9
Government expenditure (subsidies, etc.)	-	-	-
Government revenue (payments to the government, etc.)*	-37.4	-33.2	+4.3
Opportunity cost of surplus, etc.	-79.3	-91.4	-12.1
Opportunity cost of capital investments, etc.	-	-	-

(4) Sensitivity analysis (cases where assumptions change)

(Unit: billion yen)

(A) Policy cost (previously cited)	Case for raising lending and fundraising rates by 1 %	Fluctuation	1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*	3. Opportunity cost of capital investments, etc.
			-	+12.0	+92.4
-96.8	7.6	+104.3	-	+12.0	+92.4

(A) Policy cost (previously cited)	Case for cutting operating revenue by 10%	Fluctuation	1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*	3. Opportunity cost of capital investments, etc.
			-	+2.6	+10.3
-96.8	-83.8	+12.9	-	+2.6	+10.3

(3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2018	FY2019	Simple fluctuation
		Simple comparison (before adjustment)	-84.7	-96.8
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2019 analysis)	-82.2	-83.8	-1.5
	2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2018)			Real fluctuation (2-1)
				-1.5

[Real fluctuation factor analysis]

○ Factors behind policy cost increase

- Increase in cost due to decrease in future revenues (+0.4 billion yen)

○ Factors behind policy cost decrease

- Decrease in cost due to decrease in future expenses (-1.5 billion yen)

- Decrease in cost due to implementation of disaster prevention function enhancement operations (-0.4 billion yen)

(Note) Components in each column may not add up to the total because of rounding.

* Government revenue (payments to the government, etc.) is booked as a negative amount. Example: -10 b. yen for 10 b. yen in payments to government, etc.

4. Outline of estimation and project prospect employed in the analysis

- 1) Based on the Act on the Integrated and Efficient Establishment and Management of Kansai International Airport and Osaka International Airport, in April 2012 New Kansai International Airport Co., Ltd., which operates Kansai International Airport and Osaka International Airport, was established and the management of both airports was integrated in July 2012. The former Kansai International Airport Co., Ltd. was transferred to Kansai International Airport Land Co., Ltd. Estimation was calculated using consolidated figures of New Kansai International Airport and Kansai International Airport Land Co., Ltd.
- 2) The estimation covers the projects of Kansai International Airport that are subject to government-guaranteed bonds.
- 3) As a concession contract designating April 1, 2016 as the commencement date was concluded in FY2015, the contents of the contract are reflected in the calculation of the policy costs.
- 4) Revenues from consideration for operational rights are recorded in an amount based on the contract.
- 5) Railway facility rental revenues in and after FY2020 are assumed at the average for the FY2017-2018 results and the FY2019 plan. As station building, railway and other construction costs are recovered completely in FY2023, the relevant revenues are eliminated from the next year.
- 6) Personnel and property expenses in and after FY2020 are assumed at the average for the FY2017-2018 results and the FY2019 plan. As the transfer of specific operations to the airport operator is completed in FY2020, the relevant expenses are eliminated from the next year.

(Unit: million yen)

FY	Result	Estimated	Decision	Assumptions for calculation				
	2017	2018	2019	2020	2028	2038	2048	2058
Railway facility rental revenues	5,387	3,908	4,860	4,719	3,349	3,349	3,349	3,349
Personnel and property expenses	19,771	19,443	21,869	20,361	20,162	20,162	20,162	20,162

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

(Reason)

The Kansai International Airport is an international hub airport responding to increasing demand for air travel in Japan, and this highly public project contributes to the development of the Japanese economy and society by strengthening the international and domestic aviation network. Consequently, during the period of construction, the Special Account for Safety of Motor Vehicles and Fiscal Investment and Loan Program furnishes the project with capital investment and interest-free loans to appropriate the loans for a part of its expenditure. Furthermore, subsidies have been accepted since FY2003 in order to establish a stable business foundation and ensure the certainty of repayment of interest-bearing liabilities, in accordance with the mutual agreement of the Minister of Finance and the Minister of Land, Infrastructure, Transport and Tourism on December 18, 2002. In addition, the prompt establishment of a concession system for public facilities was decided upon in order to ensure the certainty of repayment of the liabilities of New Kansai International Airport Co., Ltd., which has operated Kansai International Airport and Osaka International Airport, and the minimum subsidies have decided to be continuously provided within the limits of the annual budget until the concession system is implemented, in accordance with the agreement reached by the Minister of Finance and the Minister of Land, Infrastructure, Transport and Tourism on December 21, 2011. In FY2015, a concession contract was concluded and the airport operations by the operational right holder under the concession contract was commenced on April 1, 2016.

6. Special remarks

- 1) In the “positive enhancement of Kansai International Airport by implementing the balance sheet” in the “Growth Strategy of the Ministry of Land, Infrastructure, Transport and Tourism,” it is stipulated that “in addition to the business value of Kansai International Airport, business value and real estate value of Itami Airport (Osaka International Airport) should be also fully utilized.” It is also stipulated that “private companies’ management proposal toward maximizing value will be invited and considered based on the method of outsourcing the concession of both the airports integrally to a private company, while proceeding with the management integration of both the airports.” Following this, the Act on the Integrated and Efficient Establishment and Management of Kansai International Airport and Osaka International Airport was promulgated in May 2011.
- 2) In response to 1), New Kansai International Airport Co., Ltd. was established on April 1, 2012, and has established and managed Kansai International Airport and Osaka International Airport since July 1, 2012. Prompt establishment of a concession system for public facilities was decided upon in order to ensure the certainty of repayment of the liabilities of New Kansai International Airport Co., Ltd. Airport operations by the operational right holder under the concession contract was commenced on April 1, 2016.
- 3) For disaster prevention function enhancement operations that the operator Kansai International Airport conducts in response to grave damage at the airport from Typhoon No. 21 in FY2018, New Kansai International Airport Co.,Ltd as the airport installation manager has decided to utilize Fiscal Loan fund to cover part of expenses required for the operations to promptly and surely enhance the airport’s disaster prevention functions.

(Reference) Outcome and social and economic benefits of operations

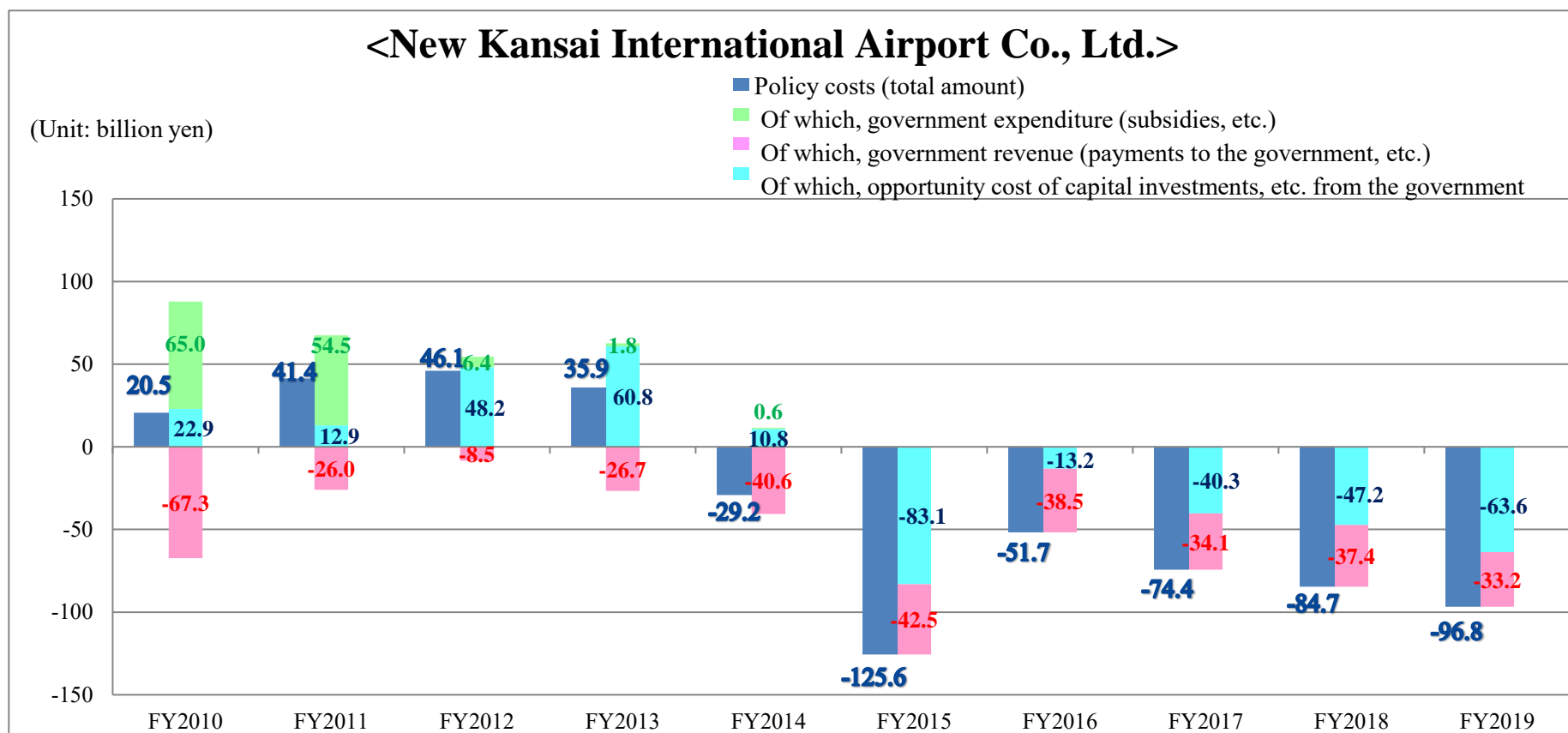
Kansai International Airport has 4,000m class runways. Kansai International Airport is Japan’s first international airport which makes a 24-hour use possible and meets the global standard. Kansai International Airport is an important infrastructure which will greatly contribute to the future development of the Japanese economy by expanding international and domestic air transportation networks and making passenger and cargo air traffic more convenient.

As for the international airline, 1,451 flights a week, linking 84 cities in 23 nations and regions, go into service. As for the domestic airline, 70 flights a day, linking 17 cities, go into service (planned in October 2018, Kansai Airports).

As for the number of annual passengers, Kansai International Airport is used by 22.43 million people in the international line and 6.50 million people in the domestic line (result in 2018, Kansai Airports). Kansai International Airport users accounted for 18.3% of Japanese nationals entering and leaving Japan and for 25.4% of foreign nationals entering and leaving Japan (Immigration control statistics by the Ministry of Justice for January-November 2018).

Kansai International Airport handled 830 thousand tons of international cargo (according to Kansai Airports) worth 9.2 trillion yen (according to Osaka Customs Office statistics) in 2018. 5.6% of trade amount in Japan is taken up by trade value handled in Kansai International Airport (result in 2018, trade statistics by the Osaka Custom House).

(Reference) Changes in Policy Costs by Component



Notes 1. Policy costs for each fiscal year differ in assumptions including interest rates applied to estimates.

2. Figures until FY2011 indicate the policy cost of Kansai International Airport Co., Ltd.

The figure for FY2012 is simply the sum of the policy costs of Kansai International Airport, Osaka International Airport, and Organization for Environment Improvement around International Airport.

The figures from FY2013 onwards is the consolidated figure of the New Kansai International Airport and Kansai International Airport Land Co., Ltd. based on the integrated scheme.

(Point)

• As for the policy cost, opportunity cost of capital investment and subsidies for airport development projects are positive, while revenues including corporation tax in accordance with business revenues are negative. Subsidies had been granted since FY2003 in order to establish a stable business foundation and ensure the certainty of repayment of interest-bearing liabilities, in accordance with the mutual agreement of the Minister of Finance and the Minister of Land, Infrastructure, Transport and Tourism on December 18, 2002. However, subsidies have not been granted since FY2015.

• As operational revenue including a fixed concession income has been stabilized after the concession agreement started on April 1, 2016, policy costs are expected to remain negative in the future.

(Reference) Financial Statements

Balance Sheet

(Unit: million yen)

Item	End of FY2017 (Result)	End of FY2018 (Estimated)	End of FY2019 (Planned)	Item	End of FY2017 (Result)	End of FY2018 (Estimated)	End of FY2019 (Planned)
(Assets)				(Liabilities and equity)			
Current assets	16,733	6,666	144,856	Current liabilities	122,566	67,967	97,868
Cash and bank deposits	13,828	5,308	140,070	Bonds payable within 1 year	85,253	35,500	58,000
Other current assets	2,904	1,358	4,786	Long-term loans to be repaid within one year	12,426	12,413	12,406
Fixed assets	1,865,159	1,860,227	1,850,980	Other current liabilities	24,886	20,054	27,462
Tangible fixed assets	1,852,197	1,852,095	1,842,540	Fixed liabilities	905,859	937,650	1,026,784
Intangible fixed assets	197	149	103	Bonds	566,769	616,407	578,444
Construction in progress	9,258	2,734	8,190	Long-term loans payable	197,779	185,366	322,960
Investments, etc.	3,507	5,249	148	Deferred tax liabilities	3,990	7,902	11,842
				Other fixed liabilities	137,322	127,976	113,538
				(Total liabilities)	1,028,425	1,005,617	1,124,652
				Capital	300,000	300,000	300,000
				Capital reserves	253,043	253,043	253,043
				Retained earnings	76,634	84,454	94,685
				Other retained earnings (Reserves for improvement)	42,853	50,263	57,360
				Retained earnings brought forward	33,781	34,191	37,325
				Minority equity	223,790	223,779	223,457
				(Total equity)	853,467	861,275	871,185
Total assets	1,881,892	1,866,892	1,995,836	Total liabilities and equity	1,881,892	1,866,892	1,995,836

Notes 1. Figures are consolidated figures of New Kansai International Airport Co., Ltd. and Kansai International Airport Land Co., Ltd.

2. The balance sheet includes amounts of projects which are not eligible for policy cost analysis.

3. Components may not add up to the total because of rounding.

Income Statement

(Unit: million yen)

Item	End of FY2017 (Result)	End of FY2018 (Estimated)	End of FY2019 (Planned)
Operating revenue	62,588	60,583	66,894
Operating expenses	40,266	40,534	42,795
Facility operation expense	19,771	19,443	21,869
Depreciation cost	20,495	21,091	20,926
Operating profit	22,322	20,048	24,099
Non-operating revenue	173	170	-
Non-operating expenses	8,731	7,873	7,983
Interest expenses	8,465	7,587	7,913
Others	265	286	70
Ordinary profit	13,764	12,345	16,116
Extraordinary profits	424	43	-
Extraordinary loss	385	698	795
Net profit before tax and other adjustments	13,804	11,690	15,321
Corporate tax, etc.	4,253	3,881	5,412
Net profit	9,550	7,808	9,910
Net profit attributable to non-controlling shareholders	3,899	3,728	3,577
Net profit attributable to parent company shareholders	5,652	4,080	6,333

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