

Central Japan International Airport Co., Ltd.

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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 the Central Japan International Airport.

Note: Operations not eligible for FILP include the building and administration of convenient facilities of the function of the Central Japan International Airport (passenger and cargo facilities, offices and shops, observation facilities, etc.).

2. Amount of lending under FY2020 FILP

(Unit: billion yen)

FY2020 FILP	Estimated outstanding amount of FILP lending at the end of FY2019
17.3	142.7

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

Category	FY2019	FY2020	Fluctuation
1. Government expenditure (subsidies, etc.)	-	-	-
2. Government revenue (payments to the government, etc.)*1	-12.7	-8.4	+4.2
3. Opportunity cost of capital investments, etc.	-37.5	-25.6	+11.9
Total (1+2+3=policy cost(A))	-50.2	-34.1	+16.1
Analysis period (years)	16 years	15 years	-1 years

(2) Breakdown of policy cost by the time of the provision of funds (Unit: billion yen)

Category	FY2019	FY2020	Fluctuation
(A) Policy cost (previously cited)	-50.2	-34.1	+16.1
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	3.2	1.4	-1.8
2) Policy cost expected to be newly accrued during the analysis period	-53.4	-35.5	+17.9
Government expenditure (subsidies, etc.)	-	-	-
Government revenue (payments to the government, etc.)*1	-12.7	-8.4	+4.2
Opportunity cost of surplus, etc.	-40.7	-27.1	+13.6
Opportunity cost of capital investments, etc.	-	-	-

(4) Sensitivity analysis (cases where assumptions change)

(Unit: billion yen)

(A) Policy cost (previously cited)	Case before the negative interest rate policy*2	Fluctuation			
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
-34.1	-28.0	+6.1	-	+0.4	+5.8

(3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2019	FY2020	Simple fluctuation
		Simple comparison (before adjustment)	-50.2	-34.1
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2020 analysis)	-42.8	-31.4	+11.3
	2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2019)			Real fluctuation (2-1)

[Real fluctuation factor analysis]

○Factors behind policy cost increase

- Increase in cost due to new capital investment responding to growth in the number of passengers (+12.0 billion yen)
- Increase in cost due to rise in expenses accompanying business outlook revisions (+2.5 billion yen)

○Factors behind policy cost decrease

- Decrease in cost accompanying revenue growth through creation of passenger security service charge (PSSC) (-3.2 billion yen)

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

*1 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.

*2 Assumed interest rates (discount factor and future interest rate) are based on the market yield on Japanese government bonds on January 28, 2016, before the introduction of the negative interest rate policy.

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

- 1) The estimation covers a part of the projects to improve the Central Japan International Airport such as the projects subject to government-guaranteed bonds including the construction of basic airport facilities. The estimation does not take into consideration the projects subject to a loan program of the Development Bank of Japan.
- 2) The analysis period is for 15 years, until the completion of the government-backed bond redemption.
- 3) The operational revenue was estimated on the basis of the demand forecasting presented by the Council of Transport Policy, the Ministry of Land, Infrastructure, Transport and Tourism in June 2007, coupled with recent situations.

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

FY	Result			Estimated	Planned	Assumptions for calculation			
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Operational revenue	54.1	58.4	63.6	68.8	71.5	71.6	72.4	72.9	72.8
Aircraft movements	10.1	10.1	10.3	11.7	12.2	12.5	12.8	13.0	13.0

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

(Reason)

Since the Central Japan International Airport Improvement Project is a highly public project which urgently improves an international hub airport in the metropolitan area and contributes to the development of Japan's economic society through enhanced international and domestic aviation networks, capital investments and interest-free loans have been received from the Automotive Safety Special Account in order to cover a part of project costs in each fiscal year during the construction period.

(Mechanism)

Capital investment: Project cost \times 13.3% \times 2/5

Interest-free loans: Project cost \times 26.7% \times 4/5

(Underlying laws and regulations)

Article 5 and Article 9 of the Act on the Central Japan International Airport Co., Ltd, Article 2 of the Supplementary Provisions

(Capital investment from the government and local governments)

Article 5: The government, when designating in accordance with the provision of the Paragraph 1 of the preceding Article, shall accept the stock of the designated company within the limits of the budget.

2 The government, when perceiving the need, may additionally invest the designated company within the limits of the budget.

3 Local governments, after the consultation with the Minister of Public Management, Home Affairs, Posts and Telecommunications, may invest the designated company.

4 The designated company, when placing a new issue, must be authorized by the Minister of Land, Infrastructure, Transport and Tourism.

(Loans)

Article 9: The government may lend to the designated company interest-free loans as funding to be allocated to expenses required for projects from the Item 1 to 4 of Paragraph 1 of Article 6 within the limits of the budget.

Supplementary Provisions

(Exemption of loans)

Article 2: The government, for the time being, may lend to the designated company interest-free loans as a part of funding to be allocated to expenses required for projects in the Article 2, Paragraph 1, Item 1 of (snip) the Act on Special Measures concerning the Promotion of Social Capital Improvement by utilizing the profit on sale of the Nippon Telegraph and Telephone Corporation's stocks in the project of the Article 6, Paragraph 1, Item 1.

2 The redemption period of loans provided in the preceding paragraph is up to 20 years including the period of deferment within five years.

3 The redemption period provided in the preceding paragraph and the repayment method of loans provided in the Paragraph 1 are designated by the government ordinance.

6. Special remarks

1) The Central Japan International Airport Co., Ltd. established on May 1, 1998 was designated as a corporate body to build and manage the Central Japan International Airport by the Minister of Land, Infrastructure, Transport and Tourism on July 1 and has built and managed the Central Japan International Airport which opened in 2005.

2) As interest-free funds, Investments and interest-free loans from local governments and investments from private sector as well as investments and interest-free loans from the government have been invested to the Central Japan International Airport Co., Ltd. Improvement Project, and government-guaranteed bonds and loans from the Development Bank of Japan and private financial institutions have been invested to it as funds with interest. It should be noted that the investment ratio of the private sector is 50% and it has actively utilized private funds and management knowhow.

3) The future revenue growth rate in the abovementioned assumption is based on the current economic situation. If the growth rate is 0.1 percentage points lower than estimated for each year, total operational revenue throughout the analysis period may be 8.7 billion yen (0.76%) less than estimated.

(Reference) Outcome and social and economic benefits of operations

The Central Japan International Airport, as Japan's third largest international hub airport in Chubu area after the Tokyo and Kinki areas, will not only meet aviation demands in Chubu area in the 21st century, but also become a foundation of the aviation network supporting international and domestic exchanges and a foundation for future development in Chubu area where population and industries are highly concentrated. It will also bring various social and economic benefits such as promotion of international and domestic exchanges, promotion of efficient distribution systems and development of industries. While it is rather difficult to ascertain the quantitative benefits generated by the operations, the effect of user, supplier, local businesses and residents were calculated based on "the assessment of public works about aviation" (the Ministry of Land, Infrastructure, Transport and Tourism) in February, 2010. The results of the calculation are as follows:

in the case where the social discount factor is set to 4% and the longest analysis period is set to 35 years;

2,028.1 billion yen

in the case where the social discount factor is set to that of the policy cost analysis;

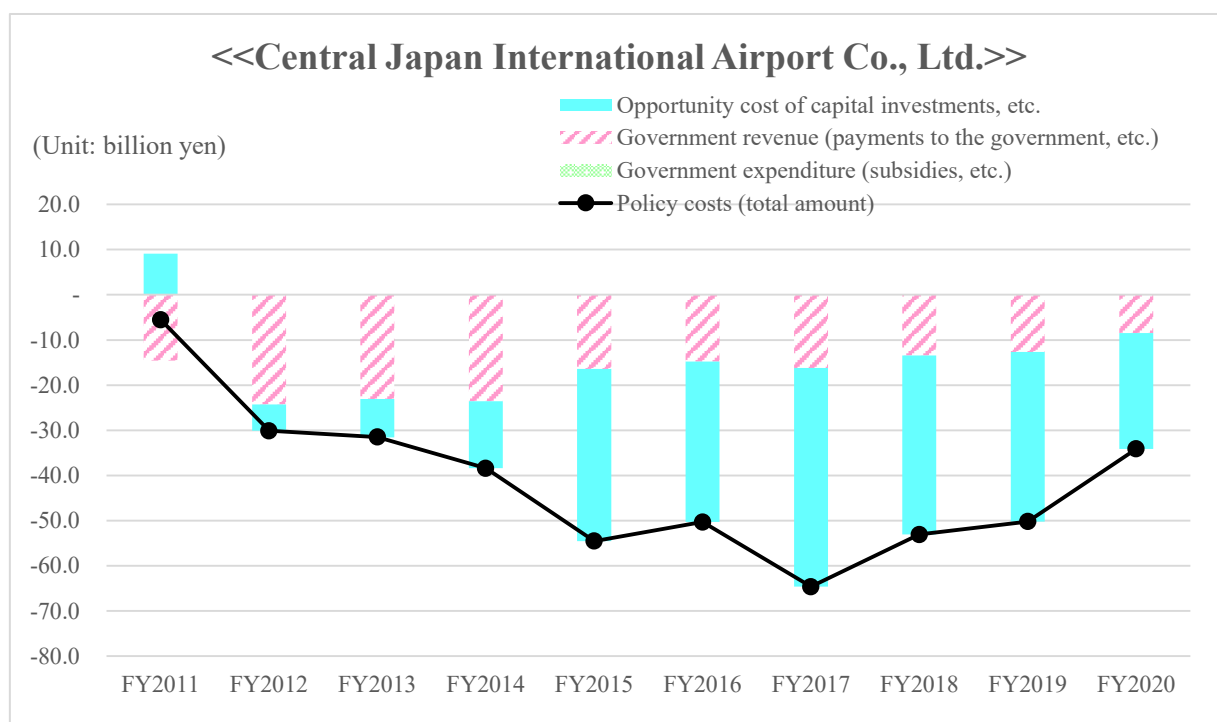
1,568.8 billion yen

(Reference)

Main features of Phase I construction project:	Performance in FY2018	Performance in FY2019 (preliminary figures)
• Airport area: about 470 ha	• Aircraft movements: 103,310	• Aircraft movements: 112,643
• Runway: 3,500m \times 1	• Passengers: 12.36 million	• Passengers: 12.60 million
• Operation: 24 hours a day	• Cargo: 195,000 tons	• Cargo: 190,000 tons

Overview of policy cost analysis results

[Changes in policy costs]



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

(Unit: billion yen)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Policy costs (total amount)	-5.5	-30.1	-31.5	-38.4	-54.5	-50.3	-64.6	-53.1	-50.2	-34.1
Government expenditure (subsidies, etc.)	-	-	-	-	-	-	-	-	-	-
Government revenue (payments to the government, etc.)	-14.6	-24.3	-23.1	-23.6	-16.4	-14.8	-16.2	-13.4	-12.7	-8.4
Opportunity cost of capital investments, etc.	9.1	-5.8	-8.5	-14.8	-38.1	-35.5	-48.4	-39.6	-37.5	-25.6

【Explanation of policy cost trends】

Although policy costs fluctuate, reflecting changes in demand and interest rates, corporation tax exceeding opportunity cost of capital investment, etc. are generated during the analysis period, causing negative policy costs.

【FILP agency's self-assessment of policy cost analysis results (FY2020)】

Although the PSSC creation boosted revenues to cut costs, the policy cost amount increased by 16.1 billion yen from the previous analysis due to new capital investments (in terminal renovation, commercial facility expansion, etc.) and subsequent rises in facility maintenance and personnel costs.

The analysis indicates that financial soundness would be maintained, with the capital-to-asset ratio increasing smoothly. Operating cash flow is expected to remain stable and robust, with fiscal investment and loans being sufficiently redeemable.

In the sensitivity analysis in which the assumed interest rates (the discount factor and future interest rate) were based on Japanese government bond market yields before the minus interest rate policy introduction, the policy cost amount increased by 6.1 billion yen. This is because interest rate hikes cause drops in reserves (airport development reserves, accumulated profit) and in corporation tax payments.

In this case, the capital-to-asset ratio is expected to grow at a slower pace than in the basic case, indicating that the expansion of air transport demand and the steady repayment of interest-bearing debt would be important in the future.

(Reference) Financial Statements

Balance Sheet

(Unit: million yen)

Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)	Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)
(Assets)				(Liabilities and equity)			
Current assets	30,552	16,669	15,719	Current liabilities	35,469	39,869	52,597
Cash and bank deposits	23,785	8,782	8,816	Accounts payable	1,530	1,646	1,685
Accounts receivable	3,579	3,871	4,028	Short-term loans payable	2,652	2,652	2,652
Merchandise	1,654	1,781	1,840	Bonds payable within 1 year	16,397	20,799	8,893
Inventory goods	282	322	363	Long-term loans to be repaid within one year	8,076	8,076	33,976
Prepaid expenses	70	29	29	Lease obligations	12	5	4
Others	1,188	1,891	651	Accrued payments	4,802	4,931	3,245
Reserves for bad debts	- 7	- 7	- 7	Accrued expenses	107	125	131
Fixed assets	426,393	437,790	431,920	Accrued corporate tax, etc.	655	300	398
Tangible fixed assets	408,620	420,297	415,168	Advances received	435	449	468
Buildings	59,808	69,781	68,860	Deposits payable	516	586	584
Structures	46,032	47,010	43,525	Reserve for bonuses	254	259	267
Machinery and equipment	5,234	6,780	6,023	Reserve for points	31	41	43
Vehicles and transportation equipment	73	104	103	Others	-	-	252
Tools furniture and fixtures	4,082	6,154	6,033	Fixed liabilities	315,633	303,710	279,530
Land	290,266	290,266	290,266	Bonds	164,808	159,412	167,821
Lease assets	20	12	8	Long-term loans payable	142,333	134,258	100,282
Construction in progress	3,104	191	349	Lease liabilities	10	9	5
Intangible fixed assets	6,391	6,561	6,271	Reserves for retirement pensions	619	706	798
Trademark rights	6	6	5	Reserve for directors' retirement benefits	39	46	53
Software	2,312	2,690	2,619	Deferred tax liabilities	6,290	7,677	8,968
Water utility rights	3,985	3,792	3,600	Others	1,534	1,602	1,602
Others	89	72	46	(Total liabilities)	351,103	343,579	332,127
Investment and other assets	11,382	10,932	10,481	Capital stock	106,161	111,186	115,804
Affiliated companies stock	1,017	1,017	1,017	Capital	83,668	83,668	83,668
Long-term prepaid expenses	10,356	9,906	9,455	Financing by the Government	33,466	33,466	33,466
Others	9	9	9	Local government investment	8,368	8,368	8,368
Deferred assets				Investment from private sector	41,834	41,834	41,834
Bond issue expenses	318	306	293	Retained earnings			
				Other retained earnings	22,493	27,518	32,136
				(Reserve funds (Act on Special Measures Concerning Taxation))	15,679	18,766	21,587
				(Retained earnings brought forward)	6,814	8,752	10,549
				(Total equity)	106,161	111,186	115,804
Total assets	457,264	454,765	447,931	Total liabilities and equity	457,264	454,765	447,931

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

Income Statement

(Unit: million yen)

Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)
Sales	63,581	68,752	71,539
Fees for using facilities	34,269	37,312	39,489
Merchandise sales	26,891	28,896	29,474
Other sales	2,421	2,544	2,576
Costs of goods sold	41,763	46,198	48,719
Gross operating profit	21,818	22,554	22,820
Sales and administration expenses	12,367	14,789	15,305
Operating revenue	9,451	7,765	7,515
Non-operating revenue	388	1,069	249
Interest received	-	1	1
Others	387	1,068	248
Non-operating expenses	904	797	772
Interest paid	104	101	95
Interest on bonds	717	615	599
Others	83	81	78
Ordinary profit	8,935	8,037	6,992
Extraordinary profits	31	-	-
Extraordinary loss	134	977	495
Net profit before tax	8,832	7,060	6,497
Corporate tax, residence tax and enterprise tax	921	660	624
Income taxes-deferred	1,704	1,375	1,255
Net profit	6,208	5,025	4,618

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