

## 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.

## 2. Amount of lending under FY 2011 FILP

(Unit: billion yen)

FY 2011 FILP	Estimated outstanding amount of FILP lending at the end of FY 2010
49.0	435.8

## 3. Outcome and social and economic benefits of operations

Kansai International Airport 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.

While it is rather difficult to ascertain the quantitative benefits generated by operations, the estimates based on the Act on the Analysis of Policies Operated by Administrative Agencies, using the data at the time of the *Revaluation of the Second Kansai International Airport Operations* under certain assumptions, indicate the effects related to ongoing operations, etc. for the benefits of airport users (the effect of reduced expenses from shortened time for passengers and cargo, etc.) and for suppliers (landing fees and other revenues from airlines, and non-airline revenue such as land and building rents) to be as follows respectively:

- If the social and economic discount factor is set at 4% with an analysis period at 47 years: 811.2 billion yen
- If the social and economic discount factor and the analysis period are the same as for the policy cost analysis: 2,439.0 billion yen

### (Reference)

Main features of Phase I construction project:

- Airport area: about 510 ha
- Runway: 3,500m x 1
- Operation: 24 hours a day

Main features of Phase II construction project:

- Airport area: about 540 ha
- Runway: 4,000m x 1
- Operation: 24 hours a day

Performance in FY2009

- Aircraft movements: 109,000
- Passengers: 13.52 million
- Cargo: 630,000 tons

Performance in FY2010 (temporary figures)

- Aircraft movements: 107,000
- Passengers: 14.18 million
- Cargo: 750,000 tons

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

Policy (subsidy) cost

(Unit: billion yen)

Category	FY2010	FY2011	Fluctuation
1. Subsidies, etc. from the Government	65.0	54.5	-10.5
2. Money transferred to the Government	-67.3	-26.0	+41.3
Subtotal (1+2)	-2.3	28.5	+30.8
3. Opportunity cost of capital investments, etc. from the Government	79.1	67.5	-11.6
Subtotal (1+2+3)	76.8	95.9	+19.1
4. Decrease in retained losses	-56.3	-54.5	+1.8
Total (1+2+3+4=policy cost(A))	20.5	41.4	+20.9
Analysis period ( years )	60	60	-

Breakdown of policy cost by the time of the provision of funds

(Unit: billion yen)

Category	FY2010	FY2011	Fluctuation
(A) Policy cost (previously cited)	20.5	41.4	+20.9
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	153.9	146.8	-7.1
2) Policy cost expected to be newly accrued during the analysis period	-133.4	-105.3	+28.1
Subsidies, etc. from the Government	65.0	54.5	-10.5
Money transferred to the Government	-67.3	-26.0	+41.3
Policy cost accrued with a change in surplus funds	-146.0	-149.2	-3.2
Opportunity cost of capital investments, etc.	14.9	15.4	+0.5

Year-to-Year comparison analysis

(Unit: billion yen)

Category	FY2010	FY2011	Fluctuation
(A) Policy cost (previously cited)	20.5	41.4	+20.9
(A') Policy cost obtained by re-calculating (A) using the same assumed interest rate as in the FY2010 analysis	20.5	64.1	+43.6
(B) Policy cost of (A') generated in FY2011 or later	17.0	64.1	+47.1

Policy cost in FY2011 is ¥41.4 billion. The analysis shows an increase of ¥47.1 billion in real policy cost over FY2010 when the effect of change in the assumed interest rate for FY2010 and FY2011 is eliminated and the policy costs that accrue in FY2011 and thereafter are compared. The increase in real cost is considered to be attributable to the following factors:

- Increase in cost due to a revenue drop on revisions to demand assumptions (+ ¥121.7 billion)
- Decrease in costs due to reduction of subsidy (- ¥4.0 billion) (FY2011-2031 grant-in-aid: ¥9 billion a year → ¥7.5 billion)
- Decrease in cost due to the renewal of the fiscal year for actual results for future cost calculation (- ¥37.4 billion)
- Decrease in costs due to the review of schedule for construction (- ¥33.2 billion)

Sensitivity analysis (cases where assumptions change)

(Unit: billion yen)

Changed assumption and extent of change	Policy cost (Fluctuation)	
Interest rates on money loaned and funds raised +1%	Without change in discount factor	With change in discount factor
	116.0 (+74.6)	155.2 (+113.8)
Fluctuation in opportunity cost	+58.6	+99.1
Operational revenue -10%	134.5 (+93.0)	
Fluctuation in opportunity cost	+74.6	

### (Reference)

Budgeted amount of subsidies and capital investment in FY 2011

Subsidies: ¥2.9 billion  
Capital investment: -

\*Components in each column may not add up to the total because of rounding.

## 5. Outline of estimation and project prospect employed in the analysis

- On May 17, 2011, the Diet enacted a law on the integrated and efficient establishment and management of Kansai International Airport and Osaka International Airport. Given that conditions for their integration have yet to be fixed, however, the analysis is based on the present business conditions of the company.
- The estimation covers a part of the projects to improve the Kansai 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 other projects subject to a loan program.
- The estimation was made on the facilities improvement projects to enhance the existing facilities in response to an increase in the demand for air transportation and also on the second-term construction project commenced in FY1996.
- The analysis period is for 60 years, until the completion of the government-backed bond redemption.
- The operating income was estimated based on the demand forecast presented by the study group on airport improvement under the Council for Transport Policy in consideration of the operations of domestic flights in recent years.
- The estimation reflects the revision of the business scheme (a reduction in operating expenses, the construction in phases in accordance with the growth of the demand, and the injection of interest-free loans as planned) agreed between the Minister of Finance and the Minister of Land, Infrastructure and Transport on December 18, 2001.
- The estimation reflects the management improvement project and the grant-in-aid system (over 30 years) agreed between the Minister of Finance and the Minister of Land, Infrastructure, Transport and Tourism on December 18, 2002.
- In an agreement between the Minister of Finance and the Minister of Land, Infrastructure and Transport dated December 18, 2004, it was decided that "facilities improvement would proceed toward limited service by 2007," and that "facilities improvement under the Phase II project shall be limited to that absolutely essential for service of the second runway; postponed work shall proceed after limited service based on consideration of demand trends and company management conditions." Thus, the estimation provided here sets "limited service" as 2007 and reduces operational expenses through limitation of facility improvements to those that are absolutely necessary.

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

	Result				Estimated	Planned	Trial assumption													
FY	2006	2007	2008	2009	2010	2011	2013	2018	2023	2028	2033	2038	2043	2048	2053	2058	2063	2068	2070	
Operational revenue	103.8	104.6	97.9	84.9	87.6	87.5	87.7	93.3	99.0	104.0	111.7	119.0	127.2	134.5	142.0	148.4	155.6	156.3	156.4	
Aircraft movements	11.6	12.9	12.8	10.8	10.6	10.4	11.2	11.9	13.0	14.2	15.5	16.7	17.9	19.2	20.4	21.7	22.9	23.0	23.0	

Note: The social and economic framework assumed for the demand forecast is indicated below.

GDP Japan:	2015 1.7%, 2015 1.0%, (Source: Computed estimation for considering medium to long-term courses (Cabinet Office, June 23, 2009)	2020 1.1%, 2020 0.4%, (If the world economy has a smooth recovery) (If the world economy levels off)	2023 1.2%, 2023 0.7%
GDP overseas:	Asia Areas other than Asia:	2006 11.0%, 2006 3.4%, (Set based on "WORLD ECONOMIC OUTLOOK" (IMF, September 2006), "World Economic Outlook 2007" (World Bank, December 2006) and "World Economic Trend, autumn 2004" (Cabinet Office, November 2004)	2007 7.4%, 2007 3.8%, 2008 6.7%, 2008 2.5%, 2009-2027 4.1% 2009-2027 2.1%
Exchange rate:	¥115/\$1, ¥147/€ (Constant based on IMF Short-term Outlook (2007))		

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

### (Reason)

The Kansai 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 Social Infrastructure and Fiscal Investment and Loan furnishes the project with capital investment and interest-free loans to appropriate them for a part of its expenditure. The acceptance of grants-in-laid beginning in FY2003 has furthermore been decided in order to establish a stable business foundation and be confident of 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 and Transport on December 18, 2002. In addition, it was agreed by the Minister of Finance and the Minister of Land, Infrastructure and Transport on December 18, 2004 to promote improvement of the airport on condition that the facilities improvement in Phase II project is limited to essential ones, the Company further improves the management, the Company promotes the utilization together with local governments and private sector, etc. The second runway became available on August 2, 2007.

### (Rules)

- Capital investment and interest-free loans
  - Phase I project, Phase II project (airport facility construction) Capital investment 30% X 2/3
  - Phase II project (land development): Capital investment 30% X 2/3, interest-free loans 25% X 2/3
- \* Reflect of a review of the project scheme (Mutual agreement of the Minister of Finance and the Minister of Land, Infrastructure and Transport in December 2001)
  - While reducing project cost, facilities will be improved to a minimum level necessary for the beginning of limited service. The remaining work will be implemented in a phased manner in accordance with demand during and after the start of limited service.
  - Regardless of above (1), the central and local governments and private sector will invest an amount previously made or provide interest-free loans as originally planned.
- Subsidies
  - Continuous provision (¥9.0 billion/year from FY2003 to FY2009, ¥7.5 billion/year from FY2010 to FY2032)
  - A thorough review of Phase II project costs will be carried out. Necessary project costs will be radically cut until the second runway becomes available.

### (Underlying laws and regulations)

The Kansai International Airport Company, Limited Law

Article 4: The government shall always own half or more of the issued stocks of the Company.

4-2: Local governments may invest the Company after the consultation with the Minister of Public Management, Home Affairs, Posts and Telecommunications.

4-3: The Company, when placing a new issue, must be authorized by the Minister of Land, Infrastructure and Transport.

Article 7-4: The Company and local governments may invest corporate bodies which are intended for specific land creation projects.

Paragraph 2: The government may lend to the Company interest-free loans as funding to be allocated to investment of preceding paragraph within the limits of the budget.

Article 10: In addition to the stipulations of Article 7-4, Paragraph 2, the government may lend to the Company interest-free loans as funding to be allocated to expenses required for the operations described in Article 6, Paragraph 1 to Item 5 within the scope of the budget.

## 7. Special remarks

- The Kansai International Airport Company, Limited is a special corporate body established in October 1984, based on the Kansai International Airport Company Limited Law. The Company has been engaged in the construction and operation of the Kansai International Airport completed in 1994 and promoted Phase II project to construct the second airport island. On May 17, 2011, the Diet enacted a law on the integrated and efficient establishment and management of Kansai International Airport and Osaka International Airport. Given that conditions for their integration have yet to be fixed, however, the analysis is based on the present business conditions of the company.
- Considering the current economic situation, if the increase ratio of future estimated operational revenue falls 0.1% annually compared to the above-mentioned trial assumption, ¥288.8 billion in total operational revenue (equivalent to 3.3% of total revenue) will decrease through-out the analysis period.
- Besides the subsidies, etc., from the government indicated above, ¥178.5 billion in capital investment was received from local governments by FY2010.
- Changes in policy cost to date are as indicated below:

FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
- ¥27.7 billion	- ¥78.1 billion	- ¥20.7 billion	- ¥15.0 billion	- ¥28.2 billion	- ¥7.9 billion	- ¥1.8 billion	- ¥33.7 billion	¥20.5 billion	¥41.4 billion

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

(Unit : million yen)

Item	End of FY2009 (Result)	End of FY2010 (Estimated)	End of FY2011 (Planned)	Item	End of FY2009 (Result)	End of FY2010 (Estimated)	End of FY2011 (Planned)
<b>(Assets)</b>				<b>(Liabilities and equity)</b>			
Current assets	26,457	48,124	78,972	Current liabilities	158,011	120,595	157,229
Cash and deposits	13,067	15,870	14,950	Accounts payable	1,029	1,029	1,029
Accounts receivable	4,822	4,823	4,823	Bonds payable within 1 year	93,561	76,116	83,406
Merchandise, raw materials, stocks	1,447	1,412	1,412	Loans payable within 1 year	28,622	26,913	58,243
Other current assets	7,138	26,034	57,802	Accrued payments	8,117	7,111	5,053
Reserve for loan loss	-17	-16	-16	Accrued expenses	6,323	5,629	5,778
Fixed assets	1,920,231	1,901,173	1,929,354	Income taxes payable	81	263	213
Fixed assets for airport operations	1,416,404	1,393,124	1,372,905	Advance by customers	1,181	1,181	1,181
Tangible fixed assets	1,800,093	1,796,969	1,795,795	Reserve for bonuses	178	189	173
Accumulated depreciation	-384,852	-404,700	-423,436	Other current liabilities	18,918	2,165	2,152
Intangible fixed assets	1,162	855	546	Fixed liabilities	1,190,243	1,224,131	1,245,334
Fixed assets for railroad operations	66,793	64,397	62,061	Bonds payable	639,237	701,252	781,875
Tangible fixed assets	104,341	104,341	104,341	Long-term loans payable	397,283	370,370	312,127
Accumulated depreciation	-37,647	-40,011	-42,316	Reserve for retirement benefits	1,509	1,606	1,704
Intangible fixed assets	100	68	37	Leaseholds payable	8,474	7,189	5,926
Fixed assets for other operations	5,194	5,088	4,987	Other fixed liabilities	143,739	143,714	143,702
Tangible fixed assets	7,445	7,445	7,445	(Total liabilities)	1,348,254	1,344,726	1,402,562
Accumulated depreciation	-2,251	-2,357	-2,457	Capital stock	598,435	604,571	605,764
Intangible fixed assets	0	0	0	Capital	813,820	814,990	814,990
Construction work in progress	249,755	254,861	259,893	From the government	541,700	541,700	541,700
Investments and other assets	182,086	183,703	229,508	From local governments	177,295	178,465	178,465
Stock of affiliated companies	1,358	1,358	1,358	From private sector	94,825	94,825	94,825
Long-term loan for affiliated companies	180,714	182,316	228,003	Earned surplus	-215,385	-210,419	-209,226
Other investments	72	90	208	Other earned surplus	-215,385	-210,419	-209,226
Loan loss provisions	-59	-62	-62	(Earned surplus carried forward)	(-215,385)	(-210,419)	(-209,226)
				(Total equity)	598,435	604,571	605,764
<b>Total assets</b>	<b>1,946,688</b>	<b>1,949,297</b>	<b>2,008,326</b>	<b>Total liabilities and equity</b>	<b>1,946,688</b>	<b>1,949,297</b>	<b>2,008,326</b>

Note 1: The Balance Sheet includes amounts of projects which are not eligible for policy cost analysis.

2: Totals may not agree due to rounding.

**Income Statement**

(Unit : million yen)

Item	FY2009 (Result)	FY2010 (Estimated)	FY2011 (Planned)	Item	FY2009 (Result)	FY2010 (Estimated)	FY2011 (Planned)
<b>(Losses)</b>				<b>(Profits)</b>			
Airport operating expenses	69,393	67,948	71,807	Airport operating revenues	80,738	83,416	83,381
Facility operating expenses	26,023	25,636	29,114	Airport dues	15,223	14,805	15,485
Costs of goods sold	8,811	10,975	10,977	Fees for using facilities	48,364	48,548	47,937
Sales and administration expenses	8,327	8,440	10,015	Revenues of directly managed operations	15,371	19,317	19,211
Depreciation	26,232	22,896	21,701	Miscellaneous operating revenues	1,780	747	747
Expenses for operating railroad	3,752	3,448	3,514	Railroad operating revenues	4,187	4,224	4,147
Operating expenses of facilities	902	897	1,009	Fees for using facilities	4,187	4,224	4,147
Administration expenses	126	145	159	Non-operating revenue	11,971	10,187	10,923
Depreciation	2,724	2,405	2,346	Extraordinary profits	3	-	-
Non-operating expenses	23,378	21,439	22,058	Net loss	210	-	-
Interest expenses	23,173	20,992	21,521				
Other non-operating expenses	206	447	537				
Extraordinary losses	715	144	-				
Corporation tax, inhabitants tax and enterprise tax	-130	-118	-122				
Net profit	-	4,966	1,193				
<b>Total</b>	<b>97,109</b>	<b>97,827</b>	<b>98,451</b>	<b>Total</b>	<b>97,109</b>	<b>97,827</b>	<b>98,451</b>

Note : Totals may not agree due to rounding.

**(Reference) Hypothetical Balance Sheet of the Private Corporation and Hypothetical Income Statement of the Private Corporation**

**Hypothetical Balance Sheet of the Private Corporation** (Unit : million yen)

Item	End of FY2009	Item	End of FY2009
<b>(Assets)</b>		<b>(Liabilities)</b>	
Current assets	26,457	Current liabilities	158,011
Cash and deposits	13,067	Accounts payable	1,029
Accounts receivable	4,822	Bonds payable within 1 year	93,561
Merchandise, raw materials, stocks	1,447	Loans payable within 1 year	28,622
Advance payment	123	Accrued payments	8,117
Other current assets	7,016	Accrued expenses	6,323
Reserve for loan loss	-17	Income taxes payable	81
Fixed assets	1,920,231	Deposits	2,090
Fixed assets for airport operations	1,416,404	Advance by customers	1,181
Tangible fixed assets	1,415,241	Reserve for bonuses	178
Intangible fixed assets	1,162	Other current liabilities	16,828
Fixed assets for railroad operations	66,793	Fixed liabilities	1,190,243
Tangible fixed assets	66,693	Bonds payable	639,237
Intangible fixed assets	100	Long-term loans payable	397,283
Fixed assets for other operations	5,194	Reserve for retirement benefits	1,509
Tangible fixed assets	5,194	Leaseholds payable	8,474
Intangible fixed assets	0	Other fixed liabilities	143,739
Construction work in progress	249,755	(Total liabilities)	1,348,254
Investments and other assets	182,086	(Net assets)	
Stock of affiliated companies	1,358	Capital stock	598,435
Other investments	180,787	Capital	813,820
Reserve for loan loss	-59	Earned surplus	-215,385
		Other earned surplus	
		(Earned surplus carried forward)	-215,385
		(Total equity)	598,435
<b>Total assets</b>	<b>1,946,688</b>	<b>Total liabilities and equity</b>	<b>1,946,688</b>

**Hypothetical Income Statement of the Private Corporation** (Unit : million yen)

Item	End of FY2009
<b>(Ordinary income)</b>	
Airport operating revenues	80,738
Airport dues	15,223
Fees for using facilities	48,364
Revenues of directly managed operations	15,371
Miscellaneous operating revenues	1,780
Railroad operating revenues	4,187
Fees for using facilities	4,187
Non-operating revenue	11,971
<b>(Ordinary expenses)</b>	
Airport operating expenses	69,393
Costs of goods sold	26,023
Facility operating expenses	8,811
Sales and administration expenses	8,327
Depreciation	26,232
Expenses for operating railroad	3,752
Operating expenses of facilities	902
Administration expenses	126
Depreciation	2,724
Non-operating expenses	23,378
Interest expenses	23,173
Other non-operating expenses	206
<b>(Extraordinary profits)</b>	
Extraordinary profits	3
<b>(Extraordinary losses)</b>	
Extraordinary losses	715
Corporation tax, inhabitants tax and enterprise tax	-130
<b>Net profit (or net loss)</b>	<b>-210</b>

Note: Totals may not agree due to rounding.