

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 FY2016 FILP

(Unit: billion yen)

FY2016 FILP	Estimated outstanding amount of FILP lending at the end of FY2015
28.0	385.9

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

(1) Policy (subsidy) cost

(Unit: billion yen)

Category	FY2015	FY2016	Fluctuation
1. Subsidies, etc. from the Government	-	-	-
2. Money transferred to the Government	-42.5	-38.5	+3.9
Subtotal (1+2)	-42.5	-38.5	+3.9
3. Opportunity cost of capital investments, etc. from the Government	-83.1	-13.2	+69.9
Subtotal (1+2+3)	-125.6	-51.7	+73.8
4. Fluctuation in retained losses	-	-	-
Total (1+2+3+4=policy cost(A))	-125.6	-51.7	+73.8
Analysis period (years)	44	43	-1

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

Category	FY2015	FY2016	Fluctuation
(A) Policy cost (previously cited)	-125.6	-51.7	+73.8
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	41.2	44.1	+2.8
2) Policy cost expected to be newly accrued during the analysis period	-166.8	-95.8	+71.0
Subsidies, etc. from the Government	-	-	-
Money transferred to the Government	-42.5	-38.5	+3.9
Policy cost accrued with a change in surplus funds	-124.3	-57.3	+67.1
Opportunity cost of capital investments, etc.	-	-	-

<Reference> Budgeted amounts of subsidies and capital investment in FY2016

Subsidies: - billion yen
Capital investment: - billion yen

(3) Year-to-Year comparison analysis

(Unit: billion yen)

Category	FY2015	FY2016	Fluctuation
(A) Policy cost (previously cited)	-125.6	-51.7	+73.8
(A') Policy cost obtained by re-calculating (A) using the same assumed interest rate as in the FY2015 analysis	-125.6	-68.2	+57.4
(B) Policy cost of (A') generated in FY2016 or later	-121.3	-68.2	+53.1

Policy cost in FY2016 is -51.7 billion yen. The analysis shows an increase of 53.1 billion yen in real policy cost over FY2015 when the effect of change in the assumed interest rate for FY2015 and FY2016 is eliminated and the policy cost that accrues in FY2016 and thereafter are compared. This increase in real policy cost is considered to be attributable to the following factors:

•Cost increase due to review of income and expenditures forecast (+53.1 billion yen)

(5) Sensitivity analysis (cases where assumptions change) (Unit: billion yen)

Changed assumption and extent of change	Policy Cost (Fluctuation)
Funds raised +1%	50.0 (+101.8)
Fluctuation in opportunity cost	+83.5
Operational revenue -10%	-47.0 (+4.8)
Fluctuation in opportunity cost	+3.0

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

- 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.
- The estimation covers the projects of Kansai International Airport that are subject to government-guaranteed bonds.
- 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 for FY2016.
- Revenues from consideration for operational rights are recorded in an amount based on the contract.
- Operating revenues other than those from consideration for operational rights, personnel costs and property costs are based on the estimated amount for FY2016.
- The rate of issued corporate bonds is that of issued government-guaranteed bonds plus the spread between the government-guaranteed bonds and the FILP Agency Bonds procured most recently.

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

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 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 was placed under the management of the operational right holder under the contract as of April 1, 2016. Accordingly, subsidies will no longer be granted.

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.

(Reference) Outcome and social and economic benefits of operations

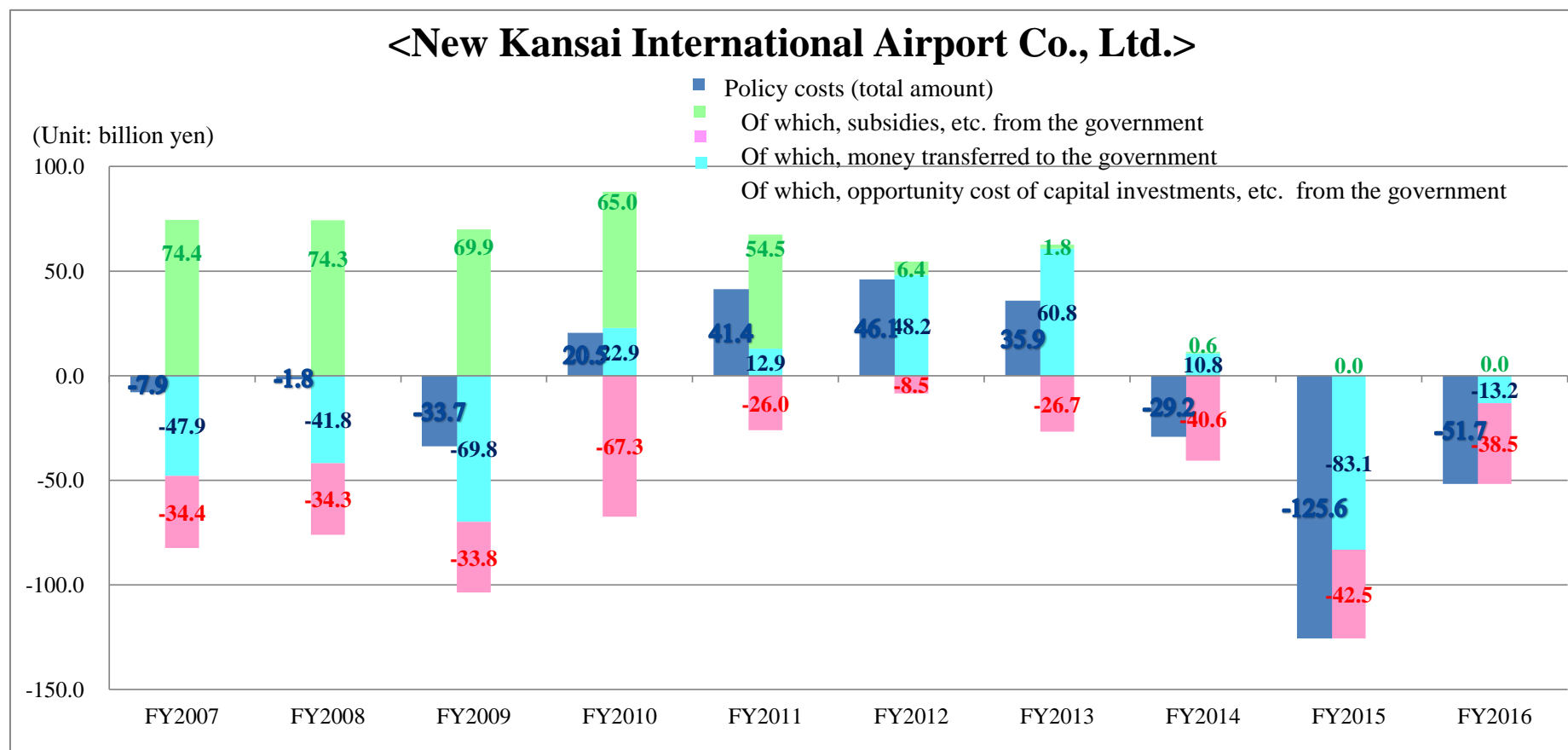
Kansai International Airport has 4,000m class runways. Kansai International Airport is Japan’s first international airport which makes a 24-hour use possible and meets the global standard. Kansai International Airport is an important infrastructure which will greatly contribute to the future development 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, 1,216 flights a week, linking 86 cities in 24 nations and regions, go into service. As for the domestic airline, 68 flights a day, linking 12 cities, go into service (result in March 2016).

As for the number of annual passengers, Kansai International Airport is used by 16.25 million people in the international line and 6.96 million people in the domestic line (result in 2015). 22.2% of immigration in Japan is taken up by Kansai International Airport users (Immigration control statistics by the Ministry of Justice in 2015).

As for the amount of annual cargoes, 720 thousand tons, the trade 9.2 trillion yen trade amount international cargoes are handled in Kansai International Airport (result in 2015). 6.0% of trade amount in Japan is taken up by trade value handled in Kansai International Airport (result in 2015, 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 Airports.

(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.
- In FY2015, the policy cost decreased significantly due to a reduction in the assumed interest rate and improved business performance.
- The concession contract designating April 1, 2016, as the commencement date changed the scheme for revenues and expenses. As a result, expected earnings decreased and the policy cost increased on a single-year basis, but the policy cost remains negative and proper repayment can be expected based on stable revenues from consideration for operational rights.

(Reference) Financial Statements

Balance Sheet

(Unit: million yen)

Item	End of FY2014 (Result)	End of FY2015 (Estimated)	End of FY2016 (Planned)	Item	End of FY2014 (Result)	End of FY2015 (Estimated)	End of FY2016 (Planned)
(Assets)				(Liabilities and equity)			
Current assets	28,420	125,841	26,170	Current liabilities	159,590	175,598	136,513
Cash and bank deposits	12,285	103,423	22,336	Accounts payable	2,318	2,800	-
Accounts receivable	8,927	12,721	42	Short-term borrowings	7,400	-	-
Merchandise, raw materials, stocks	43	38	-	Bonds payable within 1 year	71,400	79,925	119,686
Other current assets	7,166	9,659	3,792	Long-term loans payable within 1 year	34,536	12,295	12,437
Fixed assets	1,938,542	1,940,800	1,906,228	Lease liabilities	0	-	-
Fixed assets for airport operations	1,851,312	1,838,318	1,841,462	Accrued payments	13,488	25,606	1,554
Tangible fixed assets	1,907,568	1,914,433	1,928,372	Accrued expenses	3,905	1,789	1,664
Accumulated depreciation	-56,656	-76,594	-86,918	Accrued corporate tax	3,486	5,868	1,044
Intangible fixed assets	400	479	8	Advances received	1,089	41	40
Fixed assets for railroad operations	45,963	43,858	42,035	Reserve for bonuses	221	224	83
Tangible fixed assets	52,845	52,845	53,188	Other current liabilities	21,746	47,049	5
Accumulated depreciation	-6,882	-9,086	-11,231	Fixed liabilities	1,019,306	1,077,963	962,094
Intangible fixed assets	-	98	78	Bonds	719,405	679,572	588,565
Fixed assets for other operations	762	743	723	Long-term loans payable	289,934	222,639	210,202
Tangible fixed assets	822	822	819	Lease liabilities	-	-	-
Accumulated depreciation	-60	-80	-96	Reserves for retirement benefits	1,872	-	-
Intangible fixed assets	0	0	-	Other fixed liabilities	8,095	175,752	163,327
Construction work in progress	5,010	27,718	20,727	(Total liabilities)	1,178,896	1,253,561	1,098,607
Investment and other assets	35,494	30,164	1,281				
Affiliated companies stock	30,112	30,112	-	Capital stock	577,042	597,609	614,153
Long-term loan for affiliated companies	4,685	-	15	Capital	300,000	300,000	300,000
Other investments, etc.	698	53	1,266	Investment of government	300,000	300,000	300,000
Loan loss provisions	-1	-1	-	Capital surplus	253,041	253,041	253,041
				Capital reserves	253,041	253,041	253,041
				Earned surplus	24,001	44,567	61,111
				Other retained earnings	24,001	44,567	61,111
				Other accumulated comprehensive income	23	-	-
				Minority equity	211,002	215,471	219,637
				(Total equity)	788,067	813,080	833,790
Total assets	1,966,963	2,066,641	1,932,397	Total liabilities and equity	1,966,963	2,066,641	1,932,397

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	FY2014 (Result)	FY2015 (Estimated)	FY2016 (Planned)	Item	FY2014 (Result)	FY2015 (Estimated)	FY2016 (Planned)
(Expenses)				(Revenues)			
Airport operating expenses	85,927	104,717	38,664	Airport operating revenues	122,544	147,979	62,802
Costs of goods sold	19,908	31,114	-	Revenues from consideration for operational rights	-	-	55,669
Facility operating expenses	25,390	31,720	6,990	Airport dues	27,124	27,271	-
Sales and administration expenses	19,386	21,687	13,265	Fees for using facilities	61,712	69,256	7,133
Depreciation cost	21,243	20,196	18,409	Revenues of directly managed operations	32,902	50,466	-
Expenses for operating railroad	3,413	3,276	3,152	Miscellaneous operating revenues	807	986	-
Facility operating expenses	845	939	946	Railroad operating revenues	4,104	4,517	4,653
General and administrative expenses	115	130	39	Fees for using facilities	4,104	4,517	4,653
Depreciation cost	2,453	2,208	2,168	Non-operating revenue	2,109	49	999
Non-operating expenses	13,239	11,632	10,063	Extraordinary profits	56	648	15,348
Interest expenses	12,970	11,494	9,978	Net loss	-	-	-
Other non-operating expenses	269	138	86				
Extraordinary loss	1,086	809	4,289				
Corporate tax, residence tax and enterprise tax	4,632	7,510	3,877				
Income taxes-deferred	641	214	3,045				
Minority interests in income	4,548	4,469	4,166				
Net profit	15,327	20,566	16,544				
Total	128,813	153,194	83,802	Total	128,813	153,194	83,802

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

2. The income statement includes amounts of projects which are not eligible for policy cost analysis.

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