



Lessons learned through the KIX-ITM concession deal

March 7, 2016

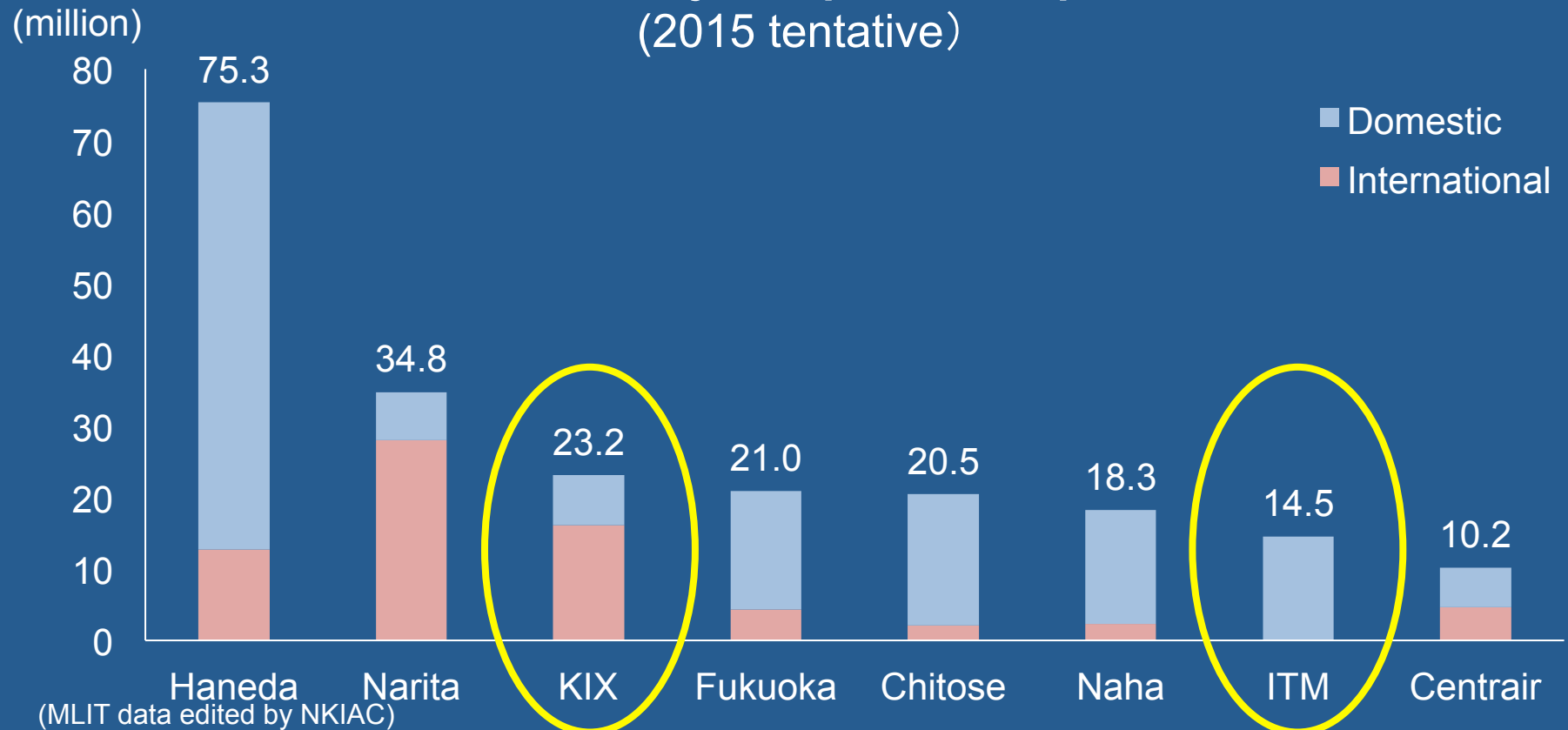
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Overview of the KIX-ITM managerial integration and airport concession deal



- KIX-ITM are both located in the Kansai region (second largest economy in Japan), and both are among the top 10 largest airports in Japan

PAX of major airports in Japan
(2015 tentative)



Overview of KIX and ITM



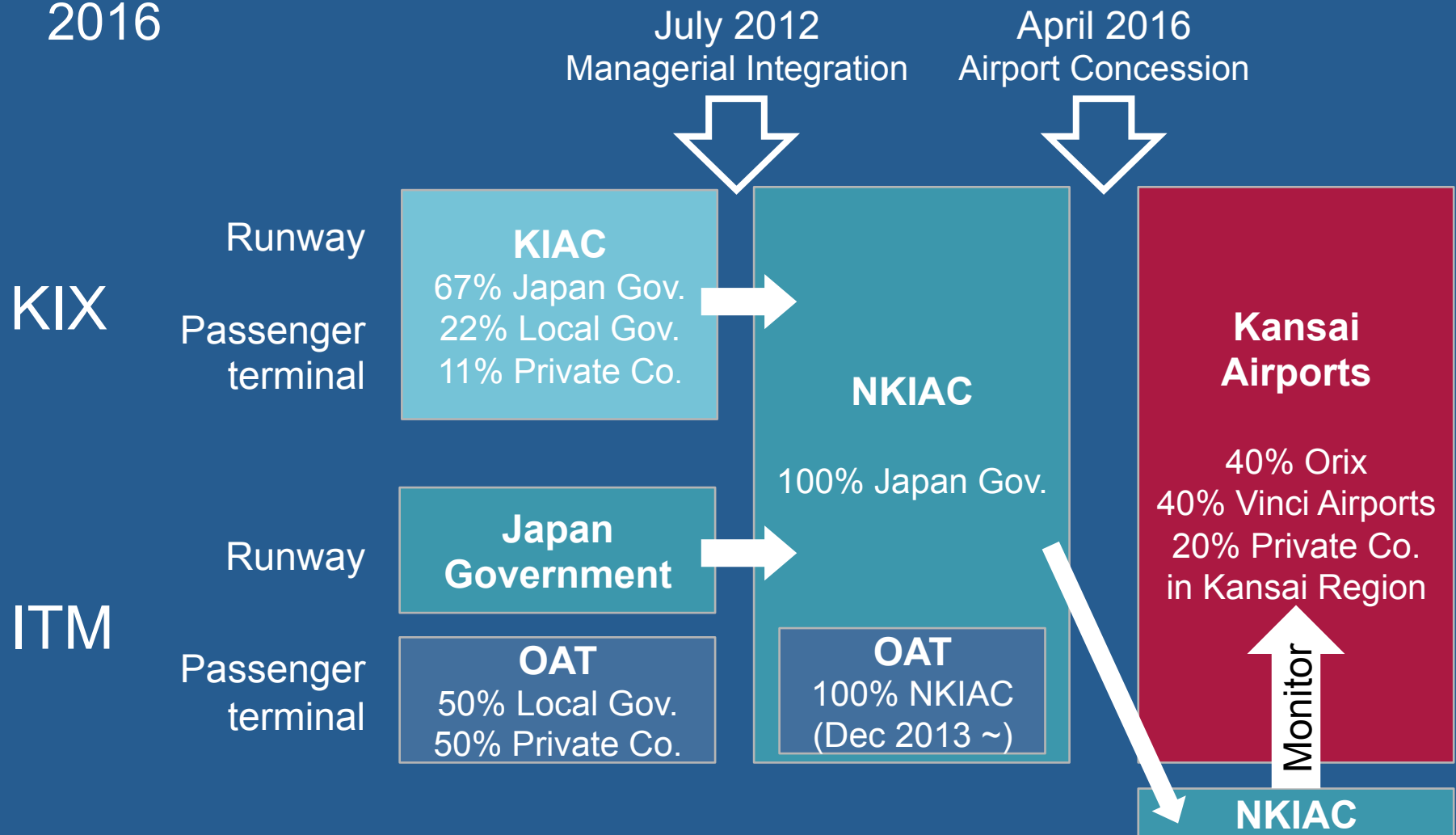
- KIX and ITM, two major airports in Kansai region, were merged in July 2012 in preparation for concession deal.
- KIX is a full spec off-shore airport offering two 4000 meter class runways with full 24-hour service.
- ITM is an urban airport located just 10km from CBD providing service with extremely high convenience.

 KANSAI INTERNATIONAL AIRPORT 	4,000 m 3,500 m	Runways	3,000 m 1,828 m	 OSAKA INTERNATIONAL AIRPORT 
	91	Aircraft Stands	50	
	24 hours	Operating Hours	7:00 - 21:00	
	23.2 million (70%, 30%)	Passengers (Int, Dom)	14.5 million (0%, 100%)	
	163,506	Movements	139,150	
	697 Kt	Cargo	131 Kt	
Opened 1994	(2015 actual)			Opened 1939

Overview of the KIX-ITM managerial integration and airport concession deal



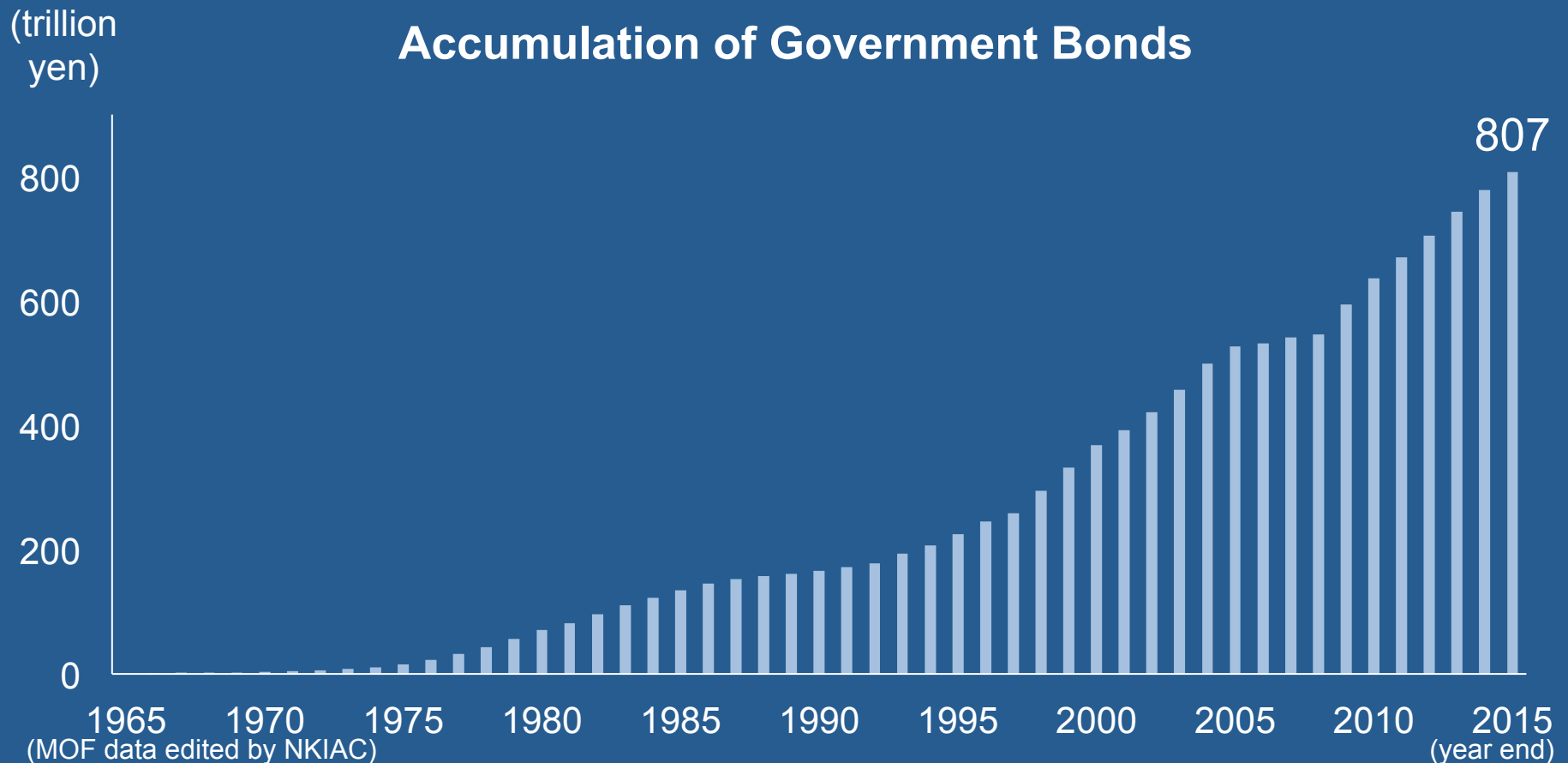
- Airport operation of Kansai Airports is about to start from April 2016



Necessity of infrastructure concession as an infrastructure maintenance method



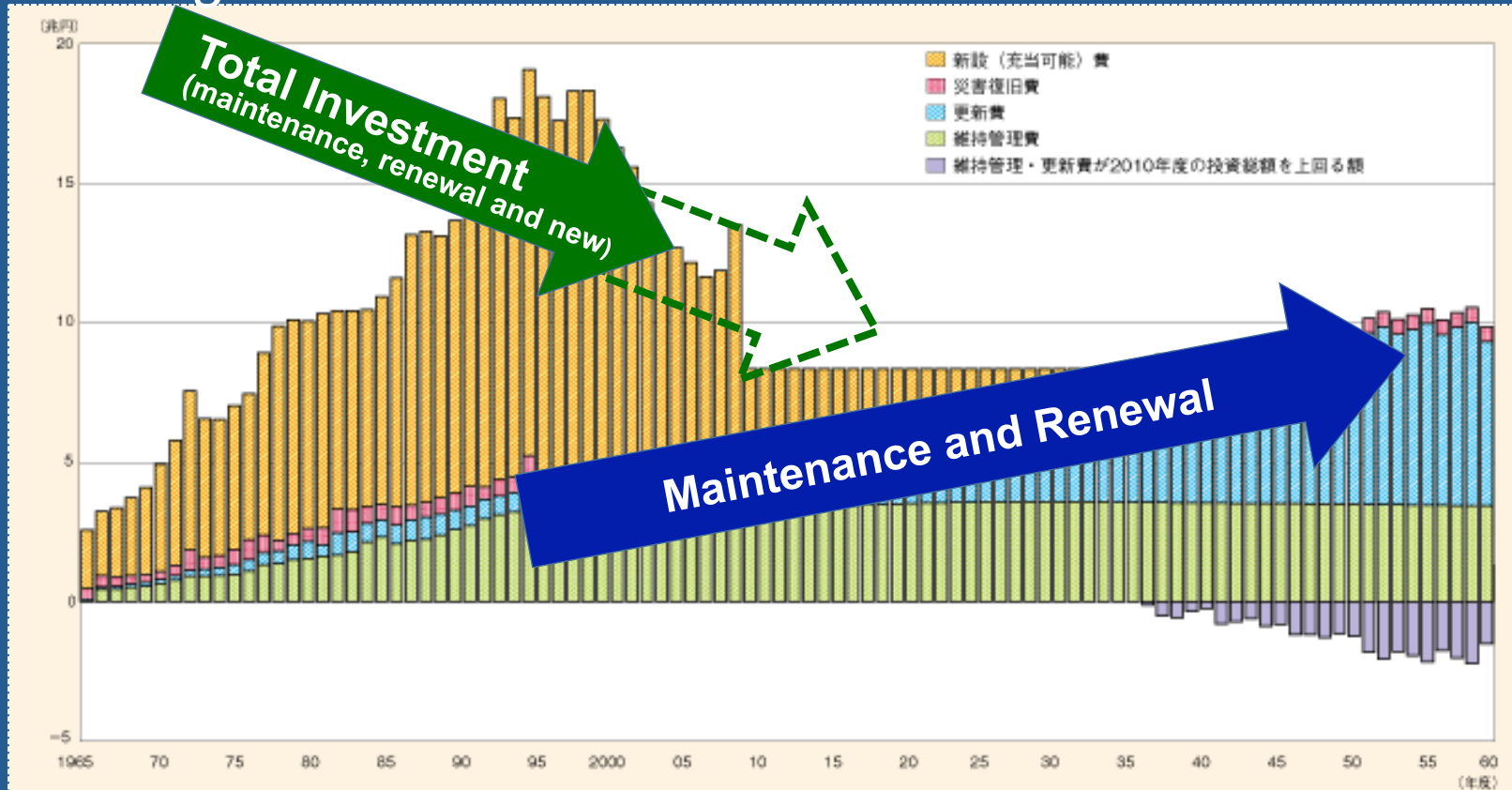
- National budget is getting severe, and population has started to decline



Necessity of infrastructure concession as an infrastructure maintenance method



- Investment for maintenance and renewal of infrastructure is increasing



(MLIT data edited by NKIAC)

Necessity of infrastructure concession as an infrastructure maintenance method



- Infrastructure operation by private entity can
 - reduce the financial burden of the government
 - achieve the higher growth of the infrastructure, and lead to the national economic growth

	Public Entity	Private Entity
Cost of capital	Lower	Higher
Growth of the infrastructure	As a result, Lower	Potentially Higher



KIX-ITM deal from a financial perspective



- Public goal was rigorous compared to fair business value
We used 3 approaches to balance the situation

KIX (PL of KIAC 2009)

(billion yen)

Revenue 86.5

Operation Cost 73.9

(depreciation 30.5)

EBIT

12.6

EBITDA 43.1 billion yen + α
 $\times 12 = 0.517$ trillion yen + α



L-T debt of KIAC 1.257 trillion yen

ITM (provisional PL by the government 2007)

(billion yen)

Revenue 14.8

Operation Cost 11.1

(depreciation 2.0)

EBIT

Note: Provisional ITM EBITDA ~~3.7~~ **3.7** billion yen based on government operations doesn't include new costs such as property tax

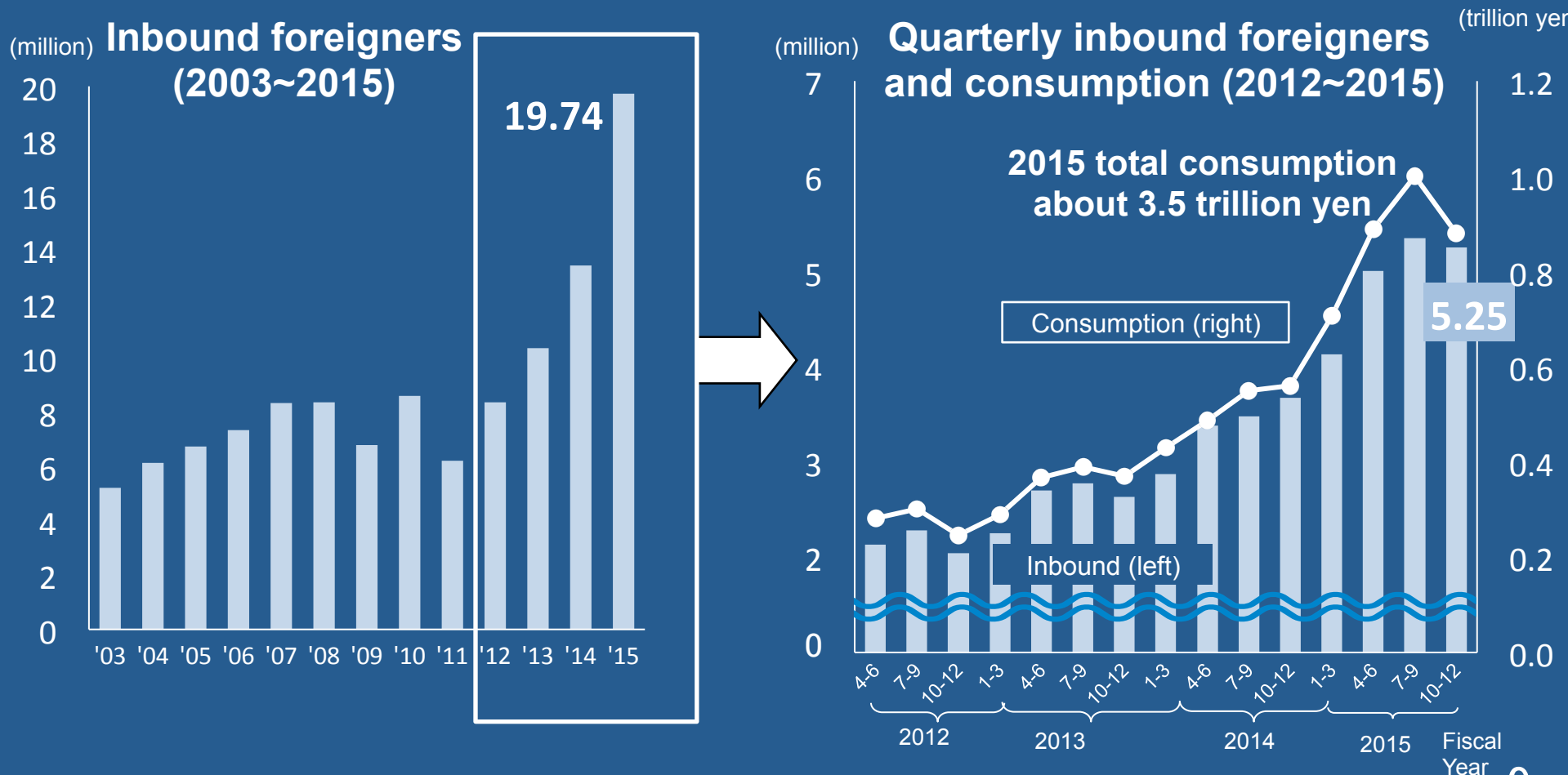
OAT

EBITDA around 3.0
Cost fair value

KIX-ITM deal from a financial perspective



- The situation: Total number and consumption of inbound foreign passengers are escalating, showing the growth potential of the airport

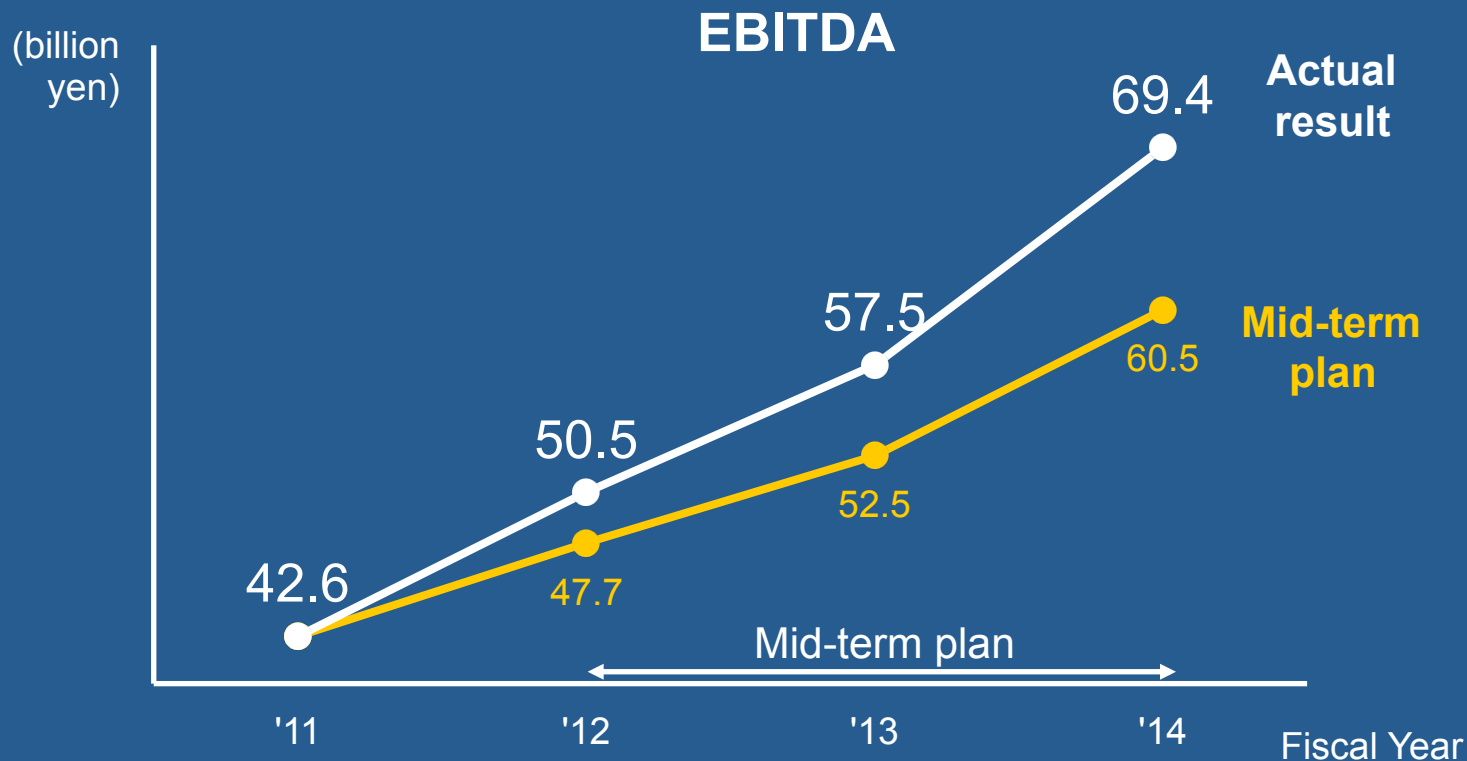


KIX-ITM deal from a financial perspective



- Approach 1: Self-improvement of the business can increase the business value

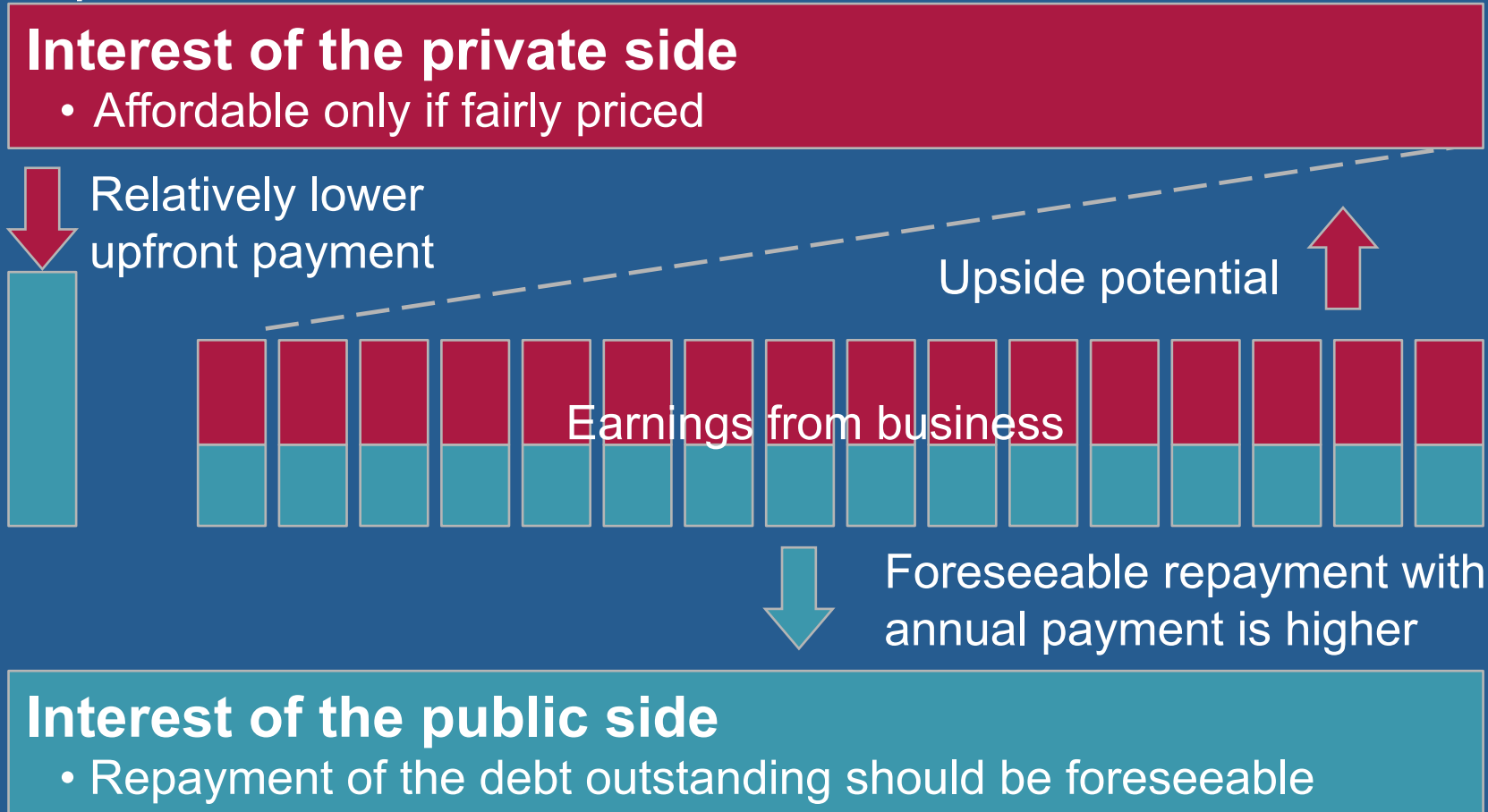
- EBITDA increased 26.8 billion yen through 3 years (CAGR 17.6%)
- Faster growth than mid-term plan



KIX-ITM deal from a financial perspective



- Approach 2: Financial scheme can help to meet both private and public side interests



KIX-ITM deal from a financial perspective



- Approach 3: Competitive environment of the deal can lead to a higher bidding price. However, this didn't develop in the KIX-ITM deal

Only one bidder
submitted a proposal

Minimum Bidding Price



Cost/Benefit for the relevant parties



- The concerns posed from domestic investors were based on the local practice and culture

- **terms of contract look “New”**



Concerns posed from
domestic potential bidders



Communication

- **Local business practice**
- **Local culture**

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Lessons learned through KIX-ITM deal



- 1. The full utilization of the special features of the public side (including the lower cost of capital)**
- 2. Whether the nature of the deal is correctly recognized**
- 3. “Minimum requirement” or competitive circumstance**



Thank you for listening
