

Japanese airport investment opportunities

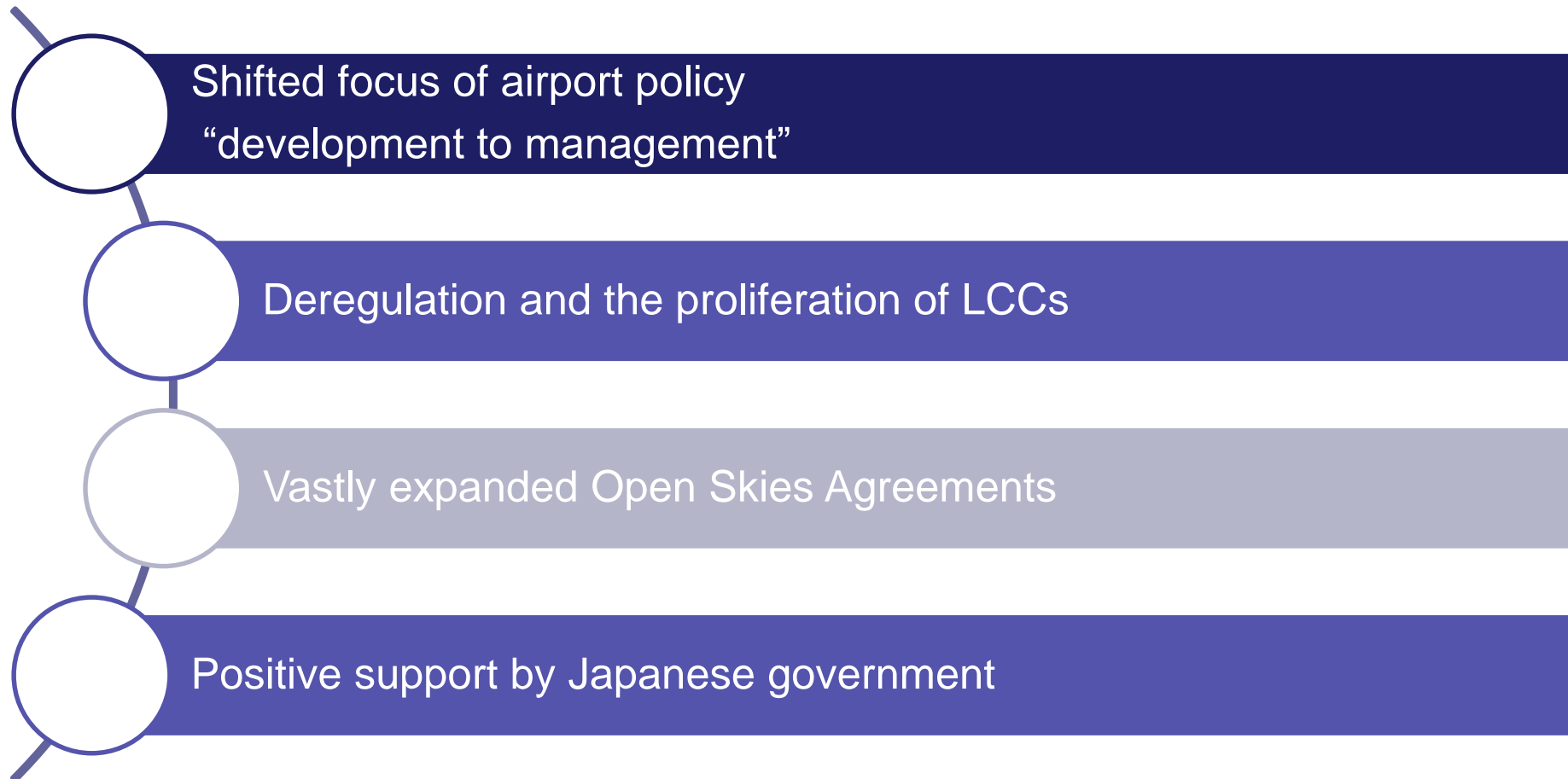
Hiroki Yasui

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**Airport Governance Reform Unit
Japan Civil Aviation Bureau (JCAB)
The Ministry of Land, Infrastructure,
Transport and Tourism (MLIT)**

- 1. Circumstance, Trend and Target**
- 2. Airport concessions in Japan**
- 3. Upcoming transactions**

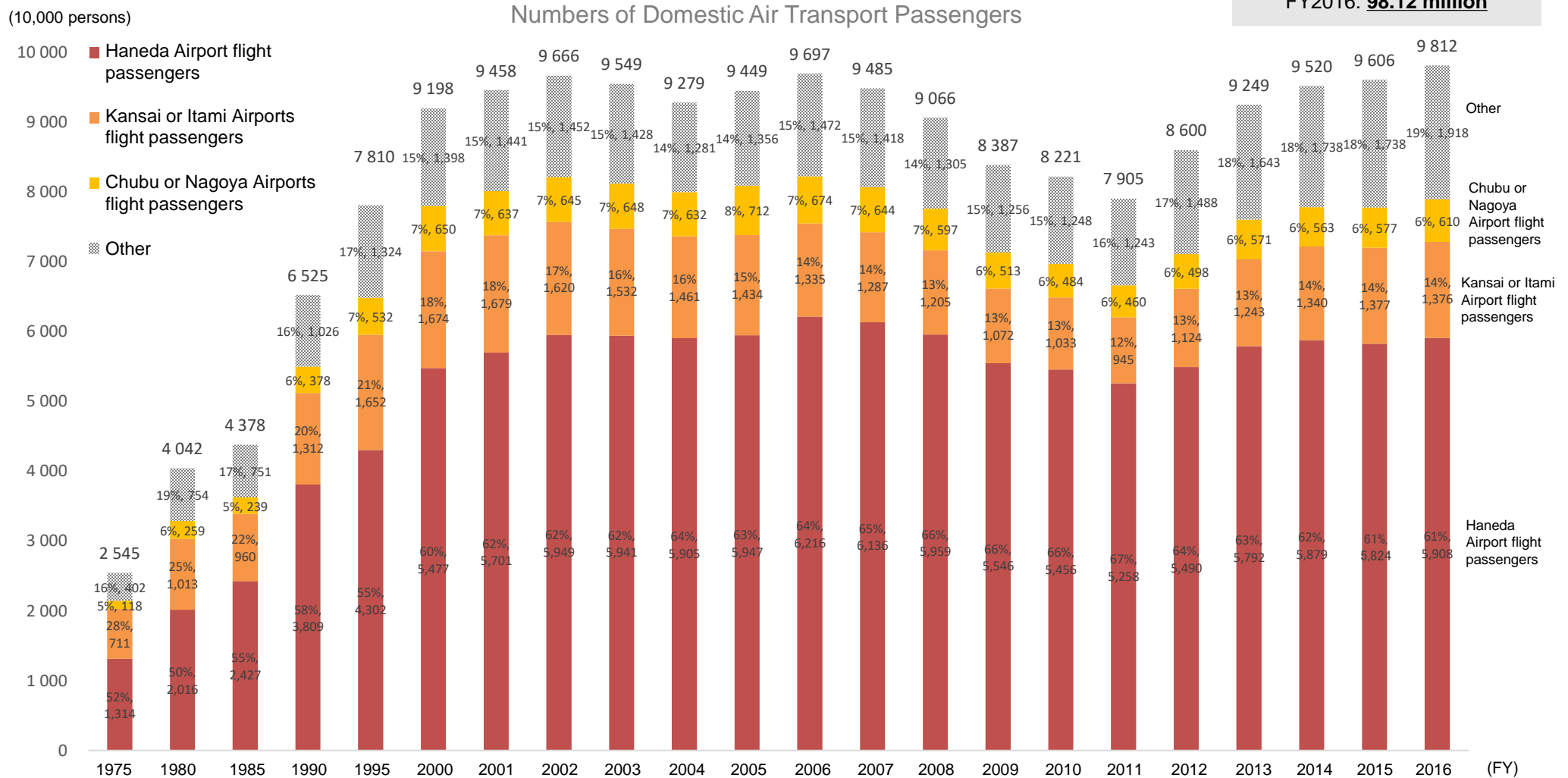
- Decreasing of population + Centralization in urban areas
- Capturing a rapidly growing demand in Asia



Trends in domestic air passenger transport

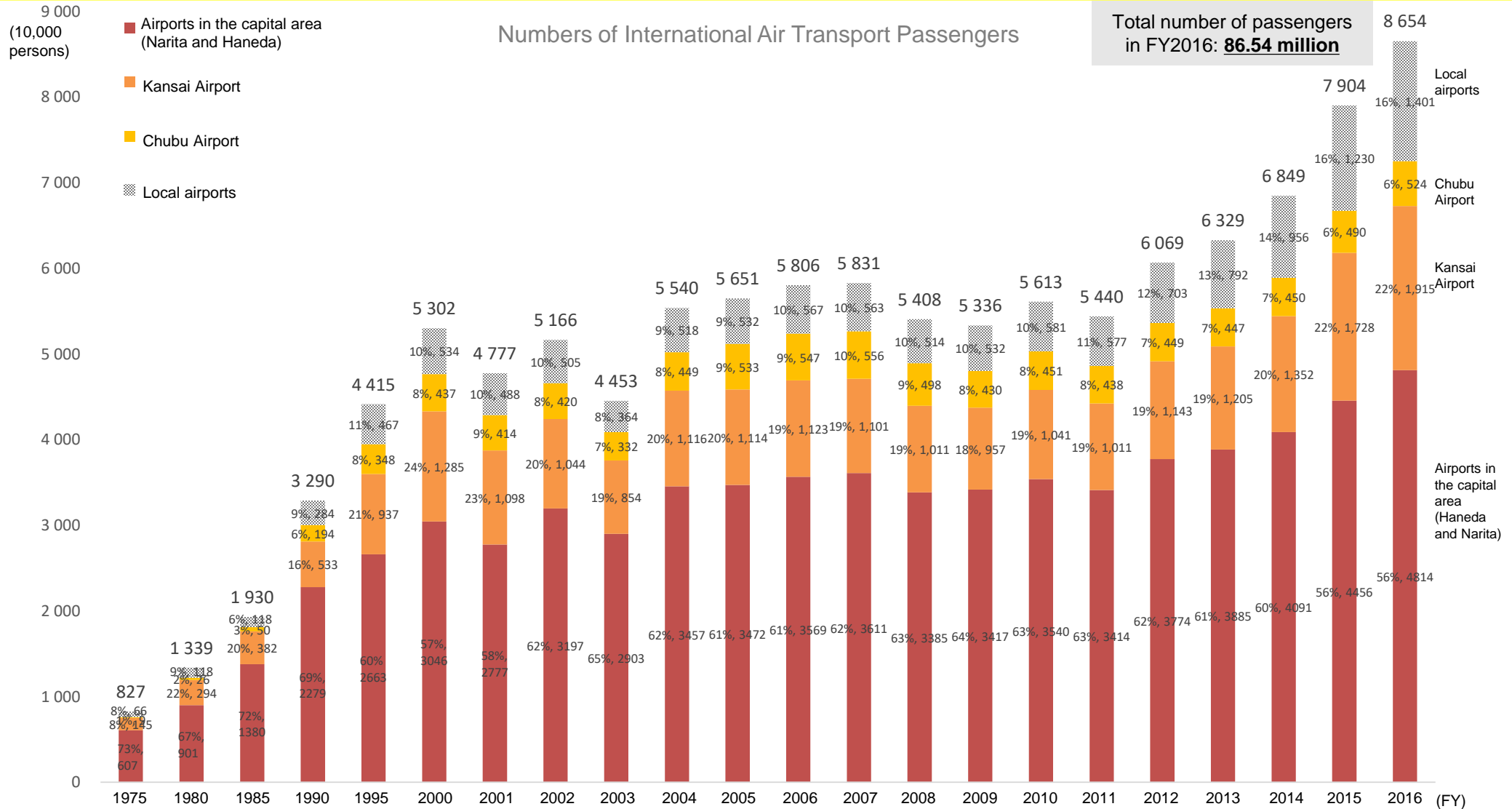
- The demand for domestic air passenger transport in Japan started to decline in FY2007 due to increased fuel prices. As a result of the global economic recession after the Lehman crisis in 2008 and the Great East Japan Earthquake in 2011, the demand continued to decline. However, the demand started to increase again in FY2012 due to LCCs starting to compete with major airlines.
- Approximately 60% of domestic airline users start from Haneda Airport.

Total number of passengers in FY2016: **98.12 million**



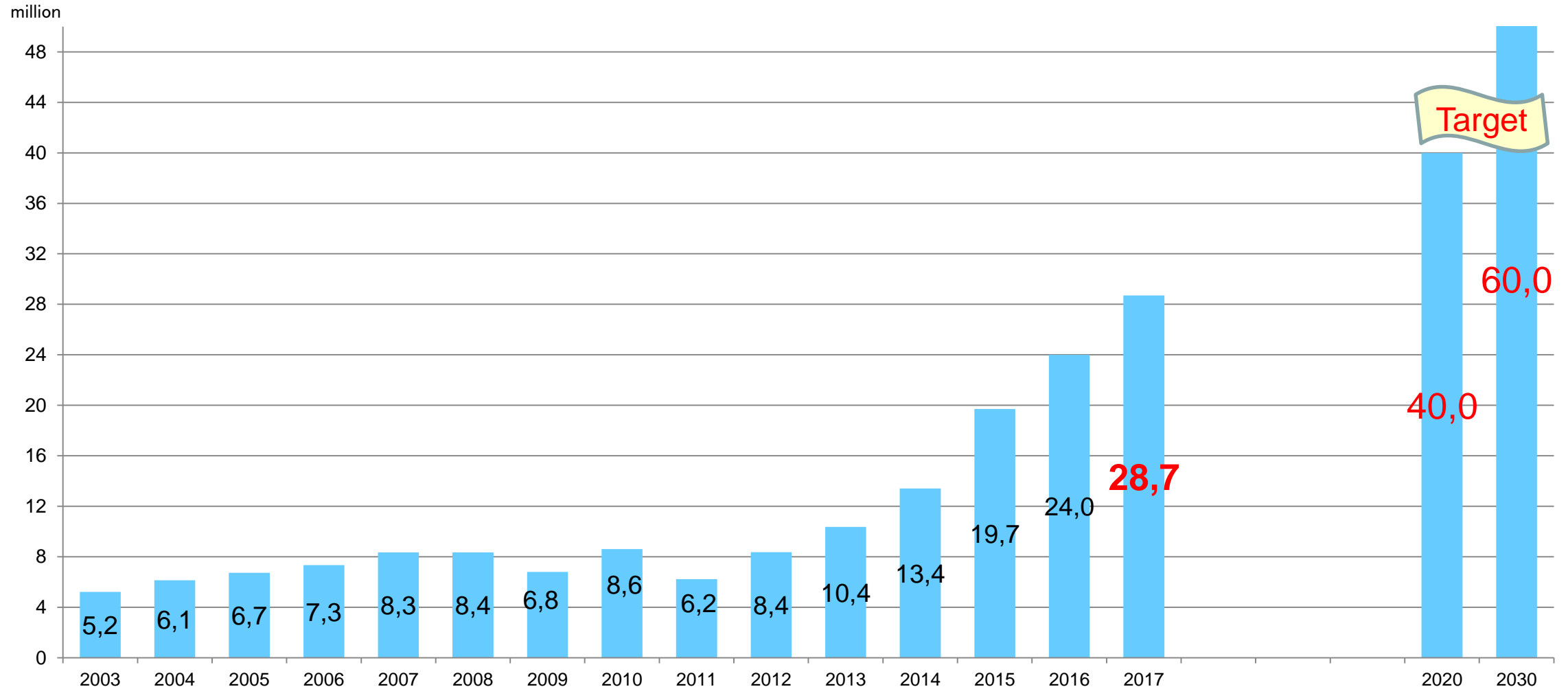
Trends in international air passenger transport

- Demand for international air passenger transport in Japan registered a record high in FY2016, despite a temporary decline since 2001 at the time of the 9/11 terrorist attacks, the Lehman crisis and the Great East Japan Earthquake.
- Passengers using airports in the capital area (Haneda and Narita Airport) account for 60% of the total number.



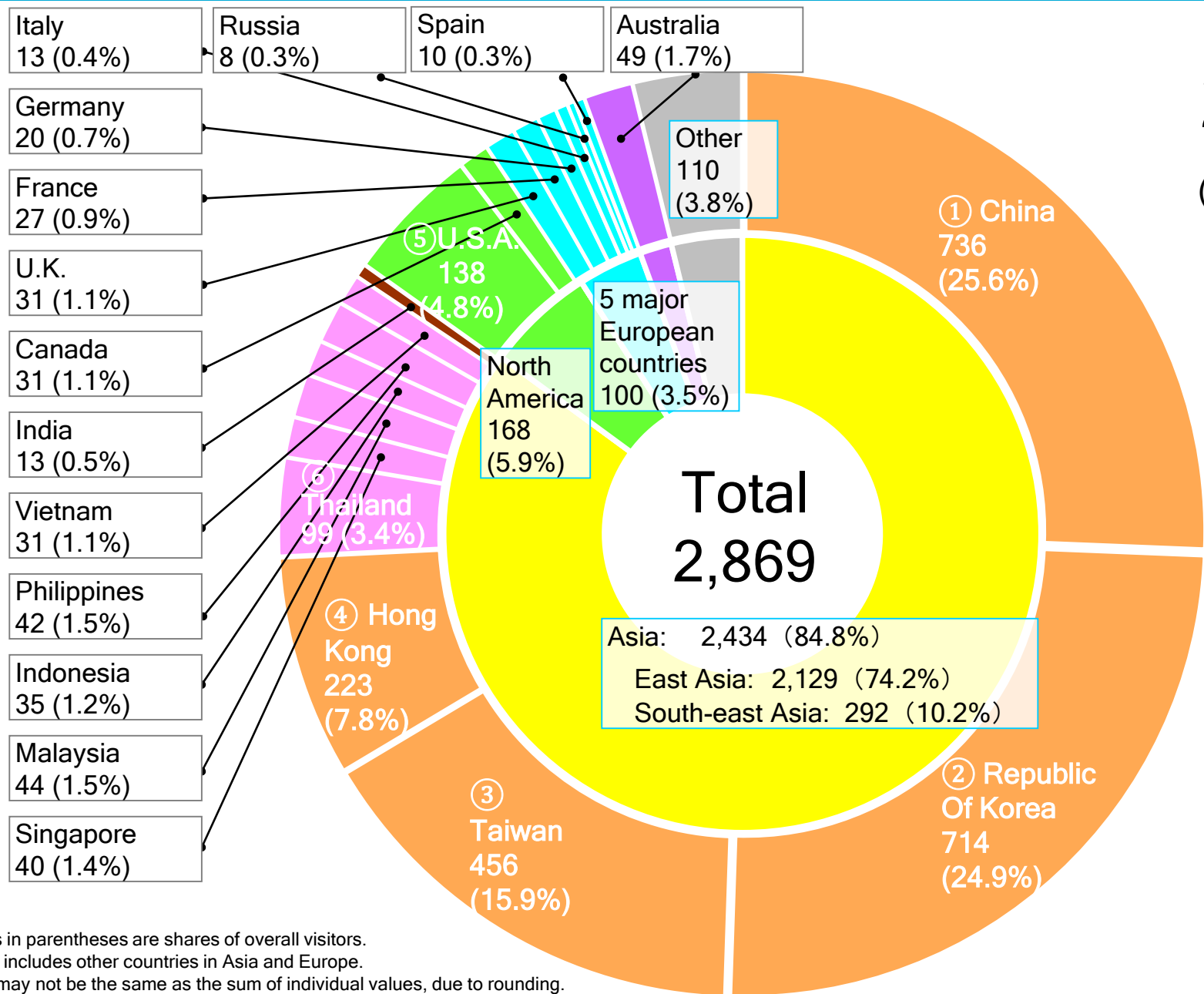
Foreign visitors to Japan

○ The number of foreign visitors to Japan rose to a record high of over 28 million in 2017 with a national ambition to increase further.



2017

(Unit: 10,000 people)



Note 1: Figures in parentheses are shares of overall visitors.
 Note 2: "Other" includes other countries in Asia and Europe.
 Note 3: Totals may not be the same as the sum of individual values, due to rounding.
 Note 4: Adapted by the JTA based on material prepared by the JNTO

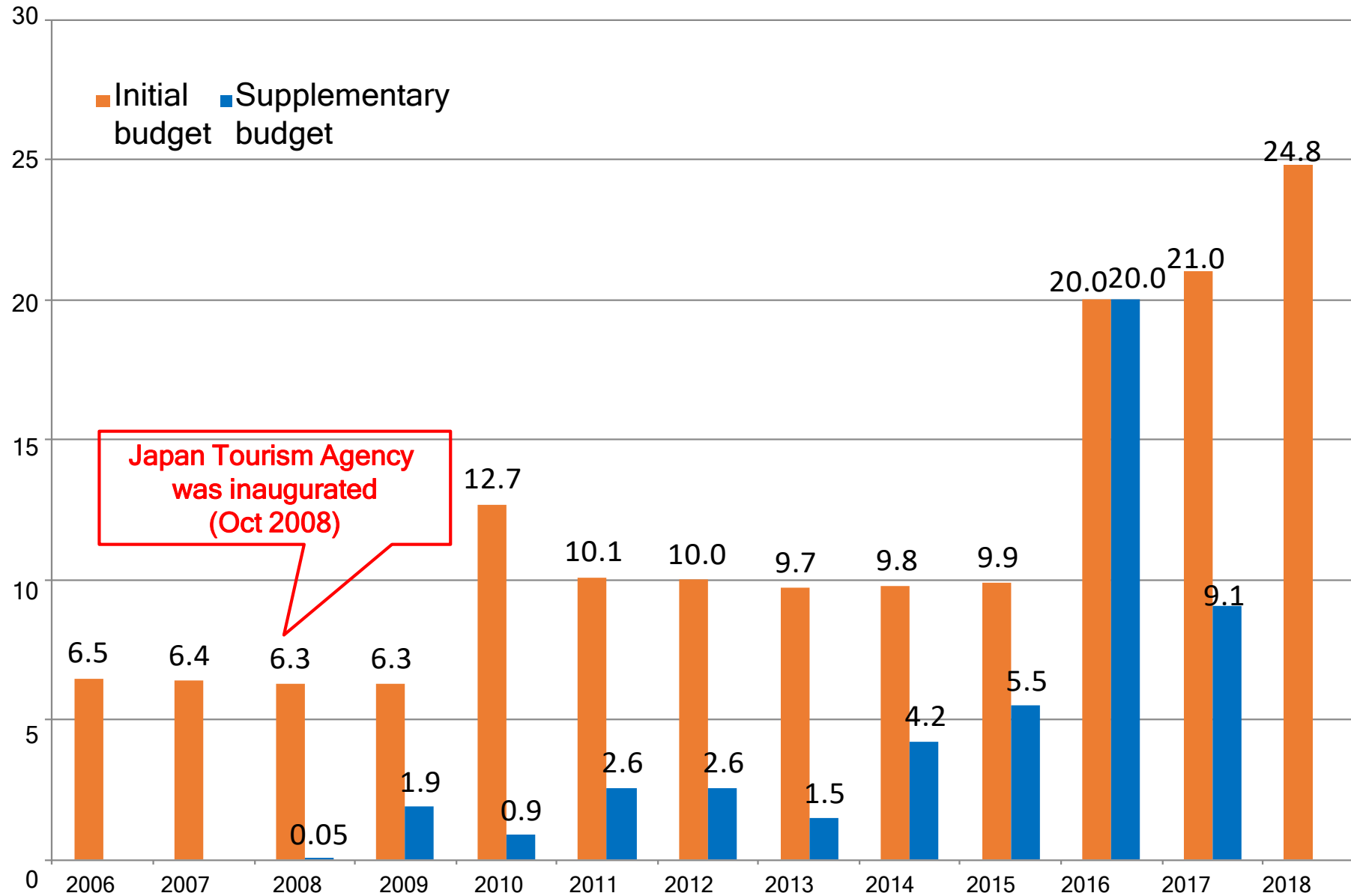
Date		Country
2013	July 1	Thailand
		Malaysia
		Philippines
		Vietnam
		Indonesia
2014	July 3	India
	September 30	Indonesia
		Philippines
	November 20	Vietnam
	December 1	Indonesia
2015	January 19	China
2016	January 11	India
	February 15	Vietnam
		India
	October 17	China
2017	January 1	Russia
	February 1	India
	May 8	China
2018	January 1	India
	August 1	Philippines

Growth in numbers of international visitors after the substantial relaxation of visa requirements



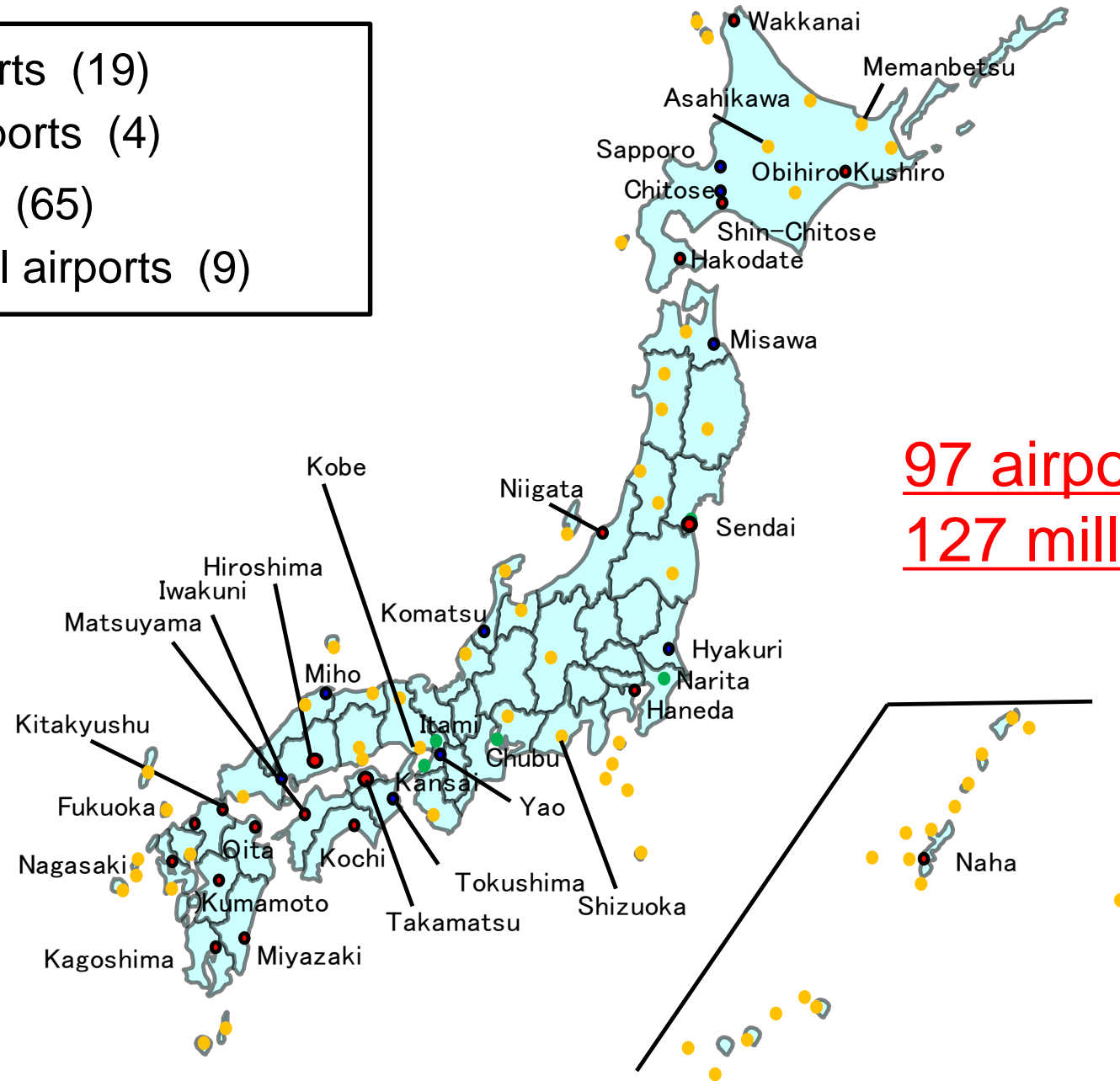
Change in JTA budget

(Units: billions of yen)



1. **Circumstance, Trend and Target**
2. **Airport concessions in Japan**
3. **Upcoming transactions**

- National airports (19)
- Corporate airports (4)
- Local airports (65)
- Defense / Civil airports (9)



97 airports
127 million people

① National airports (ex. Haneda(Tokyo), Hiroshima) 19 airports

Ownership: MLIT

Operation: a) Aerodrome (development and maintenance of runways, navigation aids, etc.)
⇒ MLIT

b) Non-aerodrome (construction and maintenance of terminal buildings, services to air passengers, etc.) ⇒ Private sectors

② Corporate airports (ex. Narita, Kansai) 4 airports

Ownership: Private sectors

Operation: a) Aerodrome ⇒ Private sectors

b) Non-aerodrome ⇒ Private sectors

③ Local airports (ex. Kobe, Shizuoka) 65 airports

Ownership: Local governments (Prefectures, Cities)

Operation: a) Aerodrome ⇒ Local governments

b) Non-aerodrome ⇒ Private sectors

④ Defense / Civil airports (ex. Tokushima, Ibaraki) 9 airports

Ownership: Ministry of Defense (MOD)

Operation: a) Aerodrome ⇒ MOD

b) Non-aerodrome ⇒ Private sectors

Current system

i) Separated management

- MLIT
: Aeronautical activities
(Runways, Apron...etc)

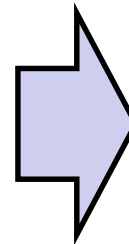
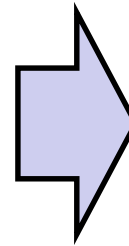


- Private companies
: Non-aeronautical activities
(Terminal Buildings...etc)



ii) Profit pooling of multiple airports

The revenue and expenditure of 28 national airports are managed together in a single accounting system.

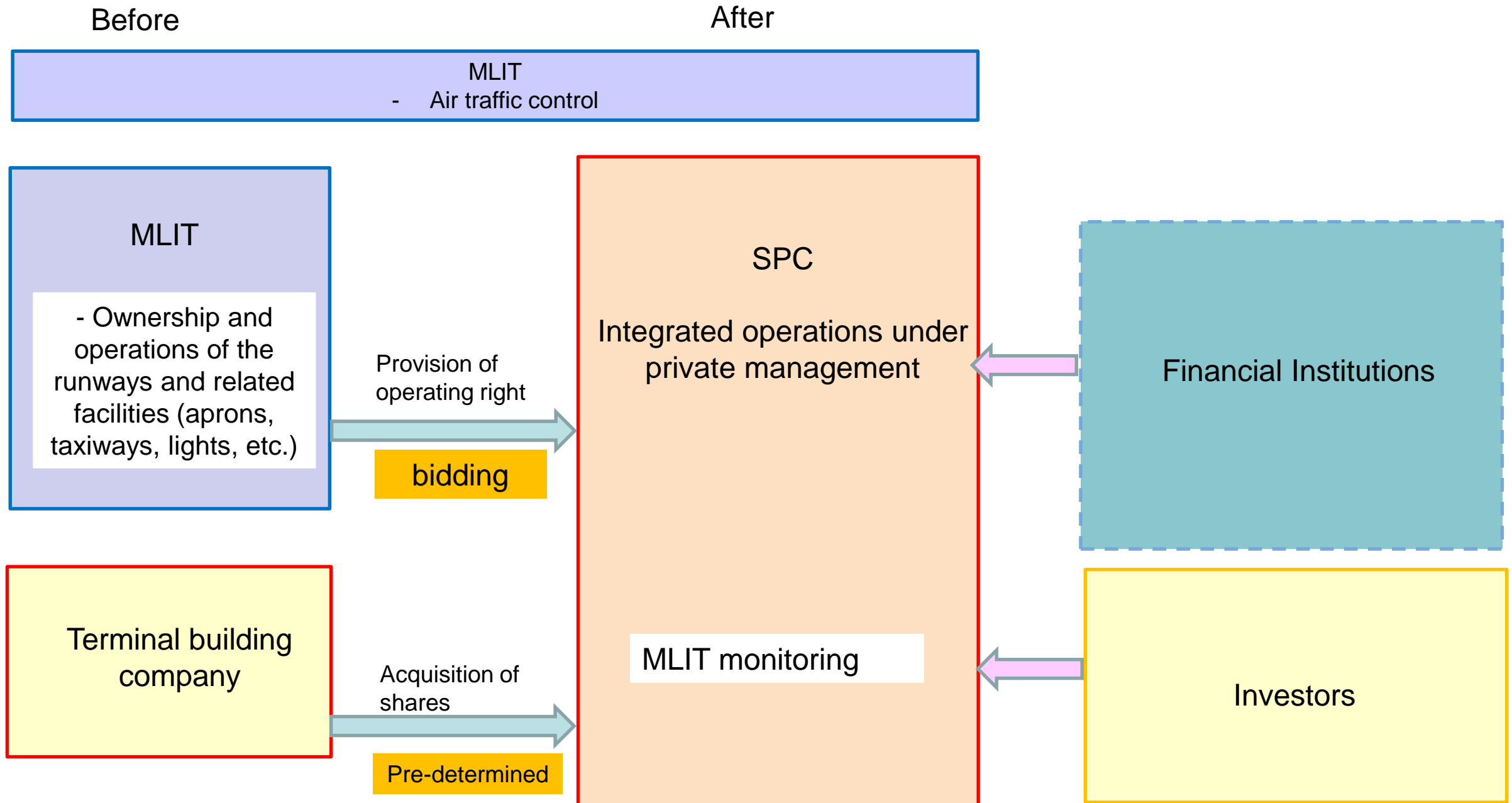


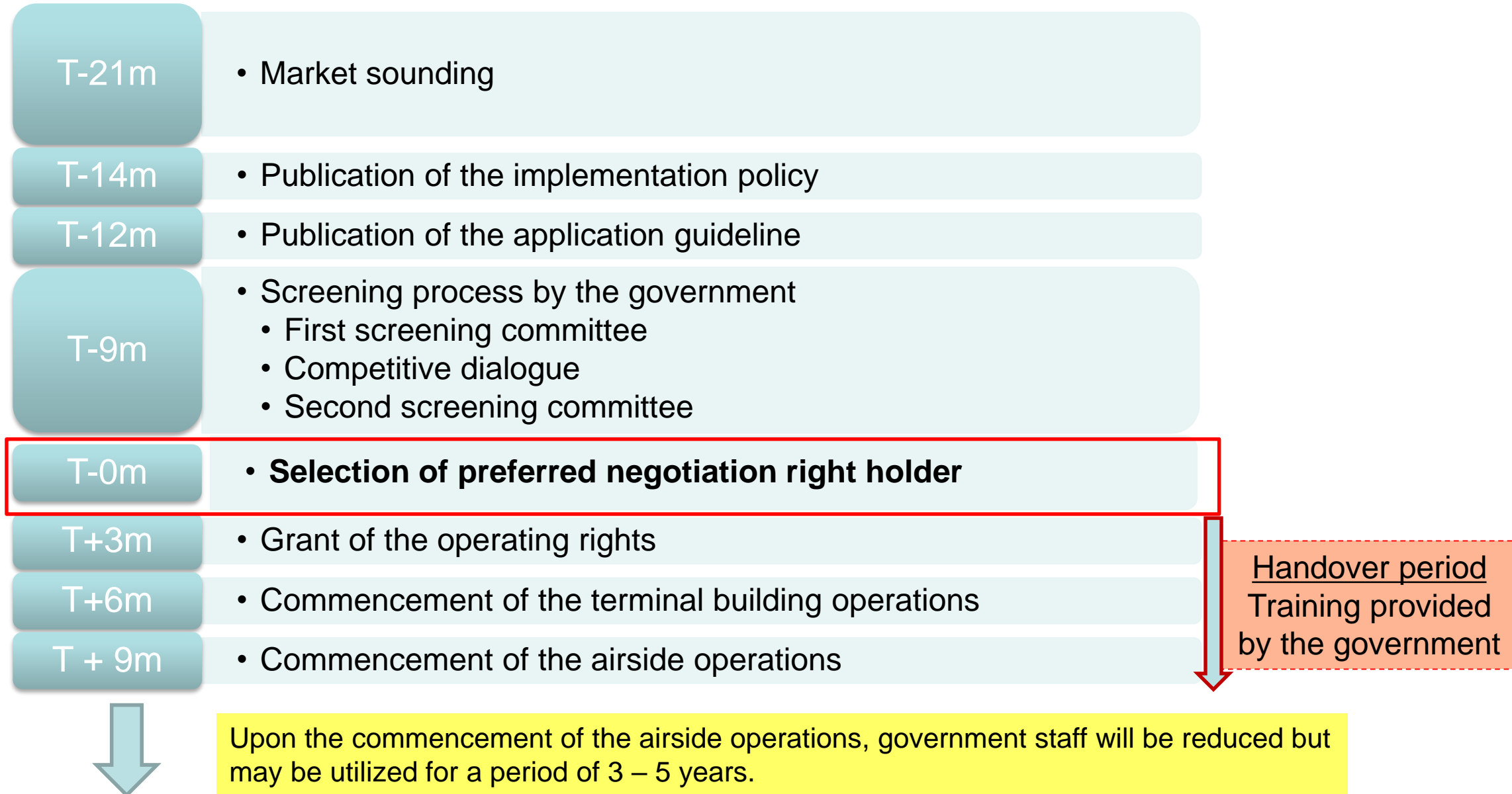
After concession

- Integrated management of the whole airport.
- Incentivized individual airports working closer in tandem with the local community to promote growth.

- ⇒ **developed network**
- ⇒ **stimulated air transportation industry**
- ⇒ **Improved accessibility**

**Revitalization of
local communities**





* Example; timeline for actual transactions will be tailored accordingly

- Takeaway from prior transactions have been incorporated to ensure a smoother process and better incentives.
- Understanding of historical and cultural aspects are key to success.

Not simply a privatization

- integration of airside operations with landside operations
- Need to replace MLIT employees

Structure

- Concession rights designated on runway (and parking).
- No holding periods
- Investment incentive throughout the concession

Local initiative

- Many of the larger airports are owned by a central government
- Decision to utilize the concession scheme is deeply influenced by the local governments

Bidding process

- Bids based on 1) price and 2) proposal
- Proposals on Air service development, Service quality, Operations, Safety etc.
- Items unique to each airport added based on the situation
- Third party selection committees

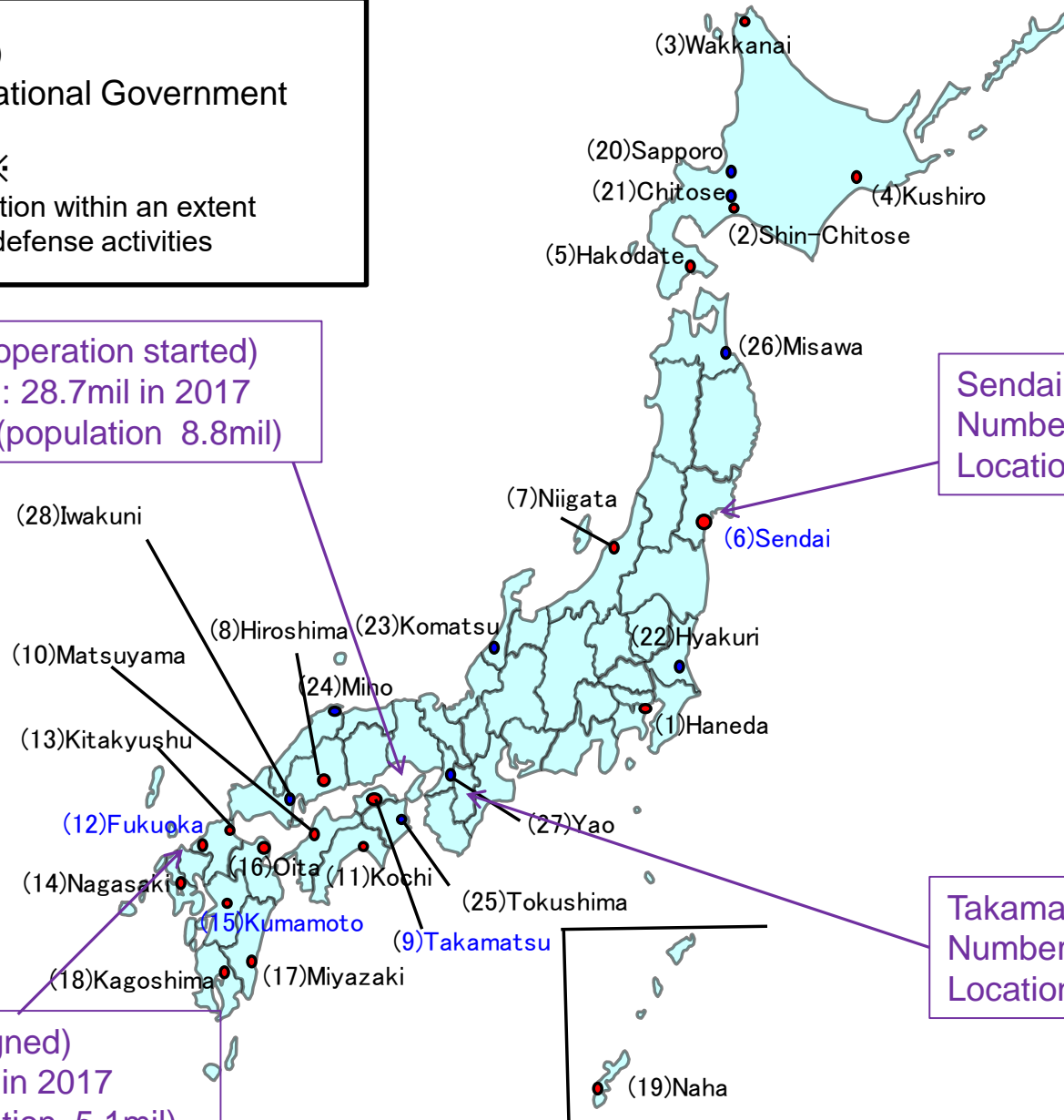
- “National Airports” (19)
administered by the National Government
- “Military Airports” (9)※
※It’s open for private aviation within an extent
that doesn’t hinder the defense activities

Kansai Airport (private operation started)
 Number of passengers : 28.7mil in 2017
 Location: Osaka Pref. (population 8.8mil)

Sendai Airport (private operation started)
 Number of passengers : 3.4mil in 2017
 Location: Miyagi Pref. (population 2.3mil)

Takamatsu Airport (private operation started)
 Number of passengers : 2.0mil in 2017
 Location: Kagawa Pref. (population 1.0mil)

Fukuoka Airport (Agreement signed)
 Number of passengers : 24.0mil in 2017
 Location: Fukuoka Pref. (population 5.1mil)



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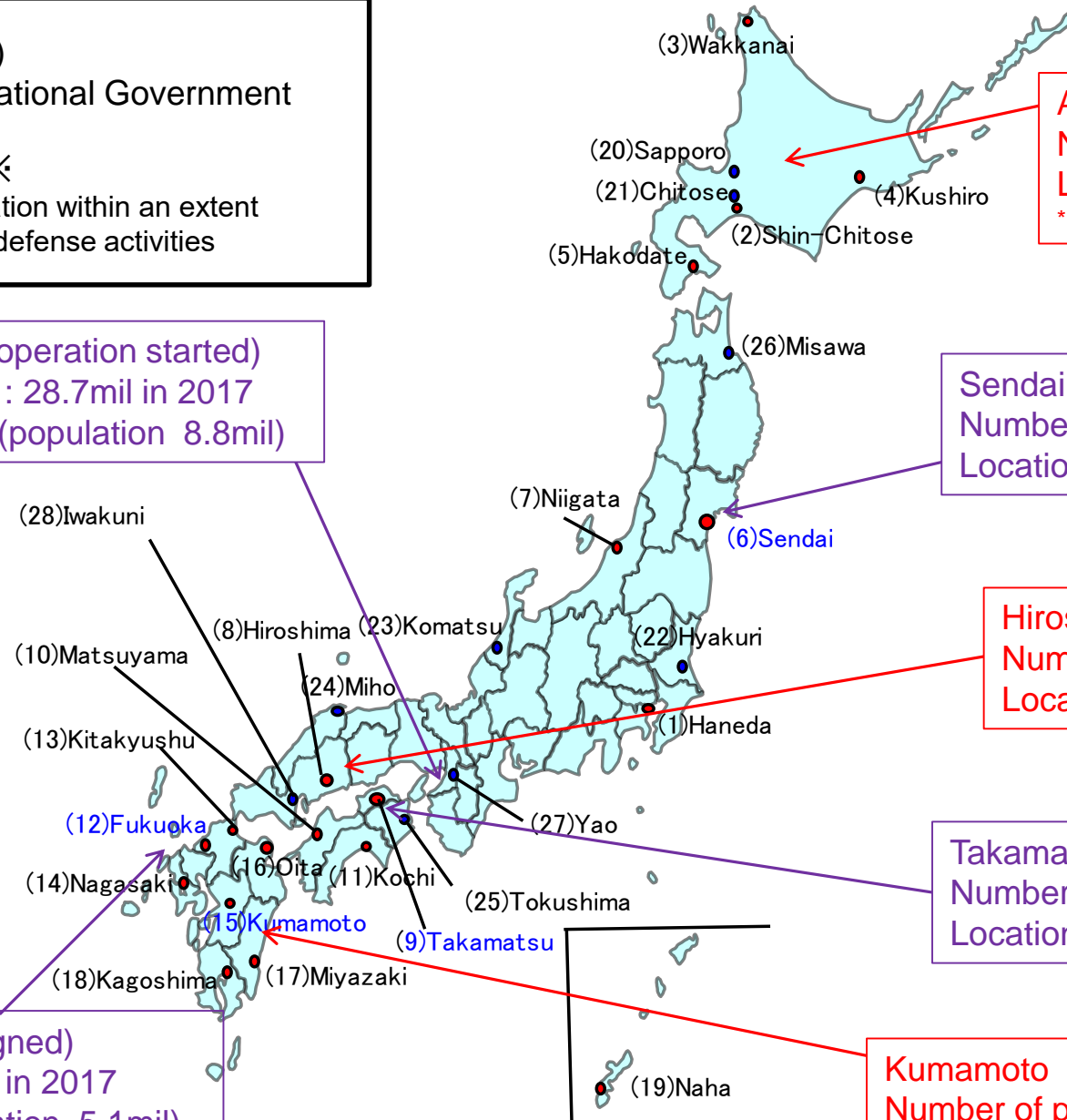
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Hiroshima Airport (2021 commencement)
Number of passengers : 3.0mil in 2017
Location: Hiroshima Pref. (population 2.8mil)

Takamatsu Airport (private operation started)
Number of passengers : 2.0mil in 2017
Location: Kagawa Pref. (population 1.0mil)

Fukuoka Airport (Agreement signed)
Number of passengers : 24.0mil in 2017
Location: Fukuoka Pref. (population 5.1mil)

Kumamoto Airport (2020 commencement)
Number of passengers : 3.3mil in 2017
Location: Kumamoto Pref. (population 1.8mil)



Airports in Hokkaido (2020 commencement)
Number of passengers : around 28mil* in 2017
Location: Hokkaido Pref. (population 5.4mil)
* Total of 7 major airports

Airport Ranking by passenger numbers

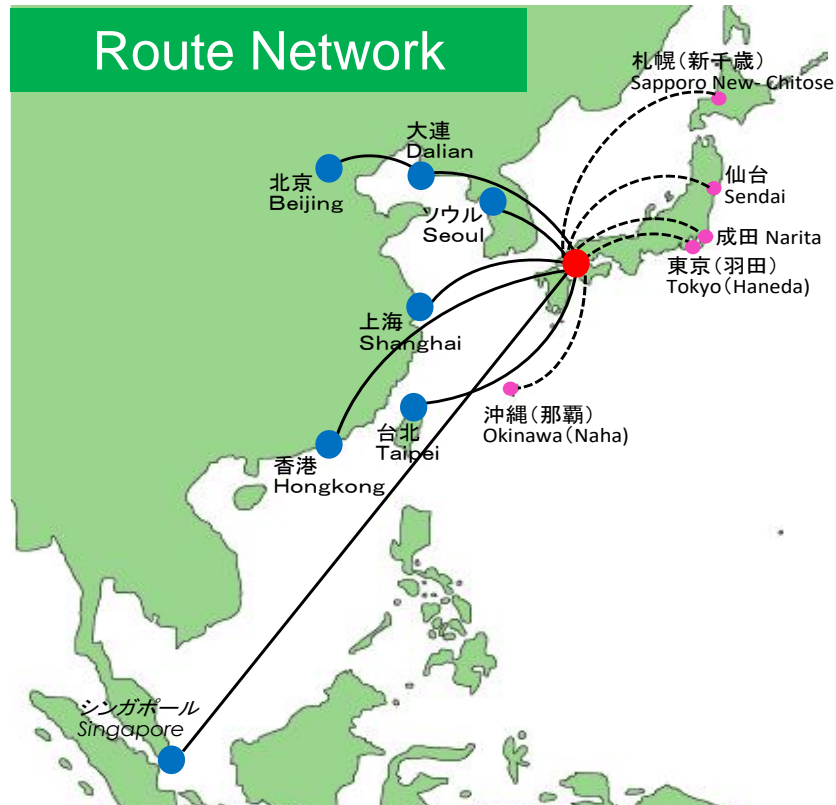
	airport	2016 pax (Million)	% of intn'l	Stauts	Note
1	Haneda	85.7	20%		Terminal building listed
2	Narita	39.0	81%		Corporate airport
3	Kansai	28.7	76%	Concession started	Bundled with Osaka
4	Fukuoka	24.0	26%	Concession to start in 2019	
5	Shin Chitose	23.1	15%	In 2 nd phase of bids	7 airports bundle
6	Naha	21.2	17%		
7	Osaka	15.7	0%	Concession started	Bundled with Kansai
8	Chubu	11.5	48%		
9	Kagoshima	5.4	6%		
10	Sendai	3.4	8%	Concession started	
11	Kumamoto	3.3	5%	In 2 nd phase of bids	
12	Miyazaki	3.2	4%		
13	Nagasaki	3.2	2%		
14	Kobe	3.1	0%	Concession started in 2018	Follows Kansa - Osaka
15	Matsuyama	3.1	1%		
16	Hiroshima	3.0	17%	Implementation Policy in FY2018	
17	Shin Ishigaki	2.5	3%		
18	Takamatsu	2.0	15%	Concession started in 2018	
19	Ohita	1.9	7%		
20	Hakodate	1.8	11%	In 2 nd phase of bids	7 airports bundle

* Transaction completed

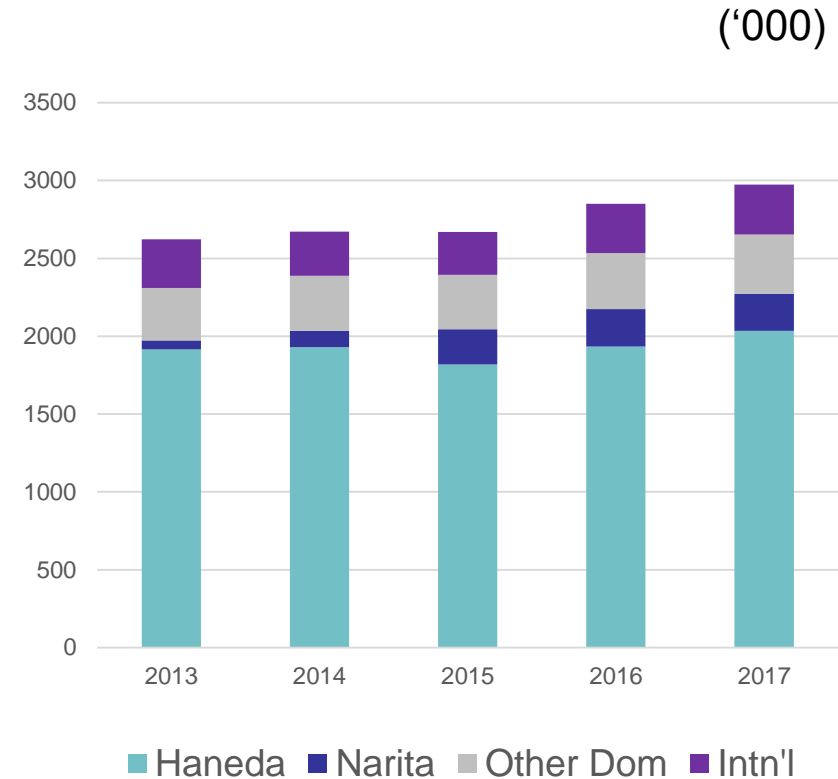
* Pipeline

- 1. Circumstance, Trend and Target**
- 2. Airport concession projects in Japan**
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Route Network

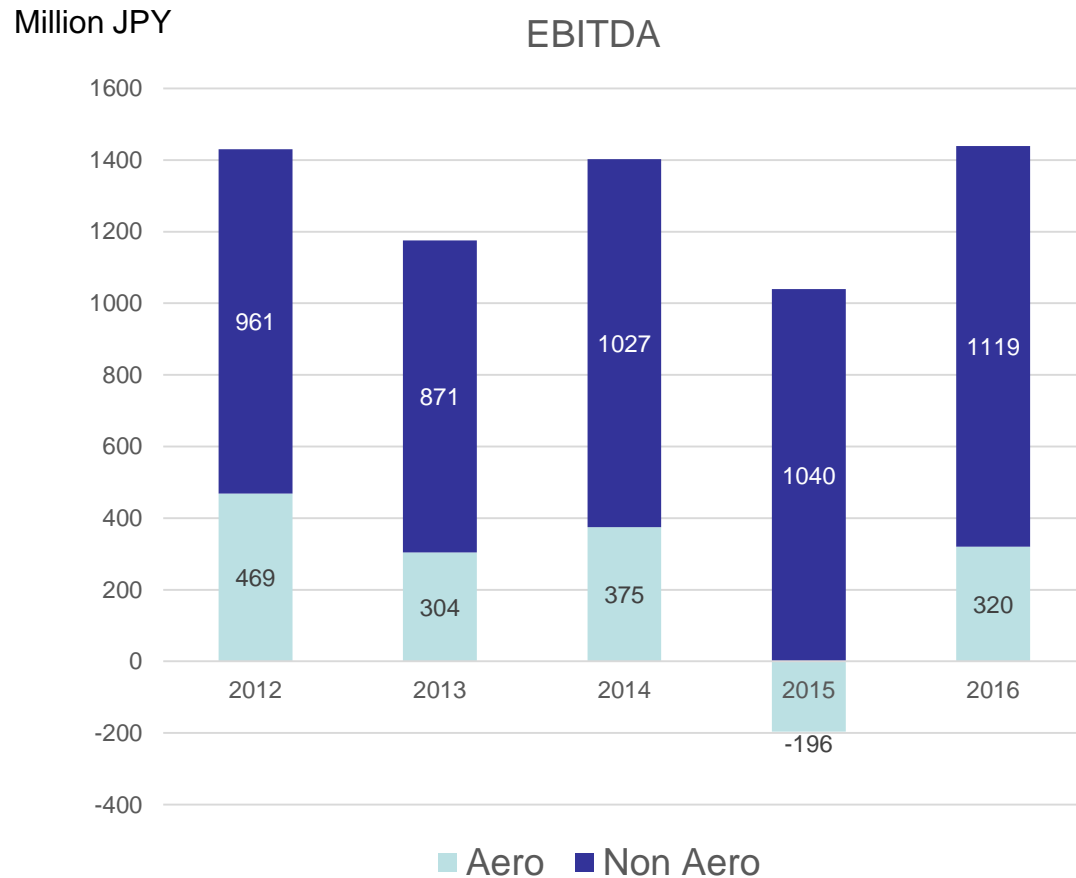


Traffic Trends



- The Hiroshima metropolitan area houses c.2.1 Million inhabitants making it the 8th biggest metropolitan area in Japan.
- While Tokyo routes make up c.60% of the traffic, competition is fierce with the bullet train (taking less than 4hours between Tokyo and Shin-Hiroshima station). LCC flights to Narita have reinvigorated the Tokyo routes.

Financials

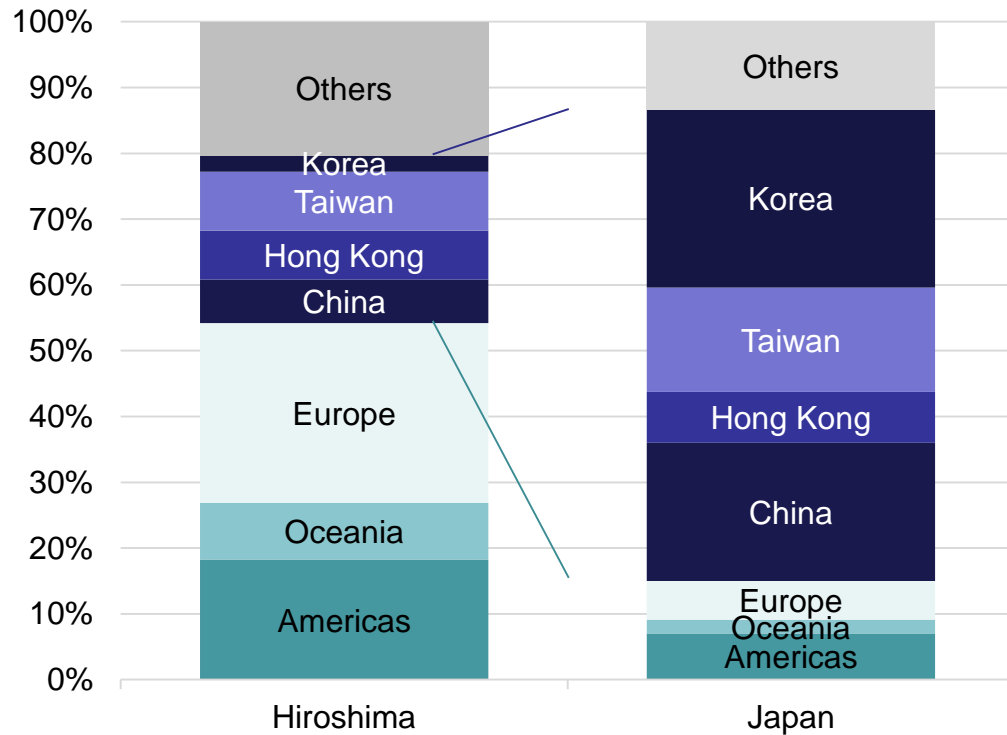


Schedule

- FY 2018
 - Implementation policy
 - Application guideline (RFP)
- FY2019
 - Bidding and Screening
 - Selection of Preferred negotiation rights holder

Tourist demographic

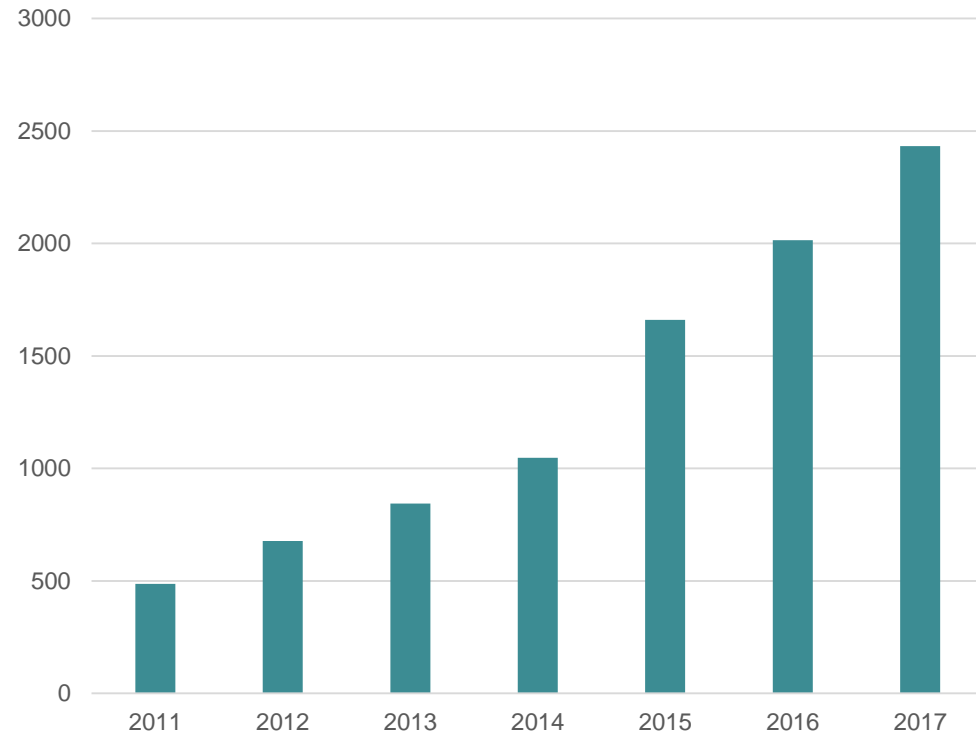
Country share of Inbound Tourists



< Source : Hiroshima Prefecture >

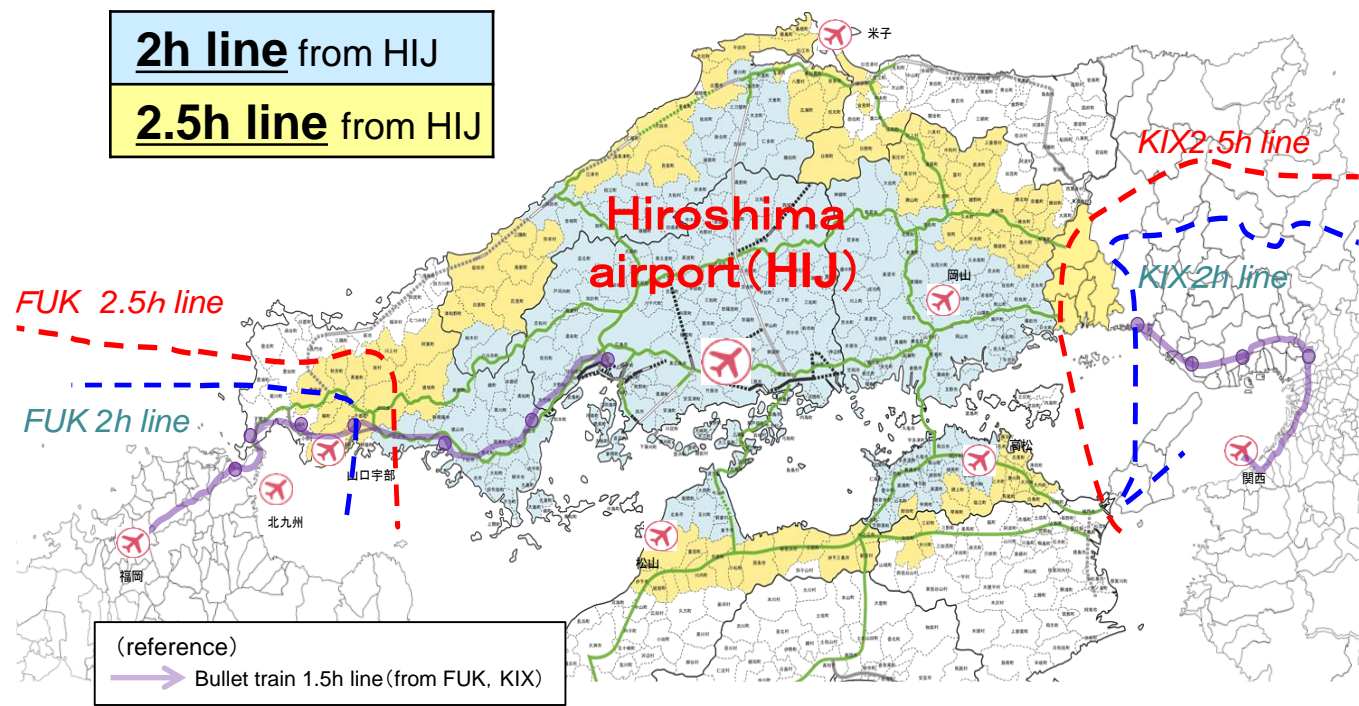
Inbound tourism trends

Hiroshima Prefecture Inbound Tourists ('000)



- Hiroshima is a unique tourism destination with high recognition in the Western countries as well as in Asia. This demand is currently served predominantly by high speed rail.

Hiroshima airport (Growth potential)



< Source : Hiroshima Prefecture >

Catchment area population	'000	drive time
Hiroshima prefecture	2,844	
Okayama City	719	1:30
Matsuyama City	515	2:20
Kurashiki City	477	1:10
Takamatsu City	421	2:10
Matsue City	206	2:10
Izumo City	172	2:00
Shunan City	145	1:45
Tsuyama City	104	2:30
Tatsuno City	77	2:10
Soujya City	67	1:20
Tamano City	60	1:45
Hamada City	58	1:50
Total	5,865	

* Cities with over 50,000 people / sub 2.5h drive time

- Hiroshima airport(HIJ) is located 50km east of the city of Hiroshima sitting in between the larger international airports of Fukuoka(FUK) to the west and Kansai(KIX) to the east.
- Due to this location, the airport has the potential to grow its catchment area serving cities in the wider Chugoku region.
- Bus connectivity already spanning 7 cities in the region.

Collaboration with Setouchi DMO

Attempt to attract tourists for Hiroshima by providing foreign tourists with tours in the Setouchi region.



Long-stay typed cruising and resort
(reference : Cruise guntô HP <http://guntu.jp/cabins/type2>)



Sanctuary for cyclists



Commercialize the food of Setouchi



【Onomichi City Museum of Art】Yayoi Kusama
2004 photography by Mie MORIMOTO ©YAYOI KUSAMA

Paradise of nature and art



Offer satisfying stay unique
to Setouchi



Commercialize the Setouchi local
products recognized all over the
world

Hiroshima airport (Aircrafts operated)



JAL
B737-800 (165seats)



Spring Japan[SJO]
B737-800 (189seats)



China Airlines[CAL]
B737-800 (158seats)



ANA
B777-200 (405seats)



IBEX Airlines[IBX]
CRJ-700 (70seats)



Air China[CCA]
B737-800 (157seats)



B787-8 (335seats)



CRJ-200 (50seats)



Air Seoul[ASV]
A321 (195seats)



B767-300 (270seats)

《Domestic》

《International》



Hong Kong Express[HKE]
A320 (180seats)



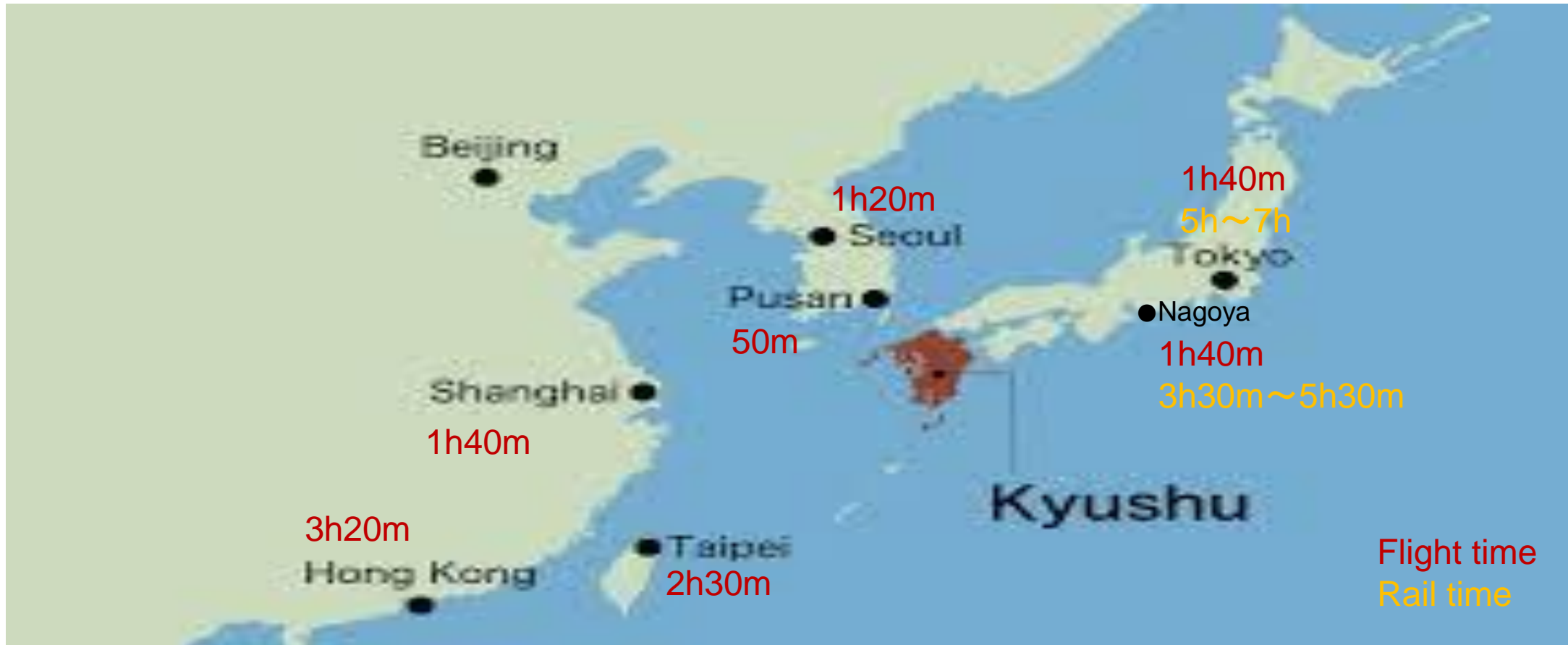
A321 (194seats)



China Eastern[CES]
A319 (120seats)



Silk Air[SLK]
B737-MAX8 (156seats)



- DOMESTIC

Distance from the 3 metropolitan areas (Tokyo, Osaka, Nagoya) bring stable domestic traffic.

- East Asia

Closer in proximity to East Asia with historically deep ties.

- ASEAN

Easily reached by narrow bodies from many ASEAN cities.

Airports in Kyushu



Current status

	Airport	2017Traffic (Million)	Status
①	Fukuoka	23.8	Concession Agreement signed
②	Kitakyushu	1.6	Study in progress
③	Oita	1.9	
④	Miyazaki	3.2	
⑤	Kagoshima	5.6	Study in Progress
⑥	Kumamoto	3.3	In bidding
⑦	Nagasaki	3.2	Study in progress

• The Fukuoka and Kumamoto airport concession projects stimulating the other local municipalities to study concessions for their local airports.

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