



Strategic Way to Enhance Airport Value: NKIAC's Approach

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■ Introduction

■ Three strategies to enhance airport value

- LCC
- Commercial business
- Air Cargo

■ Current Status and the Way Forward

1. Kansai - Our Home Land



Population of 20 million.

Gateway to World Heritage sites and other popular destinations

➔ Prospect for Growth



Himeji-jō
(World Heritage)



Kobe Beef



Historic Monuments of Ancient Kyoto
and Traditional Culture
(World Heritage)



Osaka food
culture



Universal
Studios
Japan



Historic Monuments of Ancient Nara
(World Heritage)



Sacred Sites and Pilgrimage
Routes in the Kii Mountain Range
(World Heritage)

2. Our Airports



KIX and ITM are Japan's largest international and domestic airports outside of the Tokyo area. Both enjoy strong reputations for reliable operational performance.

Integrated July 2012 under NKIAC



4,000 m 3,500 m
91
24 hours
18,120,842 (66%, 34%)
133,296
670,625 t
87% (#5 Asia)

Runways
Aircraft Stands
Operating Hours
Passengers
(Int, Dom)
Movements
Cargo
On-time Departures

3,000 m 1,828 m
50
7:00 - 21:00
14,101,239 (0%, 100%)
139,150
133,263 t
93% (#2 Global)



3. (1) Strategy #1



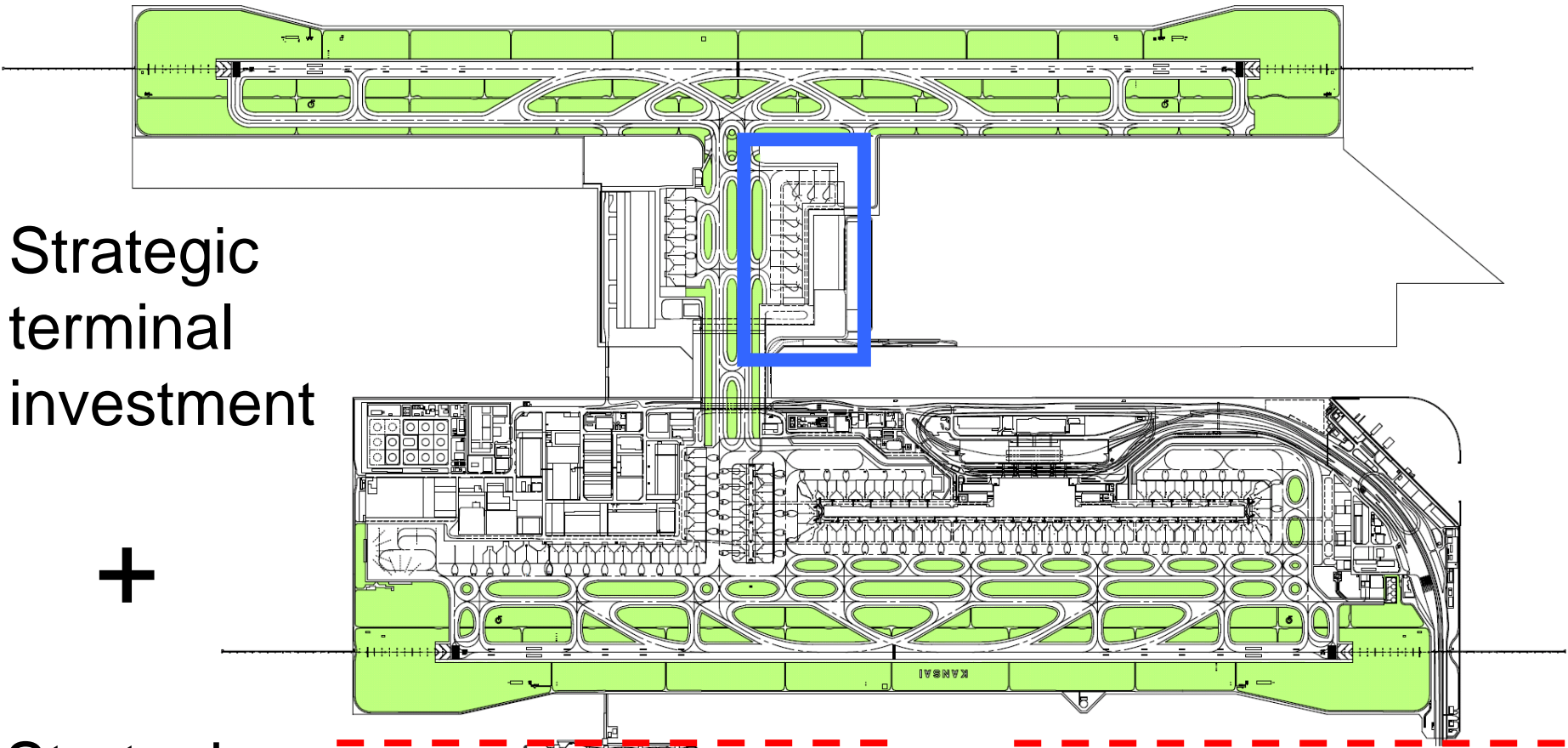
- Strategic airport/airline collaboration to establish Japan's first national LCC.

3. (1) Strategy #1



- Taking advantage of the full-fledged 24 hour-operational capability of KIX, NKIAC has taken strategic steps to facilitate start-up of Japan's first LCC by building a LCC dedicated terminal.
- Opening of the Terminal 2 (T2) in 2012 is the hallmark of airport-airline collaboration giving birth to the first Japan based LCC; Peach Aviation.
- This development has led LCC to become a social boom in Japan and cast bright light on the society still suffering from aftermath of the Tohoku Earthquake and Tsunami.

3. (1) LCC Business Model and KIX Airport Strategy



Strategic terminal investment

+

Strategic pricing policy 

80% landing charge discount for additional flights in the first year

+

Addition discount for second (50%) and third year (30%)

3. (1) Concept of LCCT(Terminal 2)



The concept: “Functionality; Economic Efficiency; and Safety and Security”

- Total floor area of approx. 30,000 m²
- Single-story building (partly two-story)
- Used for both international and domestic flights with inter-operable gates
- No passenger boarding bridges and passengers walk to/from aircraft directly



- 9 new spots, 8 of which is for small aircraft
- Small aircraft can move without a towing vehicle



Entrance of the Terminal building

Passenger Waiting Area inside the Terminal building



Opened on 28th October, 2012

3. (1) Dramatic growth of LCC at KIX



Peach Aviation has established its base at KIX.

Overview of LCC business based at KIX

- ◎ **“Peach”** was launched in May 2011 hand-in-hand with construction of LCCT (T2) at KIX
- ◎ Airline operations started in March 2012 at T1
- ◎ Moves to T2 with its opening in October 2012



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Current network from KIX

- Domestic: (9) Fukuoka, Sapporo, and Nagasaki (Mar. 2012); Kagoshima (Apr. 2012); Naha (Oct. 2012); Sendai (Apr. 2013); Ishigaki (Jun 2013); Narita (Oct. 2013) and Matsuyama (Feb. 2014)
 - (2) Naha - Ishigaki (Sep. 2013); Naha-Fukuoka (July.2014)
- International: (5) Incheon (May 2012); Hong Kong (July 2012); Taipei (Sep. 2012); Busan (Sep.2013) and Kaosiung (Jan. 2014)

Expected to have 17 aircrafts and 6 million annual passenger traffic at the end of 2015.

Jetstar Japan started operation in July 2012 at KIX (T1) Planning to establish secondary hub at KIX

- Domestic: Narita (July 2012); Sapporo and Fukuoka (Aug. 2012); and Naha (Oct. 2012)

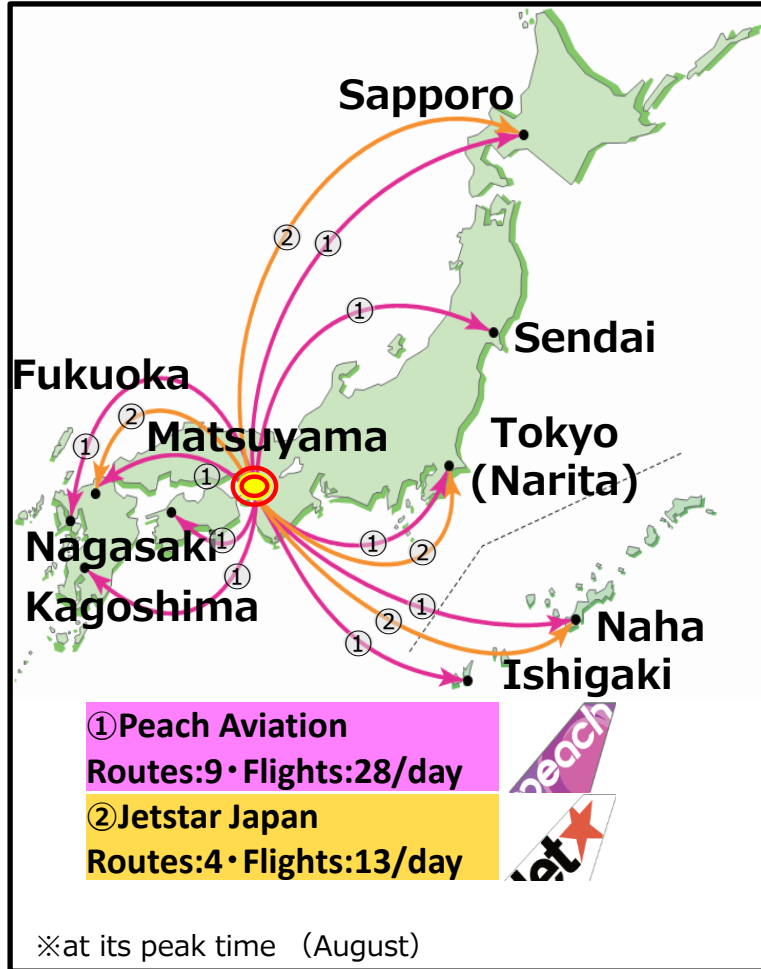
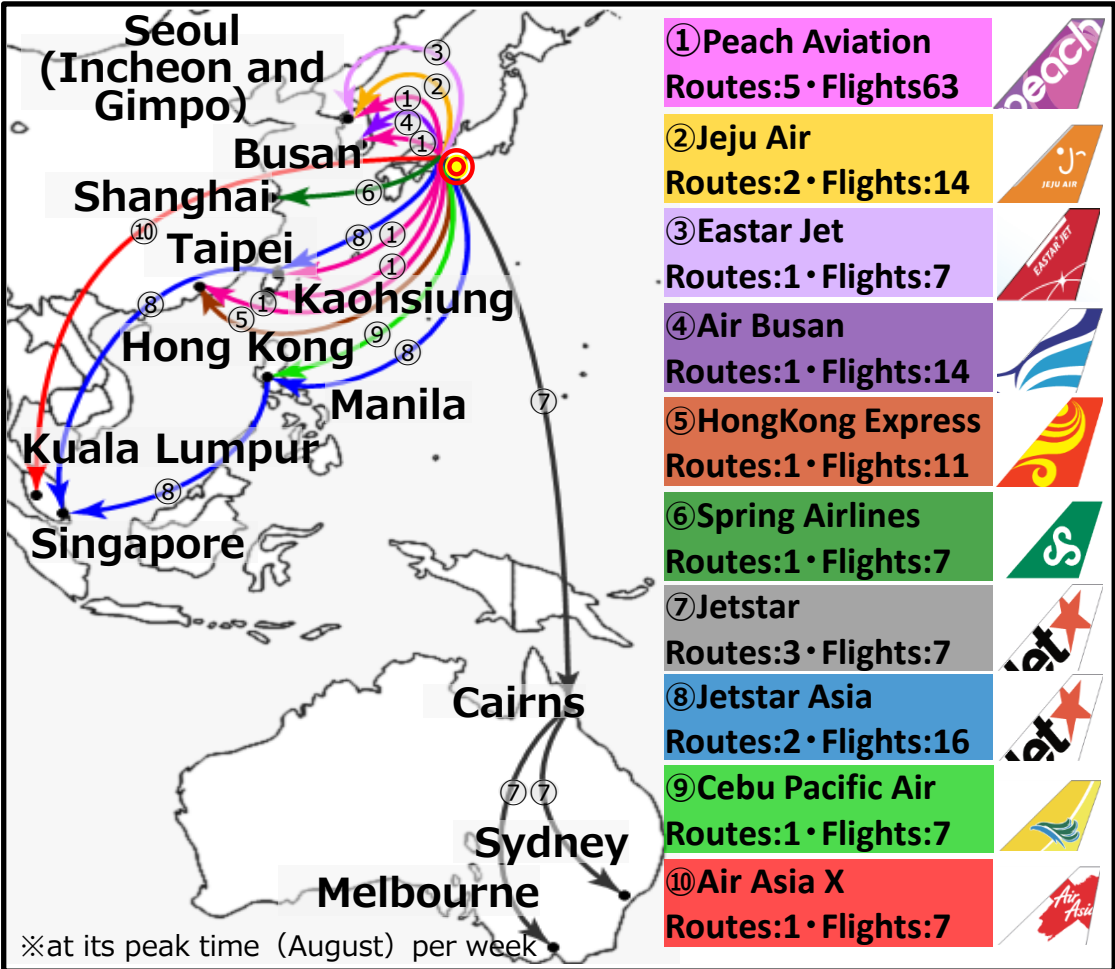


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3. (1) Dramatic growth of LCC at KIX



Proportion of LCC services among passenger flights
 ✓ 20% of International Flights
 ✓ 55% of Domestic Flights



3. (1) KIX LCCT Expansion



Terminal 1

Terminal 2

Existing LCCT

Terminal 3

Expansion Plan
(FY2016~)

Space for
further
expansion

3. (2) Strategy #2



- Strategic development of commercial zone and retail expertise.

3. (2) Strategy #2



- Increasing non-aeronautical revenue is imperative in today's airport business. We have been constantly expanding the commercial zone in Terminal 1.
- We have also started to manage duty free shops directly since 2012.
- This has resulted in dramatic growth of commercial revenue exceeding that of passenger growth.
- To capitalize on recent increase of inbound travelers, duty free shopping area is currently being expanded to increase capacity by 40%.

3. (2) Transit Area Renovation History



- Feb 2000 First Brand boutiques open in Japan.
- Dec 2001 North Main shop expansion.
- Dec 2004 Brand boutiques expansion.(~Feb 2005)
- Jul 2009 Renovation of Transit Area(~Aug 2010)
 - ✓ Jul 2009: 4 tenants duty free shop expansion.
 - ✓ Dec 2009: 3 Tax Free shops open.
 - ✓ Brand boutiques, restaurant, bar, etc. open.
 - ✓ Brand boutiques, Tax free shops open.
 - ✓ South main shop expansion.
- Dec 2010 Minamoto-Kitchoan open.
- Jan 2011 Omega boutique open.
- Jun 2011 Renovation of Satellite area
 - ✓ Tully's coffee shop open.
 - ✓ Satellite Concession area renewal.
- Mar 2012 ROLEX boutique open.
- Apr 2015 7 new shops will open.
Area of duty free shop will be increased by 40%



Airside Avenue (2009)



Airside Avenue (2009)



OMEGA (2011)



ROLEX(2012)

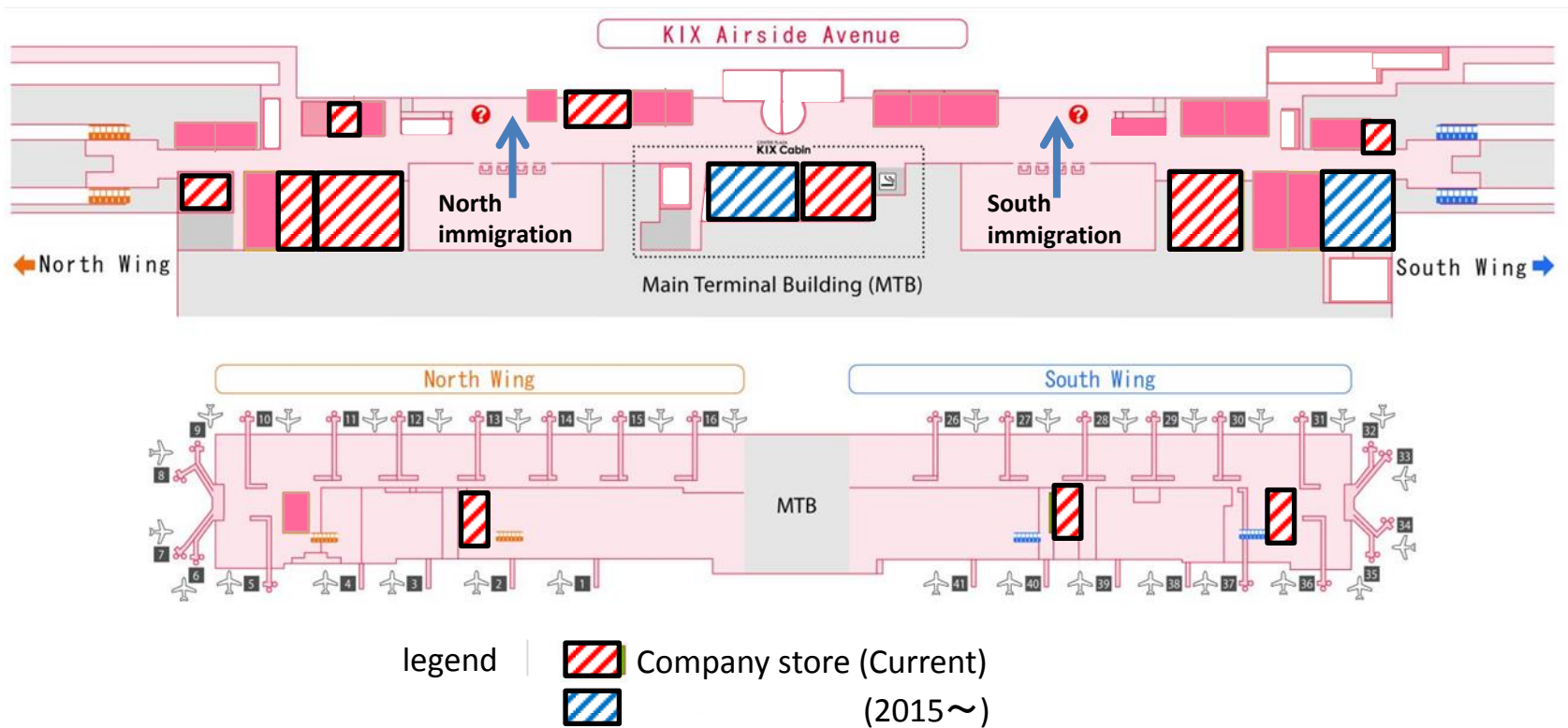


More development in Transit Area (2015)

3. (2) Company Store Management ①



✓ As a result of Operational Expertise, 60% of Operating Revenue generated by our Company Store. (Transit Area)



3. (2) Company Store Management ②

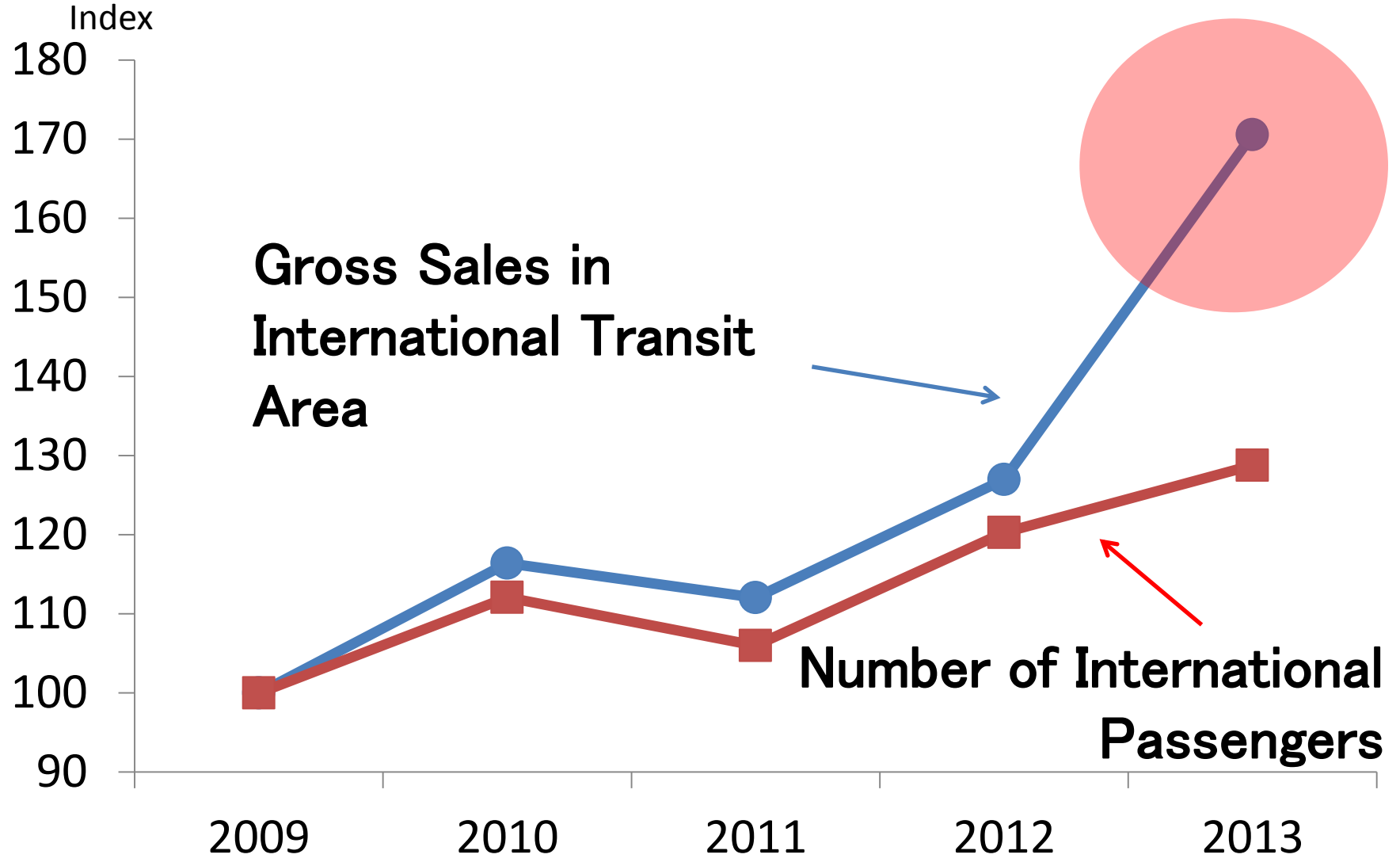


- ✓ Promotion through over 1,000 overseas travel agencies
- ✓ Bonded goods management
- ✓ Marketing analysis and MD strategy using our original system
- ✓ Staff recruiting, education and staff management
- ✓ Procurement and inventory control





3. (2) Growth rate: Retail Sales > Int'l Pax



3. (3) Strategy #3



- Strategic development of air cargo service.

3. (3) Strategy #3



- In order to facilitate trade of sensitive goods such as pharmaceuticals by air transport we have developed a dedicated temperature-controlled warehouse “KIX Medica” and a cool pallet transporter.
- We are also promoting export of high-quality food products by small and medium firms in Kansai by forming a consortium “Kansai Food Package” composed of Co-op of food producers, insurance company, air cargo logistics firm, department stores and supermarkets in Asian cities.

3. (3) Cargo Initiative①



The first airport in Japan with temperature-controlled warehouse and keep cool dollies for pharmaceutical products to ensure complete temperature control



KIX – Medica (Temperature-controlled warehouse for only pharmaceuticals cargo)

Commenced operating on 30 Sep 2010

Japanese
Airport First



【Overview of Facilities】

- ◆ Maximum capacity: Approx. 1,200t/month
- ◆ Temperature control zone: 20°C - Approx. 650m²
5°C - Approx. 100m²

【Features】

- For Only Pharmaceutical Cargo
- Control of temperatures for pharmaceuticals to 20°C (650m²) and 5°C (100m²)
- Ample room to allow sorting and cargo handling in the facilities
- The warehouse equipped with battery rechargers of Temperature controlled container (Ex, Envirotainer, C-safe)
- Strategically located to allow direct loading onto aircraft



COOL PALLET TRANSPORTER

Commenced operating in August 2012

Japanese
Airport First



【Features】

- Palletizing up to 160cm high
Compatible with LD3 container shipment
- Enables temperature control between aircraft and warehouse

3. (3) Cargo Initiative② “KANSAI FOOD PACKAGE”



③ Establishing mutual fund to hedge risk

Establishing mutual fund to compensate damage from incidences and loss from default regarding export of high-quality perishable food products

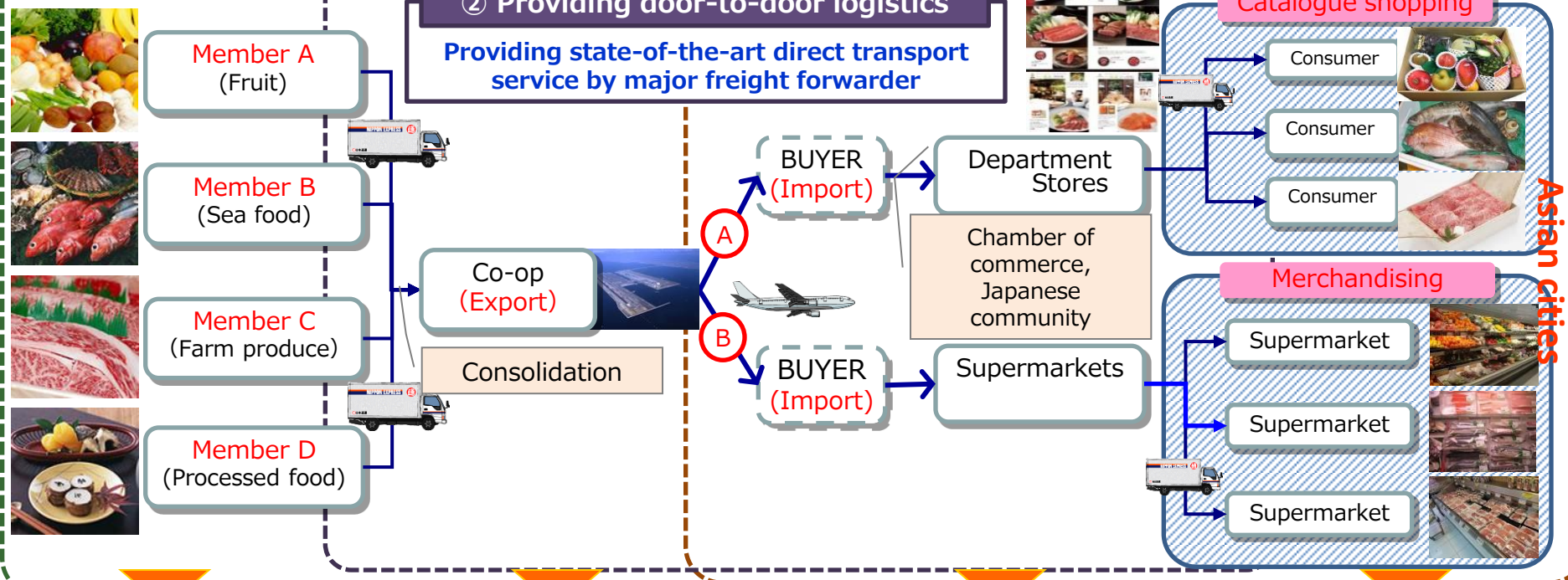
① Developing foreign distribution channel

- A. Promoting catalogue gift package sales through Japanese department stores in Asian cities
- B. Securing merchandising outlets at Japanese supermarkets in Asian cities

3 Key measures for small/medium firms in Kansai

② Providing door-to-door logistics

Providing state-of-the-art direct transport service by major freight forwarder



Asian cities

Business meetings and seminars

E-mail magazines providing information

Promotion fairs of Japanese food “Washoku” and Kansai taste

Locally oriented packaging and marketing

4. Outcome of our strategies



- Promising performance in recent years.
- Preparation of “Concession”, i.e. selling operational rights, is under way.

4. Recent Performance

①



Movements

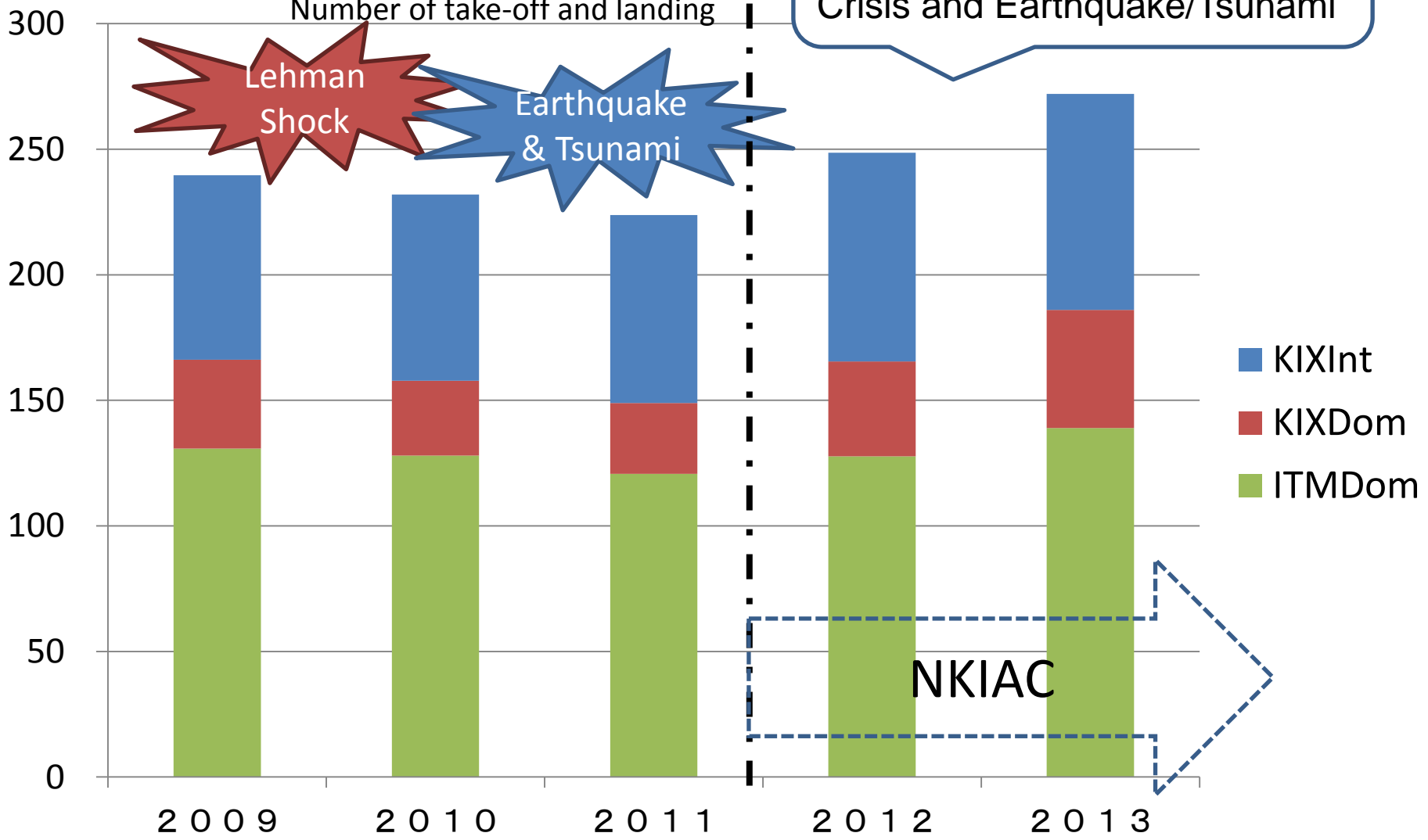
Unit: thousand

Number of take-off and landing

Rapid Recovery in 2012-13 from the Global Economic Crisis and Earthquake/Tsunami

Lehman Shock

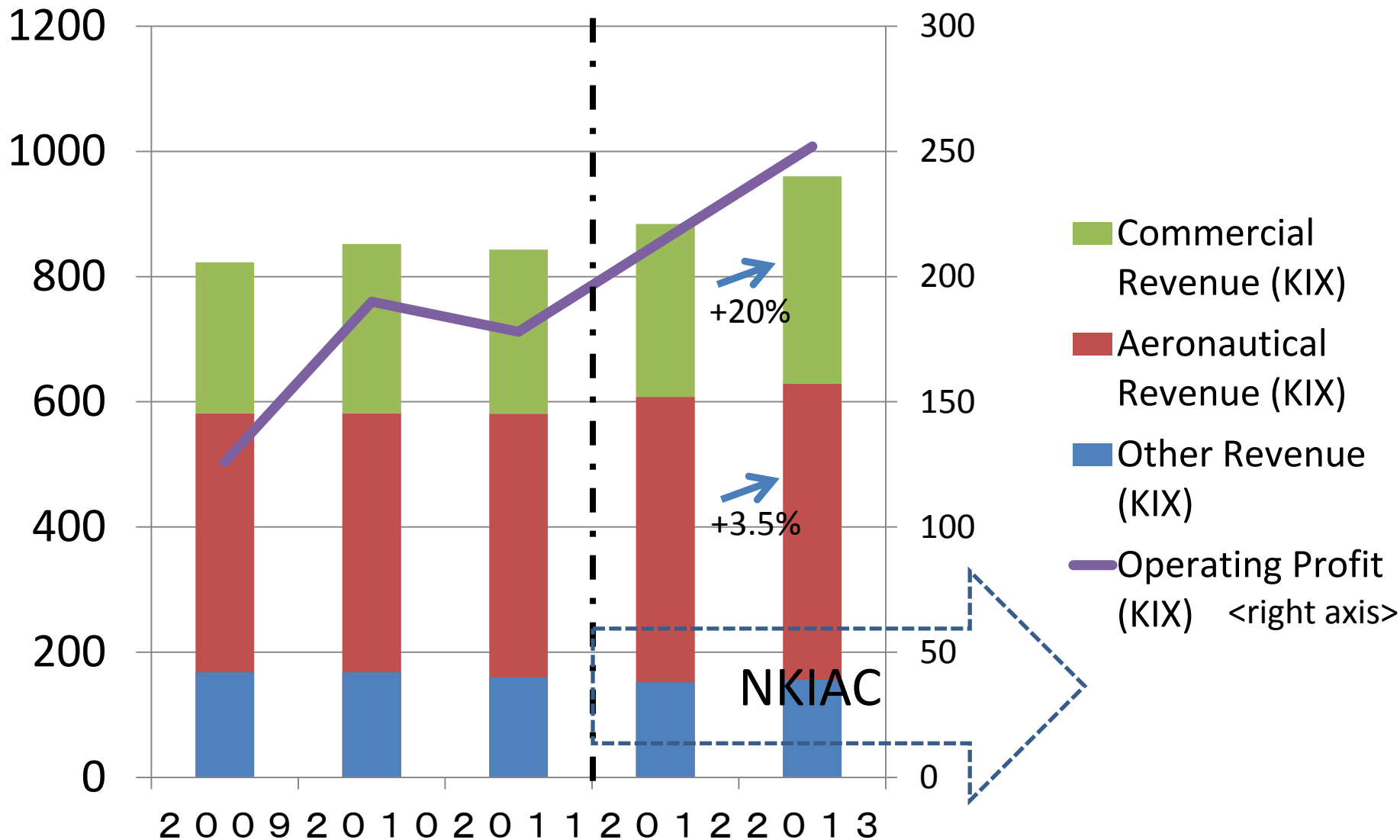
Earthquake & Tsunami



4. Recent Performance ②



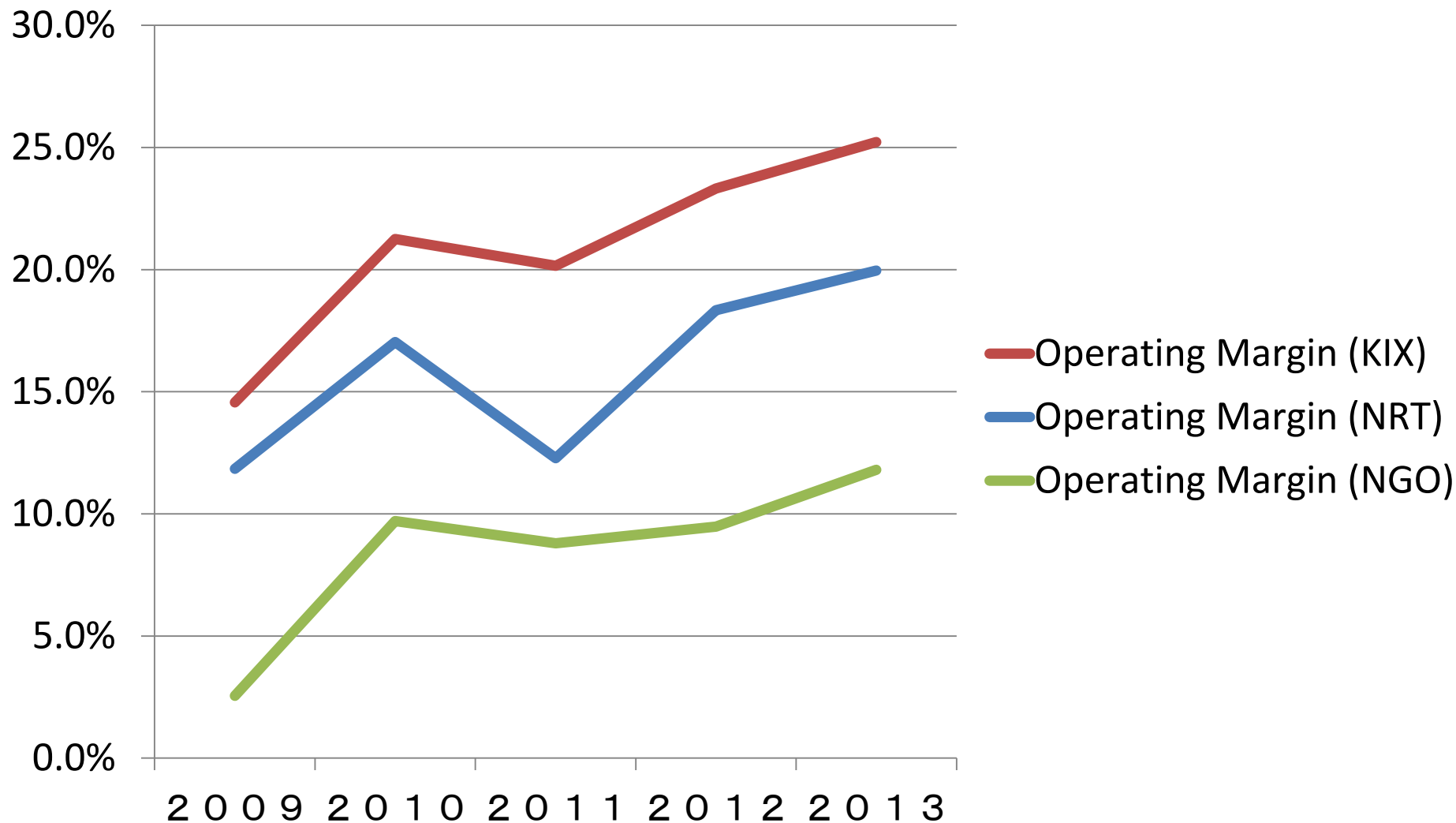
Unit: 100 million Yen





4. Recent performance ③

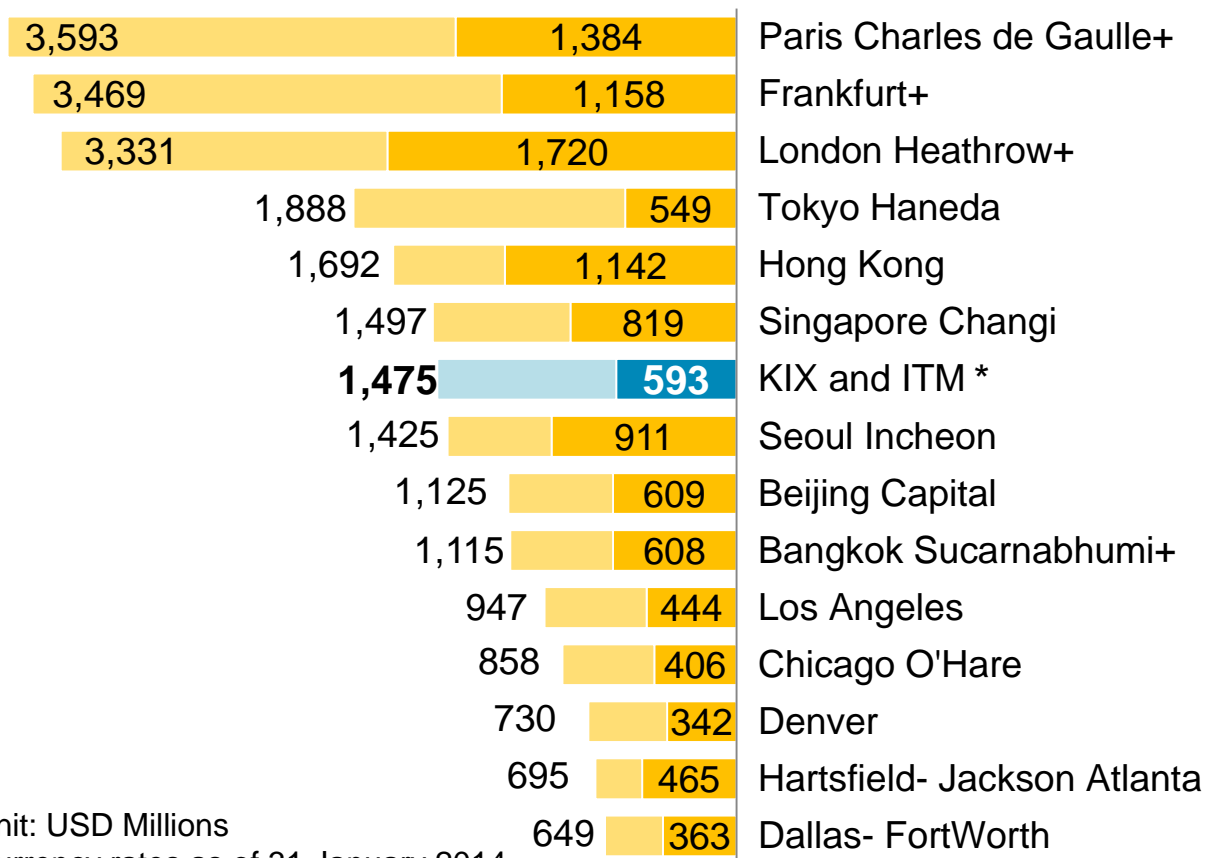
✓ Highest Operating Margin among 3 Japanese airports.



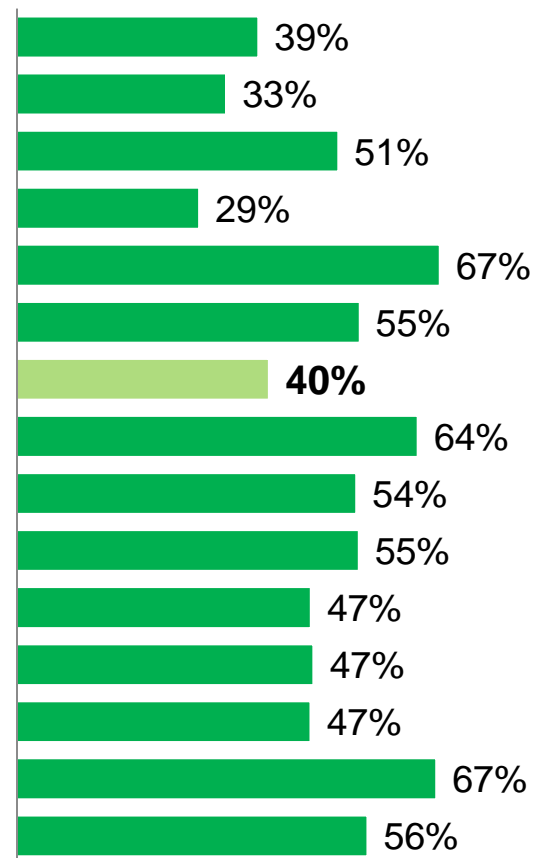
4. Benchmarking our Financial Position

Revenue and EBITDA are very strong when compared with leading airports.

Revenue & EBITDA



EBITDA Margin (EBITDA / Revenue)



Unit: USD Millions

Currency rates as of 31 January 2014

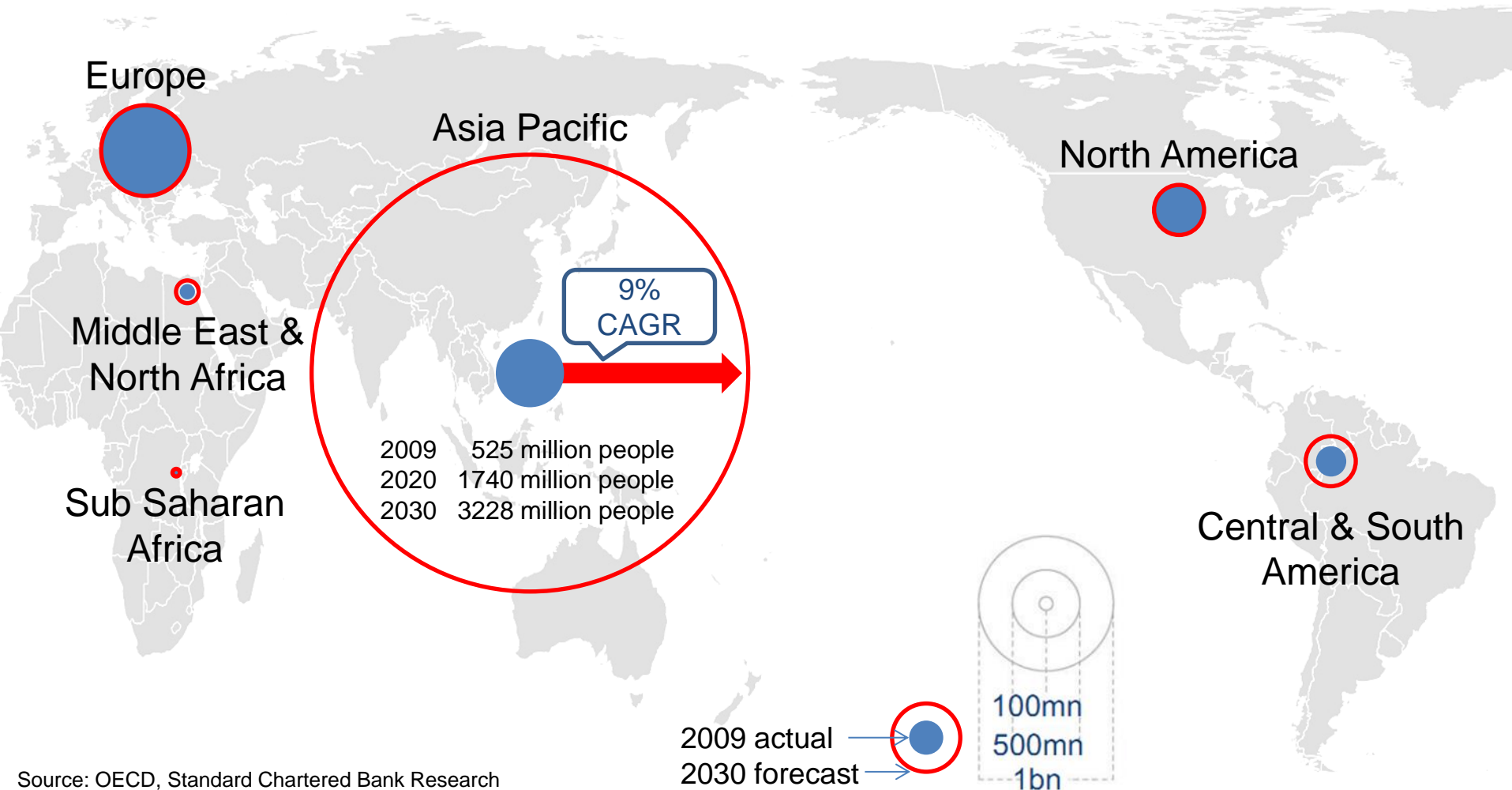
* : KIX and ITM data is for 2014 projection after acquisition of OAT

+ : Includes results from other airports operated by the same company

4. Opportunity to outgrow rest of the world



Global Middle Class shifts from Europe and North America to Asia Pacific



Source: OECD, Standard Chartered Bank Research

5. Recognition of our efforts



Transport Achievement Award
(23/05/2014 OECD/ITF
International Transport Forum, Leipzig)

SKYTRAX 2014
Best Airport Staff Service in Asia
(26/03/14 Passenger Terminal Conference, Barcelona)



Low Cost Airport of the Year
(31/01/2014 Terrapinn
Budgie\$ & Travel Awards, Singapore)



Air Cargo Award of Excellence
(2014, Air cargo world)



Green Airport Recognition
(2011, ACI)



Thank You For Your Attention!