

Hokkaido 7 Bundled Airport Concession Project Implementation Policy Briefing Handout

5 April 2018

Civil Aviation Bureau, MLIT

Asahikawa City

Obihiro City

Hokkaido Prefecture

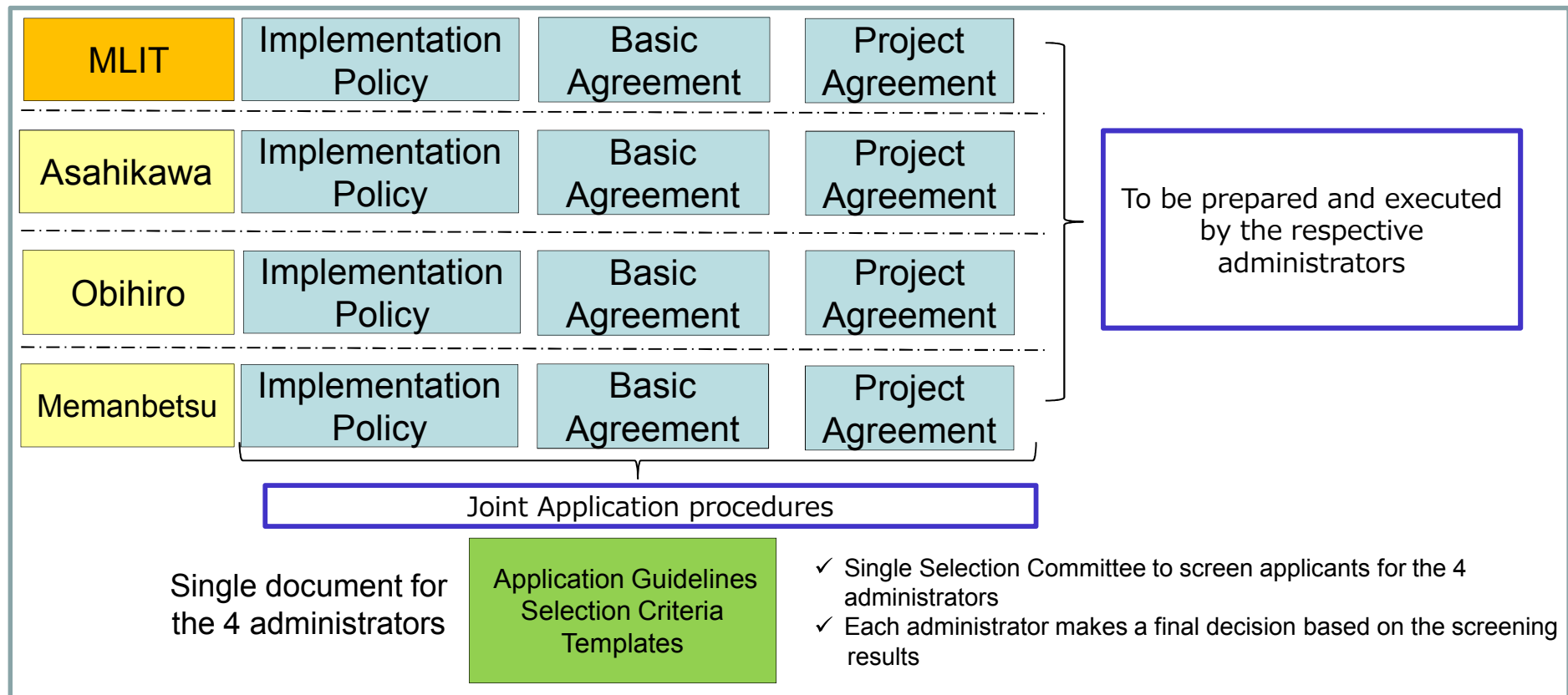
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1. Outline of Project

Outline of Project

1. This project is to collectively outsource to the private sector the operation of 7 airports in Hokkaido which are currently managed by 4 different administrators.
 - ✓ National airport (Civil Aviation Bureau, MLIT) ~ New Chitose, Wakkanai, Kushiro and Hakodate Airports
 - ✓ Specific municipal airport (Asahikawa City, Obihiro City) ~ Asahikawa and Obihiro Airports
 - ✓ Municipal airport (Hokkaido Prefecture) ~ Memanbetsu airport
2. Structure of the Implementation Policy, Application Guidelines and the Project Agreement



3. Matters in need of coordination among the administrators will be discussed under the “Agreement among 4 administrators” to be executed.

【Reference】 Outline of the Agreement among 4 Administrators

Items	Outline
•Items on the agenda among 4 administrators	Discuss items on the agenda* among 4 administrators
•Setting up of the secretariat	The secretariat for the discussion among 4 administrators shall be set up by MLIT
•Discussion period	Discussion shall be finalized within 30 days with the results to be reported to the SPC. However, the discussion period may be extended subject to agreement by 4 administrators
•Monitoring	One stop monitoring system to be implemented to reduce the burden of the SPC.
•Respect discussion results	4 administrators shall respect the discussion results
•Validity period	The agreement among 4 administrators shall be valid until the closing day of the Airport Operating Business

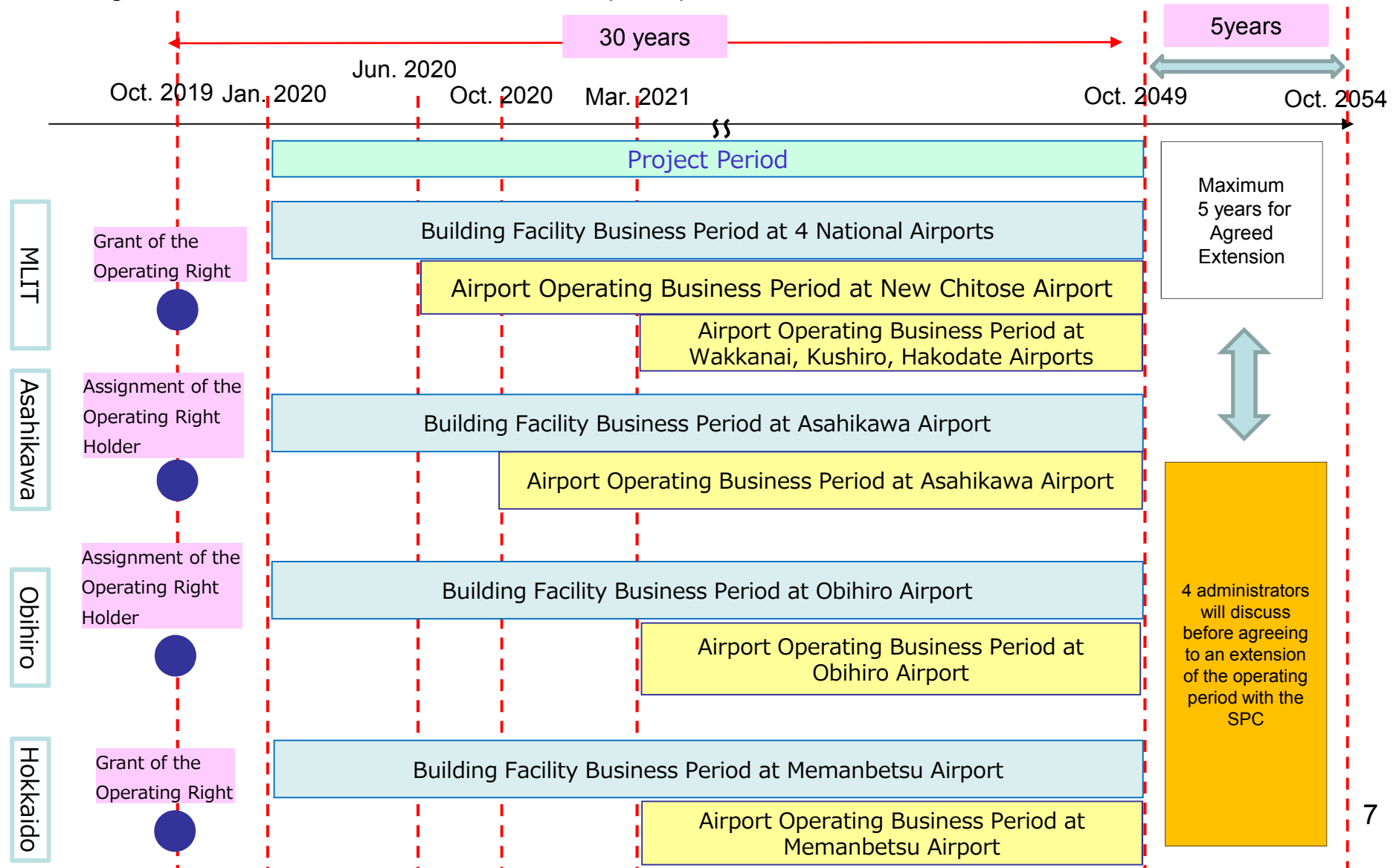
*While the Agreement among 4 Administrators is planned to be disclosed along with the Application Guidelines, the following items which require the Administrators consent or agreement between the 4 administrators are likely to be included.

- Agreed Extension
- Public Extension Option
- Optional business outside of the Airport Site
- Transfer of Voting Shares
- Amendment of the Project Agreements
- Cancellation of the Project Agreements

2. Project Period, Commencement of Airport Operations, Public Extension Option

Project Period • Commencement of Airport Operations

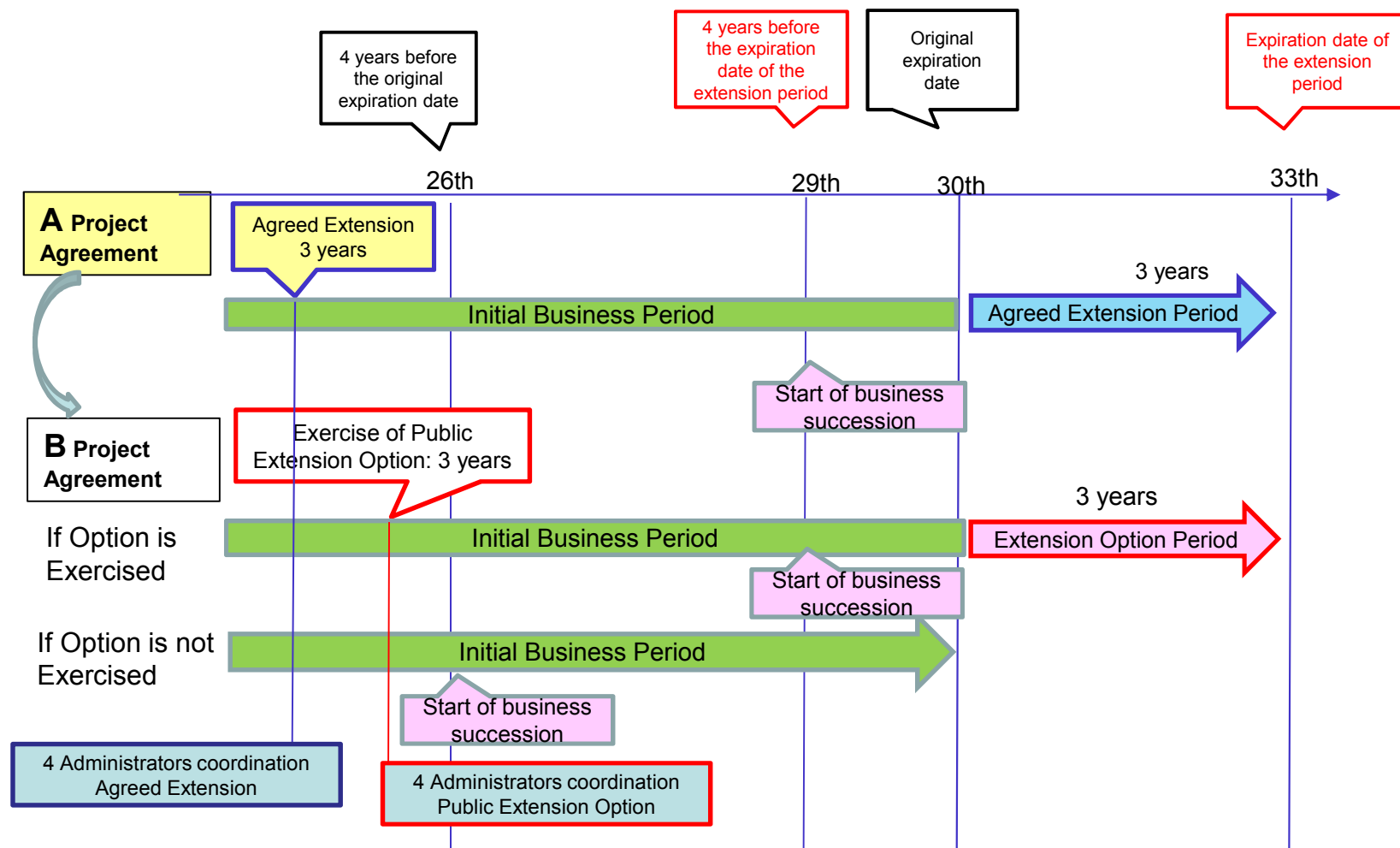
Airport Operations to start in phases from Jun. 2020 onwards after Building Facility Business (airport terminal building) starts for all 7 airports in Jan 2020. This is based on the opinions gathered in the Market Sounding to ensure a smooth handover of the airport operations.



Public Extension Option

(the below shows an example with a 3 year Agreed Extension Period)

- ✓ Should an Agreed Extension be in place for Project Agreement A, the 4 administrators will discuss how the end of the Business Period should be handled (before the earliest day to commence business succession)and decide whether to exercise the Public Extension Option and align the expiration dates for the 4 Project Agreements.
- ✓ There will be no Consideration (i.e. concession fees) to be paid for the extension period in case of Public Extension Option. If the financially independent operation at a municipal airport be difficult, support will be continuously provided to the extent necessary during the extension period.



3. Project Methods

- (▪ Purchase of Building Facility Operator etc.
- Parking Facility)

Project Methods (Purchase of Building Facility Operator etc.)

Transfer prices of shares of the Building Facility Operators at 7 airports are as below:

Share transfer of 9 companies at 7 airports	Transfer price (100 million yen) ※
Building Facility Operators	
1 . New Chitose Airport Terminal Building Co., Ltd.	102
2 . Sapporo International Air Cargo Terminal Co., Ltd.	15.28
3 . Wakkanai Airport Building Co., Ltd.	6.51
4 . Kushiro Airport Terminal Building Co., Ltd.	9.21
5 . Hakodate Airport Terminal Building Co., Ltd.	43.69
6 . Asahikawa Airport Passenger Terminal Building Co., Ltd.	5.32
7 . Obihiro Airport Terminal Building Co., Ltd.	14.16
8 . Memanbetsu Airport Terminal Building Co., Ltd.	11.04
Fuelling Facility Operator ※※	
1 . Chitose Airport Fuelling Facilities Co., Ltd.	9.36
Total	216.57

※ The transfer prices are the present agreed amounts

※※Chitose Airport Fuelling Facilities (Hydrant facility) is scheduled to transfer the shares on the commencement of Airport Operation Business (Around June 2020)

Project Structure (Parking Facility)

Parking facilities at 7 airports will be treated as below (※).

While the methods of transfer etc. are different, the basic structure for the parking facilities is the same with the administrators granting Operating Rights to the SPC.

Airport	Current Owner	Treatment
Wakkanai Airport: Parking Facility Asahikawa Airport: Parking Facility Obihiro Airport: Parking Facility	Each administrator	Grant of Operating Right
New Chitose Airport: Parking Facility B Kushiro Airport: Parking Facility Hakodate Airport: Parking Facility	Airport Environment Improvement Foundation	MLIT will grant Operating Rights after being transferred the parking assets from the owner in the left column
New Chitose Airport: Parking Facility A, C	Chitose Tourist Association	The SPC will purchase the parking business from the operator in the left column and then transfer the assets to MLIT. (※※ MLIT will then grant Operating Rights.
Memambetsu Airport: Parking Facility	Memambetsu Development Corporation	Grant of Operating Right The owner in the left column who currently owns a part of the parking facility assets is obligated to sell them to the SPC under the Project Agreement

※ Above parking facilities are scheduled to commence operations on the commencement date of Airport Operation Business

※ ※ The Purchase price for New Chitose Airport Parking Facility A and C business is expected to be 731 Million Yen

※ ※ ※ The Purchase price for these assets will be disclosed around the time the Application Guidelines are published.

4. Businesses and services proposed by the Preferred Negotiation Right Holder

Businesses and services proposed by the Preferred Negotiation Right Holder

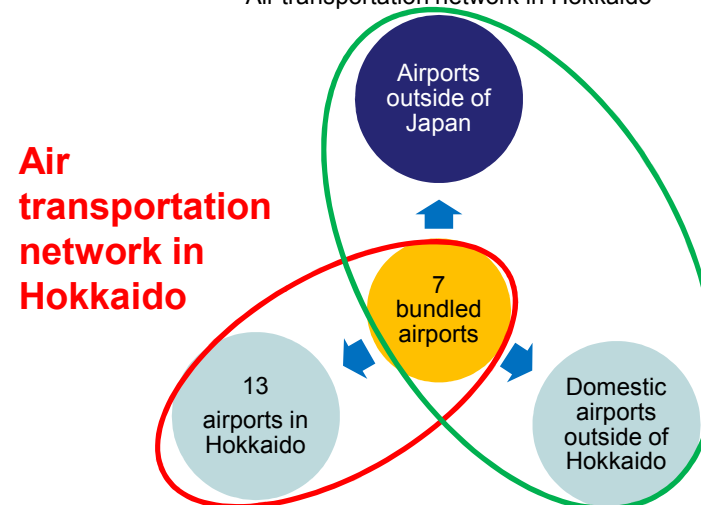
This section covers proposals unique to this project which are to be proposed by the Applicants.

① Business and services related to the promotion of wide-area tourism in Hokkaido

- Definition
 - Efforts by the SPC toward wide-area tourism in Hokkaido are expected to be done as a “airport operator”
 - For example, airport route marketing utilizing differing airports to fly in and out, taking into account analysis of passenger demand and airline characteristics.
- Proposal
 - Points to consider when providing proposals
 - The role of the SPC is to be a facilitator teaming up with the various constituents surrounding the airport operations.
 - Wide-area tourism is directly undertaken by the constituents in the region. i.e. Municipalities, tourism boards, tour operators etc.
 - For proposals including the routes that involve the 6 airports in Hokkaido that are not part of this bundling project; only proposals which fit the criteria below will be looked at in the screening process.
 - The routes includes at least one of the 7 bundled airports on the way in or way out, and is benefits from being marketed together
 - The SPC teams up with the owner or local municipalities of the 6 non bundled airport.

② Businesses and services related to enhancement and strengthening of the air transportation network in Hokkaido

- Definition
 - For this project “air transport networks” means the network to and from the 7 bundled airports that the SPC operates and manages. (the network circled in green and red)
 - “air transportation network in Hokkaido” means the network within Hokkaido to and from the 7 bundled airports to all the 13 airports in Hokkaido (the network circled in red)
- Proposal
 - Proposals should be submitted for the two networks outlined below.
 - The network circled in green (see chart below)
 - the network to and from the 7 bundled airport to points outside of Hokkaido whether it be elsewhere in Japan or globally.
 - The network circled in red (see chart below)
 - Air transportation network in Hokkaido



5. Considerations to be paid by for
the Operating Rights
(Subsidies in the case of the
3 municipal airports)

Considerations to be paid by for the Operating Rights (Subsidies in the case of the 3 municipal airports)

- ✓ The 4 Administrators will entrust the operations of the 7 bundled airports to a single SPC.
- ✓ There will be 4 Project Agreements and the SPC will be able to receive subsidies from the 3 Administrators for the 3 municipal airports so that the profitable airports don't internally subsidize the unprofitable airports.
- ✓ The Applicants are to separately propose Considerations for the Operating Rights to the 4 Administrators. In the case of the Asahikawa City, Obihiro City and Hokkaido the Applicants are to propose the amount of subsidies that may be reduced for each of the 3 airports.

MLIT 4 airports

Wakkanai

Kushiro

New Chitose

Hakodate

◆Proposal for the Consideration for the Operating Rights

1) Upfront Considerations ... Minimum 0 yen

This amount is to be proposed by the Applicant

2) Annual Considerations ... 2.4 Billion yen per fiscal year. Fixed amount.

◆Revenue linked contributions

※ Will come into effect at New Chitose Airport should the number of takeoff-and-landing slots be expanded from the current 42/hour in the future. Details to be provided when the Application Guidelines are published.

3 Municipal airports

Asahikawa

Obihiro

Memambetsu

◆The Municipalities will be subsidized by the respective Administrators

For each of the 3 airports, the Applicants shall propose a reduction of the subsidies from the Maximum subsidy amounts set out below.

1) Maximum subsidy amounts to be used for Replacement Investments (excluding growth CAPEX) of the Facilities Subject to Operating Right Replacement.

- This amount which covers the entire Project Period is disclosed in each Implementation Policy.

2) Maximum subsidy amounts for the costs of operation

- Inclusive of the Replacement investment for assets to be owned by the SPC (and/or subsidiaries)

The Municipalities will each get a resolution from its council obligating itself to the "Subsidy amounts" calculated below.

Maximum subsidy amounts

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Proposed reduction

=

Subsidy amounts

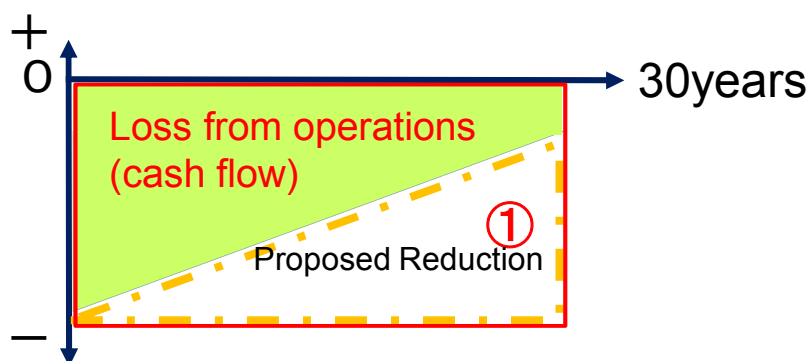
Image of the Subsidy Scheme

3 Municipal airports

The Municipalities will subsidize a part of the cost of operations and Replacement Investments. Applicants are to propose the reduction of required subsidies (the sum of ①+② in the chart below) for each Municipal airports.

① Cost of operations
(including Replacement Investments for SPC owned assets)

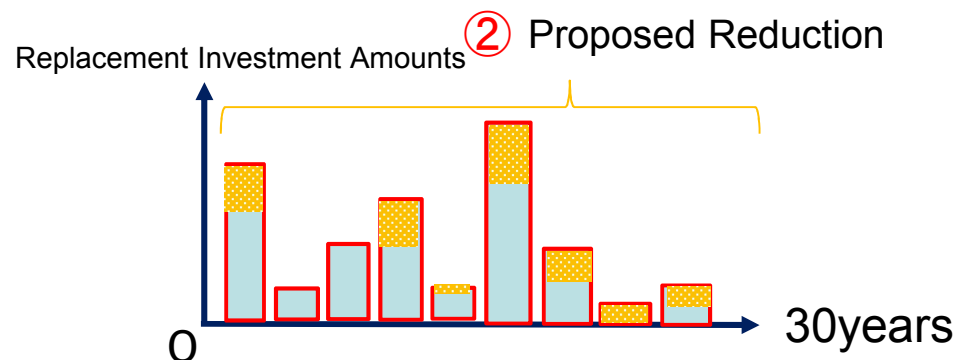
Profitability (cash flow)



- ✓ Maximum subsidy amounts calculated based on current loss levels (red box above)
- ✓ Proposals Reduction to come from improved operation results in the hands of the private sector (Orange dotted line figure above ①)

Maximum subsidy amounts	(100 Million Yen)
Asahikawa	44.65
Obihiro	72.76
Hokkaido	50.58

② Replacement Investments(excluding growth CAPEX)



- ✓ Maximum Subsidy amounts based on forecasts by the Administrator (red box above)
- ✓ Proposed Reduction to come from improved operations in the hands of the private sector (Total of the amounts in the Orange dotted line figure above ②)

Maximum subsidy amounts	(100 Million Yen)
Asahikawa	99.78
Obihiro	63.07
Hokkaido	109.13

6. Obihiro Airport construction works to improve surface conditions of its runways etc.

Obihiro Airport construction works to improve surface conditions of its runways etc.

Following construction work to improve runway and taxiway surface conditions at Obihiro Airport to be undertaken

FY	2017	2018	2019	2020	2021	2022	2023
Construction works	Surface level examination	Final design	Runway construction (1/2)	Runway construction (2/2) finishes	Taxiway construction	Taxiway construction	Taxiway construction finishes

- The basic outline of the runway and taxiway construction works for Obihiro Airport and risk allocation is written in the Obihiro Airport Implementation Policy as summarized below.
- The details of the construction works will be disclosed along with the Application Guidelines etc.

Constructi on works	Risk	Summary of the Implementation Policy
<p>【Runway】 Scheduled to be completed by end of Oct 2020</p> <p>【Taxiway】 Scheduled to be completed by end of Oct 2023</p>	<p>✓ Construction delay</p> <p>✓ Taxiway construction risk</p>	<p>①Regarding the construction delay</p> <ul style="list-style-type: none"> - Obihiro City will bear the risk of construction delay should the runway construction works not be completed ahead of the scheduled Airport Operation Business commencement in Mar 2021. <p>②Taxiway construction</p> <p>Obihiro City shall;</p> <ul style="list-style-type: none"> - Complete the taxiway construction work on its own responsibility. - Release the SPC from the obligation to repair the areas that are subject to the construction work prior to the completion of the construction work, - Compensate the operator or any third party for the damages which may be incurred due to the surface conditions of the relevant area or caused by the construction work prior to the completion of the construction work. <p>③Others</p> <ul style="list-style-type: none"> - Obihiro City will disclose relevant information of the construction works upon request from the SPC.

7. Addressing other opinions in the Market Sounding Process

Addressing other opinions received in the Market Sounding Process

- Simplifying the 1st Screening Process

- ① 1st Screening proposals to be centered around the Executive Plan and proposal concept with reduced amount of papers required for submission.
 - ✓ We will ask for a rough demand and business environment analysis (which we've not asked for in transactions prior to Kumamoto). The Executive Plan should be based on the results of these analysis and the identified tasks. The other items in the proposal shall be evaluated on its alignment with the Executive Plan.
- ② Brief description of the proposal
 - ✓ The presentation in the 1st screening process will be discarded and we envision that a brief description of the proposal be given using the Proposal Papers.
- ③ Addition of Consortium Members after the 1st screening
 - ✓ It is now possible to add Consortium Members after the 1st screening should such additions satisfy the conditions below.
 - i) Key Consortium Members designated in the 1st screening retain majority voting rights of the Consortium.
 - ii) The added Consortium Member does not exceed the voting rights of the largest Key Consortium Member.
 - ✓ For the 1st screening "track record" evaluations, only the track record of the Key Consortium Members shall be looked at.
 - ✓ Participation requirement screening will be done for all the members of the Consortium in the 1st screening process, as well as for any added Consortium Member there after.

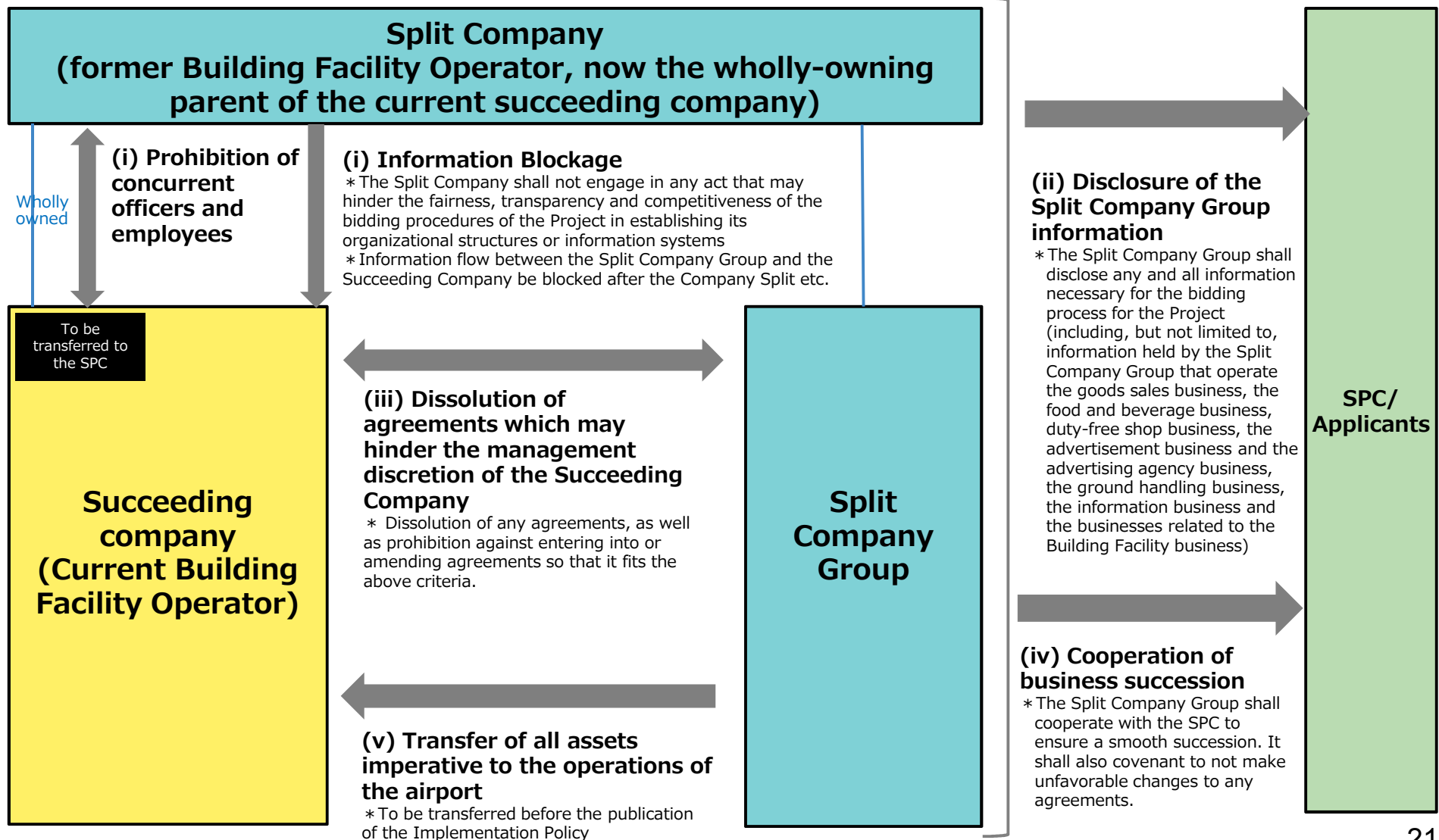
- Disclosure documents in English

- The documents below will be provided in English in addition to other documents in prior transactions.
 - ✓ Selection Criteria
 - ✓ Documents in the Information Package which contain financial information.
 - ✓ Selected parts of the Due Diligence Reports
 - ✓ Index of disclosed information

Addressing other opinions (Participation requirements for Building Facility Operator)

- The Building Facility Operator may participate in the bidding only if it spins off the Building Facility Business by way of a Company Split and it terminates the shareholding of the relevant local governments and satisfies all of the conditions (i) through (v)

(i) through (v) in the chart below denotes the conditions (i) through (v) on p52 of the Implementation Policy (MLIT)



Addressing other opinions (Participation requirements for Building Facility Operator)

- The Split Group Company has made covenants to MLIT regarding the items in the Participation requirements in the Implementation Policy. A Memorandum which covers these items has been submitted along with the necessary documents for the Company Split following clause 17 of the Airport Act

Businesses of the Split Company Group (As of 1st March 2018)

Split Company Group		Disclosure (information relevant to the operations for the airport)	
Sales of Goods	Company A	Sales of Goods (3 souvenir shops)	
	Company B	Duty Free Sales (3 shops) ※ Transferred to the Split Company Sept 2017	
	Company C	Sales of Goods (Delicatessen etc. 3shops)	
Advertising, Hotel, Spa (Onsen) etc.	Company D	PR/Advertising, Advertising Agency	Condition (v) Transfer to the Succeeding Company all assets imperative to the operations of the airport Billboards with in the airport Amusement Facility Assets “Doraemon Wakuwaku Skypark” “Hello Kitty Happy Flight” “Sora Cinema Chitose” FIS TV, Terminal bus transfer announcement system etc. Power / Heating Generator systems
		Shop interior design / supervision	
	Movie theater, Theme park (Doraemon, Hello Kitty Amusement Facility)		
	Sale of Goods (3 shops)		
Company E	Hotel operator (Airport Hotel) Spa (Shin Chitose Onsen)		
Company F	Plant decoratinnng Sales of Goods (1Hokkaido souvenir shop)		
Airport Services	Company G	Building Maintenance	Power / Heating Generator systems
		Office Maitenance and Utility Works	
		Power, Heat Supplier	
		Leasing	
Company H	Ground handling Information desk		
Company I	Restaurant (5shops)		

Condition (iv) Cooperation of business succession

The Split Company Group will cooperate with the Operating Right Holder / Preferred Negotiation Right Holder to ensure a smooth succession. Should the Operating Right Holder request services to be continually provided by the Split Company Group, it will not make unfavorable changes to any agreement aside from those that would not be deemed without reason due to major changes in the business environment.

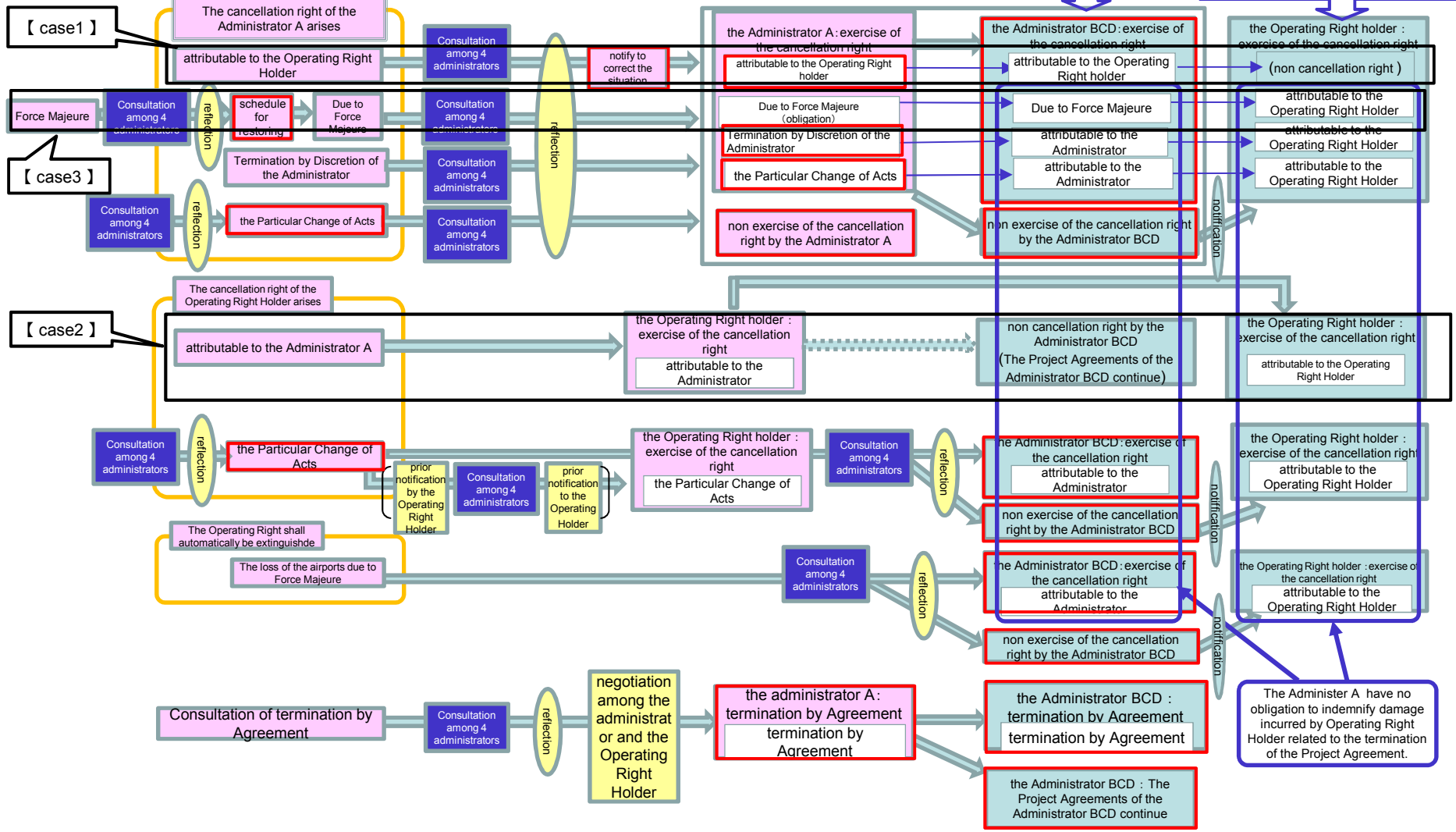
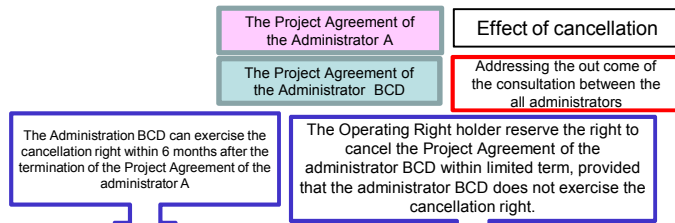
Condition (ii) Disclosure of the Split Company Group information

The Split Company Group shall provide to MLIT all relevant information regarding the operations of New Chitose Airport which is necessary to ensure a fair, transparent and competitive bidding process. This includes but is not limited to the information held by the Split Company Group undertaking the following airport related businesses. Sales of Goods, Restaurants, Duty Free Sales, PR/Advertising and Advertising Agency, Shop interior design / supervision, Power / Heat Supplier, Leasing, Cleaning, Waste Disposal, Ground handling, Information desk. The disclosed information will be updated.

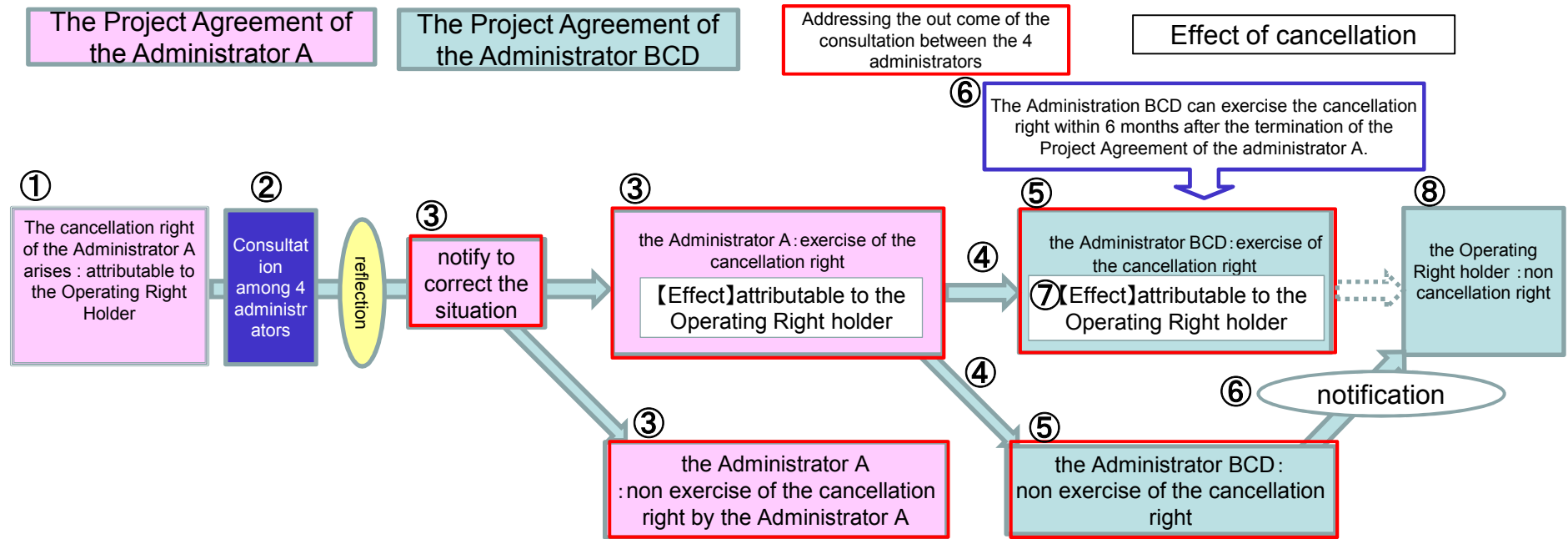
8. Cancellation

Addressing other opinions received in the Market Sounding Process (Cancellation of the Project Agreement) [Case studies]

- The administrators of the other airports reserve the right to cancel their own Project Agreement upon specific cancellation events occurring in the Project Agreements for the other 3 administrators.
- When any cancellation events in the Project Agreement occurs, the administrator shall consult the exercise of the cancellation right with the other 3 administrators and decide upon whether to exercise such cancellation right. The affected administrator will respect the outcome of the consultation between all the administrators.
- If the 4 administrators have not reached an agreement, the each administrator shall decide whether to exercise such cancellation right or not at its own discretion.
- Examples of events on the occurrence of which all Project Agreements may be in principal cancelled would be events such as; a) the ability of the SPC to continue operations is severely affected and b) the prerequisite to operating the 7 airports as a bundle is severely affected.

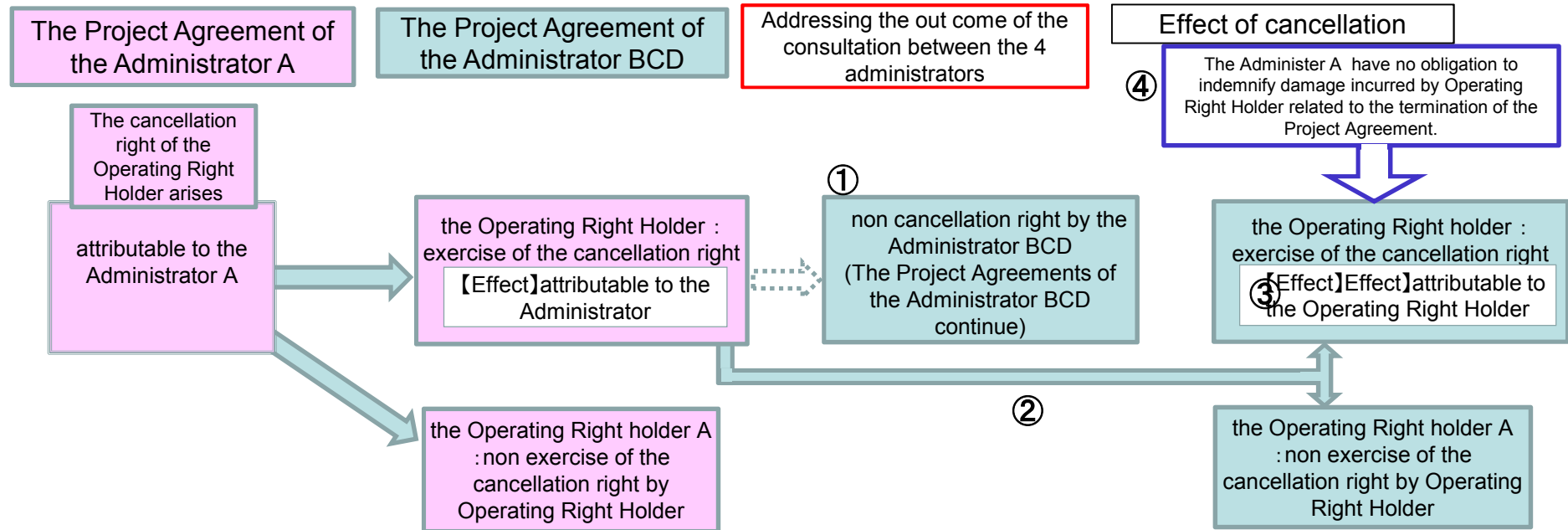


【CASE1】 Cancellation for reasons attributable to the Operating Right Holder



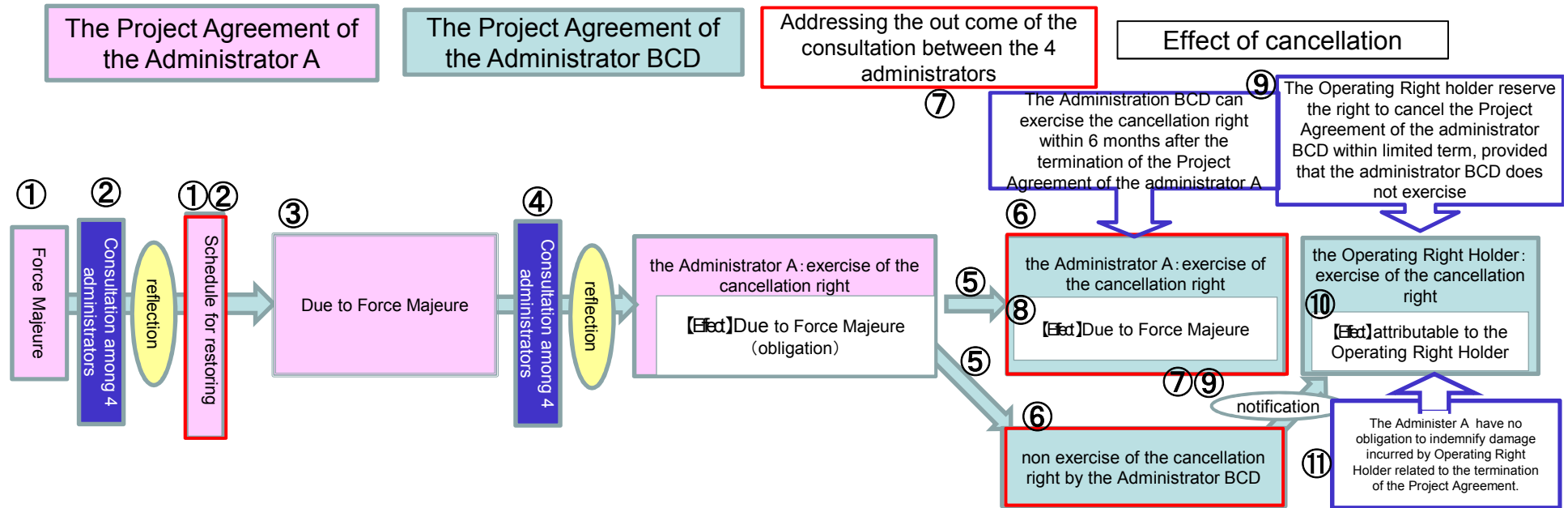
- ① When the Operating Right Holder breaches the Project Agreement with the Administrator A, the Administrator A reserves the right to cancel the Project Agreement provided that the Operating Right Holder does not correct such breach in spite of notification to remedy the situation.
- ② When the cancellation right arises, the 4 administrators consult on whether; a) Administrator provide a notification to remedy the situation, b) Administrator A exercise its right and c) whether Administrators BCD cancel their Project Agreements if Administrator A cancels its Project Agreement
- ③ Based on the consultation among the 4 administrators, Administrator A shall notify the Operating Right Holder to remedy the breach. If the Operating Right Holder does not remedy its breach in spite of the notification to remedy the situation, the Administrator A decides on whether exercising the cancellation right of the Project Agreement based on its outcome.
- ④ When Administrator A cancels the Project Agreement A for reasons attributable to the Operating Right Holder, the cancellation right of the Project Agreement BCD of the Administrator BCD arises.
- ⑤ The Administrator BCD decides on whether it exercises the cancellation right based on the outcome of the consultation among 4 administrators.
- ⑥ The Administration BCD may only exercise its cancellation rights within 6 months after the termination of the Project Agreement of the administrator A. Administrators BCD shall notify the Operating Right Holder when it decides not to exercise its cancellation right.
- ⑦ When Administrator BCD exercises the cancellation right, the effect of its exercise is same with cancellation for reasons attributable to the Operating Right Holder.(The Operating Right Holder shall indemnify the Administrator BCD)
- ⑧ When the Project Agreement A is canceled for reasons attributable to the Operating Right Holder, the Operating Right Holder do not have the right to cancel the Project Agreements of Administrator BCD.

【CASE2】 Cancellation for reasons attributable to the Administrator



- ① When Administrator A cancels the Project Agreement A for reasons attributable to Administrator A, Administrators BCD have no right to cancel the Project Agreement BCD.
- ② When the Operating Right Holder cancels the Project Agreement A for reasons attributable to the Administrator A, the cancellation right of the Project Agreement BCD of the Operating Right Holder arises.
- ③ When the Operating Right Holder exercises the cancellation right for reasons attributable to other airports in Hokkaido, the effect of its exercise is the same with the cancellation for reasons attributable to the Operating Right Holder.(The Operating Right Holder shall indemnify Administrators BCD)
- ④ Administrator A has no obligation to indemnify any damages incurred by the Operating Right Holder in indemnifying Administrator BCD related to the cancellation of each Project Agreement.

【CASE3】 Cancellation or termination for Force Majeure



- ① When Administrator A prepares a Business Continuity Measures due to a Force Majeure, the Administrator A and the Operating Right Holder decide on the schedule for restoring the Project from the Force Majeure.
- ② If it is necessary for the Administrator A and the Operating Right Holder to decide on the schedule for restoring the Project from the Force Majeure, the four administrators consult and reflect the outcome of the meeting on the schedule.
- ③ In the event that Administrator A is unable to decide on the schedule for restoring the Project from the Force Majeure or the Operating Right Holder is unable to restore the Project according to the schedule, the Administrator A shall cancel its Project Agreement.
- ④ In the event that Administrator A cancels its Project Agreement, the 4 Administrators shall consult whether or not to cancel the Project Agreement of the Administrator BCD.
- ⑤ When Administrator A cancels the Project Agreement A due to a Force Majeure, the Administrator BCD has the right to cancel its Project Agreements.
- ⑥ Administrators BCD decides on whether it exercises the cancellation right based on the outcome of the consultation among 4 administrators.
- ⑦ The Administrator BCD may only exercise its cancellation rights within 6 months after the termination of the Project Agreement of Administrator A. Administrators BCD shall notify the Operating Right Holder when it decides to not exercise its cancellation rights.
- ⑧ When Administrators BCD exercise its cancellation rights, the effect is the same with the cancellation for Force Majeure.(The Operating Right Holder / Administrators BCD bear their own damages)
- ⑨ When Administration BCD does not exercise its cancellation rights, the Operating Right Holder has the right to cancel the Project Agreement of the Administration BCD within a limited period.
- ⑩ When the Operating Right Holder exercises its cancellation right for reasons attributable to other airports in Hokkaido, its effect is the same with cancellation for reasons attributable to the Operating Right Holder.(The Operating Right Holder shall indemnify Administrators BCD)
- ⑪ Administrator A has no obligation to indemnify any damages incurred by the Operating Right Holder in indemnifying Administrator BCD related to the cancellation of each Project Agreement.