

Application Guidelines on the Qualified Project, etc., for Airport Operation of the Seven Airports in Hokkaido

The original of this document shall be prepared in Japanese language, and this is only English translation of that. This document shall serve only as a reference and shall be interpreted in accordance with the Japanese document.

April 25, 2018
Civil Aviation Bureau, Ministry of Land, Infrastructure, Transport and
Tourism
Asahikawa City Government
Obihiro City Government
Hokkaido Government

1. Application Guidelines on the Qualified Project, etc., for Airport Operation of the Seven Airports in Hokkaido

The seven airports in Hokkaido (i.e., New Chitose Airport, Wakkanai Airport, Kushiro Airport and Hakodate Airport (hereinafter referred to as the "Four National Airports in Hokkaido") as well as Asahikawa Airport, Obihiro Airport and Memanbetsu Airport; hereinafter referred to as the "Seven Airports in Hokkaido") have the potential to be important airports that support the aviation network in Japan and leading gateways in Japan for inbound travelers from overseas since they are an important infrastructure for promoting the industry and tourism in Hokkaido and securing a base therefor. In order to demonstrate such potential, it is an urgent issue to disperse the tourists and make them tour across Hokkaido and thereby expand the various economic ripple effects, and translate this into local revitalization in the entire prefecture in cooperation with the relevant local governments and the region by promoting effective utilization of each airport as gateways and strategic cooperation between airports.

However, it is impossible to manage the current Seven Airports in Hokkaido as a whole in an integrated and flexible manner because the following are separately operated: (i) the basic airport facilities, etc., owned by the public entities, namely the State, the Asahikawa City Government, the Obihiro City Government and the Hokkaido Government (hereinafter referred to as the "State, etc."); (ii) the facilities for handling air passengers and incidental convenient facilities (hereinafter referred to as the "Passenger Building Facilities") and the facilities for handling air cargo and incidental convenient facilities (hereinafter referred to as the "Cargo Building Facilities"), owned by the operator of air passenger and cargo facilities (hereinafter referred to as the "Building Facility Operator"); and (iii) the parking facilities owned by the operator of parking facilities, etc.

For these reasons, with the aim of allowing each of the Seven Airports in Hokkaido to perform its role at its full potential, the State, etc. has decided to implement the Project in order to cause a private business operator to implement the Airport Operating Business while securing the safety of air transport and the public nature of the airports and to integrate the operation of the above facilities in the Seven Airports in Hokkaido to realize integrated and flexible airport management by utilizing the money and management skills of the private sector. The State, etc. intends to utilize the Project partly to raise the level of the marketing capabilities of each airport of the Seven Airports in Hokkaido and enhance the aviation network and thereby to lead to the revitalization of the regional economy, which includes the promotion of wide-area tourism in cooperation with the region.

To this end, the State is planning to select a private business operator (if a private business operator composed of two or more corporations has been selected, it refers to all of the

corporations; hereinafter referred to as the “Preferred Negotiation Right Holder”) to implement the Qualified Project, etc., for Airport Operation of the Four National Airports in Hokkaido (hereinafter referred to as the “Project”) at the Four National Airports in Hokkaido, for the purpose of integrally managing a Qualified Project for National Airport Operation (hereinafter referred to as the “Airport Operating Business”) under the Act on Promotion of Private Finance Initiative (Act No. 117 of 1999; hereinafter referred to as the “PFI Act”) and the Act on Operation of National Airports Utilizing Skills of the Private Sector (Act No. 67 of 2013; hereinafter referred to as the “Private Utilization Airport Operation Act”) together with the non-aviation activities pertaining to the terminal buildings, etc. (hereinafter referred to as the “Building Facilities Business”), as well as grant the Right to Operate Public Facilities, etc. (meaning the Right to Operate Public Facilities, etc., stipulated in Article 2, paragraph (7) of the PFI Act; hereinafter referred to as the “Operating Right”) to a special purpose company (hereinafter referred to as the “SPC”) incorporated by the Preferred Negotiation Right Holder, as the Operating Right Holder of a National Airport (meaning the Operating Right Holder of a National Airport stipulated in Article 4, paragraph (2) of the Private Utilization Airport Operation Act; hereinafter referred to as the “Operating Right Holder”) and enter into the Agreement regarding the Qualified Project, etc., for Airport Operation in Hokkaido to Implement Right to Operate Public Facilities, etc. (hereinafter referred to as the “Project Agreement”) in order to implement the Project.

Asahikawa City Government is planning to select a Preferred Negotiation Right Holder to implement the Project, etc., for the Operation of Asahikawa Airport, for the purpose of integrally managing the operation, etc., of a specific local airport pursuant to Article 14 of the Supplementary Provisions of the Private Utilization Airport Operation Act and the Building Facilities Business pertaining to its terminal buildings, etc., as well as appoint an SPC incorporated by the Preferred Negotiation Right Holder, as the operator of Asahikawa Airport (meaning the operator of a Local Airport stipulated in Article 14 of the Supplementary Provisions of the Private Utilization Airport Operation Act) and enter into the Agreement regarding the Project, etc., for the Operation of Asahikawa Airport, in order to implement the Project, etc., for the Operation of Asahikawa Airport. Obihiro City Government is planning to select a Preferred Negotiation Right Holder to implement the Project, etc., for the Operation of Obihiro Airport, for the purpose of integrally managing the operation, etc., of a specific local airport pursuant to Article 14 of the Supplementary Provisions of the Private Utilization Airport Operation Act and the Building Facilities Business pertaining to its terminal buildings, etc., as well as appoint an SPC incorporated by the Preferred Negotiation Right Holder, as the operator of Obihiro Airport (meaning the operator of a Local Airport stipulated in Article 14 of the Supplementary Provisions of the Private Utilization Airport Operation Act) and enter into the Agreement regarding the Project, etc., for the Operation of Obihiro Airport, in order to

implement the Project, etc., for the Operation of Obihiro Airport.

The Hokkaido Government is planning to select a Preferred Negotiation Right Holder to implement the Qualified Project, etc., for the Operation of Memanbetsu Airport, for the purpose of integrally managing the Qualified Project, etc., for the Operation of Memanbetsu Airport under the PFI Act and the Private Utilization Airport Operation Act together with the Building Facilities Business pertaining to its terminal buildings, etc., as well as appoint an SPC incorporated by the Preferred Negotiation Right Holder, as the Operating Right Holder of Memanbetsu Airport and enter into the Agreement regarding the Qualified Project, etc., for the Operation of Memanbetsu Airport to Implement Right to Operate Public Facilities, etc. in order to implement the Qualified Project, etc., for the Operation of Memanbetsu Airport.

A single Preferred Negotiation Right Holder is planned to be selected for these Seven Airports in Hokkaido and have an SPC incorporated by the Preferred Negotiation Right Holder to integrally manage the Seven Airports in Hokkaido.

2. Composition of Application Guidelines on the Qualified Project, etc., for Airport Operation of the Seven Airports in Hokkaido

These Application Guidelines consist of five Chapters in total: Chapter 1 sets forth the application guidelines on the Four National Airports in Hokkaido; Chapter 2 sets forth the application guidelines on Asahikawa Airport; Chapter 3 sets forth the application guidelines on Obihiro Airport; Chapter 4 sets forth the application guidelines on Memanbetsu Airport; and Chapter 5 sets forth matters concerning the bidding in the Qualified Project, etc., for Airport Operation of the Seven Airports in Hokkaido.

Terms used in each Chapter are as defined in each Chapter.

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Chapter 1 National Airports Edition

Application Guidelines on

the Qualified Project, etc., for Airport Operation of

the Four National Airports in Hokkaido

April 25, 2018
Civil Aviation Bureau, Ministry of Land, Infrastructure, Transport and
Tourism

1. Introduction

The Civil Aviation Bureau of the Ministry of Land, Infrastructure, Transport and Tourism (hereinafter referred to as the “MLIT”) and the Tokyo Regional Civil Aviation Bureau of the MLIT (hereinafter collectively referred to as the “State”) are planning to select a private business operator (if a private business operator composed of two or more corporations has been selected, it refers to all of the corporations; hereinafter referred to as the “Preferred Negotiation Right Holder”) to implement the Qualified Project, etc., for Airport Operation in Hokkaido (hereinafter referred to as the “Project”) at the four airports (New Chitose Airport, Wakkanai Airport, Kushiro Airport and Hakodate Airport; hereinafter referred to as the “Four National Airports in Hokkaido”), for the purpose of integrally managing a Qualified Project for National Airport Operation (hereinafter referred to as the “Airport Operating Business”) under the Act on Promotion of Private Finance Initiative (Act No. 117 of 1999; hereinafter referred to as the “PFI Act”) and the Act on Operation of National Airports Utilizing Skills of the Private Sector (Act No. 67 of 2013; hereinafter referred to as the “Private Utilization Airport Operation Act”) together with the non-aviation activities pertaining to the terminal buildings, etc. (hereinafter referred to as the “Building Facilities Business”), as well as grant the Right to Operate Public Facilities, etc. (meaning the Right to Operate Public Facilities, etc., stipulated in Article 2, paragraph (7) of the PFI Act; hereinafter referred to as the “Operating Right”) to a special purpose company (hereinafter referred to as the “SPC”) incorporated by the Preferred Negotiation Right Holder, as the Operating Right Holder of a National Airport (meaning the Operating Right Holder of a National Airport stipulated in Article 4, paragraph (2) of the Private Utilization Airport Operation Act; hereinafter referred to as the “Operating Right Holder”) and enter into the Agreement regarding the Qualified Project, etc., for Airport Operation in Hokkaido to Implement Right to Operate Public Facilities, etc. (hereinafter referred to as the “Project Agreement”) in order to implement the Project.

In addition, the Asahikawa City Government, the Obihiro City Government and the Hokkaido Government are planning to implement a similar project in which aviation activities pertaining to the runway, etc., and the Building Facilities Business are integrally managed at Asahikawa Airport, Obihiro Airport and Memanbetsu Airport, which they administer.

A single Preferred Negotiation Right Holder is planned to be selected for these seven airports in Hokkaido (Four National Airports in Hokkaido, Asahikawa Airport, Obihiro Airport and Memanbetsu Airport; hereinafter referred to as the “Seven Airports in Hokkaido”) in light of the background and purposes specified in 2(3) and have an SPC incorporated by the Preferred Negotiation Right Holder to integrally manage the Seven Airports in Hokkaido.

These Application Guidelines shall be applied to the selection of a Preferred Negotiation Right Holder of the Project by a publicly-tendered proposal method which is a type of

competitive negotiated agreement planned by the State (hereinafter referred to as the "Bidding"). These Application Guidelines shall be applied from the date of publication the Application Guidelines until the date of conclusion of the Project Agreement, and shall be binding on the parties to the Project Agreement even after the date of conclusion of the Project Agreement.

Please note that the State may set out in the Project Agreement or other documents the matters regarding the Project that are agreed upon through competitive dialogue, etc., between the State and the Preferred Negotiation Right Holder held in the Bidding.

2. Matters concerning details of the Project

(1) Officer in Charge of Agreement

Kuniharu Ebina, Director-General of the Civil Aviation Bureau, MLIT

(2) Unit in Charge

Airport Governance Reform Unit, Planning Division,
Aviation Network Department, Civil Aviation Bureau, MLIT
(hereinafter referred to as the “Unit in Charge”)

Address: 1-3, Kasumigaseki 2-chome, Chiyoda-ku, Tokyo 100-8918

Tel: 03-5253-8714

Email: koku-nekika@mlit.go.jp

The following advisors (hereinafter referred to as the “Bidding Advisors”) shall be appointed in regards to administrative affairs conducted by the Unit in Charge in the Bidding.

- (i) Ernst & Young ShinNihon LLC
- (ii) Anderson Mori & Tomotsune
- (iii) Kansai Law & Patent Office
- (iv) Tomohito Ozawa Certified Tax Accountant Office
- (v) Ernst & Young Transaction Advisory Services Co., Ltd.
- (vi) Docon Co., Ltd.

Documents to be submitted to Bidding Advisors¹ under these Application Guidelines shall be sent to the following.

To: Ernst & Young ShinNihon LLC

Secretariat of Seven Airports in Hokkaido, Infrastructure Advisory Group

Address: Hibiya International Building, 2-2-3, Uchisaiwai-cho, Chiyoda-ku, Tokyo
100-0011

Tel: 03-3503-1557

Email: hokkaido7@jp.ey.com

(3) Background and purposes of the Project

The Seven Airports in Hokkaido have the potential to be important airports that support the aviation network in Japan and leading gateways in Japan for inbound travelers from

¹ Bidding Advisors are selected in each fiscal year. The selection for fiscal 2019 will be performed separately.

overseas countries since they are an important infrastructure for promoting the industry and tourism in Hokkaido and securing a base therefor.

In order to demonstrate such potential, it is an urgent issue to disperse the tourists and make them tour across Hokkaido and thereby expand the various economic ripple effects and lead to local revitalization in the prefecture in cooperation with the relevant local governments and the region by promoting effective utilization of each airport as gateways and strategic cooperation between airports. However, it is impossible for the current Seven Airports in Hokkaido to manage the overall airports in an integrated and flexible way because the following are separately operated: (i) the basic airport facilities, etc., owned by the public entities, namely the State, the Asahikawa City Government, the Obihiro City Government and the Hokkaido Government (hereinafter referred to as the “State, etc.”), (ii) the facilities for handling air passengers and incidental convenient facilities (hereinafter referred to as the “Passenger Building Facilities,” and the facilities for handling air cargo and incidental convenient facilities (hereinafter referred to as the “Cargo Building Facilities”), owned by the operator of air passenger and cargo facilities (hereinafter referred to as the “Building Facility Operator”), and (iii) the parking facilities, etc., owned by the operator of parking facilities.

For these reasons, with the aim of allowing each of the Seven Airports in Hokkaido to perform its role at its full potential, the State, etc. has decided to implement the Project in order to cause a private business operator to implement the Airport Operating Business while securing the safety of air transport and the public nature of the airports and to integrate the operation of the above facilities in the Seven Airports in Hokkaido to realize integrated and flexible airport management by utilizing the money and management skills of the private sector. The State, etc. intends to utilize the Project partly to raise the level of the marketing capabilities of each airport of the Seven Airports in Hokkaido and enhance the aviation network and thereby to lead to the revitalization of the regional economy, which includes the promotion of wide-area tourism in cooperation with the region.

(4) Application Guidelines, etc.

These Application Guidelines and documents attached hereto shall be composed of the documents listed in (i) through to (x) below (together with supplementary materials (meaning supplementary materials set out in Chapter 5: 1.(2)K); hereinafter the same shall apply), as well as answers to questions to be published on the Civil Aviation Bureau of the MLIT website or by other appropriate means and other documents to be issued by the State in relation to those documents, hereinafter collectively referred to as the “Application Guidelines, etc.,” and if any amendments have been made, the documents reflecting the amendments shall prevail). The documents listed in (i) through to (ix) are conditions

precedent for preparing documents to be submitted for the first screening (hereinafter referred to as the “First Screening Proposal Documents”) and those for the second screening (hereinafter referred to as the “Second Screening Proposal Documents”), as well as other documents to be submitted for any screenings in relation to the implementation of the Project (hereinafter referred to as the “Proposal Documents”). The documents listed in (i) through to (vii) shall be binding on the parties to the Project Agreement when it is concluded.

In addition, supplementary materials to be published for the selection of the Preferred Negotiation Right Holder shall constitute a part of the Application Guidelines, etc., and all supplementary materials (excluding the referential materials) shall be binding on the parties to the Project Agreement when it is concluded, unless otherwise specified.

- (i) Application Guidelines on the Qualified Project, etc., for Airport Operation of the Seven Airports in Hokkaido (hereinafter referred to as the “Application Guidelines”)
- (ii) Agreement regarding Qualified Project, etc., for Airport Operation of the Four National Airports in Hokkaido to Implement Right to Operate Public Facilities, etc., (draft) (hereinafter referred to as the “Project Agreement (draft)”)
- (iii) Basic Agreement regarding Qualified Project, etc., for Airport Operation of the Four National Airports in Hokkaido (draft) (hereinafter referred to as the “Basic Agreement (draft)”)
- (iv) Free Lease Agreement with respect to National Property, etc., for the Qualified Project, etc., for Airport Operation of the Four National Airports in Hokkaido (draft) (hereinafter referred to as the “National Property, etc., Free Lease Agreement (draft)”)
- (v) Goods Transfer Agreement with respect to the Qualified Project, etc., for Airport Operation of the Four National Airports in Hokkaido (draft) (hereinafter referred to as the “Goods Transfer Agreement (draft)”)
- (vi) Required Standards Document for the Qualified Project, etc., for Airport Operation of the Four National Airports in Hokkaido (draft) (hereinafter referred to as the “Required Standards Document (draft)”)
- (vii) Compilation of related materials
- (viii) Selection Criteria for the Preferred Negotiation Right Holder for the Qualified Project, etc., for Airport Operation of the Seven Airports in Hokkaido (hereinafter referred to as the “Selection Criteria for the Preferred Negotiation Right Holder”)
- (ix) Forms for the Qualified Project, etc., for Airport Operation of the Seven Airports in Hokkaido and directions to complete the forms (hereinafter referred to as the “Forms and Directions”)

(x) Referential materials

If there are any discrepancies between these Application Guidelines, etc. and the Implementation Policy on the Qualified Project, etc., for Airport Operation of the Four National Airports in Hokkaido (published on March 29, 2018; hereinafter referred to as the "Implementation Policy"), the provisions of these Application Guidelines, etc. shall prevail; provided, however, that matters not set forth in the Application Guidelines, etc. shall be governed by the Implementation Policy.

(5) Anticipated governing laws, etc., for the implementation of the Project

The implementation of the Project shall be governed by the PFI Act, the Private Utilization Airport Operation Act and the Basic Policies on Operation of National Airports Utilizing Skills of the Private Sector (MLIT Public Notice No. 1080 of 2013), as well as various related laws and regulations, etc. set forth in the Required Standards Document (draft) I.-3.2.

(6) Project period

A) The period of the Project

The period of the Project is the period in which the Operating Right Holder carries out the Airport Operating Business based on the Operating Right (hereinafter referred to as the "Airport Operating Business Period") and the period in which the Operating Right Holder carries out the Building Facilities Business (hereinafter referred to as the "Building Facility Business Period") after its acquisition of the shares issued by the Building Facility Operator (hereinafter referred to as the "Building Facility Operator Shares"), prior to the implementation of the Airport Operating Business.

The Airport Operating Business Period means the period from the date of commencement of the Airport Operating Business upon fulfillment of the conditions precedent to the commencement as set out in the Project Agreement (meaning the date of commencement of the Airport Operating Business at the New Chitose Airport, unless otherwise stated) until the day preceding the 30th anniversary of the date the Operating Right was granted (hereinafter referred to as the "Operating Right Establishment Date"), or if the Airport Operating Business Period is extended pursuant to 2.(6)B), until the date of expiration of such extended period (hereinafter referred to as the "Airport Operating Business Expiration Date").

The Building Facility Business Period means the period from the date of commencement of the Building Facilities Business (hereinafter referred to as the "Building Facility Business Commencement Date") upon fulfillment of the conditions

precedent to commencement as set out in the Project Agreement, including acquisition by the Operating Right Holder of the Building Facility Operator Shares, until the Airport Operating Business Expiration Date.

Therefore, the period of the Project (hereinafter referred to as the “Project Period”) shall be the period from the Building Facility Business Commencement Date until the Airport Operating Business Expiration Date².

Please refer to Chapter 5: 1(2)A) for the future specific schedule of the business commencement at each airport.

B) Extension of the Airport Operating Business Period

If any of the events set out in the Project Agreement occurs, the Operating Right Holder may request that the Airport Operating Business Period and the Building Facility Business Period (hereinafter collectively referred to as the “Airport Operating Business Period, etc.”) be extended. In this case, if the State finds that it is necessary for the Operating Right Holder to recover the damage, additional expenses, etc., incurred by the Operating Right Holder due to the occurrence of such event, the Airport Operating Business Period, etc., may be extended, upon consultation between the State and the Operating Right Holder, for a period agreed upon by both parties within the limit specified in 2.(6)C) (such extension of the period is hereinafter referred to as the “Agreed Extension”). To avoid misunderstanding, the Agreed Extension may be made more than once.

In addition, aside from the Agreed Extension above, if any of the events set out in the Project Agreement occurs and the State notifies the Operating Right Holder of its desire to extend the period by the corresponding date of four years before the Airport Operating Business Expiration Date, the Airport Operating Business Period, etc., may be extended to the Airport Operating Business Expiration Date of another Airport Operating Business of other three airports in Hokkaido (meaning the project specified in 2.(10)F) that occurs at the latest point within the limit specified in 2.(6)C) (such extension of a period shall hereinafter be referred to as the “Public Extension Option”). It should be noted that the Public Extension Option may be exercised only once.

Except for the Agreed Extension and the Public Extension Option, no extension of the Airport Operating Business Period, etc., is permitted.

² The Airport Operating Business Expiration Date pertaining to Asahikawa Airport, Obihiro Airport and Memanbetsu Airport shall be the same as that of the Airport Operation of the Four National Airports in Hokkaido.

C) The duration of the Operating Right

The duration of the Operating Right (hereinafter referred to as the “Initial Duration of the Operating Right”) shall be the period from the Operating Right Establishment Date until the day preceding the 30th anniversary thereof.

The duration of the Operating Right shall not be beyond the day preceding the 35th anniversary of the Operating Right Establishment Date, including where the Airport Operating Business Period, etc. specified in 2.(6)B) is extended (this limit shall be recorded on the registry of the Rights to Operate a Public Facilities, etc.)³.

The duration of the Operating Right shall expire on the Airport Operating Business Expiration Date and the Operating Right shall also expire on this date.

(7) Project methods

A) Methods of granting, etc., the Operating Right and acquisition of the Assets for Transfer to the Operating Right Holder

The Preferred Negotiation Right Holder who has been selected through the procedure stipulated in Chapter 5: 1.(2) and has entered into the Basic Agreement (meaning the Basic Agreement defined in Chapter 5: 1.(4)A); the same shall apply hereinafter) with the State shall incorporate an SPC whose sole purpose is to carry out the Project.

The State shall grant the Operating Right to the SPC with respect to the Facilities Subject to the Operating Right (meaning the Facilities Subject to the Operating Right in 5.(1); the same shall apply hereinafter) and the SPC shall become the Operating Right Holder. The Operating Right Holder shall enter into the Project Agreement with the State, and, by the Airport Operating Business Scheduled Commencement Date (for Wakkanai Airport, Kushiro Airport and Hakodate Airport, the date of commencement of the Airport Operating Business pertaining to each airport), shall complete the succession of the businesses and acquire the movables required for the implementation of the Project (hereinafter referred to as the “Assets for Transfer to the Operating Right Holder” and agreements relating to such transfer are hereinafter referred to as the “Goods Transfer Agreement”).

Some of the parking facilities will have been owned and operated by the parking facility operator (Airport Environment Improvement Foundation) as of the Operating Right Establishment Date and will be included in the Facilities Subject to Operating Right upon transfer of its ownership from the parking facility operator to the State on the date of commencement of the Airport Operating Business.

³ For example, if the Operating Right Establishment Date is October 1, 2019, the date of expiration of the Initial Duration of the Operating Right shall be September 30, 2049, and even though the Airport Operating Business Period is extended, the date of expiration of it shall be no later than September 30, 2054.

In addition, the current parking facility operator for the A Parking Facility and the C Parking Facility of New Chitose Airport (Chitose Tourist Association) has entered into a business acquisition option agreement with the State in which the price for transferring the parking business is set at 0.731 billion yen⁴, and it has been agreed that the contractual status of the State under that agreement including the right to complete the transfer of the parking business thereunder will be transferred to the Operating Right Holder. The Operating Right Holder shall acquire from the State the right to complete the transfer under the business acquisition option agreement (meaning the business acquisition option agreement as amended) and exercise such right, thereby acquiring the A Parking Facility and the C Parking Facility. The parking business will be included in the Facilities Subject to the Operating Right upon the State's acquiring the parking business on the date of commencement of the Airport Operating Business.

B) Methods for acquiring the Building Facility Operator Shares and fueling facility operator shares

The Operating Right Holder shall acquire the Building Facility Operator Shares from the shareholders by the scheduled date of commencement of the Building Facility Business. The Operating Right Holder shall also acquire the fueling facility operator shares from the shareholders by the scheduled date of commencement of the Airport Operating Business (meaning the scheduled date of commencement of the Airport Operating Business at the New Chitose Airport, unless otherwise stated). The shareholders of the Building Facility Operator and the shareholders of the fueling facility operator shall hereinafter be referred to as the "Shareholders of the Building Facility Operator, etc."

With respect to the methods for transferring the shares mentioned above, a share acquisition option agreement in which the price for transferring the Building Facility Operator Shares among all of the shares held by the Shareholders of the Building Facility Operator, etc., is set at 17,669 million yen (hereinafter referred to as the "Building Facility Operator Share Acquisition Option Agreement") and a share acquisition option agreement in which the price for transferring the fueling facility operator shares among all of the shares held by such shareholders is set at 936 million yen (hereinafter referred

⁴ Even after the acquisition of the parking business of the A Parking Facility and the C Parking Facility, the Operating Right Holder shall continuously hire employees who engage in such parking business under conditions that do not substantially fall below the employment conditions concluded at the time of acquisition of said business, unless the circumstances are exceptional. In addition, when the Operating Right Holder modifies the employment conditions of such employees after the acquisition of such business, applicable labor-related laws and regulations must be complied with. It should be noted that because the employment contracts, etc., to be transferred were not determined at the time of conclusion of the business acquisition option agreement, the State plans to amend the acquisition option agreement once the employment contracts, etc., to be transferred are determined.

to as the “Fueling Facility Operator Share Acquisition Option Agreement”) was entered into between the State and such shareholders (the breakdown of the transfer price of each share is indicated in the table below). It has been agreed that the contractual status of the State under these agreements, including the right to complete the transfer of the Building Facility Operator Shares and the fueling facility operator shares based on the agreements, shall be transferred to the Operating Right Holder.

Building Facility Operator	Transfer price ⁵
New Chitose Airport Terminal Building Co., Ltd.	10,200 million yen
Sapporo International Air Cargo Terminal Co., Ltd.	1,528 million yen
Wakkanai Airport Building Co., Ltd.	651 million yen
Kushiro Airport Terminal Building Co., Ltd.	921 million yen
Hakodate Airport Terminal Building Co., Ltd.	4,369 million yen
Fueling facility operator (New Chitose Airport only)	Transfer price ⁶
Chitose Airport Fuelling Facilities Co., Ltd.	936 million yen

The Operating Right Holder shall acquire from the State the right to complete the share transfer under the Building Facility Operator Share Acquisition Option Agreement and the Fueling Facility Operator Share Acquisition Option Agreement and exercise such right, thereby acquiring the Building Facility Operator Shares and the fueling facility operator shares. Please note that since this is made through the transfer of the shares, the agreements, etc., entered into by the Building Facility Operator and its employees and by the fueling facility operator and its employees will be succeeded by the Operating Right Holder unless the circumstances are exceptional⁷.

The State shall assume no responsibility for the performance of the agreements by any person related to the Building Facility Operator Share Acquisition Option Agreement and the Fueling Facility Operator Share Acquisition Option Agreement.

C) Treatment of the Building Facilities and fueling facilities

In order to secure a preferred right of the State to purchase the Building Facilities and

⁵ The stated transfer prices are the agreed transfer prices as of the announcement of the Application Guidelines.

⁶ The stated transfer prices are the agreed transfer prices as of the announcement of the Application Guidelines.

⁷ Even after the acquisition of the Building Facility Operator Shares and the fueling facility operator shares, the Operating Right Holder shall continuously hire employees of the Building Facility Operator and the fueling facility operator under conditions that do not substantially fall below the employment conditions concluded at the time of acquisition of said shares, unless the circumstances are exceptional. In addition, when the Operating Right Holder modifies the employment conditions of employees of the Building Facility Operator and/or the fueling facility operator after the acquisition of the Building Facility Operator Shares and the fueling facility operator shares, applicable labor-related laws and regulations must be complied with.

the fueling facilities upon expiration of the Airport Operating Business Period, the Operating Right Holder shall, after the Building Facility Business Commencement Date and without delay for the Building Facilities and after the date of commencement of the Airport Operating Business and without delay for the fueling facilities, have the Building Facility Operator and the fueling facility operator enter into a purchase option agreement concerning the Building Facilities and the fueling facilities with the State in which the State shall have an option to purchase. The purchase price of the Building Facilities and the fueling facilities under the purchase option agreement shall be their market price (which shall be determined by the method set out in the Project Agreement).

The Building Facility Operator shall make a provisional registration of the right of the State to claim the transfer of ownership of the Building Facilities based on the purchase option agreement, at the expense of the Operating Right Holder or the Building Facility Operator. This provisional registration shall preserve priority over other rights (including, but not limited to, security) created on the Building Facilities.

D) Treatment upon expiration of the Project Period

The Operating Right and other matters will be treated as follows when the Project ends because the Project Period has effectively lapsed:

(i) Operating Right

The Operating Right shall expire on the Airport Operating Business Expiration Date.

(ii) Assets, etc., of the Operating Right Holder

The Operating Right Holder shall transfer the Facilities Subject to the Operating Right to the State, or a third party designated by the State, on the Airport Operating Business Expiration Date or on a later day designated by the State.

In addition, the State or a third party designated by the State may purchase⁸, at market value⁹, any asset which is held by the Operating Right Holder or its subsidiary or affiliate (hereinafter collectively referred to as the “Operating Right Holder’s

⁸ The Operating Right Holder may request the State to set up an opportunity of hearing of opinions regarding the scope of purchase of the expansion investments pertaining to the Non-Operating Right Facilities as of the Airport Operating Business Expiration Date to be conducted by the Operating Right Holder during the Airport Operating Business Period.

⁹ The calculation method for the market value shall be conducted through fair procedures such as determination based on the market value calculation method agreed upon through consultation between the valuation expert designated by the State or the third-party designated by the State (the valuation expert designated by the State if a new implementer is selected through a bid after expiration of the Project Period), the valuation expert designated by the Operating Right Holder and the third-party valuation expert agreed upon by these experts. The calculation shall be conducted so that the market value of the entire project will be appropriately distributed in view of the interdependence of the Facilities Subject to the Operating Right and the facilities of which the Operating Right Holder and the Operating Right Holder’s Subsidiary, etc., holds ownership.

Subsidiary, etc.”) if the State or the third party deems it necessary. If the State selects a new implementer of the Project through a bid, the State shall make it a condition for participating in such bidding that the implementer shall purchase the whole or a part of such assets at market value, from the Operating Right Holder or the Operating Right Holder’s Subsidiary, etc.

The Operating Right Holder and the Operating Right Holder’s Subsidiary, etc., are responsible to dispose of all assets held by the Operating Right Holder and the Operating Right Holder’s Subsidiary, etc., for carrying out the Project, excluding those to be purchased by the State or a third party designated by the State.

With respect to the Airport Site, etc. (as defined in 2(10)A)(ii)i)), the National Property, etc., Free Lease Agreement shall be terminated on the Airport Operating Business Expiration Date and the Operating Right Holder shall, in general, clear the Airport Site, etc., at its own expense and transfer them to the State or a third party designated by the State. However, if any asset to be purchased by the State or a third party designated by the State existing on the Airport Site (meaning the Airport Site located at the address as defined in 5.(2)(A); the same shall apply hereinafter), the portion of the Airport Site on which such asset exists shall be transferred on an as is basis.

(iii) Succession of the businesses

In general, the Operating Right Holder shall hand over the businesses to the State or a third party designated by the State within the Airport Operating Business Period and shall be responsible for properly handing over such businesses and for ensuring that the Project is smoothly succeeded by them at its own expense. Any personnel expenses and other related costs incurred for such handover by the Operating Right Holder, the State or a third party designated by the State shall be borne individually.

(8) Setting and collecting usage fees with respect to the Project

The Operating Right Holder may, or may have the Building Facility Operator or the fueling facility operator, set usage fees and collect them as income at their respective discretion as follows: (i) with respect to the landing fees, etc. (Article 13, paragraph (1) of the Airport Act) stipulated in Article 2, paragraph (5), item (i) of the Private Utilization Airport Operation Act, the fees for using the airport air navigation facilities stipulated in Article 2, paragraph (5), item (ii) of the Private Utilization Airport Operation Act and the passenger (service) facility charge stipulated in Article 16, paragraph (1) of the Airport Act, necessary approval, etc., shall be obtained and necessary notification, etc., shall be submitted as required by the respective Acts; (ii) with respect to the fees for using the

parking facilities and the fees to be collected from air carriers, tenants of the Building Facilities and others for using the facilities, the procedures under the related laws and regulations stated in 2.(5) shall be followed; and (iii) with respect to other fees pertaining to the Project, it shall be confirmed that it is not prohibited by laws, regulations, etc., to collect these fees as its own income.

(9) Bearing of costs for the Project

The Operating Right Holder shall be liable for any and all costs incurred for the implementation of the Project unless otherwise specifically set out in the Project Agreement.

(10) Scope of the Project¹⁰

The scope of the Airport Operating Business shall be as listed in A) through to D) below and the scope of the Building Facilities Business and the scope of the Airport Operating Business of other three airports in Hokkaido and the Airport Operating Business of the other airports shall be as listed in E), F) and G) below (for the specifics of each Business, please refer to the Required Standards Document (draft) I.2.5). During the Project Period the Operating Right Holder may or may have the Building Facility Operator entrust or give a contract to a third party (including the Operating Right Holder's Subsidiary, etc.), with prior notice to the State, to carry out any business included in the Project except for entrusting prohibited businesses set out in the Project Agreement.

For the detailed terms and conditions for implementing the Project, including the restrictions and procedures to be observed by the Operating Right Holder in entrusting such businesses, please refer to the Project Agreement (draft) and the Required Standards Document (draft).

- A) Airport Operating, etc., Business (Article 2, paragraph (5), item (i) of the Private Utilization Airport Operation Act)
 - (i) Basic airport facilities, etc., activities
 - i) Maintenance and administration of basic airport facilities etc.
 - ii) Operation of the basic airport facilities, etc.
 - iii) Setting of the landing fees, etc., and notification of the fees to the Minister of Land, Infrastructure, Transport and Tourism (Article 8, paragraph (2) of the Private Utilization Airport Operation Act), as well as collection of the fees¹¹

¹⁰ See the Allocation of Businesses in the compilation of related materials for the allocation of activities between the State and the Operating Right Holder at the Airport concerning the Airport Operating Business.

¹¹ For the following cases, the landing fees, etc., shall not be collected.

- (ii) Airport Site, etc., administration activities
 - i) Administration of the Airport Site of the Four National Airports in Hokkaido and the incidental facilities notified under Article 46 of the Civil Aeronautics Act (hereinafter collectively referred to as the “Airport Site, etc.”)
- B) Airport Air Navigation Facility Operating, etc., Business (Article 2, paragraph (5), item (ii) of the Private Utilization Airport Operation Act, and Article 13 of the Airport Act)¹²
 - (i) Maintenance and administration of the airport air navigation facilities
 - (ii) Operation of the airport air navigation facilities
 - (iii) Setting of the fees for using the airport air navigation facilities and notification of the fees to the Minister of Land, Infrastructure, Transport and Tourism (Article 7, paragraph (3) of the Private Utilization Airport Operation Act, Article 54 of the Civil Aeronautics Act), as well as collection of the fees
- C) Environmental measures business^{13 14 15}
 - (i) The businesses stipulated in the Noise Prevention Act (Article 2, paragraph (5),

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- (i) The landing fees, etc., when an aircraft that is being used for diplomatic or official purposes uses the Airport.
 - (ii) The landing fees, etc., when an aircraft lands on the Four National Airports in Hokkaido for a test flight, lands due to compelling circumstances after it took off without landing at another airport or place, makes an emergency landing due to compelling circumstances, or lands pursuant to an order for air traffic control or administrative reasons.
 - (iii) The landing fees, etc., in other cases where the fees shall not be collected as stipulated in the MLIT Public Notice on Fees for Using the Airports Established and Administrated by the Minister of Land, Infrastructure, Transport and Tourism.

¹² Includes maintenance, administration and operation of the aeronautical lights installed by the State outside of the airports with permissions and approvals from the relevant local governments. The State shall ensure that permissions and approvals for the operation are being maintained.

¹³ At present, New Chitose Airport, Wakkanai Airport and Kushiro Airport are not designated as specified airports under the Noise Prevention Act. For this reason, the environmental measures business to be carried out by the State is not carried out at each of the above airports; however, the Operating Right Holder shall carry out a survey of the actual situation of aircraft noise and other surveys in accordance with the Required Standards Document, because there might be a possibility that the airport will be designated as a specified airport under the Noise Prevention Act based on a Cabinet Order. In addition, the necessary environmental measures business will be required to be carried out in the case of such designation.

¹⁴ Hakodate Airport is designated as a specified airport under the Noise Prevention Act; accordingly, the Operating Right Holder shall implement the environmental measures business within the range of the areas subject to noise-reduction measures under the Noise Prevention Act. However, if the areas subject to noise-reduction measures have been revised due to changes in the airport operations based on a management decision by the Operating Right Holder or any other circumstances, the environmental measures business shall be implemented in the areas subject to noise-reduction measures after the revision. It should be added that the designation of the class 2 area and the class 3 area has been removed following the revisions to the areas subject to noise-reduction measures (effective since October 1, 2013); as such, there is no land subject to compensation for development, management and transfer of, or purchase of green zones and other buffer zones.

¹⁵ The aircraft noise measuring devices for which the State has obtained permissions and approvals from the local governments and that the State has installed outside of the Hakodate Airport shall be owned by the Operating Right Holder as the Assets for Transfer to the Operating Right Holder, and the Operating Right Holder shall carry out the environmental measures business therefor. The State shall ensure that permissions and approvals for the installation of such devices are being maintained.

item (iii) of the Private Utilization Airport Operation Act)

- (ii) Other businesses for preventing problems arising from operating aircraft, including noise, or for improving the living environment in the areas surrounding the Airport (Article 2, paragraph (5), item (iv) of the Private Utilization Airport Operation Act)

D) Other incidental businesses (Article 2, paragraph (5), item (v) of the Private Utilization Airport Operation Act)¹⁶

- (i) Activities and services which the Operating Right Holder shall be responsible for carrying out

The Operating Right Holder shall be responsible for carrying out the following activities and services.

- i) Establishment, etc., of regulations
- ii) Airport Site, etc., lease business¹⁷
- iii) Parking facility business
- iv) Bearing of costs for preventive measures against aircraft hijacking, etc.
- v) Attendance at the Council

- (ii) Businesses and services proposed by the Preferred Negotiation Right Holder¹⁸

- i) Businesses and services related to enhancement and strengthening of the air transport networks of the Four National Airports in Hokkaido
- ii) Businesses and services related to enhancement and strengthening of the air transport network in Hokkaido
- iii) Businesses and services related to the promotion of wide-area tourism in Hokkaido
- iv) Businesses and services for a symbiotic relationship with local communities

¹⁶ The measures for the local communities associated with the around-the-clock operation at New Chitose Airport are planned to be steadily carried out even after the entrustment of the operation to the private sector through collaboration among Hokkaido Government, related city offices, and NEF24. On the one hand, taking into account the fact that the smooth operation at the airport is ensured based on the understanding and cooperation of people living around the airport, the relevant local governments plan to request the Operating Right Holder to pay a certain amount of money among the total amount of the cost for soundproofing measures for residential homes that are part of the measures for the local communities currently carried out in association with the around-the-clock operation. The details will be presented at the time of announcement of the Application Guidelines, etc. For details, please refer to the disclosed materials.

¹⁷ Regarding the land and constructions, etc., on the land that will be continuously used by the State and any person designated by the State, the Operating Right Holder shall lease to them or shall have them use such land and constructions, etc., on the land based on the terms and conditions specified in the Project Agreement (draft).

¹⁸ The businesses and services to be proposed shall be limited to those implemented by the Operating Right Holder (including those that the Operating Right Holder causes a third party to implement while the Operating Right Holder assuming the contractual liabilities).

E) Building Facilities Business

In addition to the businesses included in the Building Facilities Business, which the Operating Right Holder is responsible for implementing, the Operating Right Holder may during the Airport Operating Business Period, or may have the Building Facility Business Operator during the Project Period, at its own discretion, conduct any business or service which it deems necessary within the Airport Site to the extent that such business or service complies with the related laws and regulations, does not interfere with the function of the Airport, does not fall under the amusement business or other similar business, or an office of an organized crime group or other similar office, and is not offensive to public policy. The Operating Right Holder or the Operating Right Holder's Subsidiary, etc., may carry out any business activity outside of the Airport Site, from which they earn revenue, etc., from third parties (however, excluding those activities listed in 2.(10)F) and G), upon approval of the State.¹⁹

Any company funded by the Preferred Negotiation Right Holder, excluding the Operating Right Holder and the Operating Right Holder's Subsidiary, etc., may conduct, at its own discretion, any business outside of the Airport Site.

(i) Passenger Building Facility business

- i) The Operating Right Holder shall, or shall have the Building Facility Operator, be designated by the Minister of Land, Infrastructure, Transport and Tourism as the person who shall carry out the airport function facility business under Article 15 of the Airport Act for each airport, and assume the obligation to implement the passenger building facility business:
- ii) The Operating Right Holder may, or may have the Building Facility Operator, operate directly-managed stores, etc. in the Passenger Building Facilities at its own discretion.

(ii) Cargo Building Facility business

- i) The Operating Right Holder shall, or shall have the Building Facility Operator, be designated by the Minister of Land, Infrastructure, Transport and Tourism as the person who shall carry out the airport function facility business under Article 15 of the Airport Act for each airport, and assume the obligation to implement the cargo building facility business:
- ii) The Operating Right Holder may, or may have the Building Facility Operator, provide distribution processing service, etc. in the Cargo Building Facilities at its own discretion:

¹⁹ Such approval shall be subject to consultation among the Four Administrators. For details of approval, please refer to the disclosed materials.

- (iii) Fueling facility business (limited to New Chitose Airport)
- (iv) Aircraft fueling service business ²⁰
- (v) Optional businesses in the Airport Site ²¹

F) Airport Operating Business of other three airports in Hokkaido

As described in 2.(3), the State plans to entrust the private sector to integrally operate the Seven Airports in Hokkaido from the perspective of, among other factors, raising the level of marketing capabilities of each airport and enhancing the aviation network and thereby leading to the revitalization of the regional economy which includes the promotion of wide-area tourism in cooperation with the region. Accordingly, the Airport Operating Business pertaining to Asahikawa Airport, Obihiro Airport and Memanbetsu Airport shall be positioned as the Airport Operating Business of other three airports in Hokkaido.

G) Airport Operating Business of the other airports

If the administrator of an airport in Hokkaido other than Asahikawa Airport, Obihiro Airport and Memanbetsu Airport intends to have a third party operate the airport under its control, the Operating Right Holder may negotiate with the administrator of that airport in Hokkaido.

(11) Structure of the Required Standards Document (draft)

The Operating Right Holder must place the greatest priority on securing the safety of air transport among all the activities in the course of providing the Airport Operation. The State shall establish required standards for ensuring that the Operating Right Holder properly carries out the maintenance and administration businesses, conducts the operating businesses contributing to the safety of air transport, properly implements the environmental measures business, and carries out investments contributing to improve the convenience of airport users. Please note that regarding the matters concerning the services in “IV-1. Parking Facility Business” as well as “V-1. Passenger Building Facility Business and Cargo Building Facility Business” and “V-2. Fueling Facility Business” set forth in the Required Standards Document (draft) I.3.1, the State shall set out the minimum necessary

²⁰ During the period in which the Operating Right Holder leases the land to an aircraft fueling and related services business operator and such operator provides the aircraft fueling service at the Four National Airports in Hokkaido, the Operating Right Holder does not have an obligation to provide such service by itself.

²¹ During the period in which the Operating Right Holder leases the land to an aircraft fueling and related services business operator and such operator provides the aircraft fueling service at the Four National Airports in Hokkaido, the Operating Right Holder does not have an obligation to provide such service by itself.

matters in advance, and their details shall be set out with reflecting the matters proposed by the applicant who has been selected as the Preferred Negotiation Right Holder in the required standards. The same manner shall be applied to the matters concerning the required standards for “IV-3. Businesses and Services Related to Enhancement and Strengthening of the Air Transport Networks of the Four National Airports in Hokkaido,” “IV-4. Businesses and Services Related to Enhancement and Strengthening of the Air Transport Networks in Hokkaido” “IV-5. Businesses and Services Related to Promotion of the Wide-Area Tourism” and “IV-6. Businesses and Services for a Symbiotic Relationship with Local Communities.”

- (12) Rights and assets, etc., to be obtained and succeeded by the Operating Right Holder
 - A) Assets to be obtained by the Operating Right Holder prior to the Building Facility Business Commencement Date
 - (i) Building Facility Operator Shares
 - The shares issued by the Building Facility Operator (See 2.(7)B))
 - B) Rights and assets to be obtained and succeeded by the Operating Right Holder prior to the date of commencement of the Airport Operating Business
 - (i) Operating Right²²
 - The rights to be created on the Airport Site, runways, taxiways, aprons, aeronautical lights, roads and parking facilities, water and sewage facilities, rainwater drainage facilities, water sources for fire defense, fences surrounding the Airport, garages for fire engines, garages for snow removers, lights on roads and parking areas, the power supply facility and the devices inside it, electricity lines, and others
 - (ii) Rights to use the Airport Site, etc.
 - The rights to use the Airport Site, etc., under the National Property, etc., Free Lease Agreement (for Wakkanai Airport, Kushiro Airport and Hakodate Airport, to be obtained by the date of commencement of the Airport Operating Business for each airport)
 - (iii) Assets for Transfer to the Operating Right Holder²³

²² For the specifics of the Operating Right, see the List of Facilities Subject to Operating Rights in the compilation of related materials. The content of the List of Facilities Subject to Operating Rights is current as of the end of fiscal 2016, and will be updated by the State before the conclusion of the Project Agreement as stated in Chapter 5: 1(4)B) and will also be updated by the date of commencement of the Airport Operating Business pursuant to the Project Agreement.

²³ For the specifics of the Assets for Transfer to the Operating Right Holder, see the List of Assets for Transfer to the Operating Right Holder in the compilation of related materials. The content of the List of Assets for Transfer to the Operating Right Holder is current as of the end of fiscal 2016, and will be updated by the State

- The Assets for Transfer to the Operating Right Holder necessary for operating the businesses (including fire engines, snow removers, etc.) (for Wakkanai Airport, Kushiro Airport and Hakodate Airport, to be obtained by the date of commencement of the Airport Operating Business for each airport)

(iv) Fueling facility operator shares

- The shares issued by the fueling facility operator (See 2.(7)B))

(13) Treatment of replacement investment, etc.

A) Treatment of replacement investment, etc., for the Facilities Subject to the Operating Right

- The Operating Right Holder may, at its own discretion, carry out maintenance on and administration (replacement investment) of the Facilities Subject to Operating Right as long as they meet the required standards.²⁴ However, if the Operating Right Holder intends to carry out certain maintenance and administration (replacement investment) set out in the Project Agreement, such as material changes stipulated in Article 43 of the Civil Aeronautics Act, it shall obtain prior approval of the State. The Operating Right Holder may not construct (new investment) or rehabilitate the Facilities Subject to the Operating Right.²⁵
- The State may carry out maintenance and administration (replacement investment) on the Facilities Subject to the Operating Right if the State determines such maintenance and administration is necessary on public interest grounds.
- Any of the Facilities Subject to the Operating Right for which maintenance and administration (replacement investment) has been carried out by the State or the Operating Right Holder shall belong to the State and the operation, etc., of the facility shall be carried out by the Operating Right Holder.

B) Treatment of replacement investment, etc., for Non-Operating Right Facilities

- The Operating Right Holder may, at its own discretion, carry out investment (not limited to maintenance and administration (replacement investment)) for the

before the commencement of transfer procedures as stated in Chapter 5: 1.(4)B) and Chapter 5: 1.(4)I).

²⁴ The State shall bear the costs, at the time of the expiration of the Project Period, for those investments among the expansion investments pertaining to the Facilities Subject to the Operating Right made by the Operating Right Holder for which certain requirements ((i) the collection during the Project Period is difficult and (ii) the State determines that the remaining value of the expansion investments can be expected at the time of the expiration of the business and the budget has been provided based on the calculation method agreed upon by the State and the Operating Right Holder in advance) specified in the Project Agreement are fulfilled.

²⁵ See Exhibit 1 for the scope of the maintenance and administration of the Facilities Subject to the Operating Right by the Operating Right Holder.

Non-Operating Right Facilities (as defined in 5.(1)) as long as they meet the required standards in general.^{26 27}

(14) Planning and reporting

A) Planning

- With respect to the Project, the Operating Right Holder shall prepare a project plan for the entire Airport Operating Business Period (Master Plan) and a mid-term project plan for every five fiscal years and a single year project plan for every fiscal year and submit them to the State.
- It shall contain investment plans aimed at ensuring safety and operating stability and improving convenience.
- The Operating Right Holder shall carry out the Project in accordance with the submitted plans.

B) Reporting

- During the Airport Operating Business Period, the Operating Right Holder shall prepare the reports, etc., set out in the Project Agreement and submit them to the State.

(15) Dispatch, etc., of personnel from the State to the Operating Right Holder in relation to the Airport Operating Business

The Operating Right Holder may, if so desires, request that the State dispatch its personnel in relation to the Airport Operating Business. The job categories, the number of people to be dispatched, the dispatch period and other details shall be determined through competitive dialogue. The anticipated job categories are listed below. Personnel expenses required in connection with the dispatch of personnel are based on the standards of the State and shall be borne by the Operating Right Holder. Other details such as working terms shall be specified in an arrangement to be entered into between the appointer of the personnel of the State and the Operating Right Holder prior to the scheduled date of commencement of the Airport Operating Business (for Wakkanai Airport, Kushiro Airport and Hakodate Airport, the scheduled date of commencement of the business for each

²⁶ However, when the Operating Right Holder, or the Building Facility Operator, carries out work on the Building Facilities requiring rearrangement or the new construction of the facilities related to customs, immigration and quarantine (hereinafter referred to as the “CIQ Facilities”), prior approval of the State shall be obtained for such work.

²⁷ The Operating Right Holder may request the State to set up an opportunity of hearing of opinions regarding the scope of purchase of the expansion investments pertaining to the Non-Operating Right Facilities as of the Airport Operating Business Expiration Date to be conducted by the Operating Right Holder during the Airport Operating Business Period.

airport).

- Air traffic services flight information officers
- Aeronautical light and electrical engineers
- Facility operation administration officers (officers for civil engineering and for machines)
- Personnel for air transport security and disaster prevention
- Personnel for environmental measures (limited to Hakodate Airport)

(16) Considerations for the Operating Right, etc., of the Project to be paid by the Operating Right Holder

The Operating Right Holder shall pay the following consideration, etc.²⁸

- (i) Consideration for the acquisition of the Building Facility Operator Shares, the fueling facility operator shares and the parking business described in the Building Facility Operator Share Acquisition Option Agreement, the Fueling Facility Operator Share Acquisition Option Agreement and the business acquisition option agreement;
- (ii) Consideration for the acquisition of the Assets for Transfer to the Operating Right Holder under the Goods Transfer Agreement
- (iii) Consideration for the grant of the Operating Right under the Project Agreement
- (iv) Revenue-linked contributions

With regard to consideration (i) above, the Operating Right Holder shall directly pay to the Shareholders of the Building Facility Operator, etc., and the parking business operator the amount and by the method specified in the Building Facility Operator Share Acquisition Option Agreement, the Fueling Facility Operator Share Acquisition Option Agreement and the business acquisition option agreement on the future date specified by itself at the time of exercising the right to complete the share transfer and the business transfer.

With regard to consideration (ii) above, the Operating Right Holder shall pay to the State the amount and by the method determined in accordance with the procedures in Chapter 5: 1.(4)I). The consumption taxes and local consumption taxes shall be separately paid at the time of such payments.

Consideration (iii) above shall be comprised of the following two types:

- i. consideration to be paid in a lump sum by the due date specified by the State, prior to the scheduled date of commencement of the Airport Operating Business (hereinafter referred to as the “Lump-sum Operating Right

²⁸ The currency to be used for the payments shall be the Japanese yen.

Consideration Payment”); and

- ii. consideration to be paid by the due date specified by the State in each fiscal year during the Airport Operating Business Period (hereinafter referred to as the “Installment Operating Right Consideration Payment”).

Consideration i. above, which is a proposal in the Proposal Documents, the Operating Right Holder shall make a lump-sum payment to the State of the consideration by the date designated by the State after the conclusion of the Project Agreement. The minimum amount to be proposed for the consideration shall be 0 yen and the State only accepts a proposal for an amount more than said amount.

With regard to consideration ii. above, the payment amount shall be 2.4 billion yen per fiscal year (the fixed amount for each fiscal year).

The consumption taxes and local consumption taxes shall be separately paid at the time of such payments. In addition, when the State intends to collect such considerations, it shall do so upon consultation with the Minister of Finance.

With regard to consideration (iv) above, if the current number of takeoff-and-landing slots at New Chitose Airport is expanded in the future, the amount calculated by applying the formula specified in the Project Agreement to the actual number in excess of 42 times of takeoffs and landings per hour at New Chitose Airport shall be paid to the State as the revenue-linked contributions. The payment of the revenue-linked contributions shall be made by the due date specified by the State, in the fiscal year following the fiscal year subject to the calculation²⁹. The consumption taxes and local consumption taxes shall be separately paid at the time of such payments.

Unless otherwise separately set out in the Project Agreement, the State will not return or reduce the consideration, etc., to the Operating Right Holder in (ii) through (iv) above.

²⁹ It shall mean the fiscal year of the State starting from April 1 of a year and ending on March 31 of the following year.

3. Matters concerning the Bidding

Matters concerning the Bidding are presented in Chapter 5.

4. Matters for ensuring the proper and stable implementation of the Project such as clarification of the responsibilities of the Private Business Operator

(1) Conditions precedent to the Airport Operating Business

The main conditions specific to the Airport Operating Business are specified below.

Applicants shall submit their statements of participation upon agreeing to these conditions.

With respect to these conditions, the concrete rights to be granted on and the concrete obligations to be assumed by the Operating Right Holder and other matters are set out in the Project Agreement (draft), the Required Standards Document (draft), compilation of related materials, etc.

A) Succession of agreements, etc.

Among the agreements, etc., entered into by the State for the operation, etc., of the basic airport facilities, the airport air navigation facilities and the Airport Site etc., those designated by the State shall be succeeded by the Operating Right Holder on and after the date of commencement of the Airport Operating Business (for Wakkanai Airport, Kushiro Airport and Hakodate Airport, the date of commencement of the Airport Operating Business pertaining to each airport).

B) Obligation to lease the land, etc.

The Operating Right Holder shall have an obligation to lease the land, etc., designated by the State in the Airport Site, for which the State has given permission to third parties to use, on and after the date of commencement of the Airport Operating Business (for Wakkanai Airport, Kushiro Airport and Hakodate Airport, the date of commencement of the Airport Operating Business pertaining to each airport) on the conditions specified by the State.

In addition, with respect to the land, etc., for which the State has given permission to third parties to use for the purposes of constructing and installing the structures (such as conduct lines and bridge piers), utility poles, etc., prior to the commencement of the Airport Operating Business, the Operating Right Holder shall have such third parties use the land, etc., in a way meeting the respective usages of such third parties on and after the date of commencement of the Airport Operating Business (for Wakkanai Airport, Kushiro Airport and Hakodate Airport, the date of commencement of the Airport Operating Business pertaining to each airport).

C) Construction work that the State plans to implement after the commencement of the Airport Operating Business

The State has a plan to implement construction work for the runway end safety area (hereinafter referred to as the “RESA”) in the future as the measures for responding to the need of expanding the RESA following the revision to the “Criteria for Installing Civil Engineering Facilities in Airports” in April 2013.³⁰ The Operating Right Holder shall not have an obligation to meet the required standards for the maintenance and administration of the relevant RESA until the work is completed.

This construction work shall be implemented by the State³¹ and the Operating Right Holder shall cooperate in the smooth implementation of the work to the maximum extent possible while maintaining and administering the existing facilities. It should be noted that the Operating Right Holder shall be responsible for the maintenance and administration of the facilities and the Airport Sites that were added as a result of the work as the Facilities Subject to the Operating Right.

D) Collaboration with the Chitose Air Base of the Air Self-Defense Force

The Operating Right Holder will be required to provide smooth collaboration in the operation of New Chitose Airport so as to avoid interference with the activities by the Self-Defense Forces, etc., in the Chitose Air Base.

(2) Basic idea of allocation of risks

Proper allocation of roles and risks will be determined by the State and the Operating Right Holder. Taking into account that the Operating Right Holder may establish and collect landing fees, etc., and other usage fees at its own discretion in general in order for the Operating Right Holder to exercise its autonomy and show its originality and ingenuity in implementing the Project, any risk associated with the Project (including risks relating to a change in airport demand) shall be borne by the Operating Right Holder unless otherwise specifically set out in the Project Agreement etc. In addition, as described in 1., the Seven Airports in Hokkaido are planned to be managed integrally by the SPC incorporated by the single Preferred Negotiation Right Holder, and the Operating Right Holder shall also bear the risks associated with the Airport Operating Business of other three airports in Hokkaido. For details on cases in which the State shall bear risks as an exception to the rule, please refer to the Project

³⁰ The work for Wakkanai Airport is planned to be completed by the date of commencement of the Airport Operating Business for the airport.

³¹ In this case, the State and the relevant local governments shall bear the costs pursuant to the provisions of the Airport Act.

Agreement (draft).

(3) Matters for ensuring the performance of the Operating Right Holder's responsibilities

In order to confirm whether the Operating Right Holder is properly and stably carrying out the businesses set out in the Project Agreement, etc., and meeting the required standards, as well as to understand the financial condition of the Operating Right Holder, the State is planning to conduct monitoring³², in addition to the self-monitoring to be performed by the Operating Right Holder.

If it is found that the Operating Right Holder fails to meet the required standards, the State may request that the Operating Right Holder take improvement measures or other measures.³³

For the concrete method of monitoring and other related matters, please refer to the Project Agreement (draft).

(4) Restrictions on the rights and obligations, etc., of the Operating Right Holder and related procedures

A) Disposition of the Operating Right

The Operating Right Holder shall not transfer, pledge or otherwise dispose of the Operating Right, its status under the Project Agreement, any contractual statuses under the agreements entered into with the State concerning the Project or the rights and obligations under these agreements, without prior written consent of the State; however, the Operating Right Holder may transfer the Operating Right with prior approval of the State based on Article 26, paragraph (2) of the PFI Act. The State shall provide this approval upon consultation with the Minister of Finance and other heads of relevant administrative agencies.³⁴

When the State approves the transfer of the Operating Right, the following conditions shall be attached as a minimum.

(i) The transferee shall submit a letter of consent to the State, which states that the

³² In cases where the Seven Airports in Hokkaido are integrally operated, the entity to conduct the monitoring shall be, as a general rule, each administrator. However, a framework shall be adopted in which the content and frequency of monitoring by and the format, content and frequency of reporting to each administrator are standardized in order to mitigate the burden of the Operating Right Holder.

³³ A framework in which opinions from third-party experts are obtained when there exist discrepancies between the recognitions of the Operating Right Holder and the State on the content of the monitoring shall be put in place. For details, see the disclosed documents.

³⁴ Approval of the disposition of the Operating Right shall be subject to consultation among the Four Administrators. For details of approval, please refer to the disclosed materials.

transferee shall succeed the contractual status of the Operating Right Holder under the Project Agreement with respect to the Project and the Project Agreement shall be binding on the transferee.

- (ii) All assets and contractual statuses owned by the Operating Right Holder and necessary for the implementation of the Project shall be transferred to the transferee.
- (iii) The shareholders of the transferee shall submit to the State the shareholders' covenant documents set out in the Basic Agreement (hereinafter referred to as the "Shareholder's Covenant Document").
- (iv) The State acknowledges that the transferee of the Operating Right implements (or is expected to implement) the Airport Operating Business of other three airports in Hokkaido (limited to cases where the Operating Right Holder also implements the Airport Operating Business of other three airports in Hokkaido).

If the Operating Right Holder, the Building Facility Operator and the fueling facility operator intend to create a security interest in the Operating Right for borrowing money from a financial institution, etc., in order to raise funds necessary for implementing the Project, the State shall not refuse the creation of a security interest without reasonable reasons; however, an agreement concerning the matters set out in the Project Agreement, etc., shall be entered into between the State and the financial institution, etc.

B) New Issuance and Disposition of Shares by the Operating Right Holder

The shares which the Operating Right Holder may issue are limited to common shares with voting rights to vote on all items for resolution at the shareholders meeting of the Operating Right Holder (hereinafter referred to as the "Voting Shares") in accordance with the procedures set out in the Project Agreement and the shares of a kind which have no voting rights to vote on any items for resolution at the shareholders meeting of the Operating Right Holder (hereinafter referred to as the "Non-Voting Shares").

In order to ensure quick and flexible fund raising, the State shall not, in general and in accordance with the procedures set out in the Project Agreement, be involved in the new issuance or transfer of Non-Voting Shares issued by the Operating Right Holder, or the creation of a pledge or other security on these shares (hereinafter collectively referred to as the "Disposition").

For details, please refer to the Project Agreement (draft) and the Basic Agreement (draft).

5. Matters concerning location, size and placement of public facilities etc.

(1) Facilities subject to the Project

The facilities subject to the Project are listed below. The facilities listed in (iii), (iv), (vii) and (x) are referred to as the “Non-Operating Right Facilities” and the other facilities are referred to as the “Facilities Subject to Operating Right.”

- (i) Basic airport facilities (runways, landing strip, taxiways, aprons, etc.)
- (ii) Airport air navigation facilities (aeronautical light facilities)
- (iii) Passenger Building Facilities (air passenger facilities, offices and shops, as well as other similar facilities, resting facilities, observation facilities, facilities for tours, etc.)³⁵
- (iv) Cargo Building Facilities (air cargo handling facilities etc.)^{36 37}
- (v) Roads
- (vi) Parking facilities
- (vii) Fueling facilities (limited to New Chitose Airport)
- (viii) Airport Site
- (ix) Facilities incidental to the above facilities (civil engineering facilities, construction (including the garages for fire engines and the garages for snow removers), machine facilities, power facilities (including the power supply facility), etc.)
- (x) Facilities other than those listed in (i) through to (ix), which are owned by the Operating Right Holder, the Building Facility Operator or the fueling facility operator

(2) Project location

A) Location etc.

The location and area of the Airport Site notified in accordance with Article 46 of the Civil Aeronautics Act applied mutatis mutandis under Article 55-2, paragraph (3) of the same Act are as follows:

- (i) New Chitose Airport
 - i) Location
Bibi, Chitose City, Hokkaido
 - ii) Area subject to the Project

³⁵ The Operating Right Holder shall have the obligation to lease the CIQ Facilities in the Passenger Building Facilities owned by itself.

³⁶ There are no Cargo Building Facilities in Wakkanai Airport.

³⁷ The Operating Right Holder shall have the obligation to lease the CIQ Facilities in the Cargo Building Facilities owned by itself.

Approximately 728 ha

(ii) Wakkanai Airport

i) Location

Koetoimura, Wakkanai City, Hokkaido

ii) Area subject to the Project

Approximately 99 ha

(iii) Kushiro Airport

i) Location

Tsuruoka, Kushiro City, Hokkaido

ii) Area subject to the Project

Approximately 160 ha

(iv) Hakodate Airport

i) Location

Takamatsu-cho, Hakodate City, Hokkaido

ii) Area subject to the Project

Approximately 164 ha

B) Lease of the Airport Site, etc.

All the Airport Sites, etc., is the national property stipulated in Article 2 and Article 4 of the Supplementary Provisions of the National Property Act and categorized into the administrative assets stipulated in Article 3, paragraph (2) of this Act. Taking into account that the Operating Right Holder may lease part of the Airport Site, etc., to third parties, etc., in implementing the Project, the State shall allow the Operating Right Holder to use the Airport Site, etc., during the Airport Operating Business Period under the terms and conditions set out in the National Property Free Lease Agreement.

With respect to the permission granted to the Building Facility Operator to use the sites of the Passenger Building Facilities and the Cargo Building Facilities, the State shall ensure the permission continues during the period from the Building Facility Business Commencement Date until the day preceding the date of commencement of the Airport Operating Business (for Wakkanai Airport, Kushiro Airport and Hakodate Airport, the date of commencement of the Airport Operating Business pertaining to each airport).

C) Businesses to be carried out outside of the Airport Site

The Operating Right Holder is required to carry out the businesses listed in 2.(10)A) through to D) which are included in the Project, even outside of the Airport Site.

The Operating Right Holder may not, or may not have the Operating Right Holder's

Subsidiary, etc., carry out the businesses listed in 2.(10)E), F) and G) outside of the Airport Site if approved by the State upon prior consultation with the State.³⁸

For details, please refer to the Project Agreement (draft).

³⁸ Such approval shall be subject to consultation among the Four Administrators. For details of approval, please refer to the disclosed materials.

6. Matters concerning actions to take when it becomes difficult to continue the Project

(1) Actions to take when events occur which make it difficult to continue the Project

If any event occurs which makes the Project difficult to continue, the Project Agreement shall be terminated. In this case, the Operating Right Holder shall have the obligation to cooperate in taking over the Project until the Project is succeeded by the State or a third party designated by the State in accordance with the Project Agreement. The assets, etc., of the Operating Right Holder shall be treated in the same manner mentioned in 2.(7)D)(ii). For details of the allocation of responsibility for specific damage, etc., arising from each event that triggers termination of the Project Agreement, please refer to the Project Agreement (draft).

(2) Consultation between the State and a financial institution or banking syndicate

From the perspective of maintaining the stable continuation of the Project and the integrated operation of the Seven Airports in Hokkaido to the extent possible, with respect to certain matters set out in the Project Agreement, the State may if it deems necessary, consult with a financial institution or banking syndicate which provides finance for the Operating Right Holder and enter into an agreement directly with the financial institution or banking syndicate.

7. Other

(1) Cancellation of the Bidding and rescission of selection of the Qualified Project

If the State determines that it is inappropriate to implement the Project, the State shall cancel the Bidding without selecting a Preferred Negotiation Right Holder even after the commencement of the bidding and shall rescind the selection of the Qualified Project for the Airport Operating Business.

In this case, the State shall publish the decision on the website of the Civil Aviation Bureau of the MLIT and by other appropriate means.

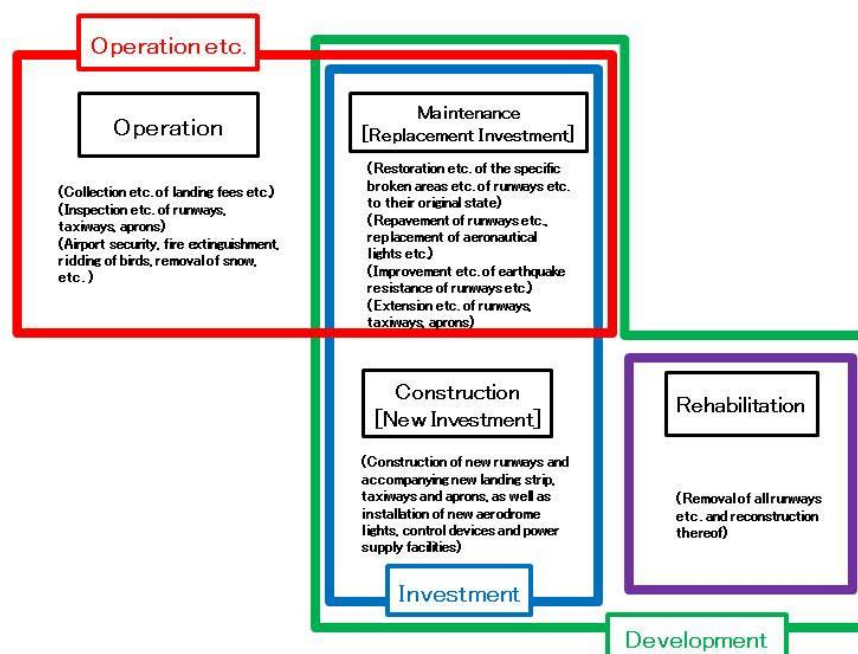
(2) Provision of information

The information concerning the Project will be provided from time to time on the following website:

Website of the Civil Aviation Bureau of the MLIT

(<http://www.mlit.go.jp/koku/>)

Exhibit 1. Organizing with the terms used in the PFI Act



The definition of the terms based on the PFI Act and the Guidelines Concerning the Right to Operate Public Facilities, etc., and Public Facilities, etc., Operating Project (“PFI Guidelines for the Operating Right”)

- Operation etc.: means operation and maintenance (Article 2, paragraph (6) of the PFI Act)
- Maintenance: capital expenditures or repairs (including so-called alterations and improvements and large-scale repairs) excluding new constructions or entirely removing and redeveloping facilities, etc. (PFI Guidelines for the Operating Right)
- Construction: to create a new facility (new construction) (PFI Guidelines for the Operating Right)
- Rehabilitation: to entirely remove and redevelop facilities, etc. (PFI Guidelines for the Operating Right)
- Investment: Replacement investment means “maintenance” and new investment means “construction” (PFI Guidelines for the Operating Right)

Exhibit 2. Treatment of accounting and tax affairs in relation to the Project

(i) Practical Solution on Operators' Accounting for the Concession-based Private Finance Initiative Projects (Accounting Standards Board of Japan)

See the website of the Financial Accounting Standards Foundation at:

https://www.asb.or.jp/wp-content/uploads/pfi_2017_1.pdf

(ii) Treatment under the Corporation Tax Act of replacement investment to be implemented in accordance with a project agreement to implement Right to Operate Public Facilities, etc., under the Private Utilization Airport Operation Act

See the website of the National Tax Agency at:

<http://www.nta.go.jp/shiraberu/zeiho-kaishaku/bunshokaito/hojin/141118/index.htm>

(iii) Handling of Consumption Taxes relating to Setting the Right to Operate Public Facilities, etc., in Concession Projects

See the website of the National Tax Agency at:

<https://www.nta.go.jp/shiraberu/zeiho-kaishaku/shitsugi/shohi/12/07.htm>

Chapter 2 Asahikawa Airport Edition

Application Guidelines on the Project, etc., for the Operation of Asahikawa Airport

April 25, 2018

Asahikawa City Government

1. Introduction

The Asahikawa City Government (hereinafter collectively referred to as the “City”) is planning to select a Preferred Negotiation Right Holder to implement the Project, etc., for the Operation of the Airport (hereinafter referred to as the “Project”) at Asahikawa Airport (hereinafter referred to as the “Airport”), for the purpose of integrally managing the operation, etc., of a specific local airport (including the businesses stipulated in Article 2, paragraph (6), items (ii) through (iv) of the Private Utilization Airport Operation Act for the specific local airport to the extent that the landing fees, etc., are collected as its own revenues) pursuant to Article 14 of the Supplementary Provisions of the Private Utilization Airport Operation Act (hereinafter referred to as the “Airport Operating Business”) and the building facilities business pertaining to its terminal buildings, as well as appoint a special purpose company (hereinafter referred to as the “SPC”) incorporated by the Preferred Negotiation Right Holder, as the operator of the Airport (meaning the operator of a Local Airport stipulated in Article 14 of the Supplementary Provisions of the Private Utilization Airport Operation Act; hereinafter referred to as the “operator”) and enter into the Agreement regarding the Project, etc., for the Operation of Asahikawa Airport (hereinafter referred to as the “Project Agreement”) in order to implement the Project.

In addition, the Civil Aviation Bureau and the East Japan Civil Aviation Bureau of the Ministry of Land, Infrastructure, Transport and Tourism (hereinafter referred to as the “State”), the Obihiro City Government and the Hokkaido Government are planning to implement a similar project in which aviation activities pertaining to the runway, etc., and the Building Facilities Business are integrally managed at New Chitose Airport, Wakkanai Airport, Kushiro Airport and Hakodate Airport (hereinafter referred to as the “Four National Airports in Hokkaido”) and Obihiro Airport and Memanbetsu Airport, which they administer.

A single Preferred Negotiation Right Holder is planned to be selected for these seven airports in Hokkaido (the Airport, Four National Airports in Hokkaido, Obihiro Airport and Memanbetsu Airport; hereinafter referred to as the “Seven Airports in Hokkaido”) in light of the background and purposes specified in 2.(3) and have an SPC incorporated by the Preferred Negotiation Right Holder to integrally manage the Seven Airports in Hokkaido.

These Application Guidelines shall be applied to the selection of a Preferred Negotiation Right Holder of the Project by a publicly-tendered proposal method which is a type of competitive negotiated agreement planned by the City (hereinafter referred to as the “Bidding”). These Application Guidelines shall be applied from the date of publication the Application Guidelines until the date of conclusion of the Project Agreement, and shall be binding on the parties to the Project Agreement even after the date of conclusion of the Project Agreement.

Please note that the City may set out in the Project Agreement or other documents the matters

regarding the Project that are agreed upon through competitive dialogue, etc., between the City and the Preferred Negotiation Right Holder held in the Bidding.

2. Matters concerning details of the Project

(1) Administrator of the Airport

Masahito Nishikawa, Asahikawa City Mayor

(2) Unit in Charge

Asahikawa Airport Office, Department of Regional Promotion, Asahikawa City Government (hereinafter referred to as the “Unit in Charge”)

Address: 15-96, Higashi 2-sen, Higashikagura-cho, Kamikawa-gun, Hokkaido

Tel: 0166-83-2745

Email: airportoffice@city.asahikawa.lg.jp

The following advisors (hereinafter referred to as the “Bidding Advisors”) shall be appointed in regards to administrative affairs conducted by the Unit in Charge in the Bidding.

(i) Ernst & Young ShinNihon LLC

(ii) Kansai Law & Patent Office

(iii) Ernst & Young Transaction Advisory Services Co., Ltd.

(iv) Docon Co., Ltd.

Documents to be submitted to Bidding Advisors¹ under these Application Guidelines shall be sent to the following.

To: Ernst & Young ShinNihon LLC

Secretariat of Seven Airports in Hokkaido, Infrastructure Advisory Group

Address: Hibiya International Building, 2-2-3, Uchisaiwai-cho, Chiyoda-ku, Tokyo 100-0011

Tel: 03-3503-1557

Email: hokkaido7@jp.ey.com

(3) Background and purposes of the Project

The Airport is a specific local airport located roughly in the center of Hokkaido.

The number of passengers in fiscal 2016, which marked the 50th anniversary of its opening, was approximately 1.12 million, of which the number of passengers for the domestic routes was 1,006,000 and that for the international routes was 116,000; the airport enjoys the third-largest number of users following New Chitose Airport and

¹ Bidding Advisors are selected in each fiscal year. The selection for fiscal 2019 will be performed separately.

Hakodate Airport among the airports in Hokkaido. The number of international passengers of the Airport has sharply grown in recent years, showing an increase of almost five times that of fiscal 2012.

Surrounded by the “Daisetsuzan mountain range,” which is called Kamui Mintara (the Playground of the Gods) by the Ainu people with awe and affection, “Mt. Asahi” that boasts the highest peak in Hokkaido, “Shirogane Onsen” that stands close to the cloud of gas from volcanic Mt. Tokachi, time-honored hot springs in “Sounkyo Onsen,” “Biei” the town of fields and hills, “Furano” the town with the scent of lavenders, and many more, the Airport is adjacent to various popular scenic spots in Northern Hokkaido. In addition, the Airport is located approximately 16 km from Asahikawa City, the second-largest city in Hokkaido and the hub of Northern Hokkaido, and functions as an urban airport. Because of the location and environment, the Airport has long played a role as a hub for the economy, culture and tourism of the Northern Hokkaido region centered around Asahikawa. The City envisions a community brimming with energy and vibrancy where the economy develops dynamically, created through the further vitalization of the Airport and its strengthened role as a hub.

The Airport also has a role as a hub for wide-area tourism in Hokkaido. While Hokkaido is promoting initiatives to make it a tourism-oriented prefecture, the Airport is potentially capable of contributing to the vitalization of the airport network in Hokkaido and of the area as a whole, utilizing such functions as an alternative airport to New Chitose Airport, a core airport in Hokkaido, taking advantage of its transportation accessibility, as a key place for transportation toward the Okhotsk area and Tokachi area and as a junction of the two wide-area touring routes for tourists traveling around “Northern Hokkaido” and “Eastern Hokkaido.” The Airport is required to perform such functions at its full potential.

In addition, given that the Airport is administered by the City, it is also necessary to reduce the burden on the citizens by improving its operational efficiency, profit-making capability, etc. The City has implemented “outsourcing of the general maintenance and administration operations” as part of its administrative and fiscal reform initiatives since fiscal 2007, which was earlier than any other airports in Japan. The administration of the airport facilities has been comprehensively entrusted to private business operators under the initiatives, and up until today, the third fiscal year since the implementation, certain results have been achieved in terms of reducing the burden on the citizens through efficiency improvement of the airport operations. It may also be noted that extension work for the international passenger terminal is slated to be completed in fiscal 2018 by the airport building company, while additional measures to strengthen the airport functions are planned with an eye toward a further increase in the number of passengers.

However, under the current service entrustment system, the basic airport facilities, etc.,

administered by the City and the Passenger Building Facilities, Cargo Building Facilities, parking facilities, etc., owned by the Building Facility Operator (meaning the Building Facility Operator of the Airport, unless otherwise stated; hereinafter the same shall apply in this Chapter) are separately operated from the perspective of management, and the unified and agile management of the Airport as a whole has yet to be achieved, with issues to be addressed to realize its potential.

Against this background, in order to have the Airport realize the desirable form and play its role, the City aims to realize the unified and agile management of the Airport by a private business operator under the Private Utilization Airport Operation Act, as one of the airports subject to the Qualified Project, etc., for Airport Operation in Hokkaido.

(4) Application Guidelines, etc.

These Application Guidelines and documents attached hereto shall be composed of the documents listed in (i) through to (x) below (together with supplementary materials (meaning supplementary materials set out in Chapter 5: 1.(2)K); hereinafter the same shall apply), as well as answers to questions to be published on the City's website or by other appropriate means and other documents to be issued by the City in relation to those documents, hereinafter collectively referred to as the "Application Guidelines, etc.," and if any amendments have been made, the documents reflecting the amendments shall prevail). The documents listed in (i) through to (ix) are conditions precedent for preparing documents to be submitted for the first screening (hereinafter referred to as the "First Screening Proposal Documents") and those for the second screening (hereinafter referred to as the "Second Screening Proposal Documents"), as well as other documents to be submitted for any screenings in relation to the implementation of the Project (hereinafter referred to as the "Proposal Documents"). The documents listed in (i) through to (vii) shall be binding on the parties to the Project Agreement when it is concluded.

In addition, supplementary materials to be published for the selection of the Preferred Negotiation Right Holder shall constitute a part of the Application Guidelines, etc., and all supplementary materials (excluding the referential materials) shall be binding on the parties to the Project Agreement when it is concluded, unless otherwise specified.

- (i) Application Guidelines on the Qualified Project, etc., for Airport Operation of the Seven Airports in Hokkaido (hereinafter referred to as the "Application Guidelines")
- (ii) Agreement regarding the Project, etc., for Operation of Asahikawa Airport (draft) (hereinafter referred to as the "Project Agreement (draft)")
- (iii) Basic Agreement regarding the Project, etc., for the Operation of Asahikawa Airport (draft) (hereinafter referred to as the "Basic Agreement (draft)")
- (iv) Free Lease Agreement with respect to National Property, etc., for the Project, etc., for

the Operation of Asahikawa Airport (draft) (hereinafter referred to as the “Local Government’s Property, etc., Free Lease Agreement (draft)”)²

- (v) Goods Transfer Agreement with respect to the Project, etc., for the Operation of Asahikawa Airport (draft) (hereinafter referred to as the “Goods Transfer Agreement (draft)”)
- (vi) Required Standards Document for the Project, etc., for the Operation of Asahikawa Airport (draft) (hereinafter referred to as the “Required Standards Document (draft)”)
- (vii) Compilation of related materials
- (viii) Selection Criteria for the Preferred Negotiation Right Holder for the Qualified Project, etc., for Airport Operation of the Seven Airports in Hokkaido (hereinafter referred to as the “Selection Criteria for the Preferred Negotiation Right Holder”)
- (ix) Forms for the Qualified Project, etc., for Airport Operation of the Seven Airports in Hokkaido and directions to complete the forms (hereinafter referred to as the “Forms and Directions”)
- (x) Referential materials

If there are any discrepancies between these Application Guidelines, etc. and the Implementation Policy on the Project, etc., for the Operation of Asahikawa Airport (published on March 29, 2018; hereinafter referred to as the "Implementation Policy"), the provisions of these Application Guidelines, etc. shall prevail; provided, however, that matters not set forth in the Application Guidelines, etc. shall be governed by the Implementation Policy.

- (5) Anticipated governing laws, etc., for the implementation of the Project

The implementation of the Project shall be governed by the PFI Act, the Private Utilization Airport Operation Act and the Basic Policies on Operation of National Airports Utilizing Skills of the Private Sector (MLIT Public Notice No. 1080 of 2013), as well as various related laws and regulations, etc. set forth in the Required Standards Document (draft) I .-3.2.

² The agreements will be concluded respectively with respect to city-owned land and national government land.

(6) Project period

A) The period of the Project

The period of the Project is the period in which the operator carries out the Airport Operating Business based on the Operation Appointment (hereinafter referred to as the “Airport Operating Business Period”) and the period in which the operator carries out the Building Facilities Business (hereinafter referred to as the “Building Facility Business Period”) after its acquisition of the shares issued by the Building Facility operator (hereinafter referred to as the “Building Facility operator Shares”), prior to the implementation of the Airport Operating Business.

The Airport Operating Business Period means the period from the date of commencement of the Airport Operating Business upon fulfillment of the conditions precedent to the commencement as set out in the Project Agreement (meaning the date of commencement of the Airport Operating Business (hereinafter referred to as the “Airport Operating Business Commencement Date”) until the day preceding the 30th anniversary of the date the Operation Appointment was granted (hereinafter referred to as the “Operation Appointment Date”), or if the Airport Operating Business Period is extended pursuant to 2.(6)B), until the date of expiration of such extended period (hereinafter referred to as the “Airport Operating Business Expiration Date”).

The Building Facility Business Period means the period from the date of commencement of the Building Facilities Business (hereinafter referred to as the “Building Facility Business Commencement Date”) upon fulfillment of the conditions precedent to commencement as set out in the Project Agreement, including acquisition by the operator of the Building Facility operator Shares, until the Airport Operating Business Expiration Date.

Therefore, the period of the Project (hereinafter referred to as the “Project Period”) shall be the period from the Building Facility Business Commencement Date until the Airport Operating Business Expiration Date³.

B) Extension of the Airport Operating Business Period

If any of the events set out in the Project Agreement occurs, the operator may request that the Airport Operating Business Period and the Building Facility Business Period (hereinafter collectively referred to as the “Airport Operating Business Period, etc.”) be extended. In this case, if the City finds that it is necessary for the operator to recover the damage, additional expenses, etc., incurred by the operator due to the occurrence of such event, the Airport Operating Business Period, etc., may be extended,

³ The Airport Operating Business Expiration Date pertaining to the Four National Airports, Obihiro Airport and Memanbetsu Airport shall be the same as that of the Operation of Asahikawa Airport.

upon consultation between the City and the operator, for a period agreed upon by both parties within the limit specified in 2.(6)C) (such extension of the period is hereinafter referred to as the “Agreed Extension”). To avoid misunderstanding, the Agreed Extension may be made more than once.

In addition, aside from the Agreed Extension above, if any of the events set out in the Project Agreement occurs and the City notifies the operator of its desire to extend the period by the corresponding date of four years before the Airport Operating Business Expiration Date, the Airport Operating Business Period, etc., may be extended to the Airport Operating Business Expiration Date of another Airport Operating Business in Hokkaido (meaning the project specified in 2.(10)F) that occurs at the latest point within the limit specified in 2.(6)C) (such extension of a period shall hereinafter be referred to as the “Public Extension Option”)⁴. It should be noted that the Public Extension Option may be exercised only once.

Except for the Agreed Extension and the Public Extension Option, no extension of the Airport Operating Business Period, etc., is permitted.

C) The duration of the Operation Appointment

The duration of the Operation Appointment (hereinafter referred to as the “Initial Duration of the Operation Appointment”) shall be the period from the Operating Establishment Date until the day preceding the 30th anniversary thereof.

The duration of the Operation Appointment shall not be beyond the day preceding the 35th anniversary of the Operation Appointment Date, including where the Airport Operating Business Period, etc. specified in 2.(6)B) is extended (this limit shall be recorded on the registry of the Rights to Operate a Public Facilities, etc.)⁵.

The duration of the Operation Appointment shall terminate on the Airport Operating Business Expiration Date.

(7) Project methods

A) Methods of granting, etc., the Operation Appointment and acquisition of the Assets for Transfer to the operator

The Preferred Negotiation Right Holder who has been selected through the procedure stipulated in Chapter 5: 1.(2) and has entered into the Basic Agreement

⁴ It is contemplated that the City will bear replacement investments and other expenses to the extent necessary (in terms of subject, scope, etc.) in the event that the self-sufficient operation of the Airport is deemed impracticable during the Public Extension Option period.

⁵ For example, if the Operation Appointment Date is October 1, 2019, the date of expiration of the Initial Duration of the Operation Appointment shall be September 30, 2049, and even though the Airport Operating Business Period is extended, the date of expiration of it shall be no later than September 30, 2054.

(meaning the Basic Agreement defined in Chapter 5: 1.(4)A); the same shall apply hereinafter) with the City shall incorporate an SPC whose sole purpose is to carry out the Project.

The City shall grant the Operation Appointment to the SPC with respect to the Facilities Subject to the Operation Appointment (meaning the Facilities Subject to the Operation Appointment in 5.(1); the same shall apply hereinafter) and the SPC shall become the operator. The operator shall enter into the Project Agreement with the City, and, by the Airport Operating Business Scheduled Commencement Date, shall complete the succession of the businesses and acquire the movables required for the implementation of the Project (hereinafter referred to as the “Assets for Transfer to the operator” and agreements relating to such transfer are hereinafter referred to as the “Goods Transfer Agreement”).

B) Method for acquiring the Building Facility operator Shares

The operator that has entered into the Project Agreement shall acquire the Building Facility operator Shares from the shareholders (hereinafter be referred to as the “Shareholders of the Building Facility operator”) by the scheduled date of commencement of the Building Facility Business (as stipulated in the Project Agreement (draft)).

With respect to the methods for transferring the shares mentioned above, a share acquisition option agreement in which the price for transferring all of the shares held by the Shareholders of the Building Facility operator (approximately 78.4 percent of the issued and outstanding shares), is set at 417,088,000 yen (hereinafter referred to as the “Building Facility operator Share Acquisition Option Agreement”) was entered into between the City and the Shareholders of the Building Facility operators⁶. It has been agreed that the contractual status of the City under this agreement, including the right to complete the transfer of the Building Facility operator Shares, shall be transferred to the operator.

The operator shall acquire from the City the right to complete the share transfer under the Building Facility operator Share Acquisition Option Agreement and exercise such right and shall obtain the Building Facility operator Shares held by the City, thereby acquiring the Building Facility operator Shares. Please note that since this is made through the transfer of the shares, the agreements, etc., entered into by the Building Facility operator and its employees will be succeeded by the operator unless the

⁶ The terms and conditions for the transfer of the Building Facility operator Shares held by the City (21.6 percent of the issued and outstanding shares) shall be equivalent to those of the Building Facility operator Share Acquisition Option Agreement, with the transfer price being 114,912,000 yen.

circumstances are exceptional⁷.

The City shall assume no responsibility for the performance of the agreements by any person related to the Building Facility operator Share Acquisition Option Agreement.

C) Treatment of the Building Facilities

In order to secure a preferred right of the City to purchase the Building Facilities upon expiration of the Airport Operating Business Period, the operator shall, after the Building Facility Business Commencement Date and without delay, have the Building Facility operator enter into a purchase option agreement concerning the Building Facilities with the City in which the City shall have an option to purchase. The purchase price of the Building Facilities under the purchase option agreement shall be their market price (which shall be determined by the method set out in the Project Agreement).

The Building Facility operator shall make a provisional registration of the right of the City to claim the transfer of ownership of the Building Facilities based on the purchase option agreement, at the expense of the operator or the Building Facility operator. This provisional registration shall preserve priority over other rights (including, but not limited to, security) created on the Building Facilities.

D) Treatment upon expiration of the Project Period

The Operation Appointment and other matters will be treated as follows when the Project ends because the Project Period has effectively lapsed:

(i) Operation Appointment

The duration of the Operation Appointment shall terminate on the Airport Operating Business Expiration Date.

(ii) Assets, etc., of the operator

The operator shall transfer the Facilities Subject to the Operation Appointment to the City, or a third party designated by the City, on the Airport Operating Business Expiration Date or on a later day designated by the City.

In addition, the City or a third party designated by the City may purchase, at market value ⁸, any asset which is held by the operator or its subsidiary or affiliate (hereinafter collectively referred to as the “operator’s subsidiary, etc.”) if the City or the third party

⁷ Even after the acquisition of the Building Facility Operator Shares, the operator shall continuously hire employees of the Building Facility Operator under conditions that do not substantially fall below the employment conditions concluded at the time of acquisition of said shares, unless the circumstances are exceptional. In addition, when the operator modifies the employment conditions of employees of the Building Facility Operator after the acquisition of the Building Facility Operator Shares, applicable labor-related laws and regulations must be complied with.

⁸ For details of the calculation method for the market value, please refer to the Project Agreement (draft).

deems it necessary⁹. If the City selects a new implementer of the Project through a bid, the City shall make it a condition for participating in such bidding that the implementer shall purchase the whole or a part of such assets at market value, from the operator or the operator's subsidiary, etc.

The operator and the operator's subsidiary, etc., are responsible to dispose of all assets held by the operator and the operator's subsidiary, etc., for carrying out the Project, excluding those to be purchased by the City or a third party designated by the City.

With respect to the Airport Site, etc. (as defined in 2.(10)A)(ii)i)), the Local Government's Property, etc., Free Lease Agreement shall be terminated on the Airport Operating Business Expiration Date and the operator shall, in general, clear the Airport Site, etc., at its own expense and transfer them to the City or a third party designated by the City. However, if any asset to be purchased by the City or a third party designated by the City existing on the Airport Site (meaning the Airport Site located at the address as defined in 5.(2)A); the same shall apply hereinafter), the portion of the Airport Site on which such asset exists shall be transferred on an as is basis.

(iii) Succession of the businesses

In general, the operator shall hand over the businesses to the City or a third party designated by the City within the Airport Operating Business Period and shall be responsible for properly handing over such businesses and for ensuring that the Project is smoothly succeeded by them at its own expense. Any personnel expenses and other related costs incurred for such handover by the operator, the City or a third party designated by the City shall be borne individually.

(8) Setting and collecting usage fees with respect to the Project

The operator may, or may have the Building Facility operator, set usage fees and collect them as income at their respective discretion as follows: (i) with respect to the landing fees, etc. (Article 13, paragraph (1) of the Airport Act) stipulated in Article 14, paragraph (1) of the Supplementary Provisions of the Private Utilization Airport Operation Act, the fees for using the airport air navigation facilities and the passenger (service) facility charge, necessary approval, etc., shall be obtained and necessary notification, etc. shall be submitted as required by the respective Acts and the Asahikawa City Airport Administration Ordinance; (ii) with respect to the fees for using the parking facilities and

⁹ The operator may request the City to set up an opportunity of hearing of opinions regarding the scope of purchase of the expansion investments pertaining to the Non-Operating Right Facilities as of the Airport Operating Business Expiration Date to be conducted by the operator during the Airport Operating Business Period.

the fees to be collected from air carriers, tenants of the Building Facilities and others for using the facilities, the procedures under the related laws and regulations stated in 2.(5) shall be followed; and (iii) with respect to other fees pertaining to the Project, it shall be confirmed that it is not prohibited by laws, regulations, etc., to collect these fees as its own income.

(9) Bearing of costs for the Project

The operator shall be liable for any and all costs incurred for the implementation of the Project unless otherwise specifically set out in A) and B) below or the Project Agreement.

A) Bearing of the costs for replacement investment

(i) Basic idea for the bearing of costs

The operator shall stipulate in the replacement investment plan the content of and costs for replacement investment pertaining to Facilities Subject to the Operation Appointment (excluding extensions). The City shall enter into a replacement investment agreement with the operator annually pursuant to the replacement investment plan and shall pay the costs for replacement investment within the scope stipulated in A) (ii) below.

(ii) Scope of the bearing of costs

The operator shall propose to the City in the proposal the total amount of the costs for replacement investment and the annual breakdown borne by the City within the upper limit set by the City. The City shall pay the costs for replacement investment in accordance with the replacement investment agreements, subject to the proposed total amount. The consumption taxes and local consumption taxes shall be separately paid by the City at the time of such payments.

The upper limit set by the City shall be 9,978 million yen (excluding consumption taxes and local consumption taxes) in total.

B) Bearing of the costs for operation

(i) Basic idea for the bearing of costs

The City shall pay the costs for operation of the Project (including replacement investment for vehicles) within the scope stipulated in the Project Agreement.

(ii) Scope of the bearing of costs

The operator shall propose to the City in the proposal the total amount of the costs for operation of the Project and the annual breakdown borne by the City within the upper limit set by the City. The City shall pay the proposed annual costs in accordance with the procedure stipulated in the Project Agreement. The consumption taxes and local consumption taxes shall be separately paid by the City

at the time of such payments.

The upper limit set by the City shall be 4,465 million yen in total (excluding consumption taxes and local taxes). The annual upper limit of payment shall be 308 million yen (excluding consumption taxes and local taxes).

(10) Scope of the Project ¹⁰

The scope of the Airport Operating Business shall be as listed in A) through to D) below and the Building Facilities Business and the scope of the Airport Operating Business of the other six airports in Hokkaido and the other Airport Operating Business shall be as listed in E), F) and G) below. During the Project Period the operator may or may have the Building Facility operator or the fueling facility operator, entrust or give a contract to a third party (including the operator's subsidiary, etc.), with prior notice to the City, to carry out any business included in the Project except for entrusting prohibited businesses set out in the Project Agreement.

For the detailed terms and conditions for implementing the Project, including the restrictions and procedures to be observed by the operator in entrusting such businesses, please refer to the Project Agreement (draft) and the Required Standards Document (draft).

- A) Airport Operating, etc., Business (Article 14 of the Supplementary Provisions of the Private Utilization Airport Operation Act)
 - (i) Basic airport facilities, etc., activities
 - i) Maintenance and administration of basic airport facilities etc.
 - ii) Operation of the basic airport facilities, etc.
 - iii) Setting of the landing fees, etc., and notification of the fees to the Minister of Land, Infrastructure, Transport and Tourism (Article 14, paragraph (9) of the Supplementary Provisions of the Private Utilization Airport Operation Act), as well as collection of the fees¹¹
 - (ii) Airport Site, etc., administration activities
 - i) Administration of the Airport Site of the Airport and the incidental facilities notified under Article 46 of the Civil Aeronautics Act (hereinafter collectively

¹⁰ See the Allocation of Businesses in the compilation of related materials for the allocation of activities between the City and the operator at the Airport concerning the Airport Operating Business.

¹¹ For the following cases, the landing fees, etc., shall not be collected.

- (i) The landing fees, etc., when an aircraft that is being used for diplomatic or official purposes uses the Airport, and when an aircraft lands and parks pursuant to an order for air traffic control or administrative reasons.
- (ii) The landing fees, etc., when an aircraft lands on Asahikawa Airport for a test flight, lands due to compelling circumstances after it took off without landing at another airport or place, makes an emergency landing due to compelling circumstances, or lands pursuant to an order for air traffic control or other administrative reasons
- (iii) The cases where the landing fees, etc., shall not be collected as stipulated in the Asahikawa City Airport Administration Ordinance

referred to as the “Airport Site, etc.”)

- B) Airport Air Navigation Facility Operating, etc., Business (Article 14 of the Supplementary Provisions of the Private Utilization Airport Operation Act)¹²
 - (i) Maintenance and administration of the airport air navigation facilities
 - (ii) Operation of the airport air navigation facilities
 - (iii) Setting of the fees for using the airport air navigation facilities and notification of the fees to the Minister of Land, Infrastructure, Transport and Tourism (Article 14, paragraph (9) of the Supplementary Provisions of the Private Utilization Airport Operation Act, Article 54 of the Civil Aeronautics Act), as well as collection of the fees
- C) Environmental measures business
 - (i) Businesses for preventing problems arising from operating aircraft, including noise, or for improving the living environment in the areas surrounding the Airport (Article 14 of the Supplementary Provisions of the Private Utilization Airport Operation Act)
- D) Other incidental businesses (Article 14 of the Supplementary Provisions of the Private Utilization Airport Operation Act)
 - (i) Activities and services which the operator shall be responsible for carrying out
The operator shall be responsible for carrying out the following activities and services.
 - i) Establishment, etc., of regulations
 - ii) Airport Site, etc., lease business ¹³
 - iii) Parking facility business
 - iv) Bearing of costs for preventive measures against aircraft hijacking, etc.
 - v) Airport park business
 - vi) Attendance at the Council
 - (ii) Businesses and services proposed ¹⁴ by the Preferred Negotiation Right Holder

¹² Includes maintenance, administration and operation of the aeronautical lights installed by the City outside of the airports with permissions and approvals from the relevant local governments. The City shall ensure that permissions and approvals for the operation are being maintained.

¹³ Regarding the land and constructions, etc., on the land that will be continuously used by the City and any person designated by the City, the operator shall lease to them or shall have them use such land and constructions, etc., on the land based on the terms and conditions specified in the Project Agreement (draft).

¹⁴ The businesses and services to be proposed shall be limited to those implemented by the operator (including those that the operator causes a third party to implement while the operator assuming the contractual liabilities).

- i) Businesses and services related to enhancement and strengthening of the air transport networks of the Airport
- ii) Businesses and services related to enhancement and strengthening of the air transport network in Hokkaido
- iii) Businesses and services related to the promotion of wide-area tourism in Hokkaido
- iv) Businesses and services for a symbiotic relationship with local communities

E) Building Facilities Business

In addition to the businesses included in the Building Facilities Business, which the operator is responsible for implementing, the operator may during the Airport Operating Business Period, or may have the Building Facility Business operator during the Project Period, at its own discretion, conduct any business or service which it deems necessary within the Airport Site to the extent that such business or service complies with the related laws and regulations, does not interfere with the function of the Airport, does not fall under the amusement business or other similar business, or an office of an organized crime group or other similar office, and is not offensive to public policy. The operator or the operator's subsidiary, etc., may carry out any business activity outside of the Airport Site, from which they earn revenue, etc., from third parties (however, excluding those activities listed in 2.(10)F) and G), upon approval of the City.¹⁵

Any company funded by the Preferred Negotiation Right Holder, excluding the operator and the operator's subsidiary, etc., may conduct, at its own discretion, any business outside of the Airport Site.

(i) Passenger Building Facility business

- i) The operator has the obligation to implement, or have the Building Facility operator implement, the passenger building facility business.
- ii) The operator may, or may have the Building Facility operator, operate directly-managed stores, etc. in the Passenger Building Facilities at its own discretion.

(ii) Cargo Building Facility business

- i) The operator has the obligation to implement, or have the Building Facility operator implement, the cargo building facility business.
- ii) The operator may, or may have the Building Facility operator, provide distribution processing service, etc. in the Cargo Building Facilities at its

¹⁵ Such approval shall be subject to consultation among the Four Administrators. For details of approval, please refer to the disclosed materials.

own discretion.

- (iii) Aircraft fueling service business
- (iv) Optional businesses in the Airport Site¹⁶

F) Airport Operating Business of the six other airports in Hokkaido

As described in 2.(3), the City plans to entrust the private sector to integrally operate the Seven Airports in Hokkaido from the perspective of, among other factors, raising the level of marketing capabilities of each airport and enhancing the aviation network and thereby leading to the revitalization of the regional economy which includes the promotion of wide-area tourism in cooperation with the City. Accordingly, the Airport Operating Business pertaining to the Four National Airports in Hokkaido, Obihiro Airport and Memanbetsu Airport shall be positioned as the Airport Operating Business of the six other airports in Hokkaido.

G) Other Airport Operating Business

If the administrator of an airport in Hokkaido other than the Four National Airports in Hokkaido, Obihiro Airport and Memanbetsu Airport intends to have a third party operate the airport under his/her control, the operator may negotiate with the administrator of that airport in Hokkaido.

(11) Structure of the Required Standards Document (draft)

The operator must place the greatest priority on securing the safety of air transport among all the activities in the course of providing the Airport Operation. The City shall establish required standards for ensuring, among others, that the operator properly carries out the maintenance and administration businesses, conducts the operating businesses contributing to the safety of air transport, properly implements the environmental measures business, and carries out investments contributing to improve the convenience of airport users. Please note that regarding the matters concerning the services in “V. Passenger Building Facility Business and Cargo Building Facility Business” and “IV-1. Parking Facility Business” set forth in the Required Standards Document (draft) I.3.1, the City shall set out the minimum necessary matters in advance, and their details shall be set out with reflecting the matters proposed by the applicant who has been selected as the Preferred Negotiation Right Holder in the required standards. The same manner shall be applied to the matters concerning “IV-3. Businesses and Services Related to Enhancement and Strengthening of the Air Transport Networks in the Airport,” “IV-4. Businesses and

¹⁶ If the operator intends to carry out any optional business prior to the day preceding the date of commencement of the Airport Operating Business, it shall separately obtain permission, etc., to use the Airport Site.

Services Related to Enhancement and Strengthening of the Air Transport Networks in Hokkaido” “IV-5. Businesses and Services Related to Promotion of the Wide-Area Tourism,” “IV-6. Required standards for Businesses and Services for a Symbiotic Relationship with Local Communities.”

- (12) Rights and assets, etc., to be obtained and succeeded by the operator
 - A) Assets to be obtained by the operator prior to the Building Facility Business Commencement Date
 - (i) Building Facility operator Shares
 - The shares issued by the Building Facility operator (See 2.(7)B))
 - B) Rights, assets, etc., to be obtained and succeeded by the operator prior to the date of commencement of the Airport Operating Business
 - (i) Administration authorities as the operator ¹⁷
 - Administration authorities over the Airport Site, runways, taxiways, aprons, aeronautical lights, roads and parking facilities, water and sewage facilities, rainwater drainage facilities, bridges, water sources for fire defense, fences surrounding the Airport, garages for fire engines, garages for snow removers, lights on roads and parking areas, the power supply facility and the devices inside it, electricity lines, and others
 - (ii) Rights to use the Airport Site, etc.
 - The rights to use the Airport Site, etc., under the Local Government’s Property, etc., Free Lease Agreement
 - (iii) Assets for Transfer to the operator ¹⁸
 - The Assets for Transfer to the operator necessary for Airport operating the businesses (including fire engines, snow removers, etc.)
- (13) Treatment of replacement investment, etc.
 - A) Treatment of replacement investment, etc., for the Facilities Subject to the Operation Appointment

¹⁷ For the specifics, see the list of Facilities Subject to the Operation Appointment in the compilation of related materials. The content of the list of Facilities Subject to the Operation Appointment is current as of the end of fiscal 2016, and will be updated by the City before the conclusion of the Project Agreement as stated in Chapter 5: 1(4)B) and will also be updated by the date of commencement of the Airport Operating Business pursuant to the Project Agreement.

¹⁸ For the specifics of the Assets for Transfer to the operator, see the list of the Assets for Transfer to the operator in the compilation of related materials. The content of the list of the Assets for Transfer to the operator is current as of the end of fiscal 2016, and will be updated by the City before the commencement of transfer procedures as stated in Chapter 5: 1.(4)B) and Chapter 5: 1.(4)I).

- The operator may, at its own discretion, carry out maintenance on and administration (replacement investment) of the Facilities Subject to Operation Appointment as long as they meet the required standards.¹⁹ However, if the operator intends to carry out certain maintenance and administration (replacement investment) set out in the Project Agreement, such as material changes stipulated in Article 43 of the Civil Aeronautics Act, it shall obtain prior approval of the City. The operator may not construct (new investment) or rehabilitate the Facilities Subject to the Operation Appointment.²⁰
- The City may carry out maintenance and administration (replacement investment) on the Facilities Subject to the Operation Appointment if the City determines such maintenance and administration is necessary on public interest grounds.
- Any of the Facilities Subject to the Operation Appointment for which maintenance and administration (replacement investment) has been carried out by the City or the operator shall belong to the State or the City, and the operation, etc., of the facility shall be carried out by the operator.

B) Treatment of replacement investment, etc., for Non-Operation Appointment Facilities

- The operator may, at its own discretion, carry out investment (not limited to maintenance and administration (replacement investment)) for the Non-Operation Appointment Facilities (as defined in 5(1)) as long as they meet the required standards in general.^{21 22}

(14) Planning and reporting

A) Planning

- With respect to the Project, the operator shall prepare a project plan for the entire Airport Operating Business Period (Master Plan) and a mid-term project plan for every five fiscal years and a single year project plan and a replacement

¹⁹ The City shall bear the costs, at the time of the expiration of the Project Period, for those investments among the expansion investments pertaining to the Facilities Subject to the Operation Appointment made by the operator for which certain requirements certain requirements ((i) the collection during the Project Period is difficult and (ii) the City determines that the remaining value of the expansion investments can be expected at the time of the expiration of the business and the budget has been provided based on the calculation method agreed upon by the City and the operator in advance) specified in the Project Agreement are fulfilled.

²⁰ See Exhibit 1 for the scope of the maintenance and administration of the Facilities Subject to the Operation Appointment by the operator.

²¹ However, when the operator, or the Building Facility Operator, carries out work on the Building Facilities requiring rearrangement or the new construction of the facilities related to customs, immigration and quarantine (hereinafter referred to as the “CIQ Facilities”), prior approval of the City shall be obtained for such work.

²² The operator may request the City to set up an opportunity of hearing of opinions regarding the scope of purchase of the expansion investments pertaining to the Non-Operating Right Facilities as of the Airport Operating Business Expiration Date to be conducted by the operator during the Airport Operating Business Period.

investment plan for every fiscal year and submit them to the City.

- It shall contain investment plans including the purposes of ensuring safety and operating stability and improving convenience.
- The operator shall carry out the Project in accordance with the submitted plans.

B) Reporting

- During the Airport Operating Business Period, the operator shall prepare the reports, etc., set out in the Project Agreement and submit them to the City.

(15) Dispatch, etc., of personnel from the City to the operator in relation to the Airport Operating Business

The operator may, if so desires, request that the City dispatch its personnel in relation to the Airport Operating Business. The job categories, the number of people to be dispatched, the dispatch period and other details shall be determined through competitive dialogue.²³ The anticipated job categories are listed below. Personnel expenses required in connection with the dispatch of personnel are based on the standards of the City and shall be borne by the operator. Other details such as working terms shall be specified in an arrangement to be entered into between the appointer of the personnel of the City and the operator prior to the scheduled date of commencement of the Airport Operating Business.

- Civil engineering personnel
- Electricity personnel
- Operation personnel (including security and disaster prevention)
 - * The civil engineering personnel and electricity personnel also serve as the operation and security and disaster prevention personnel.

(16) Consideration for the Project to be paid by the operator

The operator shall pay the following consideration ²⁴:

- (i) Consideration for the acquisition of the Building Facility operator Shares described in the Building Facility operator Share Acquisition Option Agreement; and
- (ii) Consideration for the acquisition of the Assets for Transfer to the operator under the Goods Transfer Agreement

With regard to (i) above, the operator shall directly pay to the Shareholders of the Building Facility operator the amount and by the method specified in the Building

²³ For the conditions including the maximum number of people to be dispatched, please refer to the disclosed materials.

²⁴ The currency to be used for the payments shall be the Japanese yen.

Facility operator Share Acquisition Option Agreement on the future date specified by itself at the time of exercising the right to complete the share transfer and the business transfer.

With regard to (ii) above, the operator shall pay to the City the amount and by the method determined in accordance with the procedures in Chapter 5: 1.(4)I) for the acquisition of the Assets for Transfer to the operator. The consumption taxes and local consumption taxes shall be separately paid at the time of such payments.

Unless otherwise separately set out in the Project Agreement, the City will not return or reduce the consideration to the operator in (ii).

3. Matters concerning the Bidding

Matters concerning the Bidding are presented in Chapter 5.

4. Matters for ensuring the proper and stable implementation of the Project such as clarification of the responsibilities of the Private Business operator

(1) Conditions precedent to the Airport Operating Business

The main conditions specific to the Airport Operating Business are specified below. Applicants shall submit their statements of participation upon agreeing to these conditions.

With respect to these conditions, the concrete rights to be granted on and the concrete obligations to be assumed by the operator and other matters are set out in the Project Agreement (draft), the Required Standards Document (draft), Referential Materials, etc.

A) Succession of agreements, etc.

Among the agreements, etc., entered into by the City for the operation, etc., of the basic airport facilities, the airport air navigation facilities and the Airport Site etc., those designated by the City shall be succeeded by the operator on and after the date of commencement of the Airport Operating Business.

B) Obligation to lease the land, etc.

The operator shall have an obligation to lease the land, etc., designated by the City in the Airport Site, for which the City has given permission to third parties to use, on and after the date of commencement of the Airport Operating Business on the conditions specified by the City.

In addition, with respect to the land, etc., for which the City has given permission to third parties to use for the purposes of constructing and installing the structures (such as conduct lines and bridge piers), utility poles, etc., prior to the commencement of the Airport Operating Business, the operator shall have such third parties use the land, etc., in a way meeting the respective usages of such third parties on and after the date of commencement of the Airport Operating Business.

C) Construction work to be implemented by the City after the commencement of the Airport Operating Business

In the event that the City implements the construction work after the commencement of the Airport Operating Business,²⁵ the operator shall cooperate in the smooth implementation of the work to the maximum extent possible while maintaining and administering the existing facilities. It should be noted that the operator shall be responsible for the maintenance and administration of the facilities and the Airport Sites

²⁵ The bearing of the costs shall be pursuant to the provisions of the Airport Act.

that were added as a result of the work as the Facilities Subject to the Operation Appointment.

(2) Basic idea of allocation of risks

Proper allocation of roles and risks will be determined by the City and the operator. Taking into account that the operator may establish and collect landing fees, etc., and other usage fees at its own discretion in general in order for the operator to exercise its autonomy and show its originality and ingenuity in implementing the Project, any risk associated with the Project (including risks relating to a change in airport demand) shall be borne by the operator unless otherwise specifically set out in the Project Agreement etc. In addition, as described in 1., the Seven Airports in Hokkaido are planned to be managed integrally by the SPC incorporated by the single Preferred Negotiation Right Holder, and the operator shall also bear the risks associated with the Airport Operating Business of the other six airports in Hokkaido. For details on cases in which the City shall bear risks as an exception to the rule, please refer to the Project Agreement (draft).

(3) Matters for ensuring the performance of the operator's responsibilities

In order to confirm whether the operator is properly and stably carrying out the businesses set out in the Project Agreement, etc., and meeting the required standards, as well as to understand the financial condition of the operator, the City is planning to conduct monitoring²⁶, in addition to the self-monitoring to be performed by the operator.

If it is found that the operator fails to meet the required standards, the City may request that the operator take improvement measures or other measures.²⁷

For the concrete method of monitoring and other related matters, please refer to the Project Agreement (draft).

(4) Restrictions on the rights and obligations, etc., of the operator and related procedures

A) Disposition of the Operation Appointment

The operator shall not transfer, pledge or otherwise dispose of the Operation Appointment, its status under the Project Agreement, any contractual statuses under the agreements entered into with the City concerning the Project or the rights and obligations under these agreements, without prior written consent of the City; however, the operator may request the City to

²⁶ In cases where the Seven Airports in Hokkaido are integrally operated, the entity to conduct the monitoring shall be, as a general rule, each administrator. However, a framework shall be adopted in which the content and frequency of monitoring by and the format, content and frequency of reporting to each administrator are standardized in order to mitigate the burden of the operator.

²⁷ A framework in which opinions from third-party experts are obtained when there exist discrepancies between the recognitions of the operator and the City on the content of the monitoring shall be put in place. For details, see the disclosed documents.

rescind its Operation Appointment and grant the same to a third party. In this case, the City may, with the resolution of prior approval by the City Council pursuant to Article 14, paragraph (5) of the Supplementary Provisions of the Private Utilization Airport Operation Act, grant the Operation Appointment to a third party and rescind the operator's appointment.²⁸

When the City grants the Operation Appointment to a third party, the following conditions shall be attached as a minimum.

- (i) The third party shall submit a letter of consent to the City, which states that the transferee shall succeed the contractual status of the operator under the Project Agreement with respect to the Project and the Project Agreement shall be binding on the transferee.
- (ii) All assets and contractual statuses owned by the operator and necessary for the implementation of the Project shall be transferred to the third party.
- (iii) The shareholders of the third party shall submit to the City the shareholders' covenant documents set out in the Basic Agreement (hereinafter referred to as the "Shareholder's Covenant Document").
- (iv) The City acknowledges that the third party implements (or is expected to implement) the other Airport Operating Business in Hokkaido (limited to cases where the operator also implements the Airport Operating Business of the other six airports in Hokkaido).

If the operator and the Building Facility operator intend to create a security interest in the revenues, etc. from the Project for borrowing money from a financial institution, etc., in order to raise funds necessary for implementing the Project, the City shall not refuse the creation of a security interest without reasonable reasons; however, an agreement concerning the matters set out in the Project Agreement, etc., shall be entered into between the City and the financial institution, etc.

B) New Issuance and Disposition of Shares by the operator

The shares which the operator may issue are limited to common shares with voting rights to vote on all items for resolution at the shareholders meeting of the operator (hereinafter referred to as the "Voting Shares") in accordance with the procedures set out in the Project Agreement and the shares of a kind which have no voting rights to vote on any items for resolution at the shareholders meeting of the operator (hereinafter referred to as the "Non-Voting Shares").

²⁸ Rescission of the Operation Appointment and granting of the same to a third party other than the operator shall be subject to consultation among the Four Administrators. For details of such rescission and granting, please refer to the disclosed materials.

In order to ensure quick and flexible fund raising, the City shall not, in general and in accordance with the procedures set out in the Project Agreement, be involved in the new issuance or transfer of Non-Voting Shares issued by the operator, or the creation of a pledge or other security on these shares (hereinafter collectively referred to as the “Disposition”).

For details, please refer to the Project Agreement (draft) and the Basic Agreement (draft).

5. Matters concerning location, size and placement of the Airport

(1) Facilities subject to the Project

The facilities subject to the Project are listed below. The facilities listed in (iii), (iv) and (x) are referred to as the “Non-Operation Appointment Facilities” and the other facilities are referred to as the “Facilities Subject to Operation Appointment.”

- (i) Basic airport facilities (runways, landing strip, taxiways, aprons, etc.)
- (ii) Airport air navigation facilities (aeronautical light facilities)
- (iii) Passenger Building Facilities (air passenger facilities, offices and shops, as well as other similar facilities, resting facilities, observation facilities, facilities for tours, etc.)²⁹
- (iv) Cargo Building Facilities (air cargo handling facilities etc.)
- (v) Roads
- (vi) Parking facilities
- (vii) The airport park (Green Port) and facilities within the park (facilities on the Airport Site)
- (viii) Airport Site
- (ix) Facilities incidental to the above facilities (civil engineering facilities, construction (including the garages for fire engines and the garages for snow removers), machine facilities, power facilities (including the power supply facility), etc.)
- (x) Facilities other than those listed in (i) through to (ix), which are owned by the operator or the Building Facility operator

(2) Project location

A) Location etc.

The location and area of the Airport Site notified in accordance with Article 46 of the Civil Aeronautics Act applied mutatis mutandis under Article 55-2, paragraph (3) of the same Act are as follows:

- (i) Location
Higashikagura-cho, Kamikawa-gun, Hokkaido
- (ii) Area subject to the Project
Approximately 214 ha

B) Lease of the Airport Site, etc.

The Airport Site, etc. includes city-owned land and national government land. The

²⁹ The operator shall have the obligation to lease the CIQ Facility in the Passenger Building Facilities owned by itself.

basic matters concerning the lease, etc. of the Airport Site, etc. in the Project are set out below.

(i) National government land

National government land constitutes a national government asset as stipulated in Article 2 of the National Government Asset Act and Article 4 of its Supplementary Provisions and is classified as an administrative asset as stipulated in Article 3, paragraph (2) of the National Government Asset Act. In light of the possibility of the operator leasing a part of the Airport Site, etc. to a third party in the course of the Project, the City shall authorize the operator to grant such lease to a third party with the approval of the City and the State. For details, please refer to the Project Agreement (draft).

It should be noted that the City shall ensure that the use permit granted to the Building Facility operator with respect to the passenger building facilities and the cargo building facilities shall continue during the period commencing on the Building Facility Business Commencement Date and expiring on the day before the date of commencement of the Airport Operating Business.

(ii) City-owned land

In light of the possibility of the operator leasing a part of the Airport Site, etc. to a third party in the course of the Project, the City authorize the operator to grant such lease to a third party. For details, please refer to the Project Agreement (draft).

With respect to the permission granted to the Building Facility operator to use the sites of the Passenger Building Facilities and the Cargo Building Facilities, the City shall ensure the permission continues during the period from the Building Facility Business Commencement Date until the day preceding the date of commencement of the Airport Operating Business.

C) Businesses to be carried out outside of the Airport Site

The operator is required to carry out the businesses listed in 2.(10)A) through to D) which are included in the Project, even outside of the Airport Site.

The operator may not, or may not have the operator's subsidiary, etc., carry out the businesses listed in 2.(10)E), F) and G) outside of the Airport Site if approved by the City upon prior consultation with the City.³⁰

³⁰ Such approval shall be subject to consultation among the Four Administrators. For details of approval, please refer to the disclosed materials.

6. Matters concerning actions to take when it becomes difficult to continue the Project

(1) Actions to take when events occur which make it difficult to continue the Project

If any event occurs which makes the Project difficult to continue, the Project Agreement shall be terminated. In this case, the operator shall have the obligation to cooperate in taking over the Project until the Project is succeeded by the City or a third party designated by the City in accordance with the Project Agreement. The assets, etc., of the operator shall be treated in the same manner mentioned in 2.(7)D)(ii). For details of the allocation of responsibility for specific damage, etc., arising from each event that triggers termination of the Project Agreement, please refer to the Project Agreement (draft).

(2) Consultation between the City and a financial institution or banking syndicate

From the perspective of maintaining the stable continuation of the Project and the integrated operation of the Seven Airports in Hokkaido to the extent possible, with respect to certain matters set out in the Project Agreement, the City may if it deems necessary, consult with a financial institution or banking syndicate which provides finance for the operator and enter into an agreement directly with the financial institution or banking syndicate.

7. Other

(1) Cancellation of the Bidding

If the City determines that it is inappropriate to implement the Project, the City shall cancel the bidding without selecting a Preferred Negotiation Right Holder even after the commencement of the bidding.

In this case, the City shall publish the decision on its website and by other appropriate means.

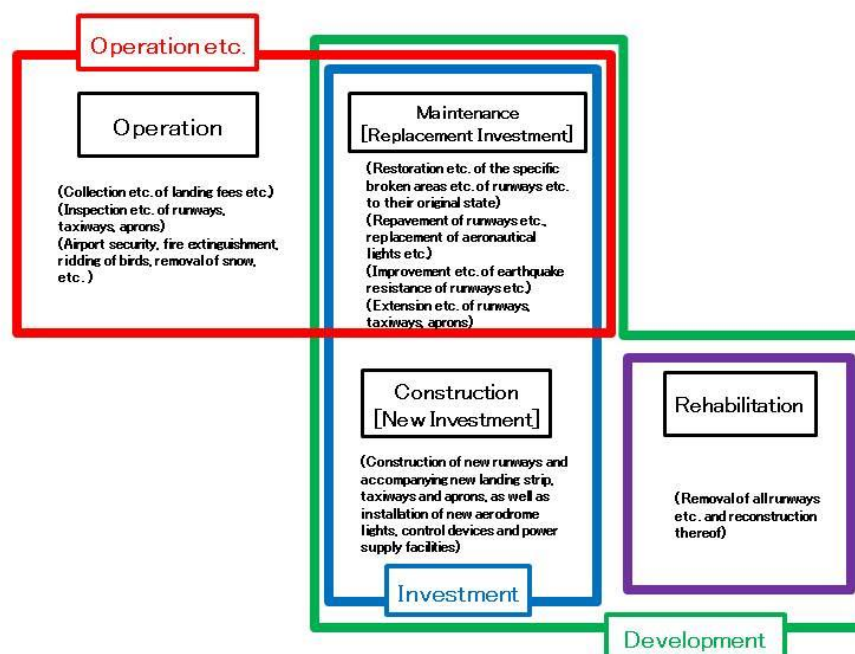
(2) Provision of information

The information concerning the Project will be provided from time to time on the following website:

Website of the Asahikawa City Government

<http://www.city.asahikawa.hokkaido.jp/kurashi/452/459/460/777.html>

Exhibit 1 Organizing with the terms used in the PFI Act



The definition of the terms based on the PFI Act and the Guidelines Concerning the Right to Operate Public Facilities, etc., and Public Facilities, etc., Operating Project (“PFI Guidelines for the Operating Right”)

- Operation etc.: means operation and maintenance (Article 2, paragraph (6) of the PFI Act)
- Maintenance: capital expenditures or repairs (including so-called alterations and improvements and large-scale repairs) excluding new constructions or entirely removing and redeveloping facilities, etc. (PFI Guidelines for the Operating Right)
- Construction: to create a new facility (new construction) (PFI Guidelines for the Operating Right)
- Rehabilitation: to entirely remove and redevelop facilities, etc. (PFI Guidelines for the Operating Right)
- Investment: Replacement investment means “maintenance” and new investment means “construction” (PFI Guidelines for the Operating Right)

Exhibit 2 Treatment of accounting and tax affairs in relation to the Project

(i) Practical Solution on Operators' Accounting for the Concession-based Private Finance Initiative Projects (Accounting Standards Board of Japan)

See the website of the Financial Accounting Standards Foundation at:

https://www.asb.or.jp/wp-content/uploads/pfi_2017_1.pdf

(ii) Treatment under the Corporation Tax Act of replacement investment to be implemented in accordance with a project agreement to implement Right to Operate Public Facilities, etc., under the Private Utilization Airport Operation Act

See the website of the National Tax Agency at:

<http://www.nta.go.jp/shiraberu/zeiho-kaishaku/bunshokaito/hojin/141118/index.htm>

(iii) Handling of Consumption Taxes relating to Setting the Right to Operate Public Facilities, etc., in Concession Projects

See the website of the National Tax Agency at:

<https://www.nta.go.jp/shiraberu/zeiho-kaishaku/shitsugi/shohi/12/07.htm>

Chapter 3 Obihiro Airport Edition

Application Guidelines on the Project, etc., for the Operation of Obihiro Airport

April 25, 2018

Obihiro City Government

1. Introduction

The Obihiro City Government (hereinafter collectively referred to as the “City”) is planning to select a Preferred Negotiation Right Holder to implement the Project, etc., for the Operation of the Airport (hereinafter referred to as the “Project”) at Obihiro Airport (hereinafter referred to as the “Airport”), for the purpose of integrally managing the operation, etc. of a specific local airport (including the businesses stipulated in Article 2, paragraph (6), items (ii) through (iv) of the Act on Operation of National Airports Utilizing Skills of the Private Sector (Act No. 67 of 2013; hereinafter referred to as the “Private Utilization Airport Operation Act”) for the specific local airport to the extent that the landing fees, etc. are collected as its own revenues) pursuant to Article 14 of the Supplementary Provisions of the Private Utilization Airport Operation Act (hereinafter referred to as the “Airport Operating Business”) and the building facilities business pertaining to its terminal buildings pursuant to Article 25 of Obihiro City Airport Administration Ordinance (Ordinance No. 39 of 1980), as well as appoint a special purpose company (hereinafter referred to as the “SPC”) incorporated by the Preferred Negotiation Right Holder, as the operator of the Airport (meaning the operator of a Local Airport stipulated in Article 14 of the Supplementary Provisions of the Private Utilization Airport Operation Act; hereinafter referred to as the “operator”) (hereinafter referred to as the “Operation Appointment”) and enter into the Agreement regarding the Project, etc., for the Operation of Obihiro Airport (hereinafter referred to as the “Project Agreement”) in order to implement the Project.

In addition, the Civil Aviation Bureau and the East Japan Civil Aviation Bureau of the Ministry of Land, Infrastructure, Transport and Tourism (hereinafter referred to as the “State”), the Asahikawa City Government and the Hokkaido Government are planning to implement a similar project in which aviation activities pertaining to the runway, etc., and the Building Facilities Business are integrally managed at New Chitose Airport, Wakkanai Airport, Kushiro Airport and Hakodate Airport (hereinafter referred to as the “Four National Airports in Hokkaido”) and Asahikawa Airport and Memanbetsu Airport, which they administer.

A single Preferred Negotiation Right Holder is planned to be selected for these seven airports in Hokkaido (the Airport, Four National Airports in Hokkaido, Asahikawa Airport and Obihiro Airport; hereinafter referred to as the “Seven Airports in Hokkaido”) in light of the background and purposes specified in 2.(3) and have an SPC incorporated by the Preferred Negotiation Right Holder to integrally manage the Seven Airports in Hokkaido.

These Application Guidelines shall be applied to the selection of a Preferred Negotiation Right Holder of the Project by a publicly-tendered proposal method which is a type of competitive negotiated agreement planned by the City (hereinafter referred to as the “Bidding”). These Application Guidelines shall be applied from the date of publication the Application

Guidelines until the date of conclusion of the Project Agreement, and shall be binding on the parties to the Project Agreement even after the date of conclusion of the Project Agreement.

Please note that the City may set out in the Project Agreement or other documents the matters regarding the Project that are agreed upon through competitive dialogue, etc., between the City and the Preferred Negotiation Right Holder held in the Bidding.

2. Matters concerning details of the Project

(1) Administrator of the Airport

Norihisa Yonezawa, Obihiro City Mayor

(2) Unit in Charge

Airport Office, Department of Commerce, Industry and Tourism, Obihiro City Government (hereinafter referred to as the “Unit in Charge”)

Address: 41, Nishi 9-sen Naka 8-banchi, Izumicho, Obihiro-shi, Hokkaido

Tel: 0155-64-5320

Email: airport@city.obihiko.hokkaido.jp

The following advisors (hereinafter referred to as the “Bidding Advisors”) shall be appointed in regards to administrative affairs conducted by the Unit in Charge in the Bidding.

(i) Ernst & Young ShinNihon LLC

(ii) Kansai Law & Patent Office

(iii) Ernst & Young Transaction Advisory Services Co., Ltd.

(iv) Docon Co., Ltd.

Documents to be submitted to Bidding Advisor¹ under these Application Guidelines shall be sent to the following.

To: Ernst & Young ShinNihon LLC

Secretariat of Seven Airports in Hokkaido, Infrastructure Advisory Group

Address: Hibiya International Building, 2-2-3, Uchisaiwai-cho, Chiyoda-ku, Tokyo 100-0011

Tel: 03-3503-1557

Email: hokkaido7@jp.ey.com

(3) Background and purposes of the Project

The Airport was opened in 1981 and has been serving for more than 30 years as a sky gateway to the Tokachi region of eastern Hokkaido for passengers from within and outside Hokkaido, and playing an important role in air transport of the agricultural and farm products and other cargo from the Tokachi region, which is one of Japan’s leading agricultural and dairy farming areas.

¹ Bidding Advisors are selected in each fiscal year. The selection for fiscal 2019 will be performed separately.

The Airport is coined as “Tokachi-Obihiro Airport” and its annual passenger volume in fiscal 2016 amounted to around 620,000 people, located in Tokachi, which is the country’s food supply base with the self-sufficiency ratio exceeding 1,200% and has a stable industry based on its primary industry.

In addition, the Airport boasts a high in-service rate due to its location in the center of the Tokachi Plain, a flat plain with long sunlight hours fit for take-off and landing, and has a potential to contribute to the promotion of wide-area tourism of Hokkaido and vitalization the regional economy, including the function as a substitute for New Chitose Airport, which is located as close as 180 kilometers to the Airport, the function as one of the traffic and transport bases in Hokkaido with its connecting seaway and highway network and the function as a sky gateway of the wide-area sightseeing tour routes of eastern Hokkaido, which plays a major role in Japan’s inbound tourism strategy.

Since fiscal 2013, the Airport has been working to streamline its operation through “Integrated Entrustment of Maintenance and Management Services”, which integrally manages various services such as security, fire defense, aeronautical lighting and snow removal. In March 2017, Obihiro Airport Terminal Building Co., Ltd. added an extension to the Airport’s terminal building and introduced the second passenger route and CIQ facilities. These measures enabled the Airport to accept domestic and international flights, including chartered international flights, in a flexible manner. In March 2018, a spot for accepting a jumbo jet airplane was added by extension of the apron and installment of a drawbridge. The Airport has been undertaking these efforts among others to improve its value.

However, under the current service entrustment system, the basic airport facilities, etc. administered by the City and the building facilities, etc. owned by the private business operators are separately managed, and a unified and agile management of the Airport as a whole is yet to be achieved, with issues to be addressed to realize its potential.

Against this background, in order to have the Airport fully play its role, the City aims to realize a unified and agile management of the Airport by a private business operator under the Private Utilization Airport Operation Act, as one of the airports subject to the Qualified Project, etc., for Airport Operation of the Seven Airports in Hokkaido.

(4) Application Guidelines, etc.

These Application Guidelines and documents attached hereto shall be composed of the documents listed in (i) through to (x) below (together with supplementary materials (meaning supplementary materials set out in Chapter 5: 1.(2)K); hereinafter the same shall apply), as well as answers to questions to be published on the City’s website or by other appropriate means and other documents to be issued by the City in relation to those

documents, hereinafter collectively referred to as the “Application Guidelines, etc.,” and if any amendments have been made, the documents reflecting the amendments shall prevail). The documents listed in (i) through to (ix) are conditions precedent for preparing documents to be submitted for the first screening (hereinafter referred to as the “First Screening Proposal Documents”) and those for the second screening (hereinafter referred to as the “Second Screening Proposal Documents”), as well as other documents to be submitted for any screenings in relation to the implementation of the Project (hereinafter referred to as the “Proposal Documents”). The documents listed in (i) through to (vii) shall be binding on the parties to the Project Agreement when it is concluded.

In addition, supplementary materials to be published for the selection of the Preferred Negotiation Right Holder shall constitute a part of the Application Guidelines, etc., and all supplementary materials (excluding the referential materials) shall be binding on the parties to the Project Agreement when it is concluded, unless otherwise specified.

- (i) Application Guidelines on the Qualified Project, etc., for Airport Operation of the Seven Airports in Hokkaido (hereinafter referred to as the “Application Guidelines”)
- (ii) Agreement regarding the Project, etc., for Operation of Obihiro Airport (draft) (hereinafter referred to as the “Project Agreement (draft)”)
- (iii) Basic Agreement regarding the Project, etc., for the Operation of Obihiro Airport (draft) (hereinafter referred to as the “Basic Agreement (draft)”)
- (iv) Free Lease Agreement with respect to National Property, etc., for the Project, etc., for the Operation of Obihiro Airport (draft) (hereinafter referred to as the “Local Government’s Property, etc., Free Lease Agreement (draft)”)²
- (v) Goods Transfer Agreement with respect to the Project, etc., for the Operation of Obihiro Airport (draft) (hereinafter referred to as the “Goods Transfer Agreement (draft)”)
- (vi) Required Standards Document for the Project, etc., for the Operation of Obihiro Airport (draft) (hereinafter referred to as the “Required Standards Document (draft)”)
- (vii) Compilation of related materials
- (viii) Selection Criteria for the Preferred Negotiation Right Holder for the Qualified Project, etc., for Airport Operation of the Seven Airports in Hokkaido (hereinafter referred to as the “Selection Criteria for the Preferred Negotiation Right Holder”)
- (ix) Forms for the Qualified Project, etc., for Airport Operation of the Seven Airports in Hokkaido and directions to complete the forms (hereinafter referred to as the

² The agreements will be concluded respectively with respect to city-owned land and national government land.

“Forms and Directions”)

(x) Referential materials

If there are any discrepancies between these Application Guidelines, etc. and the Implementation Policy on the Project, etc., for the Operation of Obihiro Airport (published on March 29, 2018: hereinafter referred to as the "Implementation Policy"), the provisions of these Application Guidelines, etc. shall prevail; provided, however, that matters not set forth in the Application Guidelines, etc. shall be governed by the Implementation Policy.

(5) Anticipated governing laws, etc., for the implementation of the Project

The implementation of the Project shall be governed by the PFI Act, the Private Utilization Airport Operation Act and the Basic Policies on Operation of National Airports Utilizing Skills of the Private Sector (MLIT Public Notice No. 1080 of 2013), as well as various related laws and regulations, etc. set forth in the Required Standards Document (draft) I.-3.2.

(6) Project period

A) The period of the Project

The period of the Project is the period in which the operator carries out the Airport Operating Business based on the Operation Appointment (hereinafter referred to as the “Airport Operating Business Period”) and the period in which the operator carries out the Building Facilities Business (hereinafter referred to as the “Building Facility Business Period”) after its acquisition of the shares issued by the Building Facility operator (hereinafter referred to as the “Building Facility operator Shares”), prior to the implementation of the Airport Operating Business.

The Airport Operating Business Period means the period from the date of commencement of the Airport Operating Business upon fulfillment of the conditions precedent to the commencement as set out in the Project Agreement (meaning the date of commencement of the Airport Operating Business (hereinafter referred to as the “Airport Operating Business Commencement Date”) until the day preceding the 30th anniversary of the date the Operation Appointment was granted (hereinafter referred to as the “Operation Appointment Date”), or if the Airport Operating Business Period is extended pursuant to 2.(6)B), until the date of expiration of such extended period (hereinafter referred to as the “Airport Operating Business Expiration Date”).

The Building Facility Business Period means the period from the date of commencement of the Building Facilities Business (hereinafter referred to as the

“Building Facility Business Commencement Date”) upon fulfillment of the conditions precedent to commencement as set out in the Project Agreement, including acquisition by the operator of the Building Facility operator Shares, until the Airport Operating Business Expiration Date.

Therefore, the period of the Project (hereinafter referred to as the “Project Period”) shall be the period from the Building Facility Business Commencement Date until the Airport Operating Business Expiration Date³

B) Extension of the Airport Operating Business Period

If any of the events set out in the Project Agreement occurs, the operator may request that the Airport Operating Business Period and the Building Facility Business Period (hereinafter collectively referred to as the “Airport Operating Business Period, etc.”) be extended. In this case, if the City finds that it is necessary for the operator to recover the damage, additional expenses, etc., incurred by the operator due to the occurrence of such event, the Airport Operating Business Period, etc., may be extended, upon consultation between the City and the operator, for a period agreed upon by both parties within the limit specified in 2.(6)C) (such extension of the period is hereinafter referred to as the “Agreed Extension”). To avoid misunderstanding, the Agreed Extension may be made more than once.

In addition, aside from the Agreed Extension above, if any of the events set out in the Project Agreement occurs and the City notifies the operator of its desire to extend the period by the corresponding date of four years before the Airport Operating Business Expiration Date, the Airport Operating Business Period, etc., may be extended to the Airport Operating Business Expiration Date of another Airport Operating Business in Hokkaido (meaning the project specified in 2.(10)F) that occurs at the latest point within the limit specified in 2.(6)C) (such extension of a period shall hereinafter be referred to as the “Public Extension Option”)⁴. It should be noted that the Public Extension Option may be exercised only once.

Except for the Agreed Extension and the Public Extension Option, no extension of the Airport Operating Business Period, etc., is permitted.

C) The duration of the Operation Appointment

The duration of the Operation Appointment (hereinafter referred to as the “Initial

³ The Airport Operating Business Expiration Date pertaining to the Four National Airports in Hokkaido, Asahikawa Airport and Memanbetsu Airport shall be the same as that of the Operation of Obihiro Airport.

⁴ It is contemplated that the City will bear replacement investments and other expenses to the extent necessary (in terms of subject, scope, etc.) in the event that the self-sufficient operation of the Airport is deemed impracticable during the Public Extension Option period.

Duration of the Operation Appointment”) shall be the period from the Operating Establishment Date until the day preceding the 30th anniversary thereof.

The duration of the Operation Appointment shall not be beyond the day preceding the 35th anniversary of the Operation Appointment Date, including where the Airport Operating Business Period, etc. specified in 2.(6)B) is extended (this limit shall be recorded on the registry of the Rights to Operate a Public Facilities, etc.)⁵.

The duration of the Operation Appointment shall terminate on the Airport Operating Business Expiration Date.

(7) Project methods

A) Methods of granting, etc., the Operation Appointment and acquisition of the Assets for Transfer to the operator

The Preferred Negotiation Right Holder who has been selected through the procedure stipulated in Chapter 5: 1.(2) and has entered into the Basic Agreement (meaning the Basic Agreement defined in Chapter 5: 1.(4)A); the same shall apply hereinafter) with the City shall incorporate an SPC whose sole purpose is to carry out the Project.

The City shall grant the Operation Appointment to the SPC with respect to the Facilities Subject to the Operation Appointment (meaning the Facilities Subject to the Operation Appointment in 5.(1); the same shall apply hereinafter) and the SPC shall become the operator. The operator shall enter into the Project Agreement with the City, and, by the Airport Operating Business Scheduled Commencement Date, shall complete the succession of the businesses and acquire the movables required for the implementation of the Project (hereinafter referred to as the “Assets for Transfer to the operator” and agreements relating to such transfer are hereinafter referred to as the “Goods Transfer Agreement”).

B) Method for acquiring the Building Facility operator Shares

The operator that has entered into the Project Agreement shall acquire the Building Facility operator Shares from the shareholders (hereinafter be referred to as the “Shareholders of the Building Facility operator”) by the scheduled date of commencement of the Building Facility Business (as stipulated in the Project Agreement (draft)).

With respect to the methods for transferring the shares mentioned above, a share acquisition option agreement in which the price for transferring all of the shares held by

⁵ For example, if the Operation Appointment Date is October 1, 2019, the date of expiration of the Initial Duration of the Operation Appointment shall be September 30, 2049, and even though the Airport Operating Business Period is extended, the date of expiration of it shall be no later than September 30, 2054.

the Shareholders of the Building Facility operator (approximately 81.72 percent of the issued and outstanding shares), is set at 1,157,138,000 yen (hereinafter referred to as the “Building Facility operator Share Acquisition Option Agreement”) was entered into between the City and the Shareholders of the Building Facility operators (the breakdown of the transfer price of each share is indicated in the table below)⁶. It has been agreed that the contractual status of the City under this agreement, including the right to complete the transfer of the Building Facility operator Shares, shall be transferred to the operator.

The operator shall acquire from the City the right to complete the share transfer under the Building Facility operator Share Acquisition Option Agreement and exercise such right and shall obtain the Building Facility operator Shares held by the City, thereby acquiring the Building Facility operator Shares. Please note that since this is made through the transfer of the shares, the agreements, etc., entered into by the Building Facility operator and its employees will be succeeded by the operator unless the circumstances are exceptional.⁷

The City shall assume no responsibility for the performance of the agreements by any person related to the Building Facility operator Share Acquisition Option Agreement.

C) Treatment of the Building Facilities

In order to secure a preferred right of the City to purchase the Building Facilities upon expiration of the Airport Operating Business Period, the operator shall, after the Building Facility Business Commencement Date and without delay, have the Building Facility operator enter into a purchase option agreement concerning the Building Facilities with the City in which the City shall have an option to purchase. The purchase price of the Building Facilities under the purchase option agreement shall be their market price (which shall be determined by the method set out in the Project Agreement).

The Building Facility operator shall make a provisional registration of the right of the City to claim the transfer of ownership of the Building Facilities based on the purchase option agreement, at the expense of the operator or the Building Facility operator. This provisional registration shall preserve priority over other rights (including, but not limited to, security) created on the Building Facilities.

⁶ The terms and conditions for the transfer of the Building Facility Operator Shares held by the City (approximately 18.28 percent of the issued and outstanding shares) shall be equivalent to those of the Building Facility operator Share Acquisition Option Agreement, with the transfer price being 258,833,500 yen.

⁷ Even after the acquisition of the Building Facility Operator Shares, the operator shall continuously hire employees of the Building Facility Operator under conditions that do not substantially fall below the employment conditions concluded at the time of acquisition of said shares, unless the circumstances are exceptional. In addition, when the operator modifies the employment conditions of employees of the Building Facility Operator after the acquisition of the Building Facility Operator Shares, applicable labor-related laws and regulations must be complied with.

D) Treatment upon expiration of the Project Period

The Operation Appointment and other matters will be treated as follows when the Project ends because the Project Period has effectively lapsed:

(i) Operation Appointment

The duration of the Operation Appointment shall terminate on the Airport Operating Business Expiration Date.

(ii) Assets, etc., of the operator

The operator shall transfer the Facilities Subject to the Operation Appointment to the City, or a third party designated by the City, on the Airport Operating Business Expiration Date or on a later day designated by the City.

In addition, the City or a third party designated by the City may purchase, at market value⁸, any asset which is held by the operator or its subsidiary or affiliate (hereinafter collectively referred to as the “operator’s subsidiary, etc.”) if the City or the third party deems it necessary⁹. If the City selects a new implementer of the Project through a bid, the City shall make it a condition for participating in such bidding that the implementer shall purchase the whole or a part of such assets at market value, from the operator or the operator’s subsidiary, etc.

The operator and the operator’s subsidiary, etc., are responsible to dispose of all assets held by the operator and the operator’s subsidiary, etc., for carrying out the Project, excluding those to be purchased by the City or a third party designated by the City.

With respect to the Airport Site, etc. (as defined in 2.(10)A)(ii)i)), the Local Government’s Property, etc., Free Lease Agreement shall be terminated on the Airport Operating Business Expiration Date and the operator shall, in general, clear the Airport Site, etc., at its own expense and transfer them to the City or a third party designated by the City. However, if any asset to be purchased by the City or a third party designated by the City existing on the Airport Site (meaning the Airport Site located at the address as defined in 5.(2)A); the same shall apply hereinafter), the portion of the Airport Site on which such asset exists shall be transferred on an as is basis.

(iii) Succession of the businesses

In general, the operator shall hand over the businesses to the City or a third party

⁸ For details of the calculation method for the market value, please refer to the Project Agreement (draft).

⁹ The operator may request the City to set up an opportunity of hearing of opinions regarding the scope of purchase of the expansion investments pertaining to the Non-Operating Right Facilities as of the Airport Operating Business Expiration Date to be conducted by the operator during the Airport Operating Business Period.

designated by the City within the Airport Operating Business Period and shall be responsible for properly handing over such businesses and for ensuring that the Project is smoothly succeeded by them at its own expense. Any personnel expenses and other related costs incurred for such handover by the operator, the City or a third party designated by the City shall be borne individually.

(8) Setting and collecting usage fees with respect to the Project

The operator may, or may have the Building Facility operator, set usage fees and collect them as income at their respective discretion as follows: (i) with respect to the landing fees, etc. (Article 13, paragraph (1) of the Airport Act) stipulated in Article 14, paragraph (1) of the Supplementary Provisions of the Private Utilization Airport Operation Act, the fees for using the airport air navigation facilities and the passenger (service) facility charge, necessary approval, etc., shall be obtained and necessary notification, etc. shall be submitted as required by the respective Acts and the Obihiro City Airport Administration Ordinance; (ii) with respect to the fees to be collected from air carriers, tenants of the Building Facilities and others for using the facilities, the procedures under the related laws and regulations stated in 2.(5) shall be followed; (iii) with respect to the fees for using the parking facilities, an advance approval of the Obihiro City Mayor shall be obtained for the fees to be established (or changes thereof) pursuant to Article 26, paragraph (3) of the Obihiro City Airport Administration Ordinance¹⁰; and (iv) with respect to other fees pertaining to the Project, it shall be confirmed that it is not prohibited by laws, regulations, etc., to collect these fees as its own income.

(9) Bearing of costs for the Project

The operator shall be liable for any and all costs incurred for the implementation of the Project unless otherwise specifically set out in A) and B) below or the Project Agreement.

A) Bearing of the costs for replacement investment

(i) Basic idea for the bearing of costs

The operator shall stipulate in the replacement investment plan the content of and costs for replacement investment pertaining to Facilities Subject to the Operation Appointment (excluding extensions). The City shall enter into a replacement investment agreement with the operator annually pursuant to the replacement investment plan and shall pay the costs for replacement investment within the scope stipulated in A) (ii) below.

¹⁰ It is planned that the parking fee system proposed by the Preferred Negotiation Right Holder in the Second Screening Documents will be approved by the Mayor after the resolution of the City Parliament pertaining to the Operation Appointment.

(ii) Scope of the bearing of costs

The operator shall propose to the City in the proposal the total amount of the costs for replacement investment and the annual breakdown borne by the City within the upper limit set by the City. The City shall pay the costs for replacement investment in accordance with the replacement investment agreements, subject to the proposed total amount. The consumption taxes and local consumption taxes shall be separately paid by the City at the time of such payments.

The upper limit set by the City shall be 6,307 million yen in total (excluding consumption taxes and local consumption taxes).

B) Bearing of the costs for operation

(i) Basic idea for the bearing of costs

The City shall pay the costs for operation of the Project (including replacement investment for vehicles) within the scope stipulated in the Project Agreement.

(ii) Scope of the bearing of costs

The operator shall propose to the City in the proposal the total amount of the costs for operation of the Project and the annual breakdown borne by the City within the upper limit set by the City. The City shall pay the proposed annual costs in accordance with the procedure stipulated in the Project Agreement. The consumption taxes and local consumption taxes shall be separately paid by the City at the time of such payments.

The upper limit set by the City shall be 7,276 million yen in total (excluding consumption taxes and local consumption taxes). The upper limit of payment for each fiscal year shall be 255 million yen (excluding consumption taxes and local taxes).

(10) Scope of the Project¹¹

The scope of the Airport Operating Business shall be as listed in A) through to D) below and the Building Facilities Business and the scope of the Airport Operating Business of the other six airports in Hokkaido and the other Airport Operating Business shall be as listed in E), F) and G) below. During the Project Period the operator may or may have the Building Facility operator or the fueling facility operator, entrust or give a contract to a third party (including the operator's subsidiary, etc.), with prior notice to the City, to carry out any business included in the Project except for entrusting prohibited businesses set out in the Project Agreement.

¹¹ See the Allocation of Businesses in the compilation of related materials for the allocation of activities between the City and the operator at the Airport concerning the Airport Operating Business.

For the detailed terms and conditions for implementing the Project, including the restrictions and procedures to be observed by the operator in entrusting such businesses, please refer to the Project Agreement (draft) and the Required Standards Document (draft).

A) Airport Operating, etc., Business (Article 14 of the Supplementary Provisions of the Private Utilization Airport Operation Act)

(i) Basic airport facilities, etc., activities

- i) Maintenance and administration of basic airport facilities etc.
- ii) Operation of the basic airport facilities, etc.
- iii) Setting of the landing fees, etc., and notification of the fees to the Minister of Land, Infrastructure, Transport and Tourism (Article 14, paragraph (9) of the Supplementary Provisions of the Private Utilization Airport Operation Act), as well as collection of the fees ¹²

(ii) Airport Site, etc., administration activities

- i) Administration of the Airport Site of the Airport and the incidental facilities notified under Article 46 of the Civil Aeronautics Act (hereinafter collectively referred to as the “Airport Site, etc.”)

B) Airport Air Navigation Facility Operating, etc., Business (Article 14 of the Supplementary Provisions of the Private Utilization Airport Operation Act) ¹³

- (i) Maintenance and administration of the airport air navigation facilities
- (ii) Operation of the airport air navigation facilities
- (iii) Setting of the fees for using the airport air navigation facilities and notification of the fees to the Minister of Land, Infrastructure, Transport and Tourism (Article 14, paragraph (9) of the Supplementary Provisions of the Private Utilization Airport Operation Act, Article 54 of the Civil Aeronautics Act), as well as collection of the fees

C) Environmental measures business

- (i) Businesses for preventing problems arising from operating aircraft, including noise, or for improving the living environment in the areas surrounding the

¹² For the following cases, the landing fees, etc., shall not be collected.

- (i) The landing fees, etc., when an aircraft that is being used for diplomatic or official purposes uses the Airport, and when an aircraft lands and parks pursuant to an order for air traffic control or administrative reasons.
- (ii) The landing fees, etc., when an aircraft lands on the Airport for a test flight, lands due to compelling circumstances after it took off without landing at another airport or place, or makes an emergency landing due to compelling circumstances.

¹³ Includes maintenance, administration and operation of the aeronautical lights installed by the City outside of the airports with permissions and approvals from the relevant local governments. The City shall ensure that permissions and approvals for the operation are being maintained.

Airport (Article 14 of the Supplementary Provisions of the Private Utilization Airport Operation Act)

D) Other incidental businesses (Article 14 of the Supplementary Provisions of the Private Utilization Airport Operation Act)

(i) Activities and services which the operator shall be responsible for carrying out

The operator shall be responsible for carrying out the following activities and services.

- i) Establishment, etc., of regulations
- ii) Airport Site, etc., lease business ¹⁴
- iii) Parking facility business
- iv) Bearing of costs for preventive measures against aircraft hijacking, etc.
- v) Attendance at the Council

(ii) Businesses and services proposed ¹⁵ by the Preferred Negotiation Right Holder

- i) Businesses and services related to enhancement and strengthening of the air transport networks of the Airport
- ii) Businesses and services related to enhancement and strengthening of the air transport network in Hokkaido
- iii) Businesses and services related to the promotion of wide-area tourism in Hokkaido
- iv) Businesses and services for a symbiotic relationship with local communities

E) Building Facilities Business

In addition to the businesses included in the Building Facilities Business, which the operator is responsible for implementing, the operator may during the Airport Operating Business Period, or may have the Building Facility Business operator during the Project Period, at its own discretion, conduct any business or service which it deems necessary within the Airport Site to the extent that such business or service complies with the related laws and regulations, does not interfere with the function of the Airport, does not fall under the amusement business or other similar business, or an office of an organized crime group or other similar office, and is not offensive to public policy. The operator or the operator's subsidiary, etc., may carry out any

¹⁴ Regarding the land and constructions, etc., on the land that will be continuously used by the City and any person designated by the City, the operator shall lease to them or shall have them use such land and constructions, etc., on the land based on the terms and conditions specified in the Project Agreement (draft).

¹⁵ The businesses and services to be proposed shall be limited to those implemented by the operator (including those that the operator causes a third party to implement while the operator assuming the contractual liabilities).

business activity outside of the Airport Site, from which they earn revenue, etc., from third parties (however, excluding those activities listed in 2.(10)F) and G), upon approval of the City.¹⁶

Any company funded by the Preferred Negotiation Right Holder, excluding the operator and the operator's subsidiary, etc., may conduct, at its own discretion, any business outside of the Airport Site.

(i) Passenger Building Facility business

- i) The operator has the obligation to implement, or have the Building Facility operator implement, the passenger building facility business.
- ii) The operator may, or may have the Building Facility operator, operate directly-managed stores, etc. in the Passenger Building Facilities at its own discretion.

(ii) Cargo Building Facility business

- i) The operator has the obligation to implement, or have the Building Facility operator implement, the cargo building facility business.
- ii) The operator may, or may have the Building Facility operator, provide distribution processing service, etc. in the Cargo Building Facilities at its own discretion.

(iii) Aircraft fueling service business

(iv) Optional businesses in the Airport Site¹⁷

F) Airport Operating Business of the six other airports in Hokkaido

As described in 2.(3), the City plans to entrust the private sector to integrally operate the Seven Airports in Hokkaido from the perspective of, among other factors, raising the level of marketing capabilities of each airport and enhancing the aviation network and thereby leading to the revitalization of the regional economy which includes the promotion of wide-area tourism in cooperation with the City. Accordingly, the Airport Operating Business pertaining to the Four National Airports in Hokkaido, Asahikawa Airport and Memanbetsu Airport shall be positioned as the Airport Operating Business of the six other airports in Hokkaido.

G) Other Airport Operating Business

If the administrator of an airport in Hokkaido other than the Four National Airports in Hokkaido, Asahikawa Airport and Memanbetsu Airport intends to have a

¹⁶ Such approval shall be subject to consultation among the Four Administrators. For details of approval, please refer to the disclosed materials.

¹⁷ If the operator intends to carry out any optional business prior to the day preceding the date of commencement of the Airport Operating Business, it shall separately obtain permission, etc., to use the Airport Site.

third party operate the airport under his/her control, the operator may negotiate with the administrator of that airport in Hokkaido.

(11) Structure of the Required Standards Document (draft)

The operator must place the greatest priority on securing the safety of air transport among all the activities in the course of providing the Airport Operation. The City shall establish required standards for ensuring, among others, that the operator properly carries out the maintenance and administration businesses, conducts the operating businesses contributing to the safety of air transport, properly implements the environmental measures business, and carries out investments contributing to improve the convenience of airport users. Please note that regarding the matters concerning the services in “V. Passenger Building Facility Business and Cargo Building Facility Business” and “IV-1. Parking Facility Business” set forth in the Required Standards Document (draft) I.3.1, the City shall set out the minimum necessary matters in advance, and their details shall be set out with reflecting the matters proposed by the applicant who has been selected as the Preferred Negotiation Right Holder in the required standards. The same manner shall be applied to the matters concerning “IV-3. Businesses and Services Related to Enhancement and Strengthening of the Air Transport Networks in the Airport,” “IV-4. Businesses and Services Related to Enhancement and Strengthening of the Air Transport Networks in Hokkaido” “IV-5. Businesses and Services Related to Promotion of the Wide-Area Tourism,” “IV-6. Required standards for Businesses and Services for a Symbiotic Relationship with Local Communities.”

(12) Rights and assets, etc., to be obtained and succeeded by the operator

A) Assets to be obtained by the operator prior to the Building Facility Business Commencement Date

(i) Building Facility operator Shares

- The shares issued by the Building Facility operator (See 2.(7)B))

B) Rights, assets, etc., to be obtained and succeeded by the operator prior to the date of commencement of the Airport Operating Business

(i) Administration authorities as the operator¹⁸

- Administration authorities over the Airport Site, runways, taxiways, aprons,

¹⁸ For the specifics, see the list of Facilities Subject to the Operation Appointment in the compilation of related materials. The content of the list of Facilities Subject to the Operation Appointment is current as of the end of fiscal 2016, and will be updated by the City before the conclusion of the Project Agreement as stated in Chapter 5: 1(4)B) and will also be updated by the date of commencement of the Airport Operating Business pursuant to the Project Agreement.

aeronautical lights, roads and parking facilities, water and sewage facilities, rainwater drainage facilities, bridges, water sources for fire defense, fences surrounding the Airport, garages for fire engines, garages for snow removers, lights on roads and parking areas, the power supply facility and the devices inside it, electricity lines, and others

(ii) Rights to use the Airport Site, etc.

- The rights to use the Airport Site, etc., under the Local Government's Property, etc., Free Lease Agreement

(iii) Assets for Transfer to the operator¹⁹

- The Assets for Transfer to the operator necessary for Airport operating the businesses (including fire engines, snow removers, etc.)

(13) Treatment of replacement investment, etc.

A) Treatment of replacement investment, etc., for the Facilities Subject to the Operation Appointment

- The operator may, at its own discretion, carry out maintenance on and administration (replacement investment) of the Facilities Subject to Operation Appointment as long as they meet the required standards.²⁰ However, if the operator intends to carry out certain maintenance and administration (replacement investment) set out in the Project Agreement, such as material changes stipulated in Article 43 of the Civil Aeronautics Act, it shall obtain prior approval of the City. The operator may not construct (new investment) or rehabilitate the Facilities Subject to the Operation Appointment.²¹
- The City may carry out maintenance and administration (replacement investment) on the Facilities Subject to the Operation Appointment if the City determines such maintenance and administration is necessary on public interest grounds.
- The City shall conduct construction works of the runway and the taxiway by the following schedule. The runway construction work shall be completed on or before October 31, 2020 and the taxiway construction work shall be completed on or before

¹⁹ For the specifics of the Assets for Transfer to the operator, see the list of the Assets for Transfer to the operator in the compilation of related materials. The content of the list of the Assets for Transfer to the operator is current as of the end of fiscal 2016, and will be updated by the City before the commencement of transfer procedures as stated in Chapter 5: 1.(4)B) and Chapter 5: 1.(4)I).

²⁰ The City shall bear the costs, at the time of the expiration of the Project Period, for those investments among the expansion investments pertaining to the Facilities Subject to the Operation Appointment made by the operator for which certain requirements certain requirements ((i) the collection during the Project Period is difficult and (ii) the City determines that the remaining value of the expansion investments can be expected at the time of the expiration of the business and the budget has been provided based on the calculation method agreed upon by the City and the operator in advance) specified in the Project Agreement are fulfilled.

²¹ See Exhibit 1 for the scope of the maintenance and administration of the Facilities Subject to the Operation Appointment by the operator.

October 31, 2023,²² The City shall compensate the operator or any third party for the damages which may be incurred due to road surface conditions of the relevant area or the construction work before the completion of the taxiway construction work²³, unless any such damage is attributable to the fault of the operator or the third party. The facilities subject to these construction works shall automatically be treated as part of the Facilities Subject to the Operation Appointment and subject to the effect of the appointment.

- Any of the Facilities Subject to the Operation Appointment for which maintenance and administration (replacement investment) has been carried out by the City or the operator shall belong to the State or the City, and the operation, etc., of the facility shall be carried out by the operator.

B) Treatment of replacement investment, etc., for Non-Operation Appointment Facilities

- The operator may, at its own discretion, carry out investment (not limited to maintenance and administration (replacement investment)) for the Non-Operation Appointment Facilities (as defined in 5.(1)) as long as they meet the required standards in general.²⁴ ²⁵

(14) Planning and reporting

A) Planning

- With respect to the Project, the operator shall prepare a project plan for the entire Airport Operating Business Period (Master Plan) and a mid-term project plan for every five fiscal years and a single year project plan and a replacement investment plan for every fiscal year and submit them to the City.
- It shall contain investment plans including the purposes of ensuring safety and operating stability and improving convenience.
- The operator shall carry out the Project in accordance with the submitted plans.

B) Reporting

- During the Airport Operating Business Period, the operator shall prepare the

²² The City shall, upon the request of the operator, disclose the information regarding these construction works.

²³ The City shall release the operator from the obligation to repair the area subject to the construction work prior to the completion of the construction work.

²⁴ However, when the operator, or the Building Facility Operator, carries out work on the Building Facilities requiring rearrangement or the new construction of the facilities related to customs, immigration and quarantine (hereinafter referred to as the “CIQ Facilities”), prior approval of the City shall be obtained for such work.

²⁵ The operator may request the City to set up an opportunity of hearing of opinions regarding the scope of purchase of the expansion investments pertaining to the Non-Operating Right Facilities as of the Airport Operating Business Expiration Date to be conducted by the operator during the Airport Operating Business Period.

reports, etc., set out in the Project Agreement and submit them to the City.

(15) Dispatch, etc., of personnel from the City to the operator in relation to the Airport Operating Business

The operator may, if so desires, request that the City dispatch its personnel in relation to the Airport Operating Business. The job categories, the number of people to be dispatched, the dispatch period and other details shall be determined through competitive dialogue²⁶. The anticipated job categories are listed below. Personnel expenses required in connection with the dispatch of personnel are based on the standards of the City and shall be borne by the operator. Other details such as working terms shall be specified in an arrangement to be entered into between the appointer of the personnel of the City and the operator prior to the scheduled date of commencement of the Airport Operating Business.

- Civil engineering personnel
- Electricity personnel
- Operation personnel (including security and disaster prevention)
 - * The civil engineering personnel and electricity personnel also serve as the operation and security and disaster prevention personnel.

(16) Consideration for the Project to be paid by the operator

The operator shall pay the following consideration²⁷.

- (i) Consideration for the acquisition of the Building Facility operator Shares described in the Building Facility operator Share Acquisition Option Agreement; and
- (ii) Consideration for the acquisition of the Assets for Transfer to the operator under the Goods Transfer Agreement

With regard to consideration (i) above, the operator shall directly pay to the Shareholders of the Building Facility operator the amount and by the method specified in the Building Facility operator Share Acquisition Option Agreement on the future date specified by itself at the time of exercising the right to complete the share transfer and the business transfer.

With regard to consideration (ii) above, the operator shall pay to the City the amount and by the method determined in accordance with the procedures in Chapter 5: 1.(4)I) for the acquisition of the Assets for Transfer to the operator. The consumption taxes and local consumption taxes shall be separately paid at the time of such payments.

Unless otherwise separately set out in the Project Agreement, the City will not return or

²⁶ For the conditions including the maximum number of people to be dispatched, please refer to the disclosed materials.

²⁷ The currency to be used for the payments shall be the Japanese yen.

reduce the consideration to the operator in (ii).

3. Matters concerning the Bidding

Matters concerning the Bidding are presented in Chapter 5.

4. Matters for ensuring the proper and stable implementation of the Project such as clarification of the responsibilities of the Private Business operator

(1) Conditions precedent to the Airport Operating Business

The main conditions specific to the Airport Operating Business are specified below. Applicants shall submit their statements of participation upon agreeing to these conditions.

With respect to these conditions, the concrete rights to be granted on and the concrete obligations to be assumed by the operator and other matters are set out in the Project Agreement (draft), the Required Standards Document (draft), Referential Materials, etc.

A) Succession of agreements, etc.

Among the agreements, etc., entered into by the City for the operation, etc., of the basic airport facilities, the airport air navigation facilities and the Airport Site etc., those designated by the City shall be succeeded by the operator on and after the date of commencement of the Airport Operating Business.

B) Obligation to lease the land, etc.

The operator shall have an obligation to lease the land, etc., designated by the City in the Airport Site, for which the City has given permission to third parties to use, on and after the date of commencement of the Airport Operating Business on the conditions specified by the City.

In addition, with respect to the land, etc., for which the City has given permission to third parties to use for the purposes of constructing and installing the structures (such as conduct lines and bridge piers), utility poles, etc., prior to the commencement of the Airport Operating Business, the operator shall have such third parties use the land, etc., in a way meeting the respective usages of such third parties on and after the date of commencement of the Airport Operating Business.

C) Construction work to be implemented by the City after the commencement of the Airport Operating Business

In the event that the City implements the construction work after the commencement of the Airport Operating Business,²⁸ the operator shall cooperate in the smooth implementation of the work to the maximum extent possible while maintaining and administering the existing facilities. It should be noted that the operator shall be responsible for the maintenance and administration of the facilities and the Airport Sites

²⁸ The bearing of the costs shall be pursuant to the provisions of the Airport Act.

that were added as a result of the work as the Facilities Subject to the Operation Appointment.

(2) Basic idea of allocation of risks

Proper allocation of roles and risks will be determined by the City and the operator. Taking into account that the operator may establish and collect landing fees, etc., and other usage fees at its own discretion in general in order for the operator to exercise its autonomy and show its originality and ingenuity in implementing the Project, any risk associated with the Project (including risks relating to a change in airport demand) shall be borne by the operator unless otherwise specifically set out in the Project Agreement etc. In addition, as described in 1., the Seven Airports in Hokkaido are planned to be managed integrally by the SPC incorporated by the single Preferred Negotiation Right Holder, and the operator shall also bear the risks associated with the Airport Operating Business of the other six airports in Hokkaido. For details on cases in which the City shall bear risks as an exception to the rule, please refer to the Project Agreement (draft).

(3) Matters for ensuring the performance of the operator's responsibilities

In order to confirm whether the operator is properly and stably carrying out the businesses set out in the Project Agreement, etc., and meeting the required standards, as well as to understand the financial condition of the operator, the City is planning to conduct monitoring²⁹, in addition to the self-monitoring to be performed by the operator.

If it is found that the operator fails to meet the required standards, the City may request that the operator take improvement measures or other measures³⁰.

For the concrete method of monitoring and other related matters, please refer to the Project Agreement (draft).

(4) Restrictions on the rights and obligations, etc., of the operator and related procedures

A) Disposition of the Operation Appointment

The operator shall not transfer, pledge or otherwise dispose of the Operation Appointment, its status under the Project Agreement, any contractual statuses under the agreements entered into with the City concerning the Project or the rights and obligations under these agreements, without prior written consent of the City; however, the operator may request the City to

²⁹ In cases where the Seven Airports in Hokkaido are integrally operated, the entity to conduct the monitoring shall be, as a general rule, each administrator. However, a framework shall be adopted in which the content and frequency of monitoring by and the format, content and frequency of reporting to each administrator are standardized in order to mitigate the burden of the operator.

³⁰ A framework in which opinions from third-party experts are obtained when there exist discrepancies between the recognitions of the operator and the City on the content of the monitoring shall be put in place. For details, see the disclosed documents.

rescind its Operation Appointment and grant the same to a third party. In this case, the City may, with the resolution of prior approval by the City Council pursuant to Article 14, paragraph (5) of the Supplementary Provisions of the Private Utilization Airport Operation Act, grant the Operation Appointment to a third party and rescind the operator's appointment.³¹

When the City grants the Operation Appointment to a third party, the following conditions shall be attached as a minimum.

- (i) The third party shall submit a letter of consent to the City, which states that the transferee shall succeed the contractual status of the operator under the Project Agreement with respect to the Project and the Project Agreement shall be binding on the transferee.
- (ii) All assets and contractual statuses owned by the operator and necessary for the implementation of the Project shall be transferred to the third party.
- (iii) The shareholders of the third party shall submit to the City the shareholders' covenant documents set out in the Basic Agreement (hereinafter referred to as the "Shareholder's Covenant Document").
- (iv) The City acknowledges that the third party implements (or is expected to implement) the other Airport Operating Business in Hokkaido (limited to cases where the operator also implements the Airport Operating Business of the other six airports in Hokkaido).

If the operator and the Building Facility operator intend to create a security interest in the revenues, etc. from the Project for borrowing money from a financial institution, etc., in order to raise funds necessary for implementing the Project, the City shall not refuse the creation of a security interest without reasonable reasons; however, an agreement concerning the matters set out in the Project Agreement, etc., shall be entered into between the City and the financial institution, etc.

B) New Issuance and Disposition of Shares by the operator

The shares which the operator may issue are limited to common shares with voting rights to vote on all items for resolution at the shareholders meeting of the operator (hereinafter referred to as the "Voting Shares") in accordance with the procedures set out in the Project Agreement and the shares of a kind which have no voting rights to vote on any items for resolution at the shareholders meeting of the operator (hereinafter referred to as the "Non-Voting Shares").

³¹ Rescission of the Operation Appointment and granting of the same to a third party other than the operator shall be subject to consultation among the Four Administrators. For details of such rescission and granting, please refer to the disclosed materials.

In order to ensure quick and flexible fund raising, the City shall not, in general and in accordance with the procedures set out in the Project Agreement, be involved in the new issuance or transfer of Non-Voting Shares issued by the operator, or the creation of a pledge or other security on these shares (hereinafter collectively referred to as the “Disposition”).

For details, please refer to the Project Agreement (draft) and the Basic Agreement (draft).

5. Matters concerning location, size and placement of the Airport

(1) Facilities subject to the Project

The facilities subject to the Project are listed below. The facilities listed in (iii), (iv) and (ix) are referred to as the “Non-Operation Appointment Facilities” and the other facilities are referred to as the “Facilities Subject to Operation Appointment.”

- (i) Basic airport facilities (runways, landing strip, taxiways, aprons, etc.)
- (ii) Airport air navigation facilities (aeronautical light facilities)
- (iii) Passenger Building Facilities (air passenger facilities, offices and shops, as well as other similar facilities, resting facilities, observation facilities, facilities for tours, etc.)³²
- (iv) Cargo Building Facilities (air cargo handling facilities etc.)
- (v) Roads
- (vi) Parking facilities
- (vii) Airport Site
- (viii) Facilities incidental to the above facilities (civil engineering facilities, construction (including the garages for fire engines and the garages for snow removers), machine facilities, power facilities (including the power supply facility), etc.)
- (ix) Facilities other than those listed in (i) through to (viii), which are owned by the operator or the Building Facility operator

(2) Project location

A) Location etc.

The location and area of the Airport Site notified in accordance with Article 46 of the Civil Aeronautics Act applied mutatis mutandis under Article 55-2, paragraph (3) of the same Act are as follows:

- (i) Location
Izumicho, Obihiro-shi, Hokkaido
- (ii) Area subject to the Project
Approximately 282 ha

B) Lease of the Airport Site, etc.

The Airport Site, etc. includes city-owned land and national government land. The basic matters concerning the lease, etc. of the Airport Site, etc. in the Project are set out below.

³² The operator shall have the obligation to lease the CIQ Facility in the Passenger Building Facilities owned by itself.

(i) National government land

National government land constitutes a national government asset as stipulated in Article 2 of the National Government Asset Act and Article 4 of its Supplementary Provisions and is classified as an administrative asset as stipulated in Article 3, paragraph (2) of the National Government Asset Act. In light of the possibility of the operator leasing a part of the Airport Site, etc. to a third party in the course of the Project, the City shall authorize the operator to grant such lease to a third party with the approval of the City and the State. For details, please refer to the Project Agreement (draft).

It should be noted that the City shall ensure that the use permit granted to the Building Facility operator with respect to the passenger building facilities and the cargo building facilities shall continue during the period commencing on the Building Facility Business Commencement Date and expiring on the day before the date of commencement of the Airport Operating Business.

(ii) City-owned land

In light of the possibility of the operator leasing a part of the Airport Site, etc. to a third party in the course of the Project, the City authorize the operator to grant such lease to a third party. For details, please refer to the Project Agreement (draft).

With respect to the permission granted to the Building Facility operator to use the sites of the Passenger Building Facilities and the Cargo Building Facilities, the City shall ensure the permission continues during the period from the Building Facility Business Commencement Date until the day preceding the date of commencement of the Airport Operating Business.

C) Businesses to be carried out outside of the Airport Site

The operator is required to carry out the businesses listed in 2.(10)A) through to D) which are included in the Project, even outside of the Airport Site.

The operator may not, or may not have the operator's subsidiary, etc., carry out the businesses listed in 2.(10)E), F) and G) outside of the Airport Site if approved by the City upon prior consultation with the City.³³

³³ Such approval shall be subject to consultation among the Four Administrators. For details of approval, please refer to the disclosed materials.

6. Matters concerning actions to take when it becomes difficult to continue the Project

(1) Actions to take when events occur which make it difficult to continue the Project

If any event occurs which makes the Project difficult to continue, the Project Agreement shall be terminated. In this case, the operator shall have the obligation to cooperate in taking over the Project until the Project is succeeded by the City or a third party designated by the City in accordance with the Project Agreement. The assets, etc., of the operator shall be treated in the same manner mentioned in 2.(7)D)(ii). For details of the allocation of responsibility for specific damage, etc., arising from each event that triggers termination of the Project Agreement, please refer to the Project Agreement (draft).

(2) Consultation between the City and a financial institution or banking syndicate

From the perspective of maintaining the stable continuation of the Project and the integrated operation of the Seven Airports in Hokkaido to the extent possible, with respect to certain matters set out in the Project Agreement, the City may if it deems necessary, consult with a financial institution or banking syndicate which provides finance for the operator and enter into an agreement directly with the financial institution or banking syndicate.

7. Other

(1) Cancellation of the Bidding

If the City determines that it is inappropriate to implement the Project, the City shall cancel the bidding without selecting a Preferred Negotiation Right Holder even after the commencement of the bidding.

In this case, the City shall publish the decision on its website and by other appropriate means.

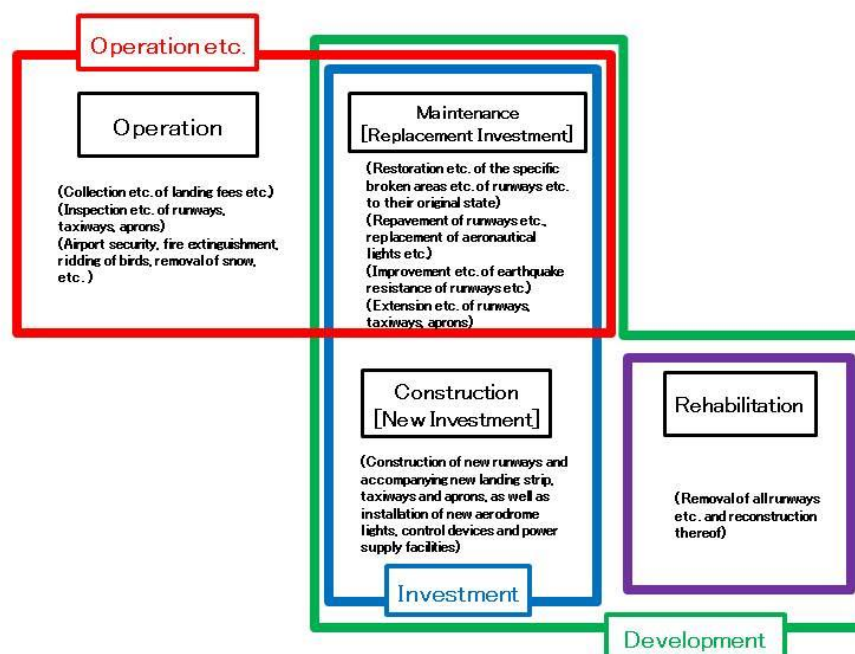
(2) Provision of information

The information concerning the Project will be provided from time to time on the following website:

Website of the Obihiro City Government

<http://www.city.obihoro.hokkaido.jp/shoukoukankoubu/kuukoujimusho/kukokeieikaikaku/>

Exhibit 1 Organizing with the terms used in the PFI Act



The definition of the terms based on the PFI Act and the Guidelines Concerning the Right to Operate Public Facilities, etc., and Public Facilities, etc., Operating Project (“PFI Guidelines for the Operating Right”)

- Operation etc.: means operation and maintenance (Article 2, paragraph (6) of the PFI Act)
- Maintenance: capital expenditures or repairs (including so-called alterations and improvements and large-scale repairs) excluding new constructions or entirely removing and redeveloping facilities, etc. (PFI Guidelines for the Operating Right)
- Construction: to create a new facility (new construction) (PFI Guidelines for the Operating Right)
- Rehabilitation: to entirely remove and redevelop facilities, etc. (PFI Guidelines for the Operating Right)
- Investment: Replacement investment means “maintenance” and new investment means “construction” (PFI Guidelines for the Operating Right)

Exhibit 2 Treatment of accounting and tax affairs in relation to the Project

(i) Practical Solution on Operators' Accounting for the Concession-based Private Finance Initiative Projects (Accounting Standards Board of Japan)

See the website of the Financial Accounting Standards Foundation at:

https://www.asb.or.jp/wp-content/uploads/pfi_2017_1.pdf

(ii) Treatment under the Corporation Tax Act of replacement investment to be implemented in accordance with a project agreement to implement Right to Operate Public Facilities, etc., under the Private Utilization Airport Operation Act

See the website of the National Tax Agency at:

<http://www.nta.go.jp/shiraberu/zeiho-kaishaku/bunshokaito/hojin/141118/index.htm>

(iii) Handling of Consumption Taxes relating to Setting the Right to Operate Public Facilities, etc., in Concession Projects

See the website of the National Tax Agency at:

<https://www.nta.go.jp/shiraberu/zeiho-kaishaku/shitsugi/shohi/12/07.htm>

Chapter 4 Memanbetsu Airport Edition

Application Guidelines on the Qualified Project, etc., for the Operation of Memanbetsu Airport

April 25, 2018
Hokkaido Government

1. Introduction

The Hokkaido Government (hereinafter collectively referred to as the “Hokkaido Government”) is planning to select a private business operator (if a private business operator composed of two or more corporations has been selected, it refers to all of the corporations; hereinafter referred to as the “Preferred Negotiation Right Holder”) to implement the Qualified Project, etc., for the Operation of Memanbetsu Airport (hereinafter referred to as the “Project”) at Memanbetsu Airport (hereinafter referred to as the “Airport”), for the purpose of integrally managing a Qualified Project for Local Airport Operation Pertaining to Memanbetsu Airport (hereinafter referred to as the “Airport Operating Business”) under the Act on Promotion of Private Finance Initiative (Act No. 117 of 1999; hereinafter referred to as the “PFI Act”) and the Act on Operation of National Airports Utilizing Skills of the Private Sector (Act No. 67 of 2013; hereinafter referred to as the “Private Utilization Airport Operation Act”) together with the non-aviation activities pertaining to the terminal buildings, etc. of Memanbetsu Airport (hereinafter referred to as the “Building Facilities Business”), as well as grant the Right to Operate Public Facilities, etc. (meaning the Right to Operate Public Facilities, etc., stipulated in Article 2, paragraph (7) of the PFI Act; hereinafter referred to as the “Operating Right”) to a special purpose company (hereinafter referred to as the “SPC”) incorporated by the Preferred Negotiation Right Holder, as the Operating Right Holder of a Local Airport Pertaining to Memanbetsu Airport (meaning the Operating Right Holder of a Local Airport stipulated in Article 11, paragraph (2) of the Private Utilization Airport Operation Act; hereinafter referred to as the “Operating Right Holder”) and enter into the Agreement regarding the Qualified Project, etc., for the Operation of Memanbetsu Airport to Implement Right to Operate Public Facilities, etc. (hereinafter referred to as the “Project Agreement”) in order to implement the Project.

In addition, the Civil Aviation Bureau and the East Japan Civil Aviation Bureau of the Ministry of Land, Infrastructure, Transport and Tourism (hereinafter referred to as the “State”), the Asahikawa City Government and the Obihiro City Government are planning to implement a similar project in which aviation activities pertaining to the runway, etc., and the Building Facilities Business are integrally managed at New Chitose Airport, Wakkanai Airport, Kushiro Airport and Hakodate Airport (hereinafter referred to as the “Four National Airports in Hokkaido”) and Asahikawa Airport and Obihiro Airport, which they administer.

A single Preferred Negotiation Right Holder is planned to be selected for these seven airports in Hokkaido (the Airport, Four National Airports in Hokkaido, Asahikawa Airport and Obihiro Airport; hereinafter referred to as the “Seven Airports in Hokkaido”) in light of the background and purposes specified in 2.(3) and have an SPC incorporated by the Preferred Negotiation Right Holder to integrally manage the Seven Airports in Hokkaido.

These Application Guidelines shall be applied to the selection of a Preferred Negotiation

Right Holder of the Project by a publicly-tendered proposal method which is a type of competitive negotiated agreement planned by the Hokkaido Government (hereinafter referred to as the "Bidding"). These Application Guidelines shall be applied from the date of publication the Application Guidelines until the date of conclusion of the Project Agreement, and shall be binding on the parties to the Project Agreement even after the date of conclusion of the Project Agreement.

Please note that the Hokkaido Government may set out in the Project Agreement or other documents the matters regarding the Project that are agreed upon through competitive dialogue, etc., between the Hokkaido Government and the Preferred Negotiation Right Holder held in the Bidding.

2. Matters concerning details of the Project

- (1) Administrator of the public facilities, etc.

Harumi Takahashi, Governor of Hokkaido

- (2) Unit in Charge

Office of Airport Privatization Strategy, Department of Policy Planning and Coordination,
Hokkaido Government (hereinafter referred to as the “Unit in Charge”)

Address: Kita 3-jo Nishi 6-chome, Chuo-ku, Sapporo-shi, Hokkaido

Tel: 011-204-5559, 011-206-7217

Email: sogo.senryaku@pref.hokkaido.lg.jp

The following advisors (hereinafter referred to as the “Bidding Advisors”) shall be appointed in regards to administrative affairs conducted by the Unit in Charge in the Bidding.

(i) Ernst & Young ShinNihon LLC

(ii) Anderson Mori & Tomotsune

(iii) Kansai Law & Patent Office

(iv) Ernst & Young Transaction Advisory Services Co., Ltd.

(v) Docon Co., Ltd.

Documents to be submitted to Bidding Advisors¹ under these Application Guidelines shall be sent to the following.

To: Ernst & Young ShinNihon LLC

Secretariat of Seven Airports in Hokkaido, Infrastructure Advisory Group

Address: Hibiya International Building, 2-2-3, Uchisaiwai-cho, Chiyoda-ku, Tokyo
100-0011

Tel: 03-3503-1557

Email: hokkaido7@jp.ey.com

- (3) Background and purposes of the Project

The Airport has the potential to be one of important airports that support the aviation network in Japan and leading gateways in Japan for inbound travelers from overseas countries since the Seven Airports in Hokkaido are an important infrastructure for promoting the industry and tourism in Hokkaido and securing a base therefor.

¹ Bidding Advisors are selected in each fiscal year. The selection for fiscal 2018 will be performed separately.

In order to demonstrate such potential, it is an urgent issue to promote effective utilization of each airport as gateways and strategic cooperation between airports in cooperation with the relevant local governments and the Hokkaido Government. However, it is impossible for the current Seven Airports in Hokkaido to manage the overall airports in an integrated and flexible way because the following are separately operated: (i) the basic airport facilities, etc., owned by the public entities, namely the Hokkaido Government, the State, the Asahikawa City Government and the Obihiro City Government (hereinafter collectively referred to as the “Hokkaido Government, etc.”) (however, the Hokkaido Government has no title to the part of the Airport Site not owned by the Hokkaido Government as stipulated in 5(2)), (ii) the facilities for handling air passengers and incidental convenient facilities (hereinafter referred to as the “Passenger Building Facilities,” and the facilities for handling air cargo and incidental convenient facilities (hereinafter referred to as the “Cargo Building Facilities”), owned by the operator of air passenger and cargo facilities (hereinafter referred to as the “Building Facility Operator”), and (iii) the parking facilities, etc., owned by the operator of parking facilities.

For these reasons, with the aim of allowing each of the Seven Airports in Hokkaido to perform its role at its full potential, the Hokkaido Government, etc. has decided to implement the Project in order to cause a private business operator to implement the Airport Operating Business while securing the safety of air transport and the public nature of the airports and to integrate the operation of the above facilities in the Seven Airports in Hokkaido to realize integrated and flexible airport management by utilizing the money and management skills of the private sector. The Hokkaido Government, etc. intends to utilize the Project partly to raise the level of the marketing capabilities of each airport of the Seven Airports in Hokkaido and enhance the aviation network and thereby to lead to the revitalization of the regional economy, which includes the promotion of wide-area tourism in cooperation with the Hokkaido Government.

(4) Application Guidelines, etc.

These Application Guidelines and documents attached hereto shall be composed of the documents listed in (i) through to (x) below (together with supplementary materials (meaning supplementary materials set out in Chapter 5: 3.(2)K), as well as answers to questions to be published on the Hokkaido Government’s website or by other appropriate means and other documents to be issued by the Hokkaido Government in relation to those documents, hereinafter collectively referred to as the “Application Guidelines, etc.” and if any amendments have been made, the documents reflecting the amendments shall prevail). The documents listed in (i) through to (ix) are conditions precedent for preparing documents to be submitted for the first screening (hereinafter referred to as the “First

Screening Proposal Documents”) and those for the second screening (hereinafter referred to as the “Second Screening Proposal Documents”), as well as other documents to be submitted for any screenings in relation to the implementation of the Project (hereinafter referred to as the “Proposal Documents”). The documents listed in (i) through to (vii) shall be binding on the parties to the Project Agreement when it is concluded.

In addition, supplementary materials to be published for the selection of the Preferred Negotiation Right Holder shall constitute a part of the Application Guidelines, etc., and all supplementary materials (excluding the referential materials) shall be binding on the parties to the Project Agreement when it is concluded, unless otherwise specified.

- (i) Application Guidelines on the Qualified Project, etc., for Airport Operation of the Seven Airports in Hokkaido (hereinafter referred to as the “Application Guidelines”)
- (ii) Agreement regarding the Qualified Project, etc., for Operation of Memanbetsu Airport to Implement Right to Operate Public Facilities, etc. (draft) (hereinafter referred to as the “Project Agreement (draft)”)
- (iii) Basic Agreement regarding Qualified Project, etc., for the Operation of Memanbetsu Airport (draft) (hereinafter referred to as the “Basic Agreement (draft)”)
- (iv) Free Lease Agreement with respect to the Local Government’s Property, etc., for the Qualified Project, etc., for the Operation of Memanbetsu Airport (draft) (hereinafter referred to as the “Local Government’s Property, etc., Free Lease Agreement (draft)”)
- (v) Goods Transfer Agreement with respect to the Qualified Project, etc., for the Operation of Memanbetsu Airport (draft) (hereinafter referred to as the “Goods Transfer Agreement (draft)”)
- (vi) Required Standards Document for the Qualified Project, etc., for the Operation of Memanbetsu Airport (draft) (hereinafter referred to as the “Required Standards Document (draft)”)
- (vii) Compilation of related materials
- (viii) Selection Criteria for the Preferred Negotiation Right Holder for the Qualified Project, etc., for Airport Operation of the Seven Airports in Hokkaido (hereinafter referred to as the “Selection Criteria for the Preferred Negotiation Right Holder”)
- (ix) Forms for the Qualified Project, etc., for Airport Operation of the Seven Airports in Hokkaido and directions to complete the forms (hereinafter referred to as the “Forms and Directions”)
- (x) Referential materials

If there are any discrepancies between these Application Guidelines, etc. and the Implementation Policy on the Project, etc., for the Operation of Memanbetsu Airport (published on March 29, 2018; hereinafter referred to as the "Implementation Policy"), the provisions of these Application Guidelines, etc. shall prevail; provided, however, that matters not set forth in the Application Guidelines, etc. shall be governed by the Implementation Policy.

(5) Anticipated governing laws, etc., for the implementation of the Project

The implementation of the Project shall be governed by the PFI Act, the Private Utilization Airport Operation Act and the Basic Policies on Operation of National Airports Utilizing Skills of the Private Sector (MLIT Public Notice No. 1080 of 2013), as well as various related laws and regulations, etc. set forth in the Required Standards Document (draft) I.-3.2.

(6) Project period

A) The period of the Project

The period of the Project is the period in which the Operating Right Holder carries out the Airport Operating Business based on the Operating Right (hereinafter referred to as the "Airport Operating Business Period") and the period in which the Operating Right Holder carries out the Building Facilities Business (hereinafter referred to as the "Building Facility Business Period") after its acquisition of the shares issued by the Building Facility Operator (hereinafter referred to as the "Building Facility Operator Shares"), prior to the implementation of the Airport Operating Business.

The Airport Operating Business Period means the period from the date of commencement of the Airport Operating Business upon fulfillment of the conditions precedent to the commencement as set out in the Project Agreement (meaning the date of commencement of the Airport Operating Business (hereinafter referred to as the "Airport Operating Business Commencement Date") until the day preceding the 30th anniversary of the date the Operating Right was granted (hereinafter referred to as the "Operating Right Establishment Date"), or if the Airport Operating Business Period is extended pursuant to 2.(6)B), until the date of expiration of such extended period (hereinafter referred to as the "Airport Operating Business Expiration Date").

The Building Facility Business Period means the period from the date of commencement of the Building Facilities Business (hereinafter referred to as the "Building Facility Business Commencement Date") upon fulfillment of the conditions precedent to commencement as set out in the Project Agreement, including acquisition

by the Operating Right Holder of the Building Facility Operator Shares, until the Airport Operating Business Expiration Date.

Therefore, the period of the Project (hereinafter referred to as the “Project Period”) shall be the period from the Building Facility Business Commencement Date until the Airport Operating Business Expiration Date².

B) Extension of the Airport Operating Business Period

If any of the events set out in the Project Agreement occurs, the Operating Right Holder may request that the Airport Operating Business Period and the Building Facility Business Period (hereinafter collectively referred to as the “Airport Operating Business Period, etc.”) be extended. In this case, if the Hokkaido Government finds that it is necessary for the Operating Right Holder to recover the damage, additional expenses, etc., incurred by the Operating Right Holder due to the occurrence of such event, the Airport Operating Business Period, etc., may be extended, upon consultation between the Hokkaido Government and the Operating Right Holder, for a period agreed upon by both parties within the limit specified in 2.(6)C) (such extension of the period is hereinafter referred to as the “Agreed Extension”). To avoid misunderstanding, the Agreed Extension may be made more than once.

In addition, aside from the Agreed Extension above, if any of the events set out in the Project Agreement occurs and the Hokkaido Government notifies the Operating Right Holder of its desire to extend the period by the corresponding date of four years before the Airport Operating Business Expiration Date, the Airport Operating Business Period, etc., may be extended to the Airport Operating Business Expiration Date of the other six Airport Operating Business in Hokkaido (meaning the project specified in 2.(10)F) that occurs at the latest point within the limit specified in 2.(6)C) (such extension of a period shall hereinafter be referred to as the “Public Extension Option”)³. It should be noted that the Public Extension Option may be exercised only once.

Except for the Agreed Extension and the Public Extension Option, no extension of the Airport Operating Business Period, etc., is permitted.

C) The duration of the Operating Right

The duration of the Operating Right (hereinafter referred to as the “Initial Duration of the Operating Right”) shall be the period from the Operating Right Establishment Date

² The Airport Operating Business Expiration Date pertaining to the Four National Airports in Hokkaido, Asahikawa Airport and Obihiro Airport shall be the same as that of the Operation of Memanbetsu Airport

³ It is contemplated that the Hokkaido Government will bear replacement investments and other expenses to the extent necessary (in terms of subject, scope, etc.) in the event that the self-sufficient operation of the Airport is deemed impracticable during the Public Extension Option period.

until the day preceding the 30th anniversary thereof.

The duration of the Operating Right shall not be beyond the day preceding the 35th anniversary of the Operating Right Establishment Date, including where the Airport Operating Business Period, etc. specified in 2.(6)B) is extended (this limit shall be recorded on the registry of the Rights to Operate a Public Facilities, etc.)⁴.

The duration of the Operating Right shall expire on the Airport Operating Business Expiration Date and the Operating Right shall also expire on this date.

(7) Project methods

A) Methods of granting, etc., the Operating Right and acquisition of the Assets for Transfer to the Operating Right Holder

The Preferred Negotiation Right Holder who has been selected through the procedure stipulated in Chapter 5: 1.(2) and has entered into the Basic Agreement (meaning the Basic Agreement defined in Chapter 5: 1.(4)A); the same shall apply hereinafter) with the Hokkaido Government shall incorporate an SPC whose sole purpose is to carry out the Project.

The Hokkaido Government shall grant the Operating Right to the SPC with respect to the Facilities Subject to the Operating Right (meaning the Facilities Subject to the Operating Right in 5.(1); the same shall apply hereinafter) and the SPC shall become the Operating Right Holder. The Operating Right Holder shall enter into the Project Agreement with the Hokkaido Government, and, by the date of commencement of the Airport Operating Business, shall complete the succession of the businesses and acquire the movables required for the implementation of the Project (hereinafter referred to as the “Assets for Transfer to the Operating Right Holder” and agreements relating to such transfer are hereinafter referred to as the “Goods Transfer Agreement”).

In addition, on the date of commencement of the Airport Operating Business, SPC shall purchase from the present parking facility operator the properties that will be necessary for the operation of the parking facility.

B) Method for acquiring the Building Facility Operator Shares

The Operating Right Holder that has entered into the Project Agreement shall acquire the Building Facility Operator Shares from the shareholders (hereinafter be referred to as the “Shareholders of the Building Facility Operator”) by the scheduled date of commencement of the Building Facility Business (as stipulated in the Project Agreement

⁴ For example, if the Operating Right Establishment Date is October 1, 2019, the date of expiration of the Initial Duration of the Operating Right shall be September 30, 2049, and even though the Airport Operating Business Period is extended, the date of expiration of it shall be no later than September 30, 2054.

(draft)).

With respect to the methods for transferring the shares mentioned above, a share acquisition option agreement in which the price for transferring all of the shares held by the Shareholders of the Building Facility Operator (90 percent of the issued and outstanding shares), is set at 993,600,000 yen (hereinafter referred to as the “Building Facility Operator Share Acquisition Option Agreement”) was entered into between the Hokkaido Government and the Shareholders of the Building Facility Operators (the breakdown of the transfer price of each share is indicated in the table below)⁵. It has been agreed that the contractual status of the Hokkaido Government under this agreement, including the right to complete the transfer of the Building Facility Operator Shares, shall be transferred to the Operating Right Holder.

The Operating Right Holder shall acquire from the Hokkaido Government the right to complete the share transfer under the Building Facility Operator Share Acquisition Option Agreement and exercise such right and shall obtain the Building Facility Operator Shares held by the Hokkaido Government, thereby acquiring the Building Facility Operator Shares. Please note that since this is made through the transfer of the shares, the agreements, etc., entered into by the Building Facility Operator and its employees will be succeeded by the Operating Right Holder unless the circumstances are exceptional.⁶

The Hokkaido Government shall assume no responsibility for the performance of the agreements by any person related to the Building Facility Operator Share Acquisition Option Agreement.

C) Treatment of the Building Facilities

In order to secure a preferred right of the Hokkaido Government to purchase the Building Facilities upon expiration of the Airport Operating Business Period, the Operating Right Holder shall, after the Building Facility Business Commencement Date and without delay, have the Building Facility Operator enter into a purchase option agreement concerning the Building Facilities with the Hokkaido Government in which the Hokkaido Government shall have an option to purchase. The purchase price of the Building Facilities under the purchase option agreement shall be their market price (which shall be determined by the method set out in the Project Agreement).

⁵ The terms and conditions for the transfer of the Building Facility Operator Shares held by the Hokkaido Government (10 percent of the issued and outstanding shares) shall be equivalent to those of the Building Facility Operator Share Acquisition Option Agreement, with the transfer price being 110,400,000 yen.

⁶ Even after the acquisition of the Building Facility Operator Shares, the Operating Right Holder shall continuously hire employees of the Building Facility Operator under conditions that do not substantially fall below the employment conditions concluded at the time of acquisition of said shares, unless the circumstances are exceptional. In addition, when the Operating Right Holder modifies the employment conditions of employees of the Building Facility Operator after the acquisition of the Building Facility Operator Shares, applicable labor-related laws and regulations must be complied with.

The Building Facility Operator shall make a provisional registration of the right of the Hokkaido Government to claim the transfer of ownership of the Building Facilities based on the purchase option agreement, at the expense of the Operating Right Holder or the Building Facility Operator. This provisional registration shall preserve priority over other rights (including, but not limited to, security) created on the Building Facilities.

D) Treatment upon expiration of the Project Period

The Operating Right and other matters will be treated as follows when the Project ends because the Project Period has effectively lapsed:

(i) Operating Right

The Operating Right shall expire on the Airport Operating Business Expiration Date.

(ii) Assets, etc., of the Operating Right Holder

The Operating Right Holder shall transfer the Facilities Subject to the Operating Right and the Airport Site not owned by the Hokkaido Government (hereinafter collectively referred to “Facilities, etc. Subject to the Operating Right”) to the Hokkaido Government, or a third party designated by the Hokkaido Government, on the Airport Operating Business Expiration Date or on a later day designated by the Hokkaido Government.

In addition, the Hokkaido Government or a third party designated by the Hokkaido Government may purchase, at market value⁷, any asset which is held by the Operating Right Holder or its subsidiary or affiliate (hereinafter collectively referred to as the “Operating Right Holder’s Subsidiary, etc.”) if the Hokkaido Government or the third party deems it necessary⁸. If the Hokkaido Government selects a new implementer of the Project through a bid, the Hokkaido Government shall make it a condition for participating in such bidding that the implementer shall purchase the whole or a part of such assets at market value, from the Operating Right Holder or the Operating Right Holder’s Subsidiary, etc.

The Operating Right Holder and the Operating Right Holder’s Subsidiary, etc., are responsible to dispose of all assets held by the Operating Right Holder and the Operating Right Holder’s Subsidiary, etc., for carrying out the Project, excluding those to be purchased by the Hokkaido Government or a third party designated by the

⁷ For details of the calculation method for the market value, please refer to the Project Agreement (draft).

⁸ The Operating Right Holder may request the Hokkaido Government to set up an opportunity of hearing of opinions regarding the scope of purchase of the expansion investments pertaining to the Non-Operating Right Facilities as of the Airport Operating Business Expiration Date to be conducted by the Operating Right Holder during the Airport Operating Business Period.

Hokkaido Government.

With respect to the Airport Site, etc. (as defined in 2.(10)A)(ii)i)), the Local Government's Property, etc., Free Lease Agreement shall be terminated on the Airport Operating Business Expiration Date and the Operating Right Holder shall, in general, clear the Airport Site, etc., at its own expense and transfer them to the Hokkaido Government or a third party designated by the Hokkaido Government. However, if any asset to be purchased by the Hokkaido Government or a third party designated by the Hokkaido Government existing on the Airport Site (meaning the Airport Site located at the address as defined in 5.(2)A); the same shall apply hereinafter), the portion of the Airport Site on which such asset exists shall be transferred on an as is basis.

(iii) Succession of the businesses

In general, the Operating Right Holder shall hand over the businesses to the Hokkaido Government or a third party designated by the Hokkaido Government within the Airport Operating Business Period and shall be responsible for properly handing over such businesses and for ensuring that the Project is smoothly succeeded by them at its own expense. Any personnel expenses and other related costs incurred for such handover by the Operating Right Holder, the Hokkaido Government or a third party designated by the Hokkaido Government shall be borne individually.

(8) Setting and collecting usage fees with respect to the Project

The Operating Right Holder may, or may have the Building Facility Operator, set usage fees and collect them as income at their respective discretion as follows: (i) with respect to the landing fees, etc. (Article 13, paragraph (1) of the Airport Act) stipulated in Article 2, paragraph (6), item (i) of the Private Utilization Airport Operation Act, the fees for using the airport air navigation facilities stipulated in Article 2, paragraph (6), item (ii) of the Private Utilization Airport Operation Act and the passenger (service) facility charge, necessary approval, etc., shall be obtained and necessary notification, etc., shall be submitted as required by the respective Acts and the Hokkaido Airport Ordinance; (ii) with respect to the fees for using the parking facilities and the fees to be collected from air carriers, tenants of the Building Facilities and others for using the facilities, the procedures under the related laws and regulations stated in 2.(5) shall be followed; and (iii) with respect to other fees pertaining to the Project, it shall be confirmed that it is not prohibited by laws, regulations, etc., to collect these fees as its own income.

(9) Bearing of costs for the Project

The Operating Right Holder shall be liable for any and all costs incurred for the implementation of the Project unless otherwise specifically set out in A) and B) below or the Project Agreement.

A) Bearing of the costs for replacement investment

(i) Basic idea for the bearing of costs

The Operating Right Holder shall stipulate in the replacement investment plan the content of and costs for replacement investment pertaining to Facilities Subject to the Operating Right (excluding extensions). The Hokkaido Government shall enter into a replacement investment agreement with the Operating Right Holder annually pursuant to the replacement investment plan and shall pay the costs for replacement investment within the scope stipulated in A) (ii) below.

(ii) Scope of the bearing of costs

The Operating Right Holder shall propose to the Hokkaido Government in the proposal the total amount of the costs for replacement investment and the annual breakdown borne by the Hokkaido Government within the upper limit set by the Hokkaido Government. The Hokkaido Government shall pay the costs for replacement investment in accordance with the replacement investment agreements, subject to the proposed total amount. The consumption taxes and local consumption taxes shall be separately paid by the Hokkaido Government at the time of such payments.

The upper limit set by the Hokkaido Government shall be 10,913 million yen in total (excluding consumption taxes and local consumption taxes).

B) Bearing of the costs for operation

(i) Basic idea for the bearing of costs

The Hokkaido Government shall pay the costs for operation of the Project (including replacement investment for vehicles) within the scope stipulated in the Project Agreement.

(ii) Scope of the bearing of costs

The Operating Right Holder shall propose to the Hokkaido Government in the proposal the total amount of the costs for operation of the Project and the annual breakdown borne by the Hokkaido Government within the upper limit set by the Hokkaido Government. The Hokkaido Government shall pay the proposed annual costs in accordance with the procedure stipulated in the Project Agreement. The consumption taxes and local consumption taxes shall be separately paid by the Hokkaido Government at the time of such payments.

The upper limit set by the Hokkaido Government shall be 5,058 million yen in total (excluding consumption taxes and local consumption taxes). The annual upper limit of payment shall be 177 million yen (excluding consumption taxes and local taxes).

(10) Scope of the Project ⁹

The scope of the Airport Operating Business shall be as listed in A) through to D) below and the scope of the Building Facilities Business and the scope of the Airport Operating Business of the other six airports in Hokkaido and the other Airport Operating Business shall be as listed in E), F) and G) below (for the specifics of each Business, please refer to the Required Standards Document (draft) I.2.5). During the Project Period the Operating Right Holder may or may have the Building Facility Operator or the fueling facility operator, entrust or give a contract to a third party (including the Operating Right Holder's Subsidiary, etc.), with prior notice to the Hokkaido Government, to carry out any business included in the Project except for entrusting prohibited businesses set out in the Project Agreement.

For detailed terms and conditions for implementing the Project, including the restrictions and procedures to be observed by the Operating Right Holder in entrusting such businesses, please refer to the Project Agreement (draft) and the Required Standards Document (draft).

- A) Airport Operating, etc., Business (Article 2, paragraph (6), item (i) of the Private Utilization Airport Operation Act)
 - (i) Basic airport facilities, etc., activities
 - i) Maintenance and administration of basic airport facilities etc.
 - ii) Operation of the basic airport facilities, etc.
 - iii) Setting of the landing fees, etc., and notification of the fees to the Minister of Land, Infrastructure, Transport and Tourism (Article 13 of the Private Utilization Airport Operation Act), as well as collection of the fees¹⁰
 - (ii) Airport Site, etc., administration activities ¹¹

⁹ See the Allocation of Businesses in the compilation of related materials for the allocation of activities between the Hokkaido Government and the operator at the Airport concerning the Airport Operating Business.

¹⁰ For the following cases, the landing fees, etc., shall not be collected.

- (i) The landing fees, etc., when an aircraft that is being used for diplomatic or official purposes uses the Airport.
- (ii) The landing fees, etc., when an aircraft lands on the Memanbetsu Airport in Hokkaido for a test flight, lands due to compelling circumstances after it took off without landing at another airport or place, makes an emergency landing due to compelling circumstances, or lands pursuant to an order for air traffic control or administrative reasons.
- (iii) The landing fees, etc., in other cases where the fees shall not be collected as stipulated in the Hokkaido Airport Ordinance.

¹¹ Although the administration of the part of the Airport Site not owned by the Hokkaido Government is included in the business stipulated in Article 2, paragraph (6), item (iv) of the Private Utilization Airport Operation Act, such

- i) Administration of the Airport Site of the Airport and the incidental facilities notified under Article 40 of the Civil Aeronautics Act (hereinafter collectively referred to as the “Airport Site, etc.”)
- B) Airport Air Navigation Facility Operating, etc., Business (Article 2, paragraph (6), item (ii) of the Private Utilization Airport Operation Act)
 - (i) Maintenance and administration of the airport air navigation facilities
 - (ii) Operation of the airport air navigation facilities
 - (iii) Setting of the fees for using the airport air navigation facilities and notification of the fees to the Minister of Land, Infrastructure, Transport and Tourism (Article 12, paragraph (2) of the Private Utilization Airport Operation Act, Article 54 of the Civil Aeronautics Act), as well as collection of the fees
- C) Environmental measures business
 - (i) Businesses for preventing problems arising from operating aircraft, including noise, or for improving the living environment in the areas surrounding the Airport (Article 2, paragraph (6), item (iii) of the Private Utilization Airport Operation Act)
- D) Other incidental businesses (Article 2, paragraph (6), item (iv) of the Private Utilization Airport Operation Act)
 - (i) Activities and services which the Operating Right Holder shall be responsible for carrying out

The Operating Right Holder shall be responsible for carrying out the following activities and services.

 - i) Establishment, etc., of regulations
 - ii) Airport Site, etc., lease business ¹²
 - iii) Parking facility business
 - iv) Bearing of costs for preventive measures against aircraft hijacking, etc.
 - v) Attendance at the Council
 - (ii) Businesses and services proposed ¹³ by the Preferred Negotiation Right Holder

administration shall be integrally conducted with the administration of the part of the Airport Site owned by the Hokkaido Government, and shall be included in the Airport Operating, etc., Business.

¹² Regarding the land and constructions, etc., on the land that will be continuously used by the Hokkaido Government and any person designated by the Hokkaido Government, the Operating Right Holder shall lease to them or shall have them use such land and constructions, etc., on the land based on the terms and conditions specified in the Project Agreement (draft).

¹³ The businesses and services to be proposed shall be limited to those implemented by the Operating Right Holder

- i) Businesses and services related to enhancement and strengthening of the air transport networks of the Airport
- ii) Businesses and services related to enhancement and strengthening of the air transport network in Hokkaido
- iii) Businesses and services related to the promotion of wide-area tourism in Hokkaido
- iv) Businesses and services for a symbiotic relationship with local communities

E) Building Facilities Business

In addition to the businesses included in the Building Facilities Business, which the Operating Right Holder is responsible for implementing, the Operating Right Holder may during the Airport Operating Business Period, or may have the Building Facility Business Operator during the Project Period, at its own discretion, conduct any business or service which it deems necessary within the Airport Site to the extent that such business or service complies with the related laws and regulations, does not interfere with the function of the Airport, does not fall under the amusement business or other similar business, or an office of an organized crime group or other similar office, and is not offensive to public policy. The Operating Right Holder or the Operating Right Holder's Subsidiary, etc., may carry out any business activity outside of the Airport Site, from which they earn revenue, etc., from third parties (however, excluding those activities listed in 2.(10)F) and G), upon approval of the Hokkaido Government.¹⁴

Any company funded by the Preferred Negotiation Right Holder, excluding the Operating Right Holder and the Operating Right Holder's Subsidiary, etc., may conduct, at its own discretion, any business outside of the Airport Site.

(i) Passenger Building Facility business

- i) The Operating Right Holder has the obligation to implement, or have the Building Facility Operator implement, the passenger building facility business.
- ii) The Operating Right Holder may, or may have the Building Facility Operator, operate directly-managed stores, etc. in the Passenger Building Facilities at its own discretion.

(ii) Cargo Building Facility business

(including those that the Operating Right Holder causes a third party to implement while the Operating Right Holder assuming the contractual liabilities).

¹⁴ Such approval shall be subject to consultation among the Four Administrators. For details of approval, please refer to the disclosed materials.

- i) The Operating Right Holder has the obligation to implement, or have the Building Facility Operator implement, the cargo building facility business.
- ii) The Operating Right Holder may, or may have the Building Facility Operator, provide the distribution processing service, etc. in the Cargo Building Facilities at its own discretion:
- (iii) Aircraft fueling service business ¹⁵
- (iv) Optional businesses in the Airport Site ¹⁶

F) Airport Operating Business of the six other airports in Hokkaido

As described in 2(3), the Hokkaido Government plans to entrust the private sector to integrally operate the Seven Airports in Hokkaido from the perspective of, among other factors, raising the level of marketing capabilities of each airport and enhancing the aviation network and thereby leading to the revitalization of the regional economy which includes the promotion of wide-area tourism in cooperation with the Hokkaido Government. Accordingly, the Airport Operating Business pertaining to the Four National Airports in Hokkaido, Asahikawa Airport and Obihiro Airport shall be positioned as the Airport Operating Business of the six other airports in Hokkaido.

G) Other Airport Operating Business

If the administrator of an airport in Hokkaido other than the Four National Airports in Hokkaido, Asahikawa Airport and Obihiro Airport intends to have a third party operate the airport under his/her control, the Operating Right Holder may negotiate with the administrator of that airport in Hokkaido.

(11) Structure of the Required Standards Document (draft)

The Operating Right Holder must place the greatest priority on securing the safety of air transport among all the activities in the course of providing the Airport Operation. The Hokkaido Government shall establish required standards for ensuring, among others, that the Operating Right Holder properly carries out the maintenance and administration businesses, conducts the operating businesses contributing to the safety of air transport, properly implements the environmental measures business, and carries out investments

¹⁵ During the period in which the Operating Right Holder leases the land to an aircraft fueling and related services business operator and such operator provides the aircraft fueling service at Memanbetsu Airport, the Operating Right Holder does not have an obligation to provide such service by itself.

¹⁶ If the Operating Right Holder intends to carry out any optional business prior to the day preceding the date of commencement of the Airport Operating Business, it shall separately obtain permission, etc., to use the Airport Site.

contributing to improve the convenience of airport users. Please note that regarding the matters concerning the services in “V. Passenger Building Facility Business and Cargo Building Facility Business” and “IV-1. Parking Facility Business” set forth in the Required Standards Document (draft) I.3.1, the Hokkaido Government shall set out the minimum necessary matters in advance, and their details shall be set out with reflecting the matters proposed by the applicant who has been selected as the Preferred Negotiation Right Holder in the required standards. The same manner shall be applied to the matters concerning the required standards for “IV-3. Businesses and Services Related to Enhancement and Strengthening of the Air Transport Networks of the Airport,” “IV-4. Businesses and Services Related to Enhancement and Strengthening of the Air Transport Networks in Hokkaido,” “IV-5. Businesses and Services Related to Promotion of the Wide-Area Tourism,” and “IV-6. Businesses and Services for a Symbiotic Relationship with Local Communities.”

- (12) Rights and assets, etc., to be obtained and succeeded by the Operating Right Holder
 - A) Assets to be obtained by the Operating Right Holder prior to the Building Facility Business Commencement Date
 - (i) Building Facility Operator Shares
 - The shares issued by the Building Facility Operator (See 2.(7)B))
 - B) Rights and assets to be obtained and succeeded by the Operating Right Holder prior to the date of commencement of the Airport Operating Business
 - (i) Operating Right ¹⁷
 - The rights to be created on the Airport Site (excluding the part thereof not owned by the Hokkaido Government), runways, taxiways, aprons, aeronautical lights, roads and parking facilities, water and sewage facilities, rainwater drainage facilities, bridges, water sources for fire defense, fences surrounding the Airport, garages for fire engines, garages for snow removers, lights on roads and parking areas, the power supply facility and the devices inside it, electricity lines, and others
 - (ii) Rights to use the Airport Site, etc.
 - The rights to use the Airport Site, etc., under the Local Government’s Property, etc., Free Lease Agreement

¹⁷ For the specifics of the Operating Right, see the List of Facilities Subject to Operating Rights in the compilation of related materials. The content of the List of Facilities Subject to Operating Rights is current as of the end of fiscal 2016, and will be updated by the Hokkaido Government before the conclusion of the Project Agreement as stated in Chapter 5: 1(4)B) and will also be updated by the date of commencement of the Airport Operating Business pursuant to the Project Agreement.

(iii) Assets for Transfer to the Operating Right Holder ¹⁸

- The Assets for Transfer to the Operating Right Holder necessary for the airport operating businesses (including fire engines, snow removers, etc.)

(13) Treatment of replacement investment, etc.

A) Treatment of replacement investment, etc., for the Facilities, etc. Subject to the Operating Right

- The Operating Right Holder may, at its own discretion, carry out maintenance and administration (replacement investment) of the Facilities, etc. Subject to Operating Right as long as they meet the required standards.¹⁹ However, if the Operating Right Holder intends to carry out certain maintenance and administration (replacement investment) set out in the Project Agreement, such as material changes stipulated in Article 43 of the Civil Aeronautics Act, it shall obtain prior approval of the Hokkaido Government. The Operating Right Holder may not construct (new investment) or rehabilitate the Facilities, etc. Subject to the Operating Right.²⁰
- The Hokkaido Government may carry out maintenance and administration (replacement investment) on the Facilities, etc. Subject to the Operating Right if the Hokkaido Government determines such maintenance and administration is necessary on public interest grounds.
- Any of the Facilities, etc. Subject to the Operating Right for which maintenance and administration (replacement investment) has been carried out by the Hokkaido Government or the Operating Right Holder shall belong to the Hokkaido Government (provided, however, that the part of the Airport Site not owned by the Hokkaido Government shall belong to the State, Ozoracho or Bihorocho, etc.) and the operation, etc., of the facility shall be carried out by the Operating Right Holder.

¹⁸ For the specifics of the Assets for Transfer to the operator, see the list of the Assets for Transfer to the operator in the compilation of related materials. The content of the list of the Assets for Transfer to the operator is current as of the end of fiscal 2016, and will be updated by the Hokkaido Government before the commencement of transfer procedures as stated in Chapter 5: 1.(4)B) and Chapter 5: 1.(4)I).

¹⁹ The Hokkaido Government shall bear the costs, at the time of the expiration of the Project Period, for those investments among the expansion investments pertaining to the Facilities, etc. Subject to the Operating Right made by the Operating Right Holder for which certain requirements ((i) the collection during the Project Period is difficult and (ii) the Hokkaido Government determines that the remaining value of the expansion investments can be expected at the time of the expiration of the business and the budget has been provided based on the calculation method agreed upon by the Hokkaido Government and the Operating Right Holder in advance) specified in the Project Agreement are fulfilled.

²⁰ See Exhibit 1 for the scope of the maintenance and administration of the Facilities Subject to the Operation Appointment by the Operating Right Holder.

B) Treatment of replacement investment, etc., for Non-Operating Right Facilities (excluding the part of the Airport Site not owned by the Hokkaido Government)

- The Operating Right Holder may, at its own discretion, carry out investment (not limited to maintenance and administration (replacement investment)) for the Non-Operating Right Facilities (as defined in 5.(1)) (excluding the part of the Airport Site not owned by the Hokkaido Government) as long as they meet the required standards in general.²¹ ²²

(14) Planning and reporting

A) Planning

- With respect to the Project, the Operating Right Holder shall prepare a project plan for the entire Airport Operating Business Period (Master Plan) and a mid-term project plan for every five fiscal years and a single year project plan and a replacement investment plan for every fiscal year and submit them to the Hokkaido Government.
- It shall contain investment plans including the purposes of ensuring safety and operating stability and improving convenience.
- The Operating Right Holder shall carry out the Project in accordance with the submitted plans.

B) Reporting

- During the Airport Operating Business Period, the Operating Right Holder shall prepare the reports, etc., set out in the Project Agreement and submit them to the Hokkaido Government.

(15) Dispatch, etc., of personnel from the Hokkaido Government to the Operating Right Holder in relation to the Airport Operating Business

The Operating Right Holder may, if so desires, request that the Hokkaido Government dispatch its personnel in relation to the Airport Operating Business. The job categories, the maximum number of people to be dispatched, the dispatch period and other details shall be

²¹ However, when the Operating Right Holder, or the Building Facility Operator, carries out work on the Building Facilities requiring rearrangement or the new construction of the facilities related to customs, immigration and quarantine (hereinafter referred to as the “CIQ Facilities”), prior approval of the Hokkaido Government shall be obtained for such work.

²² The Operating Right Holder may request the Hokkaido Government to set up an opportunity of hearing of opinions regarding the scope of purchase of the expansion investments pertaining to the Non-Operating Right Facilities as of the Airport Operating Business Expiration Date to be conducted by the Operating Right Holder during the Airport Operating Business Period.

determined through competitive dialogue²³. The anticipated job categories are listed below. Personnel expenses required in connection with the dispatch of personnel are based on the standards of the Hokkaido Government and shall be borne by the Operating Right Holder. Other details such as working terms shall be specified in an arrangement to be entered into between the appointer of the personnel of the Hokkaido Government and the Operating Right Holder prior to the scheduled date of commencement of the Airport Operating Business.

- Administration personnel (security and disaster prevention and operation)
- Facility section personnel (civil engineering and machines and electricity)

(16) Consideration for the Project to be paid by the Operating Right Holder

The Operating Right Holder shall pay the following consideration.²⁴

- (i) Consideration for the acquisition of the Building Facility Operator Shares described in the Building Facility Operator Share Acquisition Option Agreement; and
- (ii) Consideration for the acquisition of the Assets for Transfer to the Operating Right Holder under the Goods Transfer Agreement and the parking facility assets to be purchased from the present parking facility operator

With regard to consideration (i) above, the Operating Right Holder shall directly pay to the Shareholders of the Building Facility Operator the amount and by the method specified in the Building Facility Operator Share Acquisition Option Agreement on the future date specified by itself at the time of exercising the right to complete the share transfer.

With regard to consideration (ii) above, the Operating Right Holder shall pay to the Hokkaido Government the amount and by the method determined in accordance with the procedures in Chapter 5: 1.(4)I) for the acquisition of the Assets for Transfer to the Operating Right Holder.

With regard to consideration (ii) above, the Operating Right Holder shall pay to the present parking facility operator for the acquisition of the parking facility assets.

The consumption taxes and local consumption taxes shall be separately paid at the time of such payments.

Unless otherwise separately set out in the Project Agreement, the Hokkaido Government will not return or reduce the consideration to the Operating Right Holder in (ii).

²³ For the conditions including the maximum number of people to be dispatched, please refer to the Project Agreement (draft)

²⁴ The currency to be used for the payments shall be the Japanese yen.

3. Matters concerning the Bidding

Matters concerning the Bidding are presented in Chapter 5.

4. Matters for ensuring the proper and stable implementation of the Project such as clarification of the responsibilities of the Private Business Operator

(1) Conditions precedent to the Airport Operating Business

The main conditions specific to the Airport Operating Business are specified below. Applicants shall submit their statements of participation upon agreeing to these conditions.

With respect to these conditions, the concrete rights to be granted on and the concrete obligations to be assumed by the Operating Right Holder and other matters are set out in the Project Agreement (draft), the Required Standards Document (draft), Referential Materials, etc.

A) Succession of agreements, etc.

Among the agreements, etc., entered into by the Hokkaido Government for the operation, etc., of the basic airport facilities, the airport air navigation facilities and the Airport Site etc., those designated by the Hokkaido Government shall be succeeded by the Operating Right Holder on and after the date of commencement of the Airport Operating Business.

B) Obligation to lease the land, etc.

The Operating Right Holder shall have an obligation to lease the land, etc., designated by the Hokkaido Government in the Airport Site, for which the Hokkaido Government has given permission to third parties to use, on and after the date of commencement of the Airport Operating Business on the conditions specified by the Hokkaido Government.

In addition, with respect to the land, etc., for which the Hokkaido Government has given permission to third parties to use for the purposes of constructing and installing the structures (such as conduct lines and bridge piers), utility poles, etc., prior to the commencement of the Airport Operating Business, the Operating Right Holder shall have such third parties use the land, etc., in a way meeting the respective usages of such third parties on and after the date of commencement of the Airport Operating Business.

C) Construction work to be implemented by the Hokkaido Government after the commencement of the Airport Operating Business

In the event that the Hokkaido Government implements the construction work after the commencement of the Airport Operating Business,²⁵ the Operating Right Holder

²⁵ The bearing of the costs shall be pursuant to the provisions of the Airport Act.

shall cooperate in the smooth implementation of the work to the maximum extent possible while maintaining and administering the existing facilities. It should be noted that the Operating Right Holder shall be responsible for the maintenance and administration of the facilities and the Airport Sites that were added as a result of the work as the Facilities Subject to the Operating Right (or as the part of the Airport Site not owned by the Hokkaido Government, as applicable).

(2) Basic idea of allocation of risks

Proper allocation of roles and risks will be determined by the Hokkaido Government and the Operating Right Holder. Taking into account that the Operating Right Holder may establish and collect landing fees, etc., and other usage fees at its own discretion in general in order for the Operating Right Holder to exercise its autonomy and show its originality and ingenuity in implementing the Project, any risk associated with the Project (including risks relating to a change in airport demand) shall be borne by the Operating Right Holder unless otherwise specifically set out in the Project Agreement etc. In addition, as described in 1., the Seven Airports in Hokkaido are planned to be managed integrally by the SPC incorporated by the single Preferred Negotiation Right Holder, and the Operating Right Holder shall also bear the risks associated with the Airport Operating Business of the other six airports in Hokkaido. For details on cases in which the Hokkaido Government shall bear risks as an exception to the rule, please refer to the Project Agreement (draft).

(3) Matters for ensuring the performance of the Operating Right Holder's responsibilities

In order to confirm whether the Operating Right Holder is properly and stably carrying out the businesses set out in the Project Agreement, etc., and meeting the required standards, as well as to understand the financial condition of the Operating Right Holder, the Hokkaido Government is planning to conduct monitoring²⁶, in addition to the self-monitoring to be performed by the Operating Right Holder.

If it is found that the Operating Right Holder fails to meet the required standards, the Hokkaido Government may request that the Operating Right Holder take improvement measures or other measures.²⁷

For the concrete method of monitoring and other related matters, please refer to the

²⁶ In cases where the Seven Airports in Hokkaido are integrally operated, the entity to conduct the monitoring shall be, as a general rule, each administrator. However, a framework shall be adopted in which the content and frequency of monitoring by and the format, content and frequency of reporting to each administrator are standardized in order to mitigate the burden of the Operating Right Holder.

²⁷ A framework in which opinions from third-party experts are obtained when there exist discrepancies between the recognitions of the operator and the Hokkaido Government on the content of the monitoring shall be put in place. For details, see the disclosed documents.

Project Agreement (draft).

- (4) Restrictions on the rights and obligations, etc., of the Operating Right Holder and related procedures

A) Disposition of the Operating Right

The Operating Right Holder shall not transfer, pledge or otherwise dispose of the Operating Right, its status under the Project Agreement, any contractual statuses under the agreements entered into with the Hokkaido Government concerning the Project or the rights and obligations under these agreements, without prior written consent of the Hokkaido Government; however, the Operating Right Holder may transfer the Operating Right with prior approval of the Hokkaido Government based on Article 26, paragraph (2) of the PFI Act.²⁸

When the Hokkaido Government approves the transfer of the Operating Right, the following conditions shall be attached as a minimum.

- (i) The transferee shall submit a letter of consent to the Hokkaido Government, which states that the transferee shall succeed the contractual status of the Operating Right Holder under the Project Agreement with respect to the Project and the Project Agreement shall be binding on the transferee.
- (ii) All assets and contractual statuses owned by the Operating Right Holder and necessary for the implementation of the Project shall be transferred to the transferee.
- (iii) The shareholders of the transferee shall submit to the Hokkaido Government the shareholders' covenant documents set out in the Basic Agreement (hereinafter referred to as the "Shareholder's Covenant Document").
- (iv) The Hokkaido Government acknowledges that the transferee of the Operating Right implements (or is expected to implement) the other Airport Operating Business in Hokkaido (limited to cases where the Operating Right Holder also implements the Airport Operating Business of the other six airports in Hokkaido).

If the Operating Right Holder and the Building Facility Operator intend to create a security interest in the Operating Right for borrowing money from a financial institution, etc., in order to raise funds necessary for implementing the Project, the Hokkaido Government shall not refuse the creation of a security interest without reasonable reasons; however, an agreement concerning the matters set out in the Project Agreement, etc., shall be entered into between the Hokkaido Government and the financial institution, etc.

²⁸ Approval of the Disposition of the Operating Right shall be subject to consultation among the Four Administrators. For details of approval, please refer to the disclosed materials.

B) New Issuance and Disposition of Shares by the Operating Right Holder

The shares which the Operating Right Holder may issue are limited to common shares with voting rights to vote on all items for resolution at the shareholders meeting of the Operating Right Holder (hereinafter referred to as the “Voting Shares”) in accordance with the procedures set out in the Project Agreement and the shares of a kind which have no voting rights to vote on any items for resolution at the shareholders meeting of the Operating Right Holder (hereinafter referred to as the “Non-Voting Shares”).

In order to ensure quick and flexible fund raising, the Hokkaido Government shall not, in general and in accordance with the procedures set out in the Project Agreement, be involved in the new issuance or transfer of Non-Voting Shares issued by the Operating Right Holder, or the creation of a pledge or other security on these shares (hereinafter collectively referred to as the “Disposition”) as listed below.

For details, please refer to the Project Agreement (draft) and the Basic Agreement (draft).

5. Matters concerning location, size and placement of public facilities etc.

(1) Facilities subject to the Project

The facilities subject to the Project are listed below. The facilities listed in (iii), (iv), (vii) (with respect to the part of the Airport Site not owned by the Hokkaido Government only) and (ix) are referred to as the “Non-Operating Right Facilities” and the other facilities are referred to as the “Facilities Subject to Operating Right.”

- (i) Basic airport facilities (runways, landing strip, taxiways, aprons, etc.)
- (ii) Airport air navigation facilities (aeronautical light facilities)
- (iii) Passenger Building Facilities (air passenger facilities, offices and shops, as well as other similar facilities, resting facilities, observation facilities, facilities for tours, etc.)²⁹
- (iv) Cargo Building Facilities (air cargo handling facilities etc.)
- (v) Roads
- (vi) Parking facilities (excluding those to be transferred from the present parking facility operator)
- (vii) Airport Site
- (viii) Facilities incidental to the above facilities (civil engineering facilities, construction (including the garages for fire engines and the garages for snow removers), machine facilities, power facilities (including the power supply facility), etc.)
- (ix) Facilities other than those listed in (i) through to (viii), which are owned by the Operating Right Holder or the Building Facility Operator

(2) Project location

A) Location etc.

The location and area of the Airport Site notified in accordance with Article 40 of the Civil Aeronautics Act are as follows:

- (i) Location
Ozoracho and Bihorocho, Abashiri-gun, Hokkaido
- (ii) Area subject to the Project
Approximately 168 ha

B) Lease of the Airport Site, etc.

Approximately 163 ha from among the Airport Sites, etc., is the Hokkaido Government's property stipulated in Article 238, paragraph (1) of the Local Autonomy

²⁹ The Operating Right Holder shall have the obligation to lease the CIQ Facilities in the Passenger Building Facilities owned by itself.

Act and categorized into the administrative assets stipulated in Article 238, paragraph (4) of this Act. Taking into account that the Operating Right Holder may lease part of the Airport Site, etc., to third parties, etc., in implementing the Airport Operation Business, the Hokkaido Government shall allow the Operating Right Holder to use the Airport Site, etc., during the Airport Operating Business Period (as stipulated in 2.(6)(A)) under the terms and conditions set out in the Local Government's Property Free Lease Agreement.

Approximately 5 ha from among the Airport Sites, etc. is either the national property or the properties owned by Ozoracho or Bihorocho being used by the Hokkaido Government without charge under the occupancy permission from the owners.³⁰ The Hokkaido Government will make such land available for use by the Operating Right Holder during the Airport Operating Business Period, together with the above land owned by the Hokkaido Government, by renewing or extending the relevant free lease agreements (or, acquiring such land) and leasing such land without charge to the Operating Right Holder.

With respect to the permission granted to the Building Facility Operator to use the sites of the Passenger Building Facilities and the Cargo Building Facilities, the Hokkaido Government shall ensure the permission continues during the period from the Building Facility Business Commencement Date until the day preceding the date of commencement of the Airport Operating Business.

C) Businesses to be carried out outside of the Airport Site

The Operating Right Holder is required to carry out the businesses listed in 2.(10)A) through to D) which are included in the Project, even outside of the Airport Site.

The Operating Right Holder may not, or may not have the Operating Right Holder's Subsidiary, etc., carry out the businesses listed in 2.(10)E), F) and G) outside of the Airport Site if approved by the Hokkaido Government upon prior consultation with the Hokkaido Government.³¹ It should be noted that, with respect to the aircraft fueling service business as stipulated in 2.(10)E)(iii), provision of the fueling service at Monbetsu Airport shall also be obligated.³² For details, please refer to the Project Agreement (draft).

³⁰ Part of such land remains not registered. The Hokkaido Government shall indemnify the Operating Right Holder for any additional cost or damages incurred due to the status of such unregistered land.

³¹ Such approval shall be subject to consultation among the Four Administrators. For details of approval, please refer to the disclosed materials.

³² Currently, since Monbetsu Airport does not have a fueling facility, the aircraft fueling service provider for Memanbetsu Airport provides the fueling service for Monbetsu Airport by using tankers. The Operating Right Holder shall not have the obligation to implement such business as long as the present service provider continues the fueling service for Memanbetsu Airport and Monbetsu Airport

6. Matters concerning actions to take when it becomes difficult to continue the Project

(1) Actions to take when events occur which make it difficult to continue the Project

If any event occurs which makes the Project difficult to continue, the Project Agreement shall be terminated. In this case, the Operating Right Holder shall have the obligation to cooperate in taking over the Project until the Project is succeeded by the Hokkaido Government or a third party designated by the Hokkaido Government in accordance with the Project Agreement. The assets, etc., of the Operating Right Holder shall be treated in the same manner mentioned in 2.(7)D)(ii). For details of the allocation of responsibility for specific damage, etc., arising from each event that triggers termination of the Project Agreement, please refer to the Project Agreement (draft).

(2) Consultation between the Hokkaido Government and a financial institution or banking syndicate

From the perspective of maintaining the stable continuation of the Project and the integrated operation of the Seven Airports in Hokkaido to the extent possible, with respect to certain matters set out in the Project Agreement, the Hokkaido Government may if it deems necessary, consult with a financial institution or banking syndicate which provides finance for the Operating Right Holder and enter into an agreement directly with the financial institution or banking syndicate.

7. Other

(1) Cancellation of the Bidding and rescission of selection of the Qualified Project

If the Hokkaido Government determines that it is inappropriate to implement the Project, the Hokkaido Government shall cancel the bidding without selecting a Preferred Negotiation Right Holder even after the commencement of the bidding.

In this case, the Hokkaido Government shall publish the decision on its website and by other appropriate means.

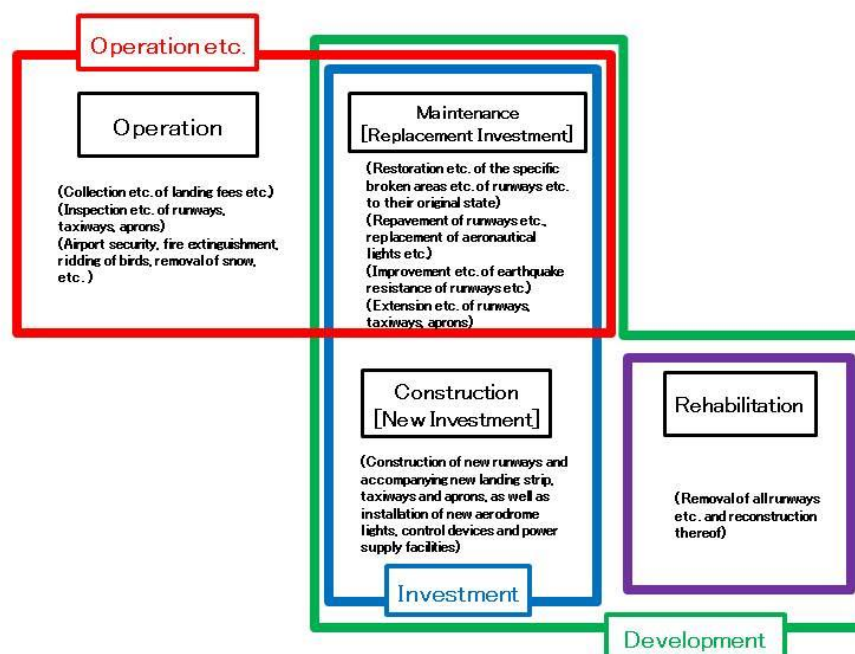
(2) Provision of information

The information concerning the Project will be provided from time to time on the following website:

Website of the Hokkaido Government

(<http://www.pref.hokkaido.lg.jp/ss/kus/>)

Exhibit 1. Organizing with the terms used in the PFI Act



The definition of the terms based on the PFI Act and the Guidelines Concerning the Right to Operate Public Facilities, etc., and Public Facilities, etc., Operating Project (“PFI Guidelines for the Operating Right”)

- Operation etc.: means operation and maintenance (Article 2, paragraph (6) of the PFI Act)
- Maintenance: capital expenditures or repairs (including so-called alterations and improvements and large-scale repairs) excluding new constructions or entirely removing and redeveloping facilities, etc. (PFI Guidelines for the Operating Right)
- Construction: to create a new facility (new construction) (PFI Guidelines for the Operating Right)
- Rehabilitation: to entirely remove and redevelop facilities, etc. (PFI Guidelines for the Operating Right)
- Investment: Replacement investment means “maintenance” and new investment means “construction” (PFI Guidelines for the Operating Right)

Exhibit 2. Treatment of accounting and tax affairs in relation to the Project

(i) Practical Solution on Operators' Accounting for the Concession-based Private Finance Initiative Projects (Accounting Standards Board of Japan)

See the website of the Financial Accounting Standards Foundation at:

https://www.asb.or.jp/wp-content/uploads/pfi_2017_1.pdf

(ii) Treatment under the Corporation Tax Act of replacement investment to be implemented in accordance with a project agreement to implement Right to Operate Public Facilities, etc., under the Private Utilization Airport Operation Act

See the website of the National Tax Agency at:

<http://www.nta.go.jp/shiraberu/zeiho-kaishaku/bunshokaito/hojin/141118/index.htm>

(iii) Handling of Consumption Taxes relating to Setting the Right to Operate Public Facilities, etc., in Concession Projects

See the website of the National Tax Agency at:

<https://www.nta.go.jp/shiraberu/zeiho-kaishaku/shitsugi/shohi/12/07.htm>

Chapter 5 Common Edition

Matters concerning the Bidding in the Qualified Project, etc., for Airport Operation of the Seven Airports in Hokkaido

April 25, 2018

Civil Aviation Bureau, Ministry of Land, Infrastructure, Transport and
Tourism

Asahikawa City Government

Obihiro City Government

Hokkaido Government

1. Matters concerning the Bidding

(1) Participation requirements for applicants

A) Composition of an applicant

- (i) An applicant shall be a single company (hereinafter referred to as the “Applying Company”) or a group composed of multiple companies (hereinafter referred to as the “Consortium”), which plans to carry out the businesses listed in 2.1(10) in the respective provisions of Chapters 1 through 5.¹
- (ii) The applicant shall specify the name of the Applying Company or the names of the companies forming the Consortium (hereinafter referred to as the “Consortium Members”) and its role or their respective roles and other related matters in carrying out the Project.
- (iii) If the applicant is a Consortium, it shall designate all or part of the Consortium Members as the key Consortium Members (hereinafter referred to as the “Key Consortium Members”) and specify a company from among the Key Consortium Members which represents the Consortium (hereinafter referred to as the “Representative Company”). The Consortium Members shall submit the power of attorney specified in the Forms and Directions and such Representative Company shall conduct the application procedure.
- (iv) The Applying Company or the Consortium Members shall fund the Operating Right Holder ("Operating Right Holder" shall be interpreted as "operator" in the case of Asahikawa Airport and Obihiro Airport; the same shall apply hereinafter) and receive all Voting Shares (however, excluding the cases specified in (4)D)). If the Applying Company and the Consortium that passed the First Screening intend to add a Consortium Member by the time of the submission of the Second Screening Proposal Documents, such addition may be performed only if both of the conditions in i) and ii) below are satisfied:
 - i) that the Applying Company at the time of submission for the First Screening or the Key Consortium Members designated by the Consortium in the First Screening Proposal Documents are, in total, within the scope of receiving the majority of the voting shares of the Operating Right Holder (in the case of

¹ The companies shall include investment limited partnerships and similar frameworks thereto.

the addition of the Voting Shareholders specified in (4)G), the majority of the Voting Shares after such addition); and

- ii) that the number of the Voting Shares of the added Consortium Member does not exceed the number of the Voting Shares of the Applying Company or the member who receives the largest number of such shares among the Key Consortium Members.

If the applicant desires to indirectly hold the shares of the SPC, the applicant shall follow the procedure stated in (4)D).

- (v) After the submission of the First Screening Proposal Documents, no withdrawal shall be allowed, as a general rule, to the Applying Company, the Representative Company, or the Consortium Members. Any addition of a Consortium Member after the submission of the First Screening Proposal Documents may be allowed only if it is before the submission of the Second Screening Proposal Documents, and the entity to be added as the Consortium Member satisfies all of the requirements in (1)B) and (D) and such addition of the Consortium Member satisfies the conditions specified in (1)A)(iv). In other cases where circumstances arise where changes (including withdrawals; hereinafter the same shall apply in this paragraph) to the Consortium Members are unavoidable, it is necessary to consult with the State, Asahikawa City Government, Obihiro City Government and Hokkaido Government (hereinafter referred to as the "Four Administrators"). After considering the reasons and circumstances, the Four Administrators can permit these changes only when the Four Administrators admit those changes.² Furthermore, if the Applying Company or the Consortium Members has become disqualified due to failing to meet the participation requirements stated in (1)B) through to D), or a person controlling the Applying Company or the Consortium Members has changed (including cases where the Applying Company or the Consortium Members is recently controlled by a third person), they shall promptly notify the Four Administrators of these matters.

- (vi) After submission of the First Screening Proposal Documents, the Applying Company or any of the Consortium Members shall not be allowed to be another Applying Company or a member of another Consortium.

B) Common participation requirements for the Applying Company and the Consortium

² Approval of the change in the Consortium Members shall be determined subject to prior consultation among the Four Administrators.

Members

- (i) Any person who does not fall under Articles 70 and 71 of the Order of Budget, Settlement and Accounting ³ and any person who does not fall under Article 167-4 of the Order for Enforcement of the Local Autonomy Act (Cabinet Order No. 16 of 1947)
- (ii) Any person who does not fall under the grounds for disqualification of a private business operator to implement a Qualified Project stipulated in Article 9 of the PFI Act
- (iii) Any person against whom a petition for the commencement of reorganization proceedings under the Corporate Reorganization Act (Act No. 154 of 2002) or rehabilitation proceedings under the Civil Rehabilitation Act (Act No. 225 of 1999) has not been filed
- (iv) Any person who has not suspended their designation pursuant to the Guidelines on Actions of Suspension of Designation, etc., on Contracts for Construction Work under the Jurisdiction of the Civil Aviation Bureau (*Ku-Kei* No. 386 of 1984) by the Director-General of the Civil Aviation Bureau of the MLIT, the Guidelines on Actions of Suspension of Designation, etc., for Qualified Participants in Competitive Bids of the Asahikawa City Government (*Kyoku-Kei* No. 87 of 2004) by the Asahikawa City Government, the Guidelines related to Actions of Suspension of Designation, etc., on Contracts for Construction Work, etc., of the Obihiro City Government (enacted on December 1, 1994) by the Obihiro City Government or the Guidelines on Administrative Processes for Suspension of Designation for Qualified Participants in Competitive Bids (*Kyoku-so* No. 461 of 1992) by the Hokkaido Government, during the period from the deadline for the submission of the Second Screening Proposal Documents until the selection of the Preferred Negotiation Right Holder.
- (v) Any person who satisfies all of the following requirements:
 - i) any person who is not delinquent in any of Hokkaido prefectural taxes (excluding Hokkaido inhabitant taxes and local consumption taxes), Asahikawa municipal taxes (limited to cases where the head office, a branch office, etc., is located in Asahikawa City), Obihiro municipal taxes (limited to cases where

³ As to a foreign corporation, the State must be able to confirm that the foreign corporation satisfies requirements equal to those specified in (i), (ii) and (iii) of this item under its applicable laws and regulations.

the head office, a branch office, etc., is located in Obihiro City) and enterprise taxes and municipal taxes (Tokyo prefectural taxes in the case of a special ward) of the prefecture where the applicant is based (excluding cases where the applicant has an obligation to pay Hokkaido prefectural taxes) and consumption taxes and local consumption taxes as of the deadline for the submission of the First Screening Proposal Documents

ii) Any person who does not fall under any of the following:

- A) any person who falls under an organized crime group stipulated in Article 2, item (1) of the Asahikawa Municipal Ordinance for Eliminating Organized Crime Groups (enacted on March 25, 2014; enforced on April 1, 2014), a member of an organized crime group stipulated in item (2) of the same article, a business operator related to an organized crime group stipulated in Article 7, paragraph (1) of the same ordinance or the provisions in Article 12 of the same ordinance;
- B) any person who falls under an organized crime group stipulated in Article 2, item (1) of the Obihiro Municipal Ordinance for Eliminating Organized Crime Groups (Ordinance No. 29 of 2013), a member of an organized crime group stipulated in item (2) of the same article or a business operator related to an organized crime group stipulated in item (3) of the same article; and
- C) an organized crime group stipulated in Article 2, item (1) of the Hokkaido Prefectural Ordinance for Promoting Elimination of Organized Crime Groups (Hokkaido Prefectural Ordinance No. 57 of 2010), a member of an organized crime group stipulated in item (2) of the same article, a member, etc., of an organized crime group stipulated in item (3) of the same article or a business operator related to an organized crime group stipulated in Article 7, paragraph (1) of the same ordinance.

(vi) Any person who does not fall under any of the items i) through to vi) below or any person⁴ who does not have a certain relationship with any of these persons in terms of capital, personnel or other affairs

- i) Ernst & Young ShinNihon LLC
- ii) Anderson Mori & Tomotsune
- iii) Kansai Law & Patent Office

⁴ "A person who has a certain relation with any of them in terms of capital, personnel or other affairs" shall be cases where the person is in a parent company and a subsidiary relationship as stipulated in Article 2, item (iii) or (iv) of the Companies Act. The same shall apply hereinafter.

- iv) Ernst & Young Transaction Advisory Services Co., Ltd.
 - v) Docon Co., Ltd.
 - vi) Tomohito Ozawa Certified Tax Accountant Office
- (vii) Neither a person who is any of the Bidding Advisors of the Four Administrators, nor a person who has a certain relationship with these people in terms of capital, personnel or other affairs
- (viii) Neither a person who is a company to which any of the members of the Screening Committee belongs nor a person who has a certain relationship with such company in terms of capital, personnel or other affairs
- (ix) Neither a corporation (excluding a company, and in Japan, meaning any of the Administrative Organs of the State stipulated in Article 3, paragraph (2) of the National Government Organization Act (Act No. 120 of 1948) and the Cabinet Office) to which any of the members of the Screening Committee belongs, a company in which 1 % or more of the voting rights of all shareholders are held by such corporation, nor a person who has a certain relation with the company in terms of capital, personnel or other affairs⁵; however, this shall not apply to a stock company listed in a Financial Instruments Exchange stipulated in Article 2, paragraph (16) of the Financial Instruments and Exchange Act (Act No. 25 of 1948)
- (x) Any person who does not appoint any of the persons specified in vi) through to ix) above as an advisor concerning the selection of the Project
- (xi) An officer (whether full-time or part-time) relating to the bidding does not serve concurrently as an officer (whether full-time or part-time) of the Building Facility Operator, the fueling facility operator or the parking facility operator (Chitose Tourist Association) of the Seven Airports in Hokkaido on and after the moment that a statement of interest, an application form to borrow and access to such materials and a confidentiality pledge is prepared and submitted in accordance with the provisions of Forms and Directions following the disclosure of the Application Guidelines

⁵ For example, if any of MLIT's personnel becomes a member of the Screening Committee, any unlisted company, etc., whose shares are held by the MLIT falls under this item.

(xii) In the case that a company, whose officer or employee serve concurrently as an officer or an employee of the Building Facility Operator, the fueling facility operator or the parking facility operator (Chitose Tourist Association) in the way which does not violate the provision of xi) above, participates in the bidding, the company submits a commitment letter stipulating that (a) the company takes measures to prevent the transference of the information regarding the bidding between the officer or the employee and the department to which the officer or the employee belong, and the department which considers the bidding, (b) the company shall not take any action to prejudice the fairness and the transparency of the bidding, (c) the company understands that, if the company violates the provision of (a) and/or (b), the company (in the case that it is the Applying Company) or the Consortium (in the case that it is a member of the Consortium) shall be disqualified for the bidding and (d) others at the time of the submission of the First Screening Proposal Documents to the Four Administrators in the name of the company (in the case that it is the Applying Company) or in the joint name of the Representative Company of the Consortium and the company (in the case that it is a member of the Consortium)

(xiii) The Operating Right Holder shall not become a subsidiary company or an affiliated company of a provider of international air transport services or domestic scheduled air transport services set forth under Article 2, paragraph 19 and 20 of the Civil Aeronautics Act, its parent company or a subsidiary company of the foregoing companies, or an affiliated company of the foregoing companies or its subsidiary company (hereinafter referred to as “Air Carriers, etc.”).

Furthermore, the Operating Right Holder shall not become a company of which more than one thirds of the Voting Shares in total are held by (i) Air Carriers, etc., or (ii) a company of which more than one thirds of its stocks with a voting right in total are held by Air Carriers, etc.

C) Requirements for the Applying Company or the Representative Company

An Applying Company or a Representative Company, or a person who has a certain relation in terms of capital, personnel or other affairs with an Applying Company or a Representative Company, shall meet any of the requirements listed in (i) through to (iii) below. The business experience is not limited to those in Japan.

- (i) In or after 2008, having experience in operating⁶ commercial facilities with a store floor area of 10,000 square meters or more or public facilities with a total floor area of 20,000 square meters or more
- (ii) In or after 2008, having experience in operating⁷ 47 passenger facilities for which the number of users per year is 15 million or more or cargo handling facilities with a total floor area of 20,000 square meters or more
- (iii) In or after 2008, having experience in the commercial real property administrating business related to the facilities in (i) or (ii)

D) Participation requirements for Building Facility Operator

With respect to the Building Facility Operator, a split company may participate in the bidding only if the Building Facility Operator causes a succeeding company to succeed all of its rights and obligations in relation to the Building Facility Business by way of company split specified in the Companies Act, and the split company (the wholly-owning parent company of the succeeding company) terminates the capital relationship with the relevant local governments and satisfies all of the conditions in (i) through to (v) below:

- (i) that the officers and employees of the split company do not serve concurrently as officers and employees of the succeeding company, and the officers and employees of the succeeding company do not serve concurrently as officers and employees of the split company or its subsidiaries or affiliates, whether full-time or part-time; and the split company and the succeeding company have made covenants to the administrator of the airport that operates the Building Facilities Business (hereinafter referred to as "Airport Administrator" in this paragraph) that they would not engage in any act that may hinder the fairness, transparency and competitiveness of the bidding procedures associated with the Project in establishing the organizational structure, the information systems, etc.;
- (ii) that the split company has made covenants to the Airport Administrator that it discloses any and all information necessary for the bidding procedures associated with the Project (including, but not limited to, information held by the subsidiaries or affiliates of the split company that operate the goods sales business, the food and beverage business, the duty-free shop business, the advertisement business and the advertising agency business, the ground handling business, the information business and the businesses related to the Building Facility Business)

⁶ This includes construction and operation, acquisition and operation, and the operation business of public facilities, etc. (meaning those defined in Article 2, paragraph (6) of the PFI Act; the same shall apply hereinafter).

⁷ This includes construction and operation, acquisition and operation, and the operation business of public facilities, etc.

- to the State or the participants in the bidding associated with the Project;
- (iii) that the terms and conditions of agreements that the split company has entered into with the succeeding company are not those that may hinder the management discretion of the Operating Right Holder (for example, they lack ordinary economic rationality);
 - (iv) that the split company cooperates in business succession or termination of agreements deemed necessary by the Airport Administrator from the perspective of ensuring the fairness, transparency and competitiveness of the bidding procedures and stable business continuity, if requested by the Operating Right Holder; and
 - (v) that the Building Facility Operator group (meaning the split company and its subsidiaries and affiliates (excluding the succeeding company); hereinafter the same shall apply) has made covenants that it shall sell its assets or succeed its contractual statuses to the Operating Right Holder or the succeeding company if requested by the Operating Right Holder or the Preferred Negotiation Right Holder with respect to the Building Facility Operator group's assets and agreements deemed necessary by the Airport Administrator from the perspective of ensuring the fairness, transparency and competitiveness of the bidding procedures and stable business continuity.

In addition, the Operating Right Holder shall be required to acquire the Building Facility Operator Shares in accordance with the method specified in 2.(7)B) in the respective provisions of Chapters 1 through 4 even in cases where the Consortium in which the split company or the split company participates is selected as the Preferred Negotiation Right Holder.

(2) Bidding Procedures

A) Schedule

The Four Administrators are planning to select the Preferred Negotiation Right Holder in accordance with the following schedule.

Schedule (tentative)	Actions
May 9, 2018	➤ Joint Briefing of the Application Guidelines, etc.
May 30, 2018 – May 31, 2018	➤ Period for receiving questions on Application Guidelines, etc. (First round)
July 9, 2018 – July 10, 2018	➤ Period for receiving questions on Application Guidelines, etc. (Second round)
July 27, 2018	➤ Publication of answers to the questions on Application Guidelines, etc.
August 16, 2018	➤ Deadline for submission of First Screening Proposal Documents
Around September 2018	➤ Notice of result of First Screening
Around September 2018 – Around April 2019	➤ Period for holding competitive dialogue
Around May 2019	➤ Deadline for submission of Second Screening Proposal Documents
Around July 2019	➤ Selection of Preferred Negotiation Right Holder
Around August 2019	➤ Conclusion of Basic Agreement
Around October 2019	➤ Operating Right Establishment Date (Operation Appointment Date in the case of Asahikawa City Government and Obihiro City Government)
Around October 2019	➤ Conclusion of Project Agreement
January 15, 2020	➤ Building Facility Business Scheduled Commencement Date
June 1, 2020	➤ Scheduled date of commencement of the Airport Operating Business for New Chitose Airport
October 1, 2020	➤ Scheduled date of commencement of the Airport Operating Business for Asahikawa Airport
March 1, 2021	➤ Scheduled date of commencement of the Airport Operating Business for Wakkanai Airport, Kushiro Airport, Hakodate Airport, Obihiro Airport and Memanbetsu Airport

B) Establishment of the Screening Committee

For the purposes of selecting the applicants qualified to participate in the second screening (hereinafter referred to as the “Second Screening Participants”) (this selection is hereinafter referred to as the “First Screening”) and selecting a Preferred Negotiation

Right Holder etc. (hereinafter referred to as the “Second Screening”), a screening committee for selecting the Preferred Negotiation Right Holder for the Seven Airports in Hokkaido was established on April 10, 2018, composed of experts and other appropriate people (hereinafter referred to as the “Screening Committee”) for the objective evaluations stipulated in Article 11 of the PFI Act, etc. Proposals made by applicants are screened exclusively by the Screening Committee.

C) Screening Committee secretariat office

The State's Unit in Charge (meaning the Unit in Charge prescribed in Chapter 1: 2.(2); hereinafter the same shall apply) will act as the secretariat office of the Screening Committee (meaning the secretariat office of the Screening Committee prescribed in 1.(3)C); hereinafter referred to as "Screening Committee Secretariat Office"), and the Bidding Advisors will support the Screening Committee Secretariat Office.

D) A Joint Briefing of the Application Guidelines, etc.

The Four Administrators will hold a briefing on the Application Guidelines, etc. (hereinafter referred to as "Joint Briefing") as follows.

Convocation date/time: 14:00- (Wednesday) May 9, 2018

Venue: Common Conference Room A, 10F, Joint Government Building (*Chuo Godo Chosha*) No.3, 2-1-3, Kasumigaseki, Chiyoda-ku, Tokyo

Application method: Prospective participants in the Joint Briefing shall send the participation application form prescribed in the Forms and Directions to the Bidding Advisor by email by the application deadline and submit the original document of the form at the venue of the Joint Briefing. No applications shall be accepted at the venue.

Contact: Bidding Advisor's email address: hokkaido7@jp.ey.com

Application deadline: Must arrive no later than 13:00 (Tuesday) March 8, 2018

Notes: Participants in the Joint Briefing shall bring the Application Guidelines, etc. with them.
Participants shall refrain from taking photos and using video cameras.

E) Receipt of questions on the Application Guidelines, etc., and publication of the answers

(i) Receipt of questions

The Four Administrators will accept questions concerning the matters stated in the Application Guidelines, etc.

Acceptance period:

First round

From 10:00 (Wednesday) May 30, 2018 to 15:00 (Thursday) May 31, 2018

Second round

From 10:00 (Monday) July 9, 2018 to 15:00 (Tuesday) July 10, 2018

Submission method:

Questions on Application Guidelines, etc. shall be summarized briefly and written in the question form prescribed in the Forms and Directions; the question form shall then be sent by email. In cases where the questions contain any content (such as special techniques and know-how) which may infringe on the rights, the competitive position or other reasonable interest of the submitter if disclosed to the public, the submitter shall make a statement to that effect.

The question form shall be prepared in Microsoft Excel format, and the company name and the name, department, telephone number and email address of the submitter shall be filled in without fail. The form shall be submitted to the Bidding Advisor.

Questions received by any means other than email will not be accepted.

(ii) Publication of answers

The State, Asahikawa City Government, Obihiro City Government and Hokkaido Government will publish questions on the Application Guidelines, etc. that are deemed necessary by the Four Administrators—except those that may infringe on the rights, the competitive position or other reasonable interest of the questioner as clarified at the time of submission by the questioner—and the answers to these questions on the respective websites of the Four Administrators and by other appropriate means, by the scheduled date of publication of answers.

To ensure fairness, no response will be given directly to those who submitted the questions.

Scheduled date of publication of answers: (Friday) July 27, 2018

While the final answers are due to be released on said date, questions received are expected to be published in a phased manner before said date.

F) Loaned materials subject to confidentiality obligations

(i) Submitting the confidentiality pledge, etc.

A person desiring to borrow materials that can only be loaned pursuant to submission of an ID application form, a statement of interest, an application form to borrow and access to such materials and a confidentiality pledge (hereinafter referred to as the “Confidential Materials”) shall submit the ID application form, the statement of interest, the application form to borrow and access to the Confidential Materials and the confidentiality pledge.

Submission period: Must arrive no later than 15:00 (Friday) August 3, 2018

Submission method: Prepare the above documents in accordance with the Forms and Directions and send them to the Bidding Advisors in the Microsoft Word file format (or in the Microsoft Excel file format in the case of those prescribed in the Forms and Directions to be entered into the Microsoft Excel file as the data) by electromagnetic means (so-called, a virtual data room; hereinafter referred to as the “VDR”) in advance and promptly send their originals to the Bidding Advisors by mail etc.

Loaning method: The main means to loan the Confidential Materials is expected to be by VDR. Upon receipt of the ID application form, the statement of interest, the application form to borrow and access to the Confidential Materials and the confidentiality pledge, the Bidding Advisors shall promptly notify the method of access to the VDR, etc.

The VDR will become accessible around May 9, 2018.

Disclosure method to third parties: shall follow the methods specified in the Forms and Directions.

The content of the confidentiality pledge shall include the confidentiality obligations concerning the materials to be disclosed in the First Screening and the Second Screening.

(ii) Disposal of loaned materials

The person who has borrowed the Confidential Materials is responsible for disposing of their hard copies etc. (including but not limited to, the hard copies, other copies, duplications and records on storage media such as hard disks, of the Confidential Materials) once the person finishes using them and for sending the

report on performance of disposal obligation prepared in accordance with the Forms and Directions to the Bidding Advisors, by mail etc. in accordance with the confidentiality pledge.

If the person who has borrowed the Confidential Materials may not dispose of their hard copies etc. at the time when the person finishes using them as the person is required by laws and regulations or by a judgment, decision, order, etc. of a judicial or administrative organ to keep such Confidential Materials or for any other reason, the person shall send a pledge concerning the extension of compliance with the disposal obligation prepared in accordance with the Forms and Directions to the Bidding Advisors, by mail etc. in accordance with the confidentiality pledge. In this case, when the above obligation etc. to keep the hard copies etc. of the Confidential Materials terminates at a later time, the person shall, upon termination of the obligation etc., dispose of the hard copies etc. and, upon completion of disposal of them, send the report on performance of disposal obligation to the Bidding Advisors, by mail etc. in accordance with the confidentiality pledge.

G) Materials to be disclosed in the First Screening

The materials to be disclosed during the period from the publication of the Application Guidelines, etc. until the submission of the First Screening Proposal Documents shall be as follows. The materials shall be loaned upon submission of the statement of interest, the application form to borrow and access to the Confidential Materials and the confidentiality pledge:

- (i) Basic Agreement (draft)
- (ii) Project Agreement (draft)
- (iii) Required Standards Document (draft) (excluding the Required Standards for Airport Security Control Regulations for the Four National Airports in Hokkaido, Asahikawa Airport, Obihiro Airport and Memanbetsu Airport (Security Part) and the Required Standards Concerning Cost Bearing for Aviation Security Measures)
- (iv) Compilation of related materials
- (v) Compilation of referential materials

H) First Screening

- (i) Receipt of the First Screening Proposal Documents

Any applicant desiring to participate in the First Screening (hereinafter referred to as the “First Screening Participants”) shall prepare and submit a statement of participation and the First Screening Proposal Documents in accordance with the Forms and Directions.

If the Four Administrators have not received the First Screening Proposal Documents from two or more First Screening Participants, the Four Administrators may rescind the selection of the Qualified Project (Asahikawa City Government and Obihiro City Government may rescind the implementation of the Project).

Submission deadline: Must arrive no later than 15:00 (Thursday) August 16, 2018

Submission method: Applicants shall submit the statement of participation and the First Screening Proposal Documents to the Screening Committee Secretariat Office by the submission deadline by way of delivery in person, postal mail, etc.

(ii) First Screening methods

In the First Screening, the Screening Committee shall screen the First Screening Participants who have been confirmed as satisfying the requirements specified in (1) with respect to the First Screening Proposal Documents they submitted. The Screening Committee shall screen the submitted documents in accordance with the Selection Criteria for the Preferred Negotiation Right Holder.

In addition to screening the submitted documents in accordance with the Selection Criteria for the Preferred Negotiation Right Holder, the Screening Committee shall conduct screening through brief verbal explanations provided to the Screening Committee using only the First Screening Proposal Documents by the applicants. No on-site inspection, interviews with persons concerned, etc. are scheduled.

Based on the screening result, the Four Administrators shall select up to three Second Screening Participants.

(iii) Notice of First Screening results

The Four Administrators will notify the Applying Companies and the Representative Companies of the results of the First Screening.

I) Materials etc. to be disclosed in the Second Screening

The Four Administrators are planning to disclose updated information concerning the materials disclosed for the First Screening and other additional materials via the VDR etc. for the Second Screening Participants after the First Screening is completed.

In addition, the Four Administrators will give the Second Screening Participants opportunities for on-site inspections, interviews with persons concerned, etc.

J) Loaning of highly confidential materials

(i) Submitting the pledge concerning the handling of highly confidential materials

The Four Administrators are planning to loan highly confidential materials to the Second Screening Participants mainly via the VDR etc.

A person desiring to borrow highly confidential materials that can only be loaned pursuant to submission of a pledge concerning the handling of highly confidential materials shall submit the application form to borrow highly confidential materials and the pledge concerning the handling of highly confidential materials to the Four Administrators.

(ii) Management and disposal of loaned materials

Any Applying Company or Representative Company and Consortium Members as well as Bidding Advisors to whom highly confidential materials are disclosed (hereinafter collectively referred to as the “Disclosed Party”) shall manage the highly confidential materials based on the pledge concerning the handling of highly confidential materials.

The Disclosed Party shall be responsible for disposing of the highly confidential materials by the date designated as the deadline for the disposal or the day on which it becomes apparent that the Disclosed Party will not submit the Second Screening Proposal Documents by the deadline for submission of the Second Screening Proposal Documents, whichever comes first and shall send the report on performance of disposal obligation prepared in accordance with the Forms and Directions to the Bidding Advisors by mail etc. in accordance with the pledge concerning the handling of highly confidential materials.

K) Publication of supplementary materials and other related matters

The Four Administrators may publish or loan materials to supplement the Application Guidelines, etc. (hereinafter referred to as the “Supplementary Materials”). Publication or loan of the Supplementary Materials shall be conducted by a date separately designated and no new Supplementary Materials shall be published or loaned after the date.

If the Four Administrators intend to publish the Supplementary Materials, the materials shall be published on their respective websites and if the Four Administrators intend to loan the Supplementary Materials to only those who have submitted the confidentiality pledge (after the completion of the First Screening, only to the Second Screening Participants), the Four Administrators may loan them via the VDR, etc.

L) Holding of a competitive dialogue etc.

Once the First Screening has been completed, the Four Administrators will hold a competitive dialogue etc. with the Second Screening Participants prior to submission of the Second Screening Proposal Documents and adjust the Project Agreement, the required standards, and other necessary matters based on the outcomes of the dialogue.

The competitive dialogue etc. will be held as follows:

- (i) The Four Administrators will hold an explanatory meeting for the Second Screening Participants.
- (ii) Opinions will be exchanged among the Second Screening Participants and the Four Administrators, the relevant local governments and the relevant business operators (several meetings are scheduled to be held for each Second Screening Participant).
- (iii) The Project Agreement (draft), the Required Standards Document (draft) and other documents will be adjusted by the Four Administrators.

M) Second Screening

- (i) Receipt of the Second Screening Proposal Documents

The Second Screening Participants shall submit the Second Screening Proposal Documents in accordance with the Forms and Directions. The Four Administrators may accept additional questions prior to the submission of the Second Screening Proposal Documents.

If none of the Second Screening Participants have submitted the Second Screening Proposal Documents, the Four Administrators shall rescind the selection of the Qualified Project (Asahikawa City Government and Obihiro City Government shall rescind the implementation of the Project).

Submission deadline: Must arrive no later than the separately-designated deadline

Submission method: Applicants shall submit the Second Screening Proposal Documents to the Screening Committee Secretariat by the submission deadline by way of personal delivery, postal mail, etc.

- (ii) Second Screening methods

The Screening Committee shall screen the requirements Screening Proposal Documents pertaining to additional Consortium Members included in the Second Screening Proposal Documents with respect to Second Screening Participants who have been confirmed as satisfying the participation requirements in (1).

The Screening Committee shall screen the submitted documents in accordance with the Selection Criteria for the Preferred Negotiation Right Holder and give due consideration to the proposed details confirmed during the presentation, etc.

(iii) Selection of a Preferred Negotiation Right Holder etc.

Based on the screening result of the Screening Committee, the Four Administrators shall rank the Second Screening Participants and select the participant in the first place as the Preferred Negotiation Right Holder and the participant in the second place as the second negotiation right holder upon consultation with the Minister of Finance and heads of relevant administrative agencies (These consultations should be limited to the State).

(iv) Notice of Second Screening results

The Four Administrators will notify the Second Screening Participants of the Second Screening results.

N) Announcement of screening results

Once the Preferred Negotiation Right Holder has been selected, the Four Administrators shall promptly publish the screening results (including that of the First Screening) and the evaluation process in the screening (including the minutes⁸ of the Screening Committee meetings) on the respective websites of the Four Administrators and by other appropriate means.

(3) Selection methods of the Preferred Negotiation Right Holder

A) Basic idea of the selection of a Preferred Negotiation Right Holder

A Preferred Negotiation Right Holder of the Project shall be selected through a public invitation for proposals, which is a method of entering into a competitive negotiated agreement.

B) Hearing opinions of the Screening Committee

In selecting the Second Screening Participants (First Screening) and a Preferred Negotiation Right Holder, etc. (Second Screening), the Four Administrators shall hear the opinions of the Screening Committee about the Selection Criteria for the Preferred Negotiation Right Holder, the details of evaluations and other related matters.

⁸ However, the matters that may harm the rights, competitive position or other legitimate interests of the private business operator if disclosed (for example, the portion of the presentations made by the private business operator, proper nouns, specific numerical figures including expenses and ideas unique to the private business operator) and information that may allow identification of the names of the Screening Committee members shall be excluded.

Content of proposals in the Bidding shall be divided into: the "Overall Part", in which the policies, etc. shall be proposed for the Seven Airports in Hokkaido as a whole; and the "Individual Part", in which proposals shall be made with respect to each individual airport. In the First Screening, proposals for the "Overall Part" shall be required.

In light of the aforementioned proposal classification, the members of the Screening Committee are as follows. The meetings of the Screening Committee shall not be available to the public.

(i) Screening Committee members

(Chairperson)

Hiroataka YAMAUCHI	Professor, Graduate School of Business Administration, Hitotsubashi University
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(Members)

Yoshiharu ISHII	Professor, Hokkaido University Public Policy School
Tetsuyuki KAGAYA	Associate Professor, Graduate School of Business Administration, Hitotsubashi University
Kazusei KATO	Professor, Faculty of Business and Commerce, Keio University
Noriko YAGASAKI	Professor, Department of International Tourism Management, Toyo University
Yasuo YAMAGATA	Attorney at Law, Kansai Law & Patent Office
Director, Planning Division, Aviation Network Department, Civil Aviation Bureau, MLIT	
Vice Governor, Hokkaido Prefecture	
Chairperson, Hokkaido Airport Association	
Deputy Mayor, Asahikawa City	
Deputy Mayor, Obihiro City	
Deputy Mayor, Chitose City	
Deputy Mayor, Wakkanai City	
Deputy Mayor, Kushiro City	
Deputy Mayor, Hakodate City	
Toshio MATSUKURA	Executive Director, Asahikawa Chamber of Commerce & Industry,
Masahito KAJIWARA	Vice Chairman, Obihiro Chamber of Commerce and Industry
Mayor, Ozora Town	
Akihiro NAKAHARA	Advisor, Abashiri Chamber of Commerce and Industry

(ii) Screening Matrix Chart Note: Parts of which the Screening Committee member is in charge are circled.

Name of Screening Committee Member (titles omitted)	Overall Part	Individual Part						
		New Chitose Airport	Wakkanai Airport	Kushiro Airport	Hakodate Airport	Asahikawa Airport	Obihiro Airport	Memambetsu Airport
Hirotaka YAMAUCHI (Chairperson)	○	○	○	○	○	○	○	○
Yoshiharu ISHII	○	○	○	○	○	○	○	○
Tetsuyuki KAGAYA	○	○	○	○	○	○	○	○
Kazusei KATO	○	○	○	○	○	○	○	○
Noriko YAGASAKI	○	○	○	○	○	○	○	○
Yasuo YAMAGATA	○	○	○	○	○	○	○	○
Director, Planning Division, Aviation Network Department, Civil Aviation Bureau, MLIT	○	○	○	○	○	○	○	○
Vice Governor, Hokkaido Prefecture	○	○	○	○	○	○	○	○
Chairperson, Hokkaido Airport Association	○	-	-	-	-	-	-	-
Director, Planning Division, Aviation Network Department, Civil Aviation Bureau, MLIT, Vice Governor, Hokkaido Prefecture, Deputy Mayor, Asahikawa City and Deputy Mayor, Obihiro City	○※	-	-	-	-	-	-	-
Deputy Mayor, Chitose City	-	○	-	-	-	-	-	-
Deputy Mayor, Wakkanai City	-	-	○	-	-	-	-	-
Deputy Mayor, Kushiro City	-	-	-	○	-	-	-	-
Deputy Mayor, Hakodate City	-	-	-	-	○	-	-	-
Deputy Mayor, Asahikawa City	-	-	-	-	-	○	-	-
Toshio MATSUKURA	-	-	-	-	-	○	-	-
Deputy Mayor, Obihiro City	-	-	-	-	-	-	○	-
Masahito KAJIWARA	-	-	-	-	-	-	○	-
Mayor, Ozora Town	-	-	-	-	-	-	-	○
Akihiro NAKAHARA	-	-	-	-	-	-	-	○

* The score shall be calculated by aggregating the scores of four Committee members and dividing the resulting sum by four.

C) Screening methods

(i) First Screening

In the First Screening, the Screening Committee shall screen the First Screening Participants who have been confirmed as satisfying the participant requirements based on the First Screening Proposal Documents they submitted. The Screening Committee shall screen the submitted documents in accordance with the Selection Criteria for the Preferred Negotiation Right Holder. In addition to screening the submitted documents in accordance with the Selection Criteria for the Preferred Negotiation Right Holder, the Screening Committee shall conduct screening through brief verbal explanations provided to the Screening Committee using only the First Screening Proposal Documents by the applicants. No on-site inspection, interviews with persons concerned, etc. is scheduled.

Based on the screening result, the Four Administrators shall select up to three Second Screening Participants.

(ii) Second Screening

The Screening Committee shall screen the requirements Screening Proposal Documents pertaining to additional Consortium Members included in the Second Screening Proposal Documents with respect to Second Screening Participants who have been confirmed as satisfying the participation requirements.

The Screening Committee shall screen the submitted documents in accordance with the Selection Criteria for the Preferred Negotiation Right Holder and give due consideration to the proposed details confirmed during the presentation, etc.

Based on the screening result of the Screening Committee, the Four Administrators shall prioritize the Second Screening Participants and select the participant in the first place as the Preferred Negotiation Right Holder and the participant in the second place as the second negotiation right holder upon consultation with the Minister of Finance and heads of relevant administrative agencies (limited to the State).

(iii) Screening Committee secretariat office

The State's Unit in Charge will act as the Screening Committee Secretariat Office, and the Bidding Advisors will support the Screening Committee Secretariat Office.

(4) Procedures after the selection of the Preferred Negotiation Right Holder

A) Conclusion of the Basic Agreement

The Preferred Negotiation Right Holder shall promptly enter into the basic agreement (hereinafter referred to as the “Basic Agreement”), based on the Basic Agreement (draft) amended through competitive dialogue, with the Four Administrators.

If the Basic Agreement is not promptly entered into with the Preferred Negotiation Right Holder, or it becomes apparent after the conclusion of the Basic Agreement that the Project Agreement will not be entered into, the Four Administrators may perform the procedure for entering into the Basic Agreement with the second negotiation right holder (in accordance with the order of priority determined in the Second Screening) as the Preferred Negotiation Right Holder. Please note that the Four Administrators in general will not accept any further amendments to the Basic Agreement (draft) which is amended through competitive dialogue.

B) Update of the compilations of related materials and referential materials

After the selection of the Preferred Negotiation Right Holder and prior to the conclusion of the Project Agreement, the Four Administrators will update the content of the compilations of related materials and referential materials based on the airport operation in the 2018 fiscal year and present the updated materials to the Preferred Negotiation Right Holder.

C) Publication of the outline of proposals

The Preferred Negotiation Right Holder shall publish the outline of its Screening Proposal Documents submitted for the Second Screening promptly after the conclusion of the Basic Agreement on the website of the Applying Company or the Representative Company, or by other appropriate means.

D) Incorporation of an SPC

Upon the conclusion of the Basic Agreement, the Preferred Negotiation Right Holder shall promptly incorporate a stock company stipulated in the Companies Act (Act No. 86 of 2005) as an SPC.

Please note that if the Preferred Negotiation Right Holder desires to hold the shares of the SPC indirectly, the Preferred Negotiation Right Holder shall make a detailed proposal in the First Screening Proposal Documents concerning the capital relationship between the Preferred Negotiation Right Holder and the SPC. Upon passing the First Screening, the Preferred Negotiation Right Holder may incorporate the SPC in a form approved by the State, Asahikawa City Government, Obihiro City Government and Hokkaido

Government upon consultation with the Four Administrators through competitive dialogue.

E) Preparation for operation by the Preferred Negotiation Right Holder

Together with the preparation for the incorporation of the SPC and the conclusion of the Project Agreement, the Preferred Negotiation Right Holder may, to the extent that the Four Administrators, the Building Facility Operator, the parking facility operator and fueling facility operator (limited to the State) cooperate, conduct on-site inspections in order to prepare for the start of the operations.

F) Grant of the Operating Right, grant of the Operation Appointment and conclusion of the Project Agreement

The State shall, upon consultation with the Minister of Finance, and the Hokkaido Government shall, upon the resolution of the Hokkaido Prefectural Assembly, deliver an operating right establishment letter to the SPC promptly upon its incorporation and grant the Operating Right to the SPC. In addition, the Operating Right Holder shall register the establishment of the Operating Right in accordance with laws and regulations.

The Asahikawa City Government and Obihiro City Government shall, upon the resolution of their respective assemblies, grant the Operation Appointment to the SPC promptly upon its incorporation.

The Operating Right Holder shall enter into the Project Agreement promptly upon the establishment of the Operating Right and the grant of the Operation Appointment in accordance with the Project Agreement (draft) amended through competitive dialogue.

In general, the Four Administrators will not accept any further amendments to the Project Agreement (draft) which has been amended through competitive dialogue.

Furthermore, the Four Administrators shall fulfil the conditions set out in the Project Agreement, including the following proceedings, after the conclusion of the Project Agreement and by the Airport Operating Business Scheduled Commencement Date.

- (i) Conclusion of the Goods Transfer Agreement with the Operating Right Holder concerning the Assets for Transfer to the Operating Right Holder (Conclusion of the Goods Transfer Agreement with the operator concerning the Assets for Transfer to the operator in the case of Asahikawa City Government and Obihiro City Government)
- (ii) Conclusion of the National Property, etc. Free Lease Agreement with the Operating Right Holder concerning the Airport Site, etc. (Conclusion of the Local Government's Property, etc., Free Lease Agreement with the operator concerning the Airport Site, etc. in the case of Asahikawa City Government and Obihiro City

Government, and conclusion of the Local Government's Property, etc., Free Lease Agreement with the Operating Right Holder concerning the Airport Site, etc. in the case of Hokkaido Government)

The Four Administrators shall publish the matters stipulated in Article 19, paragraph (3) and Article 22, paragraph (2) of the PFI Act for the Four National Airports in Hokkaido and Memanbetsu Airport, and the matters stipulated in Article 14, paragraph (6) of the Supplementary Provisions of the Private Utilization Airport Operation Act for Asahikawa Airport and Obihiro Airport on their respective websites and by other appropriate means.

G) Treatment upon addition of Voting Shareholders

Notwithstanding the provisions specified in 4.(4)B) in the respective provisions of Chapters 1 through 4, in the case that the Operating Right Holder or the Voting Shareholders (meaning the Voting Shareholders specified in 4.(4)B); the same shall apply hereinafter) request to newly issue the Voting Shares (meaning the Voting Shares specified in 4.(4)B); the same shall apply hereinafter) to third parties other than the Voting Shareholders, up to a rate of ownership of 10% of the Voting Shares, in the period from the date of conclusion of the Project Agreement to the date of commencement of the Airport Operating Business at the New Chitose Airport, the Four Administrators shall approve this request after consultation with relevant administrative agencies (limited to the State), only when the subscriber for the Voting Share does not have any conflict with the participation requirements stipulated in Chapter 5: 1.(1)B) through to D), and such addition meets the conditions specified in Chapter 5: 1(1)A)(iv), while also the new issues of such Voting Shares would not interfere with the implementation of the Project.

However, in case that the Preferred Negotiation Right Holder is a Consortium, and the Voting Shares are issued to the company which was another Applying Company (meaning an Applying Company stipulated in Chapter 5: 1(1)A)(i); the same shall apply hereinafter) or other Consortium Members (meaning the Consortium Members stipulated in Chapter 5: 1(1)A)(ii); the same shall apply hereinafter) (including any parent company, subsidiary, or affiliate thereof, and in cases where the company is an Affiliate of another company etc., of said other company etc. (hereinafter collectively referred to as the "Related company"), as well as any parent company, Subsidiary, or Affiliate of the Related company, and in cases where the Related company is an Affiliate of the other company, etc., of said other company, etc.), the rate of ownership of the Voting Shares shall not be permitted to be beyond the rate of ownership of the Voting Shares of any given Consortium Member in the Preferred Negotiation Right Holder.

The subscriber for the Voting Share shall submit the Shareholder's Covenant

Document (meaning the Shareholder's Covenant Document stipulated in 4(4)A) in the respective provisions of Chapter 1 through 4; the same shall apply hereinafter) to the Four Administrators.

This provision does not aim to hinder making agreements before an application to prohibit Consortium Members from subscribing for Voting Shares issued by an Operating Right Holder which is incorporated by any other Consortium which is selected as the Preferred Negotiation Right Holder.

H) Transfer of the shares and commencement of the Building Facilities Business

The Operating Right Holder shall acquire the Building Facility Operator Shares and the fueling facility operator shares (limited to the State) in accordance with the method of transfer specified in 2.(7)B) in the respective provisions of Chapters 1 through 4 and commence the Building Facilities Business and the fueling facility business (limited to the State).

I) Acquisition of Assets for Transfer to the Operating Right Holder

The Operating Right Holder will acquire the Assets for Transfer to the Operating Right Holder on the date of commencement of the Airport Operating Business pertaining to each airport.

(i) In the case of Four National Airports in Hokkaido

The procedure for the transfer shall be as follows: The Operating Right Holder shall submit a written estimate with respect to the target price prepared by the State in accordance with Article 79 of the Order of Budget, Settlement and Accounting (Imperial Order No. 165 of 1947). If the Operating Right Holder has submitted an effective estimate equal to or more than the target price, the State and the Operating Right Holder shall enter into the Goods Transfer Agreement concerning the Assets for Transfer to the Operating Right Holder. The Operating Right Holder shall make a lump-sum payment of consideration by the date designated by the State in accordance with the Goods Transfer Agreement and acquire the Assets for Transfer to the Operating Right Holder.

The Goods Transfer Agreement shall include as its subjects the Assets for Transfer to the Operating Right Holder owned by the parking facility operator. The State shall acquire these assets from the parking facility operator on the Airport Operating Business Commencement Date and transfer them to the Operating Right Holder.

With respect to the List of Assets for Transfer to the Operating Right Holder included in the compilation of related materials, the list updated by the State shall be

further updated prior to the commencement of transfer procedures and presented to the Operating Right Holder.

(ii) In the case of Asahikawa Airport

The procedure for the transfer of the Assets for Transfer to the operator shall be as follows: The operator shall submit a written estimate with respect to the target price prepared by the City in accordance with Article 7 of the Asahikawa City Contract Affairs Handling Regulations. If the operator has submitted an effective estimate equal to or more than the target price, the City and the operator shall enter into the Goods Transfer Agreement concerning the Assets for Transfer to the operator. The operator shall make a lump-sum payment of the consideration by the day designated by the City in accordance with the Goods Transfer Agreement and acquire the Assets for Transfer to the operator.

The list of the Assets for Transfer to the operator in the compilation of related materials shall be updated by the City prior to the commencement of the transfer procedure and presented to the operator.

(iii) In the case of Obihiro Airport

The procedure for the transfer of the Assets for Transfer to the operator shall be as follows: The operator shall submit a written estimate with respect to the target price prepared by the City in accordance with Article 23-3 of the Obihiro City Contract Regulations. If the operator has submitted an effective estimate equal to or more than the target price, the City and the operator shall enter into the Goods Transfer Agreement concerning the Assets for Transfer to the operator. The operator shall make a lump-sum payment of the consideration by the day designated by the City in accordance with the Goods Transfer Agreement and acquire the Assets for Transfer to the operator.

The list of the Assets for Transfer to the operator in the compilation of related materials shall be updated by the City prior to the commencement of the transfer procedure and presented to the operator.

(iv) In the case of Memanbetsu Airport

The procedure for the transfer of the Assets for Transfer to the Operating Right Holder shall be as follows: The Operating Right Holder shall submit a written estimate with respect to the target price prepared by the Hokkaido Government in accordance with Hokkaido Finance Regulations (Hokkaido Regulation No. 30 of 1970). If the Operating Right Holder has submitted an effective estimate equal to

or more than the target price, the Hokkaido Government and the Operating Right Holder shall enter into the Goods Transfer Agreement concerning the Assets for Transfer to the Operating Right Holder. The Operating Right Holder shall make a lump-sum payment of the consideration by the day designated by the Hokkaido Government in accordance with the Goods Transfer Agreement and acquire the Assets for Transfer to the Operating Right Holder.

The procedure for the transfer of the parking facility assets shall be as follows: the present parking facility operator shall directly transfer the parking facility assets to the Operating Right Holder at a price (or the method for calculation thereof) agreed upon between the present parking facility operator and the Hokkaido Government in advance.¹

The list of the Assets for Transfer to the Operating Right Holder and the list of the parking facility assets in the compilation of related materials shall be updated by the Hokkaido Government prior to the commencement of the transfer procedure and presented to the Operating Right Holder.

J) Commencement of the Airport Operating Business

The Operating Right Holder shall commence the Airport Operating Business on the Airport Operating Business Commencement Date set out in the Project Agreement. The conditions precedent to commencement are fulfillment of the obligations under the Project Agreement.

(5) Matters to be noted concerning the application

A) Contract deposit

No contract deposit shall be required in relation to the Project Agreement.

B) Conditions precedent to the application

(i) Acceptance of the Application Guidelines, etc.

Applications shall fully understand the terms and conditions specified in the Application Guidelines, etc. and participate in the Bidding after agreeing with the terms and conditions. The applicants may not raise any objection on the grounds that they find some matters in the Application Guidelines, etc. unclear.

(ii) Cost bearing etc.

A person as an applicant in any of the procedures for the Bidding shall be

¹ For the price (or the method for calculation thereof) and the list of the Assets for Transfer to the Operating Right Holder, please refer to the disclosed materials

responsible for performing all acts at their own expense.

(iii) Proceedings in writing

Any intentions to be presented to the Four Administrators concerning the Bidding shall be in writing unless otherwise set out in the Application Guidelines, etc. and the language to be used shall be Japanese. If an applicant is composed of companies outside of Japan, documents written in both Japanese and English are acceptable. However, if there is any discrepancy between the content written in Japanese and that in English, the content written in Japanese shall prevail. In addition, annexed materials (hard copies) that are attached to the materials concerning the participation requirements that are written in foreign languages are acceptable as long as accurate Japanese translations of relevant parts are attached.

(iv) Currency and measures

The currency and measures used in the Proposal Documents, questions and answers and screenings etc. shall be Japanese yen and the measures stipulated in the Measurement Act (Act No. 51 of 1992).

C) Proposal Documents to be submitted by applicants

Applicants shall prepare their Proposal Documents in accordance with the Forms and Directions.

D) Treatment of the Proposal Documents

The Proposal Documents shall be treated as follows:

(i) Copyrights

The copyrights of the Proposal Documents shall belong to the person who has submitted the Proposal Documents. The Four Administrators may use the Proposal Documents (including the materials, videos, etc. distributed or used during the presentation), in whole or in part, without charge, for publishing the Project or any other occasion as may be deemed necessary by the Four Administrators.

The Proposal Documents will not be returned.

(ii) Patents and other rights

The Four Administrators shall assume no responsibility arising from consequences of using maintenance and administration methods, etc. contained in the proposed details, which are subject to a third party's right protected under the laws of Japan, such as a patent right, a utility model right, a design right and a

trademark right.

(iii) Disclosure of the Proposal Documents

The Four Administrators may disclose parts of the Proposal Documents (including the materials, videos, etc. distributed or used during the presentation) as may be necessary.

In the event the Proposal Documents include any content (such as special techniques and know-how) which would infringe on the rights, competitive position, or other reasonable interest of the submitter if the Proposal Documents are disclosed, the submitter shall make a statement to that effect.

(iv) Inconsistency in the proposed details

If there are any inconsistencies between the figures, images, etc. presented and the details in writing, the details in writing shall supersede the figures or images.

(v) Obligations to Perform the Proposed Details

With regard to the proposals presented to the Four Administrators at each of the screening stages by the Preferred Negotiation Right Holder, the Operating Right Holder shall assume the obligation to perform them. If any presentations have been held, the questions on the proposed details of the Project asked during the presentations and the associated answers shall be treated in the same manner.

E) Treatment of materials provided by the Four Administrators

Materials provided by the Four Administrators shall not be used for any purpose other than inspections in the course of the Bidding.

F) Invalid applications

An application that falls under any of the following items shall be invalid.

- (i) When any person failing to satisfy the requirements specified in “1.(1) Participation requirements for applicants” applies for the Bidding
- (ii) When any of the Proposal Documents lacks
- (iii) When the Proposal Documents are not prepared in accordance with the Forms and Directions
- (iv) When the method, place or deadline of submission of the Proposal Documents fails to meet those specified in the Application Guidelines, etc.
- (v) When the applicant contacts any officer or employee of governments of municipalities in which the Seven Airports in Hokkaido are located (meaning the

governments of the following ten municipalities: Chitose City, Tomakomai City, Wakkanai City, Hakodate City, Kushiro City, Shiranuka Town, Asahikawa City Government, Higashikagura Town, Obihiro City and Ozora Town), New Chitose Airport Office, Wakkanai Airport Office, Kushiro Airport Office and Hakodate Airport Office of the Tokyo Regional Civil Aviation Bureau of the MLIT, Asahikawa Airport Office of Asahikawa City Government, Airport Office of Obihiro City Government, Memanbetsu Airport Administration Office of Hokkaido Government, the respective Building Facility Operators of the Seven Airports in Hokkaido, fueling facility operators, Chitose Tourist Association, Airport Environmental Improvement Foundation or Memanbetsu Industrial Development Corporation in relation to the selection of the Project without permission of the Four Administrators

- (vi) When the applicant wrongfully approaches a member of the Screening Committee or a corporation to which a member of the Screening Committee belongs in relation to the selection of the Project
- (vii) When there is any wrongful act in the course of the application procedures
- (viii) When any matter is stated in the Proposal Documents that is not meant to be stated in them
- (ix) When any matter stated in the Proposal Documents is false
- (x) When two or more sets of the Proposal Documents are submitted
- (xi) When the application violates the terms and conditions stipulated in the Application Guidelines, etc.