

Implementation Policy on the Qualified Project Etc. for Operation of Kobe Airport

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.

September 13, 2016

Kobe City Government

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Part 1. Matters concerning the selection of a qualified project

The Kobe City Government (hereinafter referred to as “the City”) is planning to select a private business operator to implement the Qualified Project Etc. for Operation of Kobe Airport (hereinafter referred to as the “Project”). Under the Project, a qualified project for operation of locally managed airport performed in accordance with 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 Utilizing Airport Operation Act”) and the incidental businesses will be integrally carried out at the Kobe Airport.

This document stipulates the implementation policies for the Project (hereinafter referred to as the “Implementation Policy”) in accordance with: (i) the Kobe Airport Ordinance (No. 1 of April 2005), (ii) the Kobe Airport Ordinance Enforcement Regulations (No. 47 of December 2005), (iii) the Basic Policy for Operations of the Nationally Managed Airports Leveraging Private Capabilities (Public Notice of the Ministry of Land, Infrastructure, Transport and Tourism No. 1080 of 2013; hereinafter referred to as the “Basic Policy”); (iv) the Guidelines Concerning the Process to Conduct PFI Project (effective in September 2013); (v) the Guidelines Concerning the Right to Operate Public Facilities Etc. or a Public Facilities etc. Operation Project (effective in September 2013); and (vi) other applicable documents for (i) selecting a qualified project; (ii) selecting a private business operator to carry out the Project (if a private business operator composed of two or more judicial persons has been selected, the private business operator shall refer to all judicial persons that comprise the private business operator; hereinafter referred to as the “Preferred Negotiation Right Holder”); (iii) granting the right to operate public facilities etc. to the right holder to operate a locally managed airport (refers to a locally managed airport operator under Article 11, paragraph (2) of the Private Utilizing Airport Operation Act; hereinafter referred to as the “Operating Right Holder”) under contract to a special purpose company (hereinafter referred to as the “SPC”) that will be incorporated by the selected Preferred Negotiation Right Holder (refers to a right to operate public facilities, etc., under Article 2, paragraph (7) of the PFI Act; hereinafter referred to as the “Operating Right”); and (iv) entering into the Qualified Project Etc. for Airport Operation of Kobe Airport Agreement to Implement Right to Operate Public Facilities Etc. (hereinafter referred to as the “Project Agreement”) with the person granted the Operating Right (hereinafter referred to as the “Operating Right Holder”) based on the PFI Act and the Private Utilizing Airport Operation Act.

1. Details of the qualified project

- (1) Project name
Qualified Project Etc. for Operation of Kobe Airport
- (2) Name and types of public facilities etc. subject to the Project
 - A) Name
Kobe Airport

B) Types

Basic airport facilities, airport air navigation facilities, airport function facilities and other facilities

(3) Administrator etc. of public facilities etc.

Kizo HISAMOTO, Mayor of Kobe City Government

(4) Office in Charge

Project Promotion Division, Airport Project Department, Port and Urban Projects Bureau, Kobe City Government (hereinafter referred to as the “Office in Charge”)

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The following advisers (hereinafter referred to as the “Advisors”) have been appointed to support the administrative affairs of the Office in Charge in relation to the Implementation Policy:

- (i) Anderson Mori & Tomotsune;
- (ii) The Kansai Law & Patent Office;
- (iii) Ernst & Young ShinNihon LLC;
- (iv) Ernst & Young Transaction Advisory Services Co., Ltd.; and
- (v) Industrial Growth Platform, Inc.

(5) Background and purpose of the Project

The purpose of this Project is to increase air transport demand in the entire Kansai region and stimulate the economy in Kobe City, thereby contributing to the development of the Kansai region’s economy by making appropriate utilization of each capability of the three airports, through the integral operation of the Kobe Airport with the Kansai International Airport and the Osaka International Airport in an original and ingenious manner by the private business operator.¹

At the same time, integral and flexible operation of (1) basic airport facilities and airport air navigation facilities, and (2) airport function facilities at the Kobe Airport will be realized by utilizing the funds and management capability of the private business operator.

(6) Application Guidelines etc.

The documents listed in (i) through to (x) below are to be presented for bidding (together with supplementary materials, as well as answers to questions that will be published on the City’s website or by other means, and other documents to be issued by the City in relation thereto, hereinafter collectively referred to as the “Application Guidelines etc.”; if any amendments have been made to these documents, those reflecting the amendments shall prevail).

¹ The Implementation Policy on the Qualified Project, etc., for Airport Operation of Kansai International Airport and Osaka International Airport (published on July 25, 2014) states that if the administrator of the Kobe Airport is to entrust the operation of the Kobe Airport, the Operating Right Holder may negotiate with the administrator of the Kobe Airport, under the objective of revitalization and enhancement of the function of the Kansai Airport as an international hub airport and of increasing the demand for air transport in the Kansai region, by operating the Kobe airport in an integrated way.

Supplementary materials to be presented in relation to the selection of the Preferred Negotiation Right Holder shall constitute a part of the Application Guidelines etc.

- (i) Application Guidelines on the Qualified Project Etc. for Operation of Kobe Airport (hereinafter referred to as the “Application Guidelines”)
- (ii) Qualified Project Etc. for Operation of Kobe Airport Agreement Concerning the Implementation of the Right to Operate Public Facilities Etc. (draft) (hereinafter referred to as the “Project Agreement (draft)”)
- (iii) Qualified Project Etc. for Operation of Kobe Airport Agreement Concerning Loan for Use of Land, Buildings, Etc. (draft) (hereinafter referred to as the “Land and Building Loan for Use Agreement (draft)”)
- (iv) Qualified Project Etc. for Operation of Kobe Airport Agreement Concerning Transfer of Goods, etc. (draft) (hereinafter referred to as the “Goods Transfer Agreement (draft)”)
- (v) Qualified Project Etc. for Operation of Kobe Airport Basic Agreement (draft) (hereinafter referred to as the “Basic Agreement (draft)”)
- (vi) Qualified Project Etc. for Operation of Kobe Airport Required Standards Document (draft) (hereinafter referred to as the “Required Standards Document (draft)”)
- (vii) Compilation of related materials²
- (viii) Qualified Project Etc. for Operation of Kobe Airport Selection Criteria for the Preferred Negotiation Right Holder (hereinafter referred to as the “Selection Criteria for the Preferred Negotiation Right Holder”)
- (ix) Qualified Project Etc. for Operation of Kobe Airport Forms and Directions (hereinafter referred to as the “Forms and Directions”)
- (x) Compilation of referential materials³

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

In addition to the PFI Act, the Private Utilizing Airport Operation Act, the Basic Policy, the Kobe Airport Ordinance, and other related laws, regulations, etc. shall apply to the Project. The main applicable laws, regulations, etc. are as follows:

A) Laws and regulations

- i) Airport Act (Act No. 80 of 1956)
- ii) Civil Aeronautics Act (Act No. 231 of 1952)
- iii) Ports and Harbors Act (Act No. 218 of 1950)
- iv) Act on Port Regulations (Act No. 174 of 1948)
- v) City Planning Act (Act No. 100 of 1968)
- vi) Building Standards Act (Act No. 201 of 1950)
- vii) Parking Lot Act (Act No. 106 of 1957)
- viii) Act on Promotion of Smooth Transportation, etc. of Elderly Persons, Disabled Persons, etc. (Act No. 91 of 2006)
- ix) Fire Service Act (Act No. 186 of 1948)

² The compilation of related materials is expected to be supplement to the required standards etc. and conditions precedent for implementing the Project.

³ The compilation of referential materials is expected to consist of materials that will facilitate the understanding of the Project and be compiled separately from the compilation of related materials.

- x) Act on Maintenance of Sanitation in Buildings (Act No. 20 of 1970)
- xi) Industrial Safety and Health Act (Act No. 57 of 1972)
- xii) Air Pollution Control Act (Act No. 97 of 1968)
- xiii) Act on the Rational Use of Energy (Act No. 49 of 1979)
- xiv) Act on the Promotion of Effective Utilization of Resources (Act No. 48 of 1991)
- xv) Construction Material Recycling Act (Act No. 104 of 2000)
- xvi) Waste Management and Public Cleansing Act (Act No. 137 of 1970)
- xvii) Construction Business Act (Act No. 100 of 1949)
- xviii) Labor Standards Act (Act No. 49 of 1947)
- xix) Working Environment Measurement Act (Act No. 28 of 1975)
- xx) Pneumoconiosis Act (Act No. 30 of 1960)
- xxi) Act on the Improvement of Employment of Construction Workers (Act No. 33 of 1976)
- xxii) Road Act (Act No. 180 of 1952)
- xxiii) Road Traffic Act (Act No. 105 of 1960)
- xxiv) Road Transportation Act (Act No. 183 of 1951)
- xxv) Road Transport Vehicle Act (Act No. 185 of 1951)
- xxvi) Erosion Control Act (Act No. 29 of 1897)
- xxvii) Landslide Prevention Act (Act No. 30 of 1958)
- xxviii) Water Supply Act (Act No. 177 of 1957)
- xxix) Sewerage Act (Act No. 79 of 1958)
- xxx) Forest Act (Act No. 249 of 1951)
- xxxi) Basic Environment Act (Act No. 91 of 1993)
- xxxii) Nature Conservation Act (Act No. 85 of 1972)
- xxxiii) Noise Regulation Act (Act No. 98 of 1968)
- xxxiv) Vibration Regulation Act (Act No. 64 of 1976)
- xxxv) Soil Contamination Countermeasures Act (Act No. 53 of 2002)
- xxxvi) Act on Protection of Cultural Properties (Act No. 214 of 1950)
- xxxvii) Electricity Business Act (Act No. 170 of 1964)
- xxxviii) Radio Act (Act No. 131 of 1950)
- xxxix) High Pressure Gas Safety Act (Act No. 204 of 1951)
- xl) Survey Act (Act No. 188 of 1949)
- xli) Security Services Act (Act No. 117 of 1972)
- xl ii) Customs Act (Act No. 61 of 1954)
- xl iii) Local Autonomy Law (Act No. 67 of 1947)
- xl iv) Basic Act on Disaster Control Measures (Act No. 223 of 1961)
- xl v) Act on the Peace and Independence of Japan and Maintenance of the Nation and the People's Security in Armed Attack Situations, Etc. (Act No. 79 of 2003)
- xl vi) Act concerning the Measures for Protection of the People in Armed Attack Situations, etc. (Act No. 112 of 2004)
- xl vii) Act on the Use of Specific Public Facilities Etc., in Armed Attack Situations, etc. (Act No. 114 of 2004)
- xl viii) Other related laws and regulations

B) Conventions and treaties

- i) Convention on International Civil Aviation (Treaty No. 21 of 1953)
- ii) Agreement Under Article VI of the Treaty of Mutual Cooperation and Security between Japan and the United States of America, regarding Facilities and Areas and the Status of

- iii) United States Armed Forces in Japan (Treaty No. 7 of 1960)
- iii) Other related conventions and treaties

C) Ordinances

- i) Ordinance for Kobe City Port Facilities (Ordinance No. 13 of April 1973)
- ii) Ordinance for Approval pursuant to the Provisions of Article 37, paragraph (1) of the Ports and Harbors Act and Proceeds from Charges for Proprietary Use and Mining of Sand and Earth pursuant to the Provisions of paragraph (4) of said Article (Ordinance No. 83 of March 2000)
- iii) Ordinance for Protection and Development of Living Environments, etc., of Kobe Residents (Ordinance No. 51 of March 1994)
- iv) Ordinance for Urban Landscape of Kobe City (Ordinance No. 59 of October 1978)
- v) Ordinance for Outdoor Advertising Materials of Kobe City (Ordinance No. 50 of January 2000)
- vi) Ordinance for Water Supply of Kobe City (Ordinance No. 46 of March 1964)
- vii) Ordinance for Sewage Systems of Kobe City (Ordinance No. 40 of October 1975)
- viii) Ordinance for Protection of Environments of Kobe Residents (Ordinance No. 52 of March 1994)
- ix) Ordinance on Environment Assessment of Kobe City (Ordinance No. 29 of October 1997)
- x) Ordinance on Proper Waste Disposal, Reuse and of Environment Beautification of Kobe City (Ordinance No. 57 of March 1993)
- xi) Ordinance on Prevention of Littering and Public Non-smoking of Kobe City (Ordinance No. 48 of March 2008)
- xii) Ordinance for Ensuring the Welfare of Kobe Residents (Ordinance No. 62 of January 1977)
- xiii) Ordinance for Development of Welfare-oriented Communities in Hyogo Prefecture (Ordinance No. 37 of October 1992)
- xiv) Ordinance for Usage Fee Relating to License of Administrative Assets (Ordinance No. 80 of March 1964)
- xv) Ordinance for Charges for Proprietary Road Use (Ordinance No. 42 of March 1969)
- xvi) Other related ordinances

(8) The Project Period and the duration of the Operating Right

A) The Project Period of the Project

The period during which the Project is implemented (hereinafter referred to as the “Project Period”) shall be from the day the Project commences upon fulfillment of the conditions precedent as set out in the Project Agreement (hereinafter referred to as the “Project Commencement Date”) until March 31, 2060 (when the Project Period is extended pursuant to the provisions of Part 1.1.(8)B), the day said extended period expires; hereinafter referred to as the “Project Expiration Date”).

B) Extension of the Project Period

If any of the events set out in the Project Agreement occurs, the Operating Right Holder may request the extension of the Project Period. In this case, when the City deems it necessary to collect

costs for damage incurred by the Operating Right Holder, additional costs or other necessary expenses for each event (Part 3.7.), the Operating Right Holder may extend the Project Period for a period agreed between the parties to the extent of the provisions of Part 1.1.(8)C) through mutual consultation (such extension of the period is hereinafter referred to as the “Extension by Agreement”). The effectuation of Extension by Agreement is not one time only.

C) The duration of the Operating Right

The Operating Right shall be established prior to the Project Commencement Date and the period during which the Operating Right exists (hereinafter referred to as the “Duration of the Operating Right”) shall be from the date of its establishment until the Project Expiration Date.

The Duration of the Operating Right shall be until March 31, 2070 including cases where the Project Period is extended pursuant to the provisions of Part 1.1.(8)B.

The Operating Right shall expire on the Project Expiration Date.

(9) Project methods

The Preferred Negotiation Right Holder who has been selected by the City through the procedure stipulated in Part 2.2. and has entered into the Basic Agreement with the City shall incorporate⁴ an SPC whose purpose is to carry out the Project.

The SPC will be granted the Operating Right over the runways, taxiways, aprons, car parking lots, passenger facilities (including offices and shops), cargo facilities (including offices) and other facilities located on the airport sites (see Exhibit 2) and in neighboring areas, which are necessary to implement the qualified project for operation (hereinafter collectively referred to as the “Airport Facilities”) and become the Operating Right Holder.

Car parking lots, passenger facilities (including offices and shops), cargo facilities (including offices) and other facilities that are currently owned by Kobe Airport Terminal Co., Ltd. shall be included in the Airport Facilities upon transfer to the City by the Project Commencement Date.

(10) Collection of usage fees and bearing of costs

The Operating Right Holder may, at its own management discretion, set the usage fees listed below and collect them as its income, in accordance with the Kobe Airport Ordinance and the Basic Policy, after confirming that the collection of the fees is not prohibited by the Airport Act, the Civil Aeronautics Act, or other laws, regulations, etc.

- (i) Landing fees, etc. (Notification of the landing fees to the State is required. If the fees make it difficult for users to use the airports or are set in a discriminatory manner, the State may order to change the fees, in accordance with laws and regulations.)
- (ii) Fees for using airport air navigation facilities (Notification of the fees to the State is required. If the fees make it difficult for users to use the airports or are set in a discriminatory manner, the State may order to change the fees, in accordance with laws and regulations.)
- (iii) Passenger service facility charge (Notification of the charge to the State is required and the charge shall be set within the approved upper limit. If such fees are set in a discriminatory manner, the City may order to change the charge, in accordance with laws and regulations.)

⁴ A method other than incorporation may be used with the approval of the City.

- (iv) Other usage fees (If the collection procedures etc. for the usage fees are stipulated in laws and regulations, the Operating Right Holder will follow such procedures.)

Meanwhile, with regard to other usage fees, due consideration must be given to the points that these fees are not set in a unreasonably discriminatory manner for particular parties and are not significantly inappropriate in view of social and economic circumstances, thereby posing a risk of threatening the interests of users of public facilities etc.

The City shall bear no expenses incurred in relation to carrying out the Project by the Operating Right Holder, unless otherwise set out in the Project Agreement. The Operating Right Holder shall be liable for any expenses incurred in implementing the Project and will recover such expenses through the collection of usage fees.

(11) Scope of the business

The scope of the Project shall be as follows. During the Project Period, the Operating Right Holder may entrust or give a contract to a third party, with prior notice to the City, to carry out any business, except the entrusting-prohibited businesses set out in the Project Agreement.

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, will be stated in the Application Guidelines etc.

A) Obligatory business

The Operating Right Holder shall carry out the following activities and operations, unless such activities are carried out by the State or the City. The details of these activities will be stated in the Application Guidelines etc.

(a) Operations included in the qualified project for airport operation

- (i) Operation, maintenance and administration of the basic airport facilities (including runways, taxiways and aprons) and facilities which are integral parts of and incidental to the basic airport facilities (including car parking lots and water discharge facilities), Operation, maintenance and administration of sea walls, bridges on which approach lights are installed, roads in the facilities are not included in the scope of business.
- (ii) Operation, maintenance and administration of the airport air navigation facilities
- (iii) Operation, maintenance and administration of the airport function facilities (the passenger facilities (including offices and shops) and cargo facilities (including offices))
- (iv) Environmental measures business
- (v) Incidental businesses
 - Lease of the land to the State and fueling companies
 - Bearing half of the costs for preventive measures against aircraft hijacking

Subject to the City's approval obtained in accordance with the procedures set out in the Project Agreement, the Operating Right Holder may change (including suspend or abolish) any of the activities or operations.

B) Voluntary business

In addition to the obligatory business, the Operating Right Holder may conduct any business or

service which the Operating Right Holder deems necessary to implement the Project, provided that such business or service complies with the associated laws and regulations etc. does not interfere with the function of the airports, is not an adult-only amusement business or other similar business, is not the office of an organized crime group or other similar office, and is not offensive to public policy.

(12) Rights and assets to be granted to the Operating Right Holder

The following rights and assets will be granted to the Operating Right Holder by the Project Commencement Date:

(i) Operating Right

The Operating Right to be established on the Airport Facilities.

The following facilities will not be subject to the Operating Right:

- a. Sea walls (except for fences for access restriction installed on the top part of sea walls and external security facilities)
- b. Bridges on which approach lights are installed (except for approach lights installed on bridges (auxiliary equipment such as wiring system))
- c. Roads in the facilities as well as lights, signboards, canopies and other similar items incidental thereto
- d. Specific land lots and facilities designated by the City
Including but not limited to facilities owned by the West Japan Civil Aviation Bureau of the Ministry of Land, Infrastructure, Transport and Tourism (“MLIT”), Osaka Metrological Agency and Kobe Airport Fuel Facilities Inc.

(ii) Rights to use land created by loan for use

Rights to use specific land lots designated by the City

(iii) Rights to use buildings created by loan for use

Rights to use specific buildings designated by the City

(iv) Agreements, pacts, etc. to be succeeded

Agreements, pacts, etc. to be transferred from the City

(v) Ownership of movables etc.

Ownership of the assets to be transferred from the City

(13) Consideration for the Operating Right etc.

(i) Consideration for the Operating Right

The consideration for the Operating Right, which is paid after the execution of the Project Agreement, includes a lump-sum payment (upfront fee) effectuated on the date designated by the City and a payment (annual fee) effectuated the City every fiscal year within the Project Period.

The minimum proposal amount will be stated in the Application Guidelines etc.

The current operating hours are 07:00-22:00, and the maximum number of aircraft movements is 30 round-trips (60 movements) a day.

(ii) Revenue Sharing Fees

Apart from the consideration for the Operating Right, a proposal is made to the applicants concerning the payment of fees (hereinafter referred to as the “Revenue Sharing Fees”) of

which the amount varies depending on the revenue of each fiscal year within the conditions specified in the Application Guidelines etc. The Operating Right Holder shall pay the amount based on the proposal to the City during the Project Period.

(iii) Consideration for the acquisition of goods as set out in the Project Agreement

The consideration for the acquisition of the goods as set out in the Project Agreement shall be paid by the methods set out in the Project Agreement and other related documents. Methods for calculating and paying the consideration for the acquisition of the goods set out in the Project Agreement, as well as other related matters, will be stated in the Application Guidelines etc.

(14) Dispatch of staff

The City shall dispatch one staff member who is involved with the airport operating business (civil engineering staff is expected). When an individual other than the above staff member is dispatched, decisions will be made through competitive dialogues concerning the job type of the dispatched staff (civil engineering staff and electric work staff are expected), the dispatch period, the dispatch method and other necessary matters. Personnel expenses for the dispatched staff shall be determined based on the pay standard of the City and borne by the Operating Right Holder.

(15) Actions to be taken upon expiration of the Project Period

Upon the expiration of the Project Period, it is the responsibility of the Operating Right Holder in general to smoothly transfer the Project and return the Airport Facilities to the City or transfer them to a third party designated by the City, in accordance with the Project Agreement at its own expense. In transferring the Project, the Operating Right Holder shall endeavor to transfer the necessary personnel as well.

With regard to the agreements, movables, etc. held by the Operating Right Holder when the Project Period expires (including any real property that the Operating Right Holder owns in accordance with the Project Agreement), if such shares etc. shall be transferred to the City or a third party designated by the City based on the Project Agreement, they shall be transferred in accordance with the procedures agreed in advance between the Operating Right Holder and the City. It will be the responsibility of the Operating Right Holder to dispose of those not subject to such transfer at its own expense

2. Matters concerning the selection of a qualified project

(1) Selection criteria

If the City reasonably finds that it is efficient and effective to implement the Project as a PFI project, the City shall select the Project as a Selected Project as defined in Article 2, paragraph (4) of the PFI Act in accordance with Article 7 of that Act.

(2) Announcement of selection results

When the City has selected the Project as a Selected Project as defined in Article 2, paragraph (4) of the PFI Act, the selection results and the details of the evaluation shall be promptly announced on the City's website, or by other means.

If the City has decided not to select a qualified project based on the results of an objective evaluation under Article 8, paragraph (1) of the PFI Act, the decision will also be announced on the

City's website, or by other means.

Part 2. Matters concerning bidding and selection of a private business operator

1. Basic idea of bidding and selection of a private business operator

If the City has selected the Project as a qualified project, it shall invite private business operators which desire to participate in the Project by publishing the Application Guidelines etc., and will select a Preferred Negotiation Right Holder, while ensuring the transparency and fairness of bidding. The selection of the Preferred Negotiation Right Holder for the Project shall be made by a competitive negotiated agreement (public offer type proposal).

2. Methods for selecting a Preferred Negotiation Right Holder

(1) Screening system

For the purpose of selecting a Preferred Negotiation Right Holder, an appropriate system for screening shall be established by the City. The details of the screening system will be stated in the Application Guidelines etc.

(2) Selection procedures

The City shall select a Preferred Negotiation Right Holder through the following procedures. Please refer to Part 8.2. for a draft schedule. The schedule will be updated in the Application Guidelines etc.

(i) Publication of the Application Guidelines

The City shall publish the Application Guidelines by the City's website or by other appropriate means.

The Project Agreement (draft), the Land and Building Loan for Use Agreement (draft), the Goods Transfer Agreement (draft), the Basic Agreement (draft), the Selection Criteria for the Preferred Negotiation Right Holder, the Forms and Directions and other documents will also be presented.

In addition, an explanatory meeting on the Application Guidelines etc. will be held.

Prior to the screening as described in Item (ii), any person who desires to participate in the selection procedure (hereinafter referred to as the "Participation Applicant") shall submit application documents for the participation requirements screening and such documents shall be screened to confirm whether the Participation Applicant satisfies the participation requirements (see Part 2.3.(1)) by conducting hearings with the Participation Applicant, as necessary. The Participation Applicant will be notified of the result of the screening.

When the City receives the confidentiality pledge from applicants who passed the participation requirements screening, the City will disclose the "Confidential Materials for Screening" including the Required Standards Document (draft) to the qualified participants.

(ii) Screening

For the purpose of the screening, the City receives the submission of documents necessary for the screening (hereinafter referred to as the "Screening Documents") from applicants (see Part 2.3.(2)), while giving opportunities to conduct on-site inspection, hearings with the parties concerned and other necessary activities. The City shall conduct screening for the purpose of

evaluating the fulfillment of the applicant requirements (see Part 2.3.(3)), the proposed amounts of the consideration for the Operating Right etc., the appropriateness of the concrete policies and plans for implementing the Project, and the technical foundation, financial resources etc. for implementing the Project. In conducting this evaluation the City will conduct hearings regarding the proposed contents and then select a Preferred Negotiation Right Holder.

Any person who intends to satisfy the applicant requirements (see Part 2.3.(3)) as a group composed of multiple companies (hereinafter referred to as the “Consortium”) shall form such a Consortium prior to the submission of the Screening Documents.

Once the Screening Documents have been accepted, none of the companies in a Consortium (hereinafter referred to as the “Consortium Members”) may, in principle, leave the Consortium. If changes in the Consortium Members are unavoidable, the Consortium shall consult with the City, and if the City permits such changes after considering such circumstances, the Consortium may make such changes.

(iii) Competitive dialogues

Prior to the submission by the screening participants of the Screening Documents, the City will hold competitive dialogues with the screening participants and amend the Application Guidelines etc. as necessary.

(3) Screening items etc.

The City shall screen each applicant in relation to the matters necessary based on objective criteria, including the items stated below, to evaluate these items through overall screening procedures. The details of the screening items will be stated in the Application Guidelines etc.

- a. Proposed amounts of the consideration for the Operating Right, etc.
- b. Appropriateness of the policies and plans for implementing the Project (including the strategies contributing to the integral operation of the three airports and the policies for the revitalization of Kobe Airport)
- c. Technical foundation (including the ability to ensure proper operation in accordance with Japanese laws and regulations, etc.)
- d. Financial resources

(4) Procedures after the selection of the Preferred Negotiation Right Holder

(i) Execution of the Basic Agreement

The Preferred Negotiation Right Holder shall promptly enter into the Basic Agreement with the City based on the Basic Agreement (draft). If the Basic Agreement is not entered into with the Preferred Negotiation Right Holder within an appropriate period of time, the City may enter into the Basic Agreement with the person who was second place as a new Preferred Negotiation Right Holder.

(ii) Incorporation of an SPC

Upon the execution of the Basic Agreement, the Preferred Negotiation Right Holder shall promptly incorporate an SPC whose purpose is to carry out the Project.⁵

⁵ A method other than incorporation may be used with the approval of the City.

(iii) Grant of the Operating Right

Once the SPC has been incorporated, the City shall promptly grant the Operating Right to the SPC after confirming that the procedures for commencing the operation are being carried out smoothly. Upon granting the Operating Right, the City shall announce the grant etc.

(iv) Execution of the Project Agreement

Once the Operating Right is granted, the Operating Right Holder shall promptly enter into the Project Agreement with the City. In addition to the Project Agreement, the City and the Operating Right Holder shall enter into the Land and Building Loan for Use Agreement, the Goods Transfer Agreement (draft) and any other necessary agreements.

(v) Announcement of the screening results and the content of the Project Agreement

The City shall announce the screening results and the content of the Project Agreement as stipulated in Article 22, paragraph (2) of the PFI Act by appropriate means.

(5) Matters to be noted concerning the application

(i) Treatment of the submitted documents

The copyrights of the submitted documents shall, in general, belong to the applicant (see Part 2.3.(2)). However, the City may use the document without charge for the purpose of announcement for the Project or any other reasons deemed necessary by the City. With regard to the copyrights of the documents submitted by the applicant (see Part 2.3.(2)) who was selected as the Preferred Negotiation Right Holder, the City shall be granted the rights to use the documents under the Project Agreement.

Applicants (see Part 2.3.(2)) shall be responsible for any consequence arising from their use of rights, which are protected by the laws of Japan (such as patent rights).

After the selection of the Preferred Negotiation Right Holder, the City may disclose parts of documents submitted by the applicants (see Part 2.3.(2)) who were not selected as the Preferred Negotiation Right Holder, to the extent necessary.

(ii) Cancellation of bidding and rescission of selection of the qualified project

If the City determines that it is inappropriate to implement the Project, the City may cancel bidding without selecting a Preferred Negotiation Right Holder (even after the commencement of bidding) and rescind the selection of the qualified project.

In this case, the City shall publish the decision on the City's website or by other appropriate means.

3. Participation requirements for participation applicants and applicants

(1) Participation requirements for participation applicants

(i) A 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) A person against whom a petition for the commencement of bankruptcy proceedings pursuant to the provisions of Articles 18 and 19 of the Bankruptcy Act (Act No. 75 of 2004) has not been filed.

(iii) A person against whom a petition for the commencement of reorganization proceedings

pursuant to the provisions of Article 17 of the Corporate Reorganization Act (Act No. 154 of 2002) has not been filed.

- (iv) A person against whom a petition for the commencement of rehabilitation proceedings pursuant to the provisions of Article 21 of the Civil Rehabilitation Act (Act No. 225 of 1999) has not been filed.
- (v) A person against whom a petition for the commencement of special liquidation procedures pursuant to the provisions of Article 511 of the Companies Act (Act No. 86 of 2005) has not been filed.
- (vi) A person who is not delinquent in payments of national taxes (corporate tax and consumption tax) and local taxes.
- (vii) A person who is not subject to punishment for being ineligible to participate in bidding in accordance with the Kobe City Criteria Guidelines for Ineligibility of Participation in Bidding of Kobe City (Mayor's decision on June 15, 1994).
- (viii) A person who does not fall under an organized crime group stipulated in Article 2, item (vi) of the Act on Prevention of Unjust Acts by Organized Crime Group Members (Act No. 77 of 1991), a judicial person, etc., in which an organized crime group serves as an officer or is substantially involved with the management, or a person who has a socially criticized relationship with an organized crime group (as stipulated in Article 2, item (ii) of said Act) and its member(s) (person falling under Article 5 of the Guidelines on the Elimination of Organized Crime Groups, etc., from Office Work of Kobe City (Mayor's decision on May 26, 2010).
- (ix) A 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.
- (x) Neither a person who is any of the Advisors or their subsidiaries nor a person who is associated with those through capital, personnel or other affairs.⁶
- (xi) A person who does not appoint, as an advisor on the selection of the project, any of the Advisors or their subsidiaries, or a person who is associated with those through capital, personnel or other affairs.
- (vii) A person who satisfies any of the following requirements:
 - (A) A person who is familiar with the laws and regulations and business practices in Japan, and has any of the following experiences of operating a facility with the comparable number of users as the passenger facility of the Kobe Airport in or after 2006:
 - (a) Experience of operating a passenger facility⁷

⁶ “A person who is associated with those in terms of capital, personnel or other affairs” shall be the case 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.

⁷ “A passenger facility” means any railway station, track station, bus terminal, ferry terminal or air passenger terminal

- (b) Experience of operating a commercial facility⁸
 - (c) Experience of operating a multi-purpose building⁹
 - (B) A person who is deemed to have the ability to operate an airport for which the annual number of passengers is comparable to that of the Kobe Airport.
- (2) Composition of an applicant
- (i) An applicant shall be a single company (hereinafter referred to as the “Applying Company”) or a Consortium.
 - (ii) If the applicant is a Consortium, the names of all Consortium Members, their respective roles etc. in carrying out the Project shall be specified.
 - (iii) If the applicant is a Consortium, it shall specify a company from the Consortium Members that represents the Consortium (hereinafter referred to as the “Representative Company”).
 - (iv) The Applying Company or the Consortium Members shall be expected to fund the Operating Right Holder and receive all voting shares. All voting shares of the Operating Right Holder shall be allotted to the Applying Company or the Consortium Members.
- (3) Requirements for applicants
- Applicants must satisfy the following requirements.
- (i) An applicant shall be composed of one or more Qualified Participants.
 - (ii) An Applying Company must satisfy all the requirements specified in Part 2.3.(1) (i) to (xii) (A) and (B).
 - (iii) For a Consortium, all of the Consortium Members must satisfy all of the requirements specified in Part 2.3.(1)(i) through to (xi), and the Consortium must have a Consortium Member which satisfies both of the requirements specified in Part 2.3.(1)(xii)(A) and (B) or have both of a Consortium Member which satisfies the requirements specified in Part 2.3.(1)(xii)(A) and a Consortium Member which satisfies the requirements specified in (B).
 - (iv) For a Consortium, the Representative Company shall satisfy the requirements specified in Part 2.3.(1)(xii)(A) as well as conduct the application procedures and act as a contact point with the City.
 - (v) The SPC to be incorporated by an applicant shall not become a subsidiary or affiliate of: an operator of air transport services as defined in Article 2, paragraph (18) of the Civil

facility.

⁸ Meaning the experience of the person or their consolidated subsidiary, including experience in operating the facility as the commercial real property administrating business or based on a master lease agreement.

⁹ Meaning the experience of the person or their consolidated subsidiary, including experience in operating the building as the commercial real property administrating business or based on a master lease agreement.

Aeronautics Act or its parent company or their subsidiaries (hereinafter collectively referred to as the “Air Carriers”); or affiliates (including their subsidiaries) of the Air Carriers.

Part 3. Matters concerning the proper and stable implementation of the Project including the clarification of responsibilities of the private business operator

1. Obligations in implementing the Project

The Operating Right Holder shall assume the following obligations in implementing the Project.

- (i) Obligations to operate the airports in accordance with the PFI Act, the Private Utilizing Airport Operation Act, the Basic Policy and the Kobe Airport Ordinance.
- (ii) Obligations to operate the airports in accordance with laws, regulations, the required standards, etc. (If an emergency occurs or the Operating Right Holder fails to perform any material obligation, the City may intervene in the implementation of the Project in accordance with the Project Agreement. The circumstances in which the City may intervene and the details of such intervention shall be set out in the Project Agreement.)

2. Obligations to retain assets etc.

The Operating Right Holder may not incorporate or acquire a new subsidiary or affiliate the City without the approval of the City.

Furthermore, the Operating Right Holder may dispose of the movables transferred from the City unless such disposal adversely affects the operation of the airports. Any asset transferred from the City other than the movables may not be disposed of without the approval of the City.

3. Replacement Investment etc. by the Operating Right Holder

(i) Treatment of maintenance and repair pertaining to the Airport Facilities

The Operating Right Holder shall conduct the following maintenance and repair of the Airport Facilities as the businesses included in the Operating Right, at its own discretion and at its own expense in general.¹⁰

- Restoration of any partial damage etc. of the runways, taxiways, aprons, car parking lots, passenger facilities (including offices and shops) and cargo facilities (including offices) to their original state
- Partial repair of the aeronautical lights etc.

(ii) Treatment of the extension pertaining to the Airport Facilities

The Operating Right Holder may conduct the extension of the following Airport Facilities as the businesses included in the Operating Right, at its own discretion and at its own expense.¹¹ However, if the Operating Right Holder intends to make a certain extension set out

¹⁰ When the Operating Rights Holder intends to conduct maintenance and repair work for the Airport Facilities and such work satisfies certain requirements, the Operating Rights Holder may request Kobe City to bear the expenses incurred for the residue value as a result of said work as of the Project Expiration Date in accordance with the procedures set out in the Project Agreement.

¹¹ With regard to the extension of the Airport Facilities conducted by the Operating Right Holder, the full amount of which is difficult to be recovered within the Project Period and which is expected to continuously produce benefit after the expiration of the Project Period, the Operating Right Holder may, at the time of said extension, request that Kobe City bear the expenses incurred for the expected unrecoverable portion as of the expiration of the Project Period.

in the Project Agreement etc., the Operating Right Holder shall obtain approval from the City in advance.

- Extension of the runways, taxiways or aprons and, to the extent necessary for such extension, the incidental facilities, etc.
- Any investment other than new investment or rehabilitation, including extension of the passenger facilities (including offices and shops) and cargo facilities (including offices)

Furthermore, if the City determines it necessary through deliberation of reasons for public interest, the City may conduct the extension of the Airport Facilities, at its own discretion and at its own expense, and the Operating Right Holder shall then cooperate in such extension work.

Any part of the Airport Facilities in which Replacement Investment etc. has been conducted by the City or the Operating Right Holder shall be owned by the City upon the completion of the investment etc. Because that part shall be subject to the Operating Right, operation, maintenance and repair etc. shall be conducted by the Operating Right Holder. Any risks arising in relation to the extension conducted by the City shall be borne by the City to the extent set out in the Project Agreement.

The Operating Right Holder may not make a new investment or rehabilitation listed below with regard to the Airport Facilities, which are beyond the scope of the businesses included in the Operating Right. (see Exhibit 1.)

<New investment>

- a. Construction of a new runway
- b. Construction of any new landing strip, taxiway or apron associated with the construction of a new runway
- c. Construction of any new aerodrome light, control unit or power supply unit associated with b. above

<Rehabilitation>

- a. Removal, redevelopment or other rehabilitation of the entire runways

(iii) Treatment of Replacement Investment etc. in the facilities for voluntary business

The Operating Right Holder may make Replacement Investment etc. in any facility necessary to carry out the voluntary business, at its own discretion and expense.

The part of the facility subject to Replacement Investment etc. shall be owned by the Operating Right Holder (or its subsidiary) upon the completion of the investment etc. and shall not be subject to the Operating Right.

If Replacement Investment etc. has been made as a voluntary business in any facility located in the airport sites, it will be the responsibility of the Operating Right Holder to dispose of such facility at its own expense upon the expiration of the Project Period. However, if the City finds that the facility is useful for operating the airports, the City may request the Operating Right Holder to transfer ownership of the facility without charge following the procedure agreed with the City in advance, in accordance with the Project Agreement. This shall not apply to the facilities located outside of the airport sites and in which Replacement

Investment etc. has been made as a voluntary business.

4. Capital investment planning and business income and expenditure planning

With regard to capital investment planning and business income and expenditure planning, the Operating Right Holder shall make an interim plan every five years and an annual plan for each year, respectively, and report the plans to the City. If any plan includes Replacement Investment etc. set out in the Project Agreement etc., the Operating Right Holder shall obtain prior approval from the City.

5. Required standards and monitoring

The basic idea for the required standards and monitoring of the Project shall be as follows:

(i) Required standards

The City shall establish required standards for the functions to be performed by the Operating Right Holder in implementing the Project. The Operating Right Holder shall assume the obligation to fulfill the required standards during the Project Period.

(ii) Self-monitoring

The Operating Right Holder shall keep a necessary record in relation to the implementation of the Project, and periodically report to the City concerning the fulfillment of the required standards.

(iii) Monitoring by the City and inspections by the State

The City shall conduct monitoring through the methods set out in the Project Agreement in order to ensure that the required standards are met.

In addition, the City may inspect the accounting books and records of the Operation Right Holder. The City may also request the Operating Right Holder to provide further information as necessary.

In addition to the monitoring above, the State shall conduct necessary inspections, collection of reports and other actions in accordance with laws and regulations.

(iv) Actions to be taken if the required standards are not fulfilled

If the Operating Right Holder fails to satisfy any of the required standards, the City may request the Operating Right Holder to submit an improvement plan.

If the Operating Right Holder still fails to satisfy the required standards, even through the improvement plan, the City may cancel the Project Agreement in accordance with the procedures set out therein.

6. Restrictions on the rights and obligations, etc. of the Operating Right Holder and related procedures

(i) Disposition and transfer of the Operating Right

The Operating Right Holder may not dispose of (including transfer) the Operating Right without the approval of the City.

Upon receipt of an application for transferring the Operating Right, the City shall approve the application after screening the person who will be the new Operating Right Holder. The screening will take place in light of the requirements confirmed at the time of the selection of

the current Operating Right Holder, including whether or not such person is disqualified for any specified reason and the appropriateness of the implementation policies.

(ii) New issuance and disposition of shares

The Operating Right Holder may issue both shares with voting rights to vote at the shareholders meeting of the Operating Right Holder (hereinafter referred to as the “Voting Shares”) and shares without voting rights to vote on any items for a resolution at the shareholders meeting of the Operating Right Holder (hereinafter referred to as the “Non-Voting Shares”). A person who holds the Non-Voting Shares may dispose of them at their own discretion, at any time, provided the disposition is carried out in accordance with the Companies Act. The Operating Right Holder may issue and allot new Non-Voting Shares at its own discretion, provided such issuance and allotment is carried out in accordance with the Companies Act.

If a person who holds the Voting Shares intends to dispose of their Voting Shares to any person, prior approval from the City shall be obtained.

If the Operating Right Holder intends to issue new Voting Shares, it shall obtain prior approval from the City.

7. Basic idea of allocation of risks

Taking into account that the Operating Right Holder may, in general, set and collect landing fees etc. and other usage fees at its own discretion and in order for it 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 generally borne by the Operating Right Holder, unless otherwise specifically set out in the Project Agreement. The exceptions where the City shall bear risks are limited as listed below, since the administrator of public facilities etc. is supposed to be responsible for these risks. The scope of the risks for which the City bears responsibility and the specific allocation of each risk shall be based on the following and the details will be stated in the Application Guidelines etc.

(1) Force Majeure

- Upon the occurrence of any event which is not attributable to the City or the Operating Right Holder, such as an earthquake or tsunami, and that falls under certain conditions in the Project Agreement, such as giving a direct and adverse effect on the implementation of the Project (hereinafter referred to as the “Force Majeure”), if the amount of damage caused exceeds the amount of insurance etc. which shall be maintained by the Operating Right Holder (including cases where Extension by Agreement is effectuated to cover loss), the City shall bear a certain amount of risk in accordance with the Project Agreement. The detailed conditions, scope and methods of burden of damage will be stated in the Application Guidelines etc.
- The Operating Right Holder shall purchase insurance for the Project Period with coverage no less than the amount set by the City. The Operating Right Holder may undertake alternative measures, instead of purchasing insurance, if approved by the City.
- If the Operating Right Holder is unable to carry out the Project, in whole or in part, due to Force Majeure, the City may temporarily release the Operating Right Holder from the obligations under the Project Agreement.

- (2) Liability for latent defects
 - If certain physical latent defects set out in the Project Agreement are found in the Airport Facilities within 12 months after the commencement of the Project, the City shall bear a certain amount of risk in accordance with the Project Agreement for the loss incurred by the Operating Right Holder due to the defects in accordance with the Project Agreement (including cases where Extension by Agreement is effectuated to cover loss). The details thereof will be stated in the Application Guidelines etc.

- (3) Particular Change of Act, and Particular Change of Ordinances
 - If there are any of the changes of acts and regulations etc. set out in the Project Agreement, which apply particularly or commonly to the Project and cause unjust effects (on the Operating Right Holder) (hereinafter referred to as the “Particular Change of Acts”), during the Project Period, and the City and the Operating Right Holder therefore incurs a loss, each party shall bear the loss incurred in accordance with the Project Agreement. The details thereof will be stated in the Application Guidelines etc. Any risk caused by the changes of laws and regulations etc., other than the Particular Change of Acts shall be borne by the Operating Right Holder.
 - If there are any of the changes of ordinances of the City, which apply merely to the Operating Right Holder of the Project or the Operating Right Holder of the project operated by the City and do not apply to any other party (hereinafter referred to as the “Particular Change of Ordinances”), during the Project Period, and the Operating Right Holder incurs a loss, the City shall bear the loss incurred in accordance with the Project Agreement (including cases where Extension by Agreement is effectuated to cover loss). The details thereof will be stated in the Application Guidelines etc. In case of changes of ordinances etc. other than the Particular Change of Ordinances, the treatment for the Particular Change of Acts shall be applied.

- (4) Emergency events
 - If any of the events set out in the Project Agreement, such as an event that may threaten the Operating Right Holder’s safe operation of the Kobe Airport, arises during the Project Period, and there is an unavoidable necessity in terms of public interest arising from the other public use of the Kobe Airport or any other reasons, the City may suspend the exercise of the Operating Right and use the Airport Facilities, in accordance with Article 29, paragraph (1) of the PFI Act (limited to the case stipulated in item (ii)). In this case, the Operating Right Holder shall cooperate in relation to the activities carried out by the City at the Kobe Airport.
 - If the City suspends the exercise of the Operating Right under Article 29, paragraph (1) of the PFI Act (limited to the case stipulated in item (ii)), the City shall compensate the Operating Right Holder for the loss incurred by the Operating Right Holder in accordance with Article 30, paragraph (1) of the PFI Act (including cases where Extension by Agreement is effectuated to cover loss).

- (5) Ground settlement of the airport sites
 - If there is any need to take greater measures than those for the predicted ground settlement

during the Project Period, the City shall bear a certain amount of risk in accordance with the Project Agreement (including cases where Extension by Agreement is effectuated to cover loss). The details thereof will be stated in the Application Guidelines etc.

8. Precondition of airport operating business

When there is a need to carry out construction work for the extension of runway end safety areas (hereinafter referred to as “RESA”) following the revision of the “Standards for Installation of Airport Civil Engineering Facilities” in April 2013, the City shall carry out said work and the Operating Right Holder shall give maximum cooperation to ensure that the City's construction work will progress smoothly. The Operating Right Holder shall be responsible for the maintenance and repair of facilities and airport sites that have been added by said work because the added portions are a part of airport facilities.

Part 4. Matters concerning the locations, sizes and placement of the public facilities, etc.

1. Locations of the Project

The locations and areas of the airport sites (see Exhibit 2.) are as follows:

A) Kobe Airport

(i) Location

1-ban, Kobe Kuko, Chuo, Kobe, Hyogo

(ii) Area subject to the Project

The airport area subject to the public notice is approximately 154 ha. Of said area, the portion of the airport sites to which the Operating Right are established will be presented in the Application Guidelines, etc.

Part 5. Matters to be set out in the Project Agreement and matters concerning actions to be taken when doubts arise in interpreting the Project Agreement

1. Matters to be set out in the Project Agreement

The main matters to be set out in the Project Agreement shall be as follows:

- (i) Succession etc. of the operation of the airports and other preparations
- (ii) Establishment etc. of rights to use the land and buildings
- (iii) Right to Operate Public Facilities etc.
- (iv) Operation of the airports
- (v) Other Conditions for implementing business
- (vi) Planning and reporting
- (vii) Replacement Investment etc.
- (viii) Setting and collection of usage fees
- (ix) Allocation of risks
- (x) Assurance of appropriate business operation
- (xi) Subsidiaries etc.
- (xii) Covenants
- (xiii) Terms of the Agreement and measures to be assumed at maturity
- (xiv) Cancellation or termination of the Agreement and measures to be assumed accompanying cancellation or termination
- (xv) Intellectual property rights

2. Actions to be taken when doubts arise in interpreting the Project Agreement

If any matter not set out in the Project Agreement needs to be set out or any doubt arises from the interpretation of the Project Agreement, the City and the Operating Right Holder shall set out the matter or solve the doubt each time upon mutual consultation in good faith.

The method of consultation and other related matters shall be set out in the Project Agreement.

3. Governing law and designation of the competent court

The Project Agreement shall be construed in accordance with the laws of Japan. With respect to any dispute arising in relation to the Project Agreement, the Kobe District Court shall have the exclusive jurisdiction for the first instance.

Part 6. Matters concerning the actions to be taken when the Project becomes difficult to continue

1. Reasons for cancellation and effects of cancellation

If any event occurs making the Project difficult to continue, the Project Agreement shall be cancelled as follows. The details relating to the burden of the damage etc. caused by each of the reasons for termination shall generally be as follows and the details thereof will be stated in the Application Guidelines etc.

(1) Cancellation for reasons attributable to the City

A) Reasons for cancellation

- The City may cancel the Project Agreement by giving notice to the Operating Right Holder prior to the period of time set out in the Project Agreement.
- The Operating Right Holder may cancel the Project Agreement if any of the events set out in the Project Agreement occur for any reason attributable to the City, such as the City failing to perform any material obligation under the Project Agreement for a specified period or the City's performance of the Project Agreement becoming impossible.

B) Effects of cancellation

- The City shall revoke the Operating Right.
- The City shall compensate the Operating Right Holder for the damage they incurred due to the cause of cancellation in accordance with the Project Agreement.

(2) Cancellation for reasons attributable to the Operating Right Holder

A) Reasons for cancellation

- If any of the events set out in the Project Agreement occur, such as the Operating Right Holder's breach of its obligations under the Project Agreement, the City may cancel the Project Agreement with or without demand (depending on the event).

B) Effects of cancellation

- The City shall revoke the Operating Right.
- The Operating Right Holder shall pay the City the penalty set out in the Project Agreement (or if the amount of damage incurred by the City due to the cause of cancellation exceeds the amount of the penalty, such amount of damage).

(3) Cancellation or termination for Force Majeure

A) Reasons for cancellation or termination

- If the City no longer holds the ownership of the Airport Facilities due to Force Majeure or any other event set out in the Project Agreement, the Project Agreement shall automatically terminate.
- If certain conditions to determine whether the Project has become difficult to implement due to the Force Majeure, as set out in the Project Agreement, are satisfied, they shall constitute a reason for cancelling the Project Agreement.

B) Effects of cancellation or termination

- If, as a result of Force Majeure, the City no longer holds the ownership of the Airport Facilities, or any other reason set out in the Project Agreement arises, the Operating Right shall be automatically extinguished.
- If the Project Agreement is cancelled due to Force Majeure, the Operating Right Holder shall, in accordance with the selection of the City, abandon the Operating Right or transfer it to a third party designated by the City without charge. Any damage incurred by the City and the Operating Right Holder as a result of Force Majeure shall be borne individually and compensation shall not be paid mutually between the parties.

(4) Cancellation for the Particular Change of Acts

A) Reasons for cancellation

- If certain conditions set out in the Project Agreement to determine whether it has become difficult for the Operating Right Holder to implement the Project due to the Particular Change of Acts are satisfied, they shall constitute a reason for cancelling the Project Agreement.

B) Effects of cancellation

- The City shall revoke the Operating Right.
- Any damage incurred due to the reasons of cancellation shall be borne individually and compensation shall not be paid mutually between the parties.

(5) Cancellation for the Particular Change of Ordinances

A) Reasons for cancellation

- If certain conditions set out in the Project Agreement to determine whether it has become difficult for the Operating Right Holder to implement the Project due to the Particular Change of Ordinances are satisfied, they shall constitute a reason for cancelling the Project Agreement.

B) Effects of cancellation

- The City shall revoke the Operating Right Holder.
- The City shall compensate the Operating Right Holder for its damage incurred by the Operating Right Holder due to the reasons of cancellation in accordance with the Project Agreement.

2. Consultation between the City and financial institutions funding the Operating Right Holder

The City may enter into an agreement directly with the financial institutions funding the Operating Right Holder as necessary, and agree upon the creation of a security interest by the financial institutions over the Operating Right or the shares of the Operating Right Holder, the transfer of the Operating Right by enforcement of the security interest by the financial institutions or the change of the shareholders (members) taking part in the operation of the airports, and other matters.

Part 7. Matters concerning legislative and taxation measures, as well as fiscal and financial support

1. Matters concerning legislative and taxation measures

If any legislative or taxation measures become applicable to the Operating Right Holder in implementing the Project due to revisions to laws, regulations, etc., such measures shall apply to the Operating Right Holder.

2. Matters concerning fiscal and financial support

If any fiscal or financial support may be available to the Operating Right Holder in implementing the Project, the City shall make an effort to ensure that the Operating Right Holder receives such support.

3. Matters concerning other measures and support

The City shall offer its cooperation, as necessary, for the Operating Right Holder to obtain any permission, approval etc. required for implementing the Project. If other support becomes possibly available to the Operating Right Holder due to revisions of laws, regulations etc. or for other reasons, the City and the Operating Right Holder shall consult about such support.

Part 8. Other matters necessary for the implementation of the Qualified Project

1. Matters concerning the Project
 - (1) Language to be used in implementing the Project
The language to be used in implementing the Project shall be Japanese.
 - (2) Costs of the preparation etc. of the documents to be submitted
The applicants shall be liable for the costs incurred for the preparation, submission, etc. of the documents, etc.
 - (3) Receipt of questions or opinions on the Implementation Policy and publication of answers
 - (i) Receiving period
From: September 13 (Tue.) 2016 after the publication of the Implementation Policy
Until: No later than September 30 (Fri) 2016 Time 17:30 p.m.
 - (ii) Submission methods
Questions or opinions concerning the Implementation Policy shall be briefly stated in the questions/opinions form and the form shall be sent by any of the following methods.
If the questions or opinions contain any content (such as special techniques and know-how) which would infringe on the rights, competitive position or other reasonable interest of the submitter when disclosed, the submitter shall state to that effect.
If sending the form by e-mail, the questions/opinions form shall be sent as an attachment and the submitter shall confirm that it has been received by the Office in Charge.
If sending hard copies, it shall be sent by mail or other means, and enclose the printed materials therein. (It shall arrive at the Office in Charge within the receiving period.) No form brought by the submitter to the Office in Charge shall be accepted.
In either case, the documents (including the questions/opinions form) to be submitted shall be made in Microsoft Excel format and the department, name, telephone number, facsimile number and e-mail address of the submitter must be stated.
The printed materials etc. submitted will not be returned.
Any questions concerning the submission methods shall be directed to the place of submission specified in (iii) below.
 - (iii) Place of submission
Office in Charge
 - (iv) Answering methods
the City will publish, on its website or by other appropriate means, the questions or opinions which The City considered necessary and their answers concerning the Implementation Policy (excluding those which would infringe on the rights, competitive position or other reasonable interest of the submitter as so stated by the submitter upon their submission) on the scheduled publication of answers date stated in (v) below. (The City will not give its answer to any question or opinion directly to the person who submitted the question or opinion in the interests of fairly dealing with all questions or opinions.)

- (v) Scheduled Publication Date of Answers
October 7 2016 (Fri)

(4) Hearing concerning the opinions

With regard to the opinions on the Implementation Policy received in accordance with (3) above, the City may directly hear the person who submitted the opinion, if the City determines that such hearing is necessary.

(5) Changes to the Implementation Policy

Based on the opinions etc. on the Implementation Policy received in accordance with (3) above, the City may review and amend the Implementation Policy prior to the selection of a qualified project under Article 7 of the PFI Act. The Implementation Policy only presents the current ideas of the City and may amend it at its own discretion in the future. The content of the Implementation Policy shall not be binding on the City.

If the City has amended the Implementation Policy, it shall promptly publish the amendment on the City's website or by other appropriate means.

2. Schedule (tentative)

The schedule after the publication of the Implementation Policy will tentatively be as follows. The details will be presented in the Application Guidelines etc.

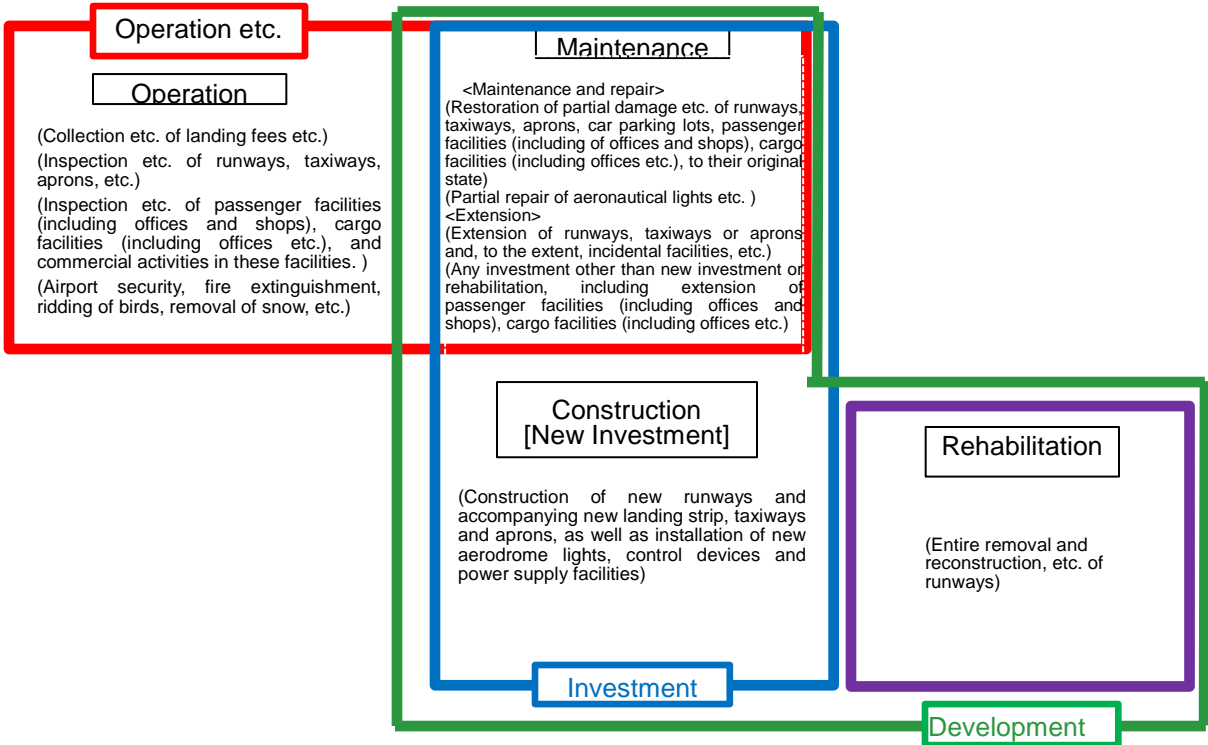
Around October, 2016	Selection and announcement of the qualified project
Around October, 2016	Publication of the Application Guidelines, etc.
Around October, 2016	Explanatory meeting on the Application Guidelines, etc.
Around October to November, 2016	Acceptance of questions on the Application Guidelines, etc.
Around December, 2016	Answers to the questions on the Application Guidelines, etc.
Around October to December, 2016	Acceptance of participation qualification screening documents
Around October to December, 2016	Notification of the participation qualification screening results
Around February to May 2017	Competitive dialogues
Around June, 2017	Submission deadline of the Screening Documents
Around August, 2017	Selection of the Preferred Negotiation Right Holder
Around August, 2017	Execution of the Basic Agreement
Around October, 2017	Grant of the Operating Right
Around October, 2017	Execution of the Project Agreement
Around April, 2018	Commencement of the Project

3. Disclosure and provision of information

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

<http://www.city.kobe.lg.jp/life/access/airport/08.html>

Exhibit 1 Organizing the terms used herein 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”)

- 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)
- Construction: to create a new facility (new construction) (PFI Guidelines)
- Rehabilitation: to entirely remove and redevelop facilities etc. (PFI Guidelines)
- Investment: Replacement investment means “maintenance” and new investment means “construction” (PFI Guidelines)

Exhibit 2 Airport sites

The area of the Kobe Airport subject to the public notice is as follows: Of said area, the portion of the airport sites to which the Operating Right is established will be presented in the Application Guidelines etc.

The area of the Kobe Airport
subject to the public notice

