

[Kibe-log]

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The challenge of a Ghana toll road concession

Dear stakeholders, I am Kazunari Kibe, the President and CEO of INFRONEER Holdings Inc.
Thank you for continuing to visit Kibe-log.

Today I would like to talk about the details of the overseas toll road concession, which we signed an MOU (Memorandum of Understanding) with the government of Ghana on August 27th.

The first concession project in Africa by a Japanese consortium

This time, we reached a basic agreement with the government of Ghana in a feasibility study of concessions for two road projects, a greenfield (new construction) and a brownfield (existing road), each of which is a part of state road No. 1 and are approximately 50 km long. Although the total project cost is not that large, it will be the first concession project in Africa by a Japanese company.

In overseas concession projects it is not uncommon for private consortiums to propose the commercialization of the project to the government, and once the proposal is approved, it will be commercialized as a PPP. In that case, the government's preferential treatment is often given to the proposer even if it becomes a bid.

This time in Ghana, a consortium including INFRONEER proposed a concession to the Ghanaian government and acceptance of the proposal led the consortium into an MOU. In the future, we will conduct feasibility studies together with a Japanese consultant and a major European construction company with a track record of construction in Africa and other companies participating in the consortium, aiming to commercialize the project within two years.

A concession is one of the PPP (Public-Private Partnership) methods in which the right to operate social infrastructure such as airports and toll roads is sold to a private consortium for a certain period of time and the maintenance, management and repair of the infrastructure is also entrusted to the private sector. The INFRONEER Group has also actively acquired domestic infrastructure PPPs such as Sendai Airport

and Aichi Prefecture toll roads as the core of our "de-contracting" initiative. I hope you can see that our concession business has just begun to expand overseas.

Reasons for embarking on overseas infrastructure PPP

Africa is not a familiar country for INFRONEER. Looking back on the history of Japanese general contractors who made huge losses on overseas construction projects in the past, some may think that this is a high-risk project.

However, we have made the decision to embark on a toll road concession in Ghana for the several following reasons:

One of the reasons is our "de-contracting" initiative I mentioned earlier.

The business model of INFRONEER is "de-contracting". Meaning, not only do we operate a conventional contracting business, but we also take on the business risks of projects as a construction company as we comprehensively take care of construction, operation, maintenance, and management of social infrastructure such as airports, water supply systems, sewerage, and toll roads.

This de-contracting infrastructure business is starting to spread in Japan. But the speed of progress is much slower than others in emerging countries and developing countries where social infrastructure has been developing very fast. Going forward, domestic infrastructure business alone will not be nearly enough to foster the infrastructure business into the same scale of the conventional contracting business.

The decision of participating in this project in Ghana was made in order to gain a foothold in the infrastructure business overseas.

I believe that these projects will also prove that the PPP model is a viable pillar of our business.

PPP Infrastructure Projects - “Good for all three”

As I mentioned earlier, PPP is represented by concessions. Simply put, they are a scheme to develop social infrastructure by utilizing technology, funds and know-how from the private sector. Having been involved in many ongoing PPP projects, I became convinced that there is no other business model than the

concession business which fits the rule: “Good for all three”

The private consortium, which has acquired long-term operating rights of 20 or 30 years, will generate profits through various ingenuities such as measures to increase sales and reduce costs, while properly managing the infrastructure. This is synonymous with the management of the operation of social infrastructure.

Until now, managing and operating social infrastructure in Japan has been the role of the government. Although the government is solid in terms of safety and quality, the concept of management must not be recognized enough due to the different accounting system from the private sector. We have experienced this through the operation of the Aichi Prefectural Toll Road. To be honest, there are many areas where efficiency can be improved from the standpoint of private companies.

In that respect, in the case of PPP, the private consortium must operate and maintain infrastructure properly to make a profit. Necessary measures should be taken to increase sales and eliminate inefficiency in operations as much as possible to make the project profitable. Some people criticize that the private sector will focus on profits and not on management. However, if we cut corners in operation and maintenance, it will eventually lead to a decrease in the number of users, so we cannot cut corners. In that sense, efficient maintenance and management in infrastructure can be expected as companies try to remain profitable.

In the infrastructure PPP, the private sector can earn stable income over the long term through the maintenance and management of infrastructure. The government can also efficiently promote infrastructure development with limited funds. If the overall cost of the project is reduced by the creativity of the private sector and usage fee of infrastructure gets lower, it is beneficial for users as well. This is the reason why I feel that infrastructure PPP is good for all three parties involved.

Our ideal image to aim for

The same applies to our overseas concession business.

In emerging and developing countries, there is a strong demand for infrastructure development as it becomes the foundation for further economic growth. Among them, PPP infrastructure projects can be developed using private funds and help reduce fiscal expenses, which would be significantly beneficial to these countries. In particular, these countries can expect great benefit in the procurement of funds through Japanese governmental financial institutions and private banks given the low interest rate environment in

Japan.

Also, Japan is far behind China in its influence in Africa. Under such circumstances if Japan strengthens its relationship with Ghana, which is also an oil-producing country, through infrastructure development, it will also contribute to Japan's national interests. To that end, I think that the Japanese government needs to build a risk-sharing mechanism between the government and the private sector rather than letting the private sector take on the risks alone.

In fact, Africa is an unfamiliar market for INFRONEER and you may decide not to get involved if you weigh the efforts and benefits of this toll road concession. However, this project is not only contributing to the government and people in Ghana, but also strategically meaningful to Japan. Meaning this project is “good for all three” or even “good for all four”. Therefore, I decided to confront this challenge.

Writing like this may sound like just fine-sounding talk. However, I believe that a company should be aiming for the “good for all three”.

German philosopher Markus Gabriel, who advocates "ethical capitalism" says that existing capitalism based on the principle of pure competition cannot solve current issues such as inequality and the number of intellectuals following him is increasing.

The reason why the SDGs have been called out around the world in the past several years is that a new system is needed in which the winner cannot win alone by himself.

Of course, as a listed company, it is natural to pursue profit growth. However, at the same time as pursuing profit, I would like to aim for the “good for all three” or the “good for all four” contributions to our various stakeholders. We are looking at infrastructure PPP as a tool to achieve our aim.

This toll road concession is the first project for INFRONEER, and I think we may face some challenges. But I would like to achieve our vision “the world where the freedom of infrastructure services spreads everywhere” by accumulating experiences and achievements in such a challenging environment. By that time we must be able to show you the new image of our company being different from existing construction companies which still focus on contracting business.