

AFC

AIRPORT FACILITIES CO.,LTD.

Airport Facilities Group

# Mid-Term Management Plan

From FY2019 to FY2021

May 10, 2019

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# 1. Long-Term Strategy

1. Fully utilizing the knowledge and skill we have been developing, we are determined to securely capitalize on the growing aviation demand (Note 1) mainly at Haneda airport, and aim for sustainable growth while adequately coping with the assumed risk (Note 2).
2. At the same time, we open up a new horizon for new business also outside the airport and overseas.
3. The Mid-term Management Plan (from FY2019 to FY2021) is a specific step for efforts in the long-term strategy.

(Note 1) Demands in the aviation industry surrounding our company is increasing, as seen in the increase in global aviation demand, inbound increase, and increased annual takeoff/landing capacity of Haneda Airport by 39,000 slots in 2020, etc.

(Note 2) It is assumed that the business plan, management/financial situation of the Airport Facilities Group is affected by changes in the airport plans and operation policies of the national government, which manages the establishment of airports, airport companies, and airline companies.

The Group will pay close attention to the policies of the national government, airline companies, etc. and become able to react promptly to any changes.



## 1. Changes in business performance (From FY2016 to FY2018)

(Unit: million yen)

	2016/3	FY ended in March 2017 (FY2016)			FY ended in March 2018 (FY2017)			FY ended in March 2019 (FY2018)			
	Results	Planned	Results	Results/planned difference (ratio)	Planned	Results	Results/planned difference (ratio)	Planned	Results	Results/planned difference (ratio)	Difference with FY ended in March 2016 (ratio)
Net sales	20,697	21,650	21,662	+12(+0.1%)	22,070	22,791	+721(+3.3%)	22,540	24,213	+1,673(+7.4%)	+3,516(+17.0%)
Operating income	2,944	3,550	3,825	+275(+7.7%)	3,800	4,103	+303(+8.0%)	3,960	4,129	+169(+4.3%)	+1,185(+40.3%)
Current net profit	1,935	2,140	2,151	+11(+0.5%)	2,160	2,219	+59(+2.7%)	2,270	2,104	▲166(▲7.3%)	+169(+8.7%)
EBITDA	5,176	6,100	6,161	+61(+1.0%)	6,480	6,737	+257(+4.8%)	7,020	7,501	+481(+6.9%)	+2,325(+44.9%)
Dividend per share (payout ratio)	12 yen (32%)	13 yen (31%)			14 yen (32%)			14 yen (forecast) (33%)			

(1) In the Previous Mid-Term Management Plan (from FY2016 to FY2018), net sales, operating income, and EBITDA all exceeded the desired figure in the plan due to increase in the ratio of tenants moving in at existing facilities and active new investment exceeding the planned level (22.5 billion yen ⇒ over 25 billion yen).


(2) Above all, as a result of active investment exceeding the planned level, EBITDA increased substantially.

(3) Although the current net profit in FY2018 did not reach the planned level, this was mainly due to reserve for the removal cost of old facilities due to new construction or cost for single fiscal year due to bond issuance, which are all proactive costs towards future construction and acquisition of facilities.

(4) Being able to continuously record stable current net profit from FY2016 to FY2018, we have increased dividend from FY2017 under the target of 30% or more payout ratio.

## 2. Major efforts

Investment amount exceeded the annual target of 7.5 billion yen,  
and investment during the three years reached 25 billion yen in total.

Business near Haneda Airport	Haneda Asahi-Cho Hotel	Apartment house in Kawasaki-Daishi	Apartment house in Kamata
	<p>Acquired in: July 2016 Number of guest rooms: 103</p> 	<p>Acquired in: March 2018 Number of households: 29</p> 	<p>Acquired in: March 2018 Number of households: 33</p> 
Businesses outside the airport	Five hotel buildings in Kyoto		TRC Distribution B Bldg. rooftop solar power plant
	<p>Acquired in: June 2018 Number of guest rooms: 229 in total</p>    	<p>Acquired in: January 2018 Annual power generation: 2.5 million kWh</p> 	
Regional airports business	Sendai Airport No.3 hangar for small aircrafts	Kagoshima Airport simulator building	New Chitose Airport hangar for GSE vehicles
	<p>Acquired in: July 2017 Total floor area: 887m<sup>2</sup></p> 	<p>Acquired in: December 2017 Total floor area: 382m<sup>2</sup></p> 	<p>Acquired in: December 2017 Total floor area: 741m<sup>2</sup></p> 
Overseas business	Pilot training facility and simulator loan in Singapore Seletar Airport		Helicopter maintenance facility at Langley Regional Airport, Canada
	<p>Acquired in: April 2016 Total floor area: 9,219m<sup>2</sup></p> 	<p>Acquired in: "No. 3" April 2016 "No. 4" February 2018</p> 	<p>Acquired in: October 2017 Total floor area: 7,700m<sup>2</sup></p> 

### 3. Recognition of Business Environment

## Business environment surrounding our company

(Current situation and future forecast)

### World situation

1. Expected population increase in emerging countries in Asia and Africa
2. Expected economic growth in emerging countries in Asia, which are increasing their size
3. Concerns over the impact of trade conflict between the U.S. and China on global economy
4. Global environmental issues including climate change due to global warming and air pollution
5. Global efforts towards the achievement of 17 SDGs by 2030

### In Japan

1. Decrease in total population and labor population, and society with declining birthrate and aging population
2. Inbound increase (travelers, workers, students, etc.)  
Governmental goal:  
40 million people by 2020  
60 million people by 2030
3. 2020 Summer Olympic and Paralympic Games being held in Tokyo
4. Increase in consumption tax rate (October 2019)
5. Uncertain future of Japanese economy

### Related to aviation/airport

1. Active aviation demand in the world, mainly in Asia
2. It is also expected that aviation demand within Japan will also increase with inbound increase
3. Reinforcement of airport functions towards the new aviation stage, including increase in the number of passengers and annual takeoff/landing capacity increased by 39,000 slots by 2020 in Haneda Airport
4. Progress of the privatization of airports through concession, etc.
5. Increasing cost awareness among airline companies, who are the major customers of our company
6. Global shortage of specialist personnel including pilots

While the aviation industry is under severe competition with increasing cost awareness due to the increased global competition among airline companies, it is also a promising market with active aviation demand in line with economic growth in emerging countries mainly in Asia.

**Full utilization of management resources and reallocation through the improvement of efficiency and selection and concentration**

**Basic policy**

- "Business strategy"  
 "Financial strategy"  
 "Reinforcement of management foundation"
- New investment within airports responding to aviation-related demand is implemented  
 Active investment exceeding annual cash flow is implemented  
 Activation of the organization and the establishment of human resources strategy

**Business strategy and financial strategy**

**Business strategy**

1. New investment within airports and active development of businesses outside airports responding to aviation-related demand
2. New investment to respond to the growing demand in Asia
3. Increasing the ratio of tenants moving in by improving the quality of existing facilities
4. Innovation of facilities incorporating new technologies
5. Adequate reactions taken based on future national policies regarding Haneda Airport

**Financial strategy**

1. Investment of 30 billion yen in total during the three years
2. Maintain the stable dividend of 30% or more regarding basic payout ratio
3. Diversification of the types of asset holding
4. Improvement of investment efficiency
5. Diversification of funding

**Reinforcing foundations for management**

- "Secure reinforcement of management foundation towards the achievement of the Mid-Term Management Plan"
1. Organizational restructuring/activation, utilization of M&A
  2. Establishment of human resources strategy and coping with work style reform
  3. Governance improvement
  4. Cost reduction, structural reform, IT promotion

## 5. Business Plan (1) – Investment policy –

### Investment policy

1. Actively implement new investments responding to the growing aviation-related demand
2. Investment of 30 billion yen in total during the three years, which exceeds the annual cash flow
3. Aim for the diversification of funding and investment methods, and further improvement of investment efficiency and profitability

### Growing demand

Global aviation demand

Inbound increase

Improvement and Expansion of the airport function of Haneda Airport





# 5. Business Plan (2) – Businesses within Haneda Airport –

## Businesses within Haneda Airport

Regarding businesses within Haneda Airport, capacity will be reinforced through the development of facilities to cope with the increase of international flights to respond to inbound increase, towards the reinforcement of functions including the increase of takeoff/landing capacity by 39,000 slots by 2020.

### ◆ Focused efforts including new investment

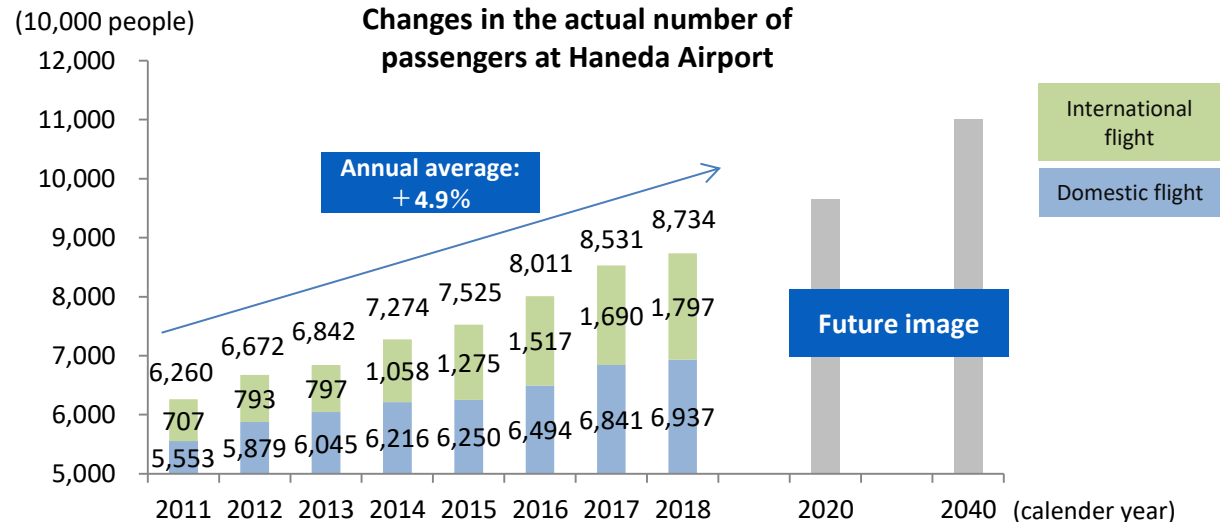
1. Extension and reconstruction of Arc Building to renovate into an in-flight meal factory in order to cope with increase in international flight demand due to increase in the number of takeoff/landing slots.
2. New construction of aircraft equipment warehouse building according to increase in equipment.
3. New construction of aircraft sewage treatment facility (SD plant) with double treatment capacity, coping with increase in the number of passengers.
4. Infrastructure business including the heat provision, water supply and drainage, and local area communication networks businesses is expected to increase income in line with increase in supply destinations and the number of passengers with the extension of passenger terminal buildings, etc. envisaging the increase of takeoffs/landings in 2020.
5. Increase customer satisfaction as well as quality and asset values by providing safe and assured facilities/services through the promotion of the renewal and repair of existing facilities, and improve the tenant ratio. In addition, introduction of environment-conscious, energy-saving devices are promoted upon the renewal of facilities.
6. Promote efforts related to the improvement of environment for business jets business.



Extension and reconstruction of Arc Building to renovate into an in-flight meal factory (Scheduled to be completed by FY2019)



New construction of technical center warehouse building (Scheduled to be completed by FY2019)



Source: (Past results) Report on the management of airports by calendar year/fiscal year by the Ministry of Land, Infrastructure, Transport and Tourism

## 5. Business Plan (3) – Businesses near and outside Haneda Airport –

### Businesses near Haneda Airport

The businesses near Haneda Airport aim to construct hotels to cope with demand on inbound passenger increase due to increase in the number of takeoff/landing slots, and apartment houses to cope with increase in people who work at the airport.

#### ◆ New investment projects

Participate in the development project of Zone 1 of the former Haneda Airport Ground, which is a project to develop and operate a base for leading-edge industries and the transmission of "Cool Japan."



Business plan for the development of Zone 1 of the former Haneda Airport Ground  
(Open to town in 2020, grand opening in 2022)



Apartment house in Kawasaki-Daishi  
(Acquired in 2018)

### Businesses outside the airport

As for businesses outside the airport, active business opportunities responding to aviation-related demand, including inbound demand, are sought to realize new investment, utilizing our know-how developed through businesses within the airport.

#### ◆ New investment projects

To address the increasing inbound demand and the internationalization of universities, which is also a national policy, construct a dormitory for international students in Kanto Gakuin University for accepting more international students.



New construction of dormitory for international students in Kanto Gakuin University  
(Scheduled to be completed by FY2020)



Hotel in Kyoto (ENSO ANGO Fuyacho-Dori II)  
Five buildings in total (acquired in 2018)



# 5. Business Plan (4) – Regional airports and overseas businesses –

## Regional airports business

As for regional airports business, facilities will be developed to cope with increase in the number of users and the improvement of functions in regional airports.

In addition, as for regional airports concession, we will research and consider the possibility for participation in projects where we can capitalize on the strengths of our company.

### ◆ New investment projects

- Extension of hangar in Kobe Airport
- Relocation and new construction of hangar in Nata Heliport (tentative name)



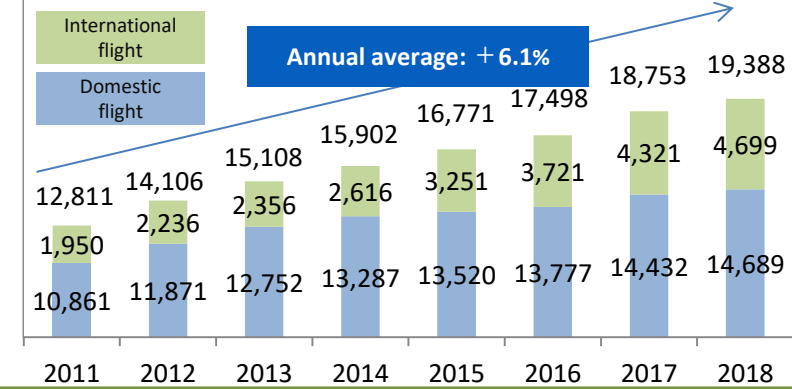
Extension of hangar in Kobe Airport (Scheduled to be completed by FY2019)

### Changes in the actual number of passengers in regional airports in total (\*)

\* Other than Haneda and Narita Airport

Source: Report on the management of airports by calendar year/fiscal year by the Ministry of Land, Infrastructure, Transport and Tourism

(Unit: 10,000 people)



## Overseas business

As for overseas business, we seek business opportunities such as the maintenance of functional facilities necessary for airports, the leasing of flight simulators, and the leasing of other movable properties, mainly in Asia such as Seletar Airport in Singapore to cope with active aviation-related demand, and realize new investment.

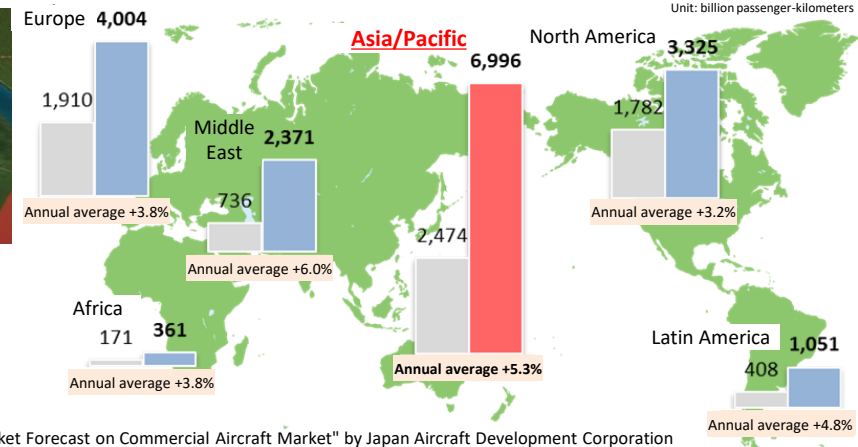


Source: JTC Corporation

Singapore Seletar Airport

### Forecast of flight passengers demand in the world (2017 → 2037)

Unit: billion passenger-kilometers



Source: "Market Forecast on Commercial Aircraft Market" by Japan Aircraft Development Corporation

## 6. Reinforcing Foundations for Management

Secure reinforcement of foundations for management  
towards the achievement of mid-term management plan

### Organizational restructuring/activation, utilization of M&A

1. Reform into an organization in line with the promotion of businesses
2. Structure enhancement sector  
Public relations IR sector, business development sector,  
facilities management sector
3. Improvement of business through the utilization of M&A

### Establishment of human resources strategy and coping with work style reform

1. Review of personnel evaluation system
2. Securing and developing specialist personnels
3. Systematization of education/training system
4. Promotion of women's active participation

### Governance improvement

1. Thorough compliance
2. Conformity to the Corporate Governance Code
3. Reinforcement of risk management system

### Cost reduction, structural reform, IT promotion

1. Improvement of efficiency and profitability through IT utilization (renewal of sales management/finance and accounting system)
2. Efforts for realizing the self-manufacturing of currently outsourced works, such as through the establishment of joint venture companies

# 7 Efforts in ESGs, etc. through Our Business

In order to realize a sustainable society, our company will be sincerely engaged with ESG through our business and aim to contribute to the achievement of SDGs.

## E nvironment



### Environment

- Efforts for the realization of eco-airport (area heating and cooling business, etc.)
- Coping with global warming such as energy saving and reducing CO2 emission
- Utilization of renewable energy (solar power generation business)

## S ocial



### Social

- Provision of safe and secure infrastructure (Water supply and drainage business, local area communication networks business, etc.)
- Provision of worker-friendly environment for employees who work within the airport
- Realization of the improvement of productivity through work style reform

## G overnance



### Governance

- Thorough compliance
- Sustainable growth and the improvement of corporate value through management in conformity to the Corporate Governance Code
- Proactive disclosure of IR information, etc.

## Relevance with the SDGs

6 CLEAN WATER AND SANITATION



7 AFFORDABLE AND CLEAN ENERGY



8 DECENT WORK AND ECONOMIC GROWTH



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



11 SUSTAINABLE CITIES AND COMMUNITIES



## 8. Numerical Targets (1)

For three years from now, we will implement the extension of the in-flight meal factory, the construction of aircraft equipment warehouse building and the relocation and expansion of the aircraft sewage treatment facility (SD plant) to cope with the increase in the number of passengers in Haneda Airport, so as to respond to inbound demand. Also, we will improve the tenant ratio by increasing customer satisfaction, through the enhancement of quality and asset values by means of promoting the renewal and repair of old existing facilities.

Further, we will also be engaged in new projects such as a dormitory for international students outside airports and overseas projects to try to increase business size as well as realizing increase in income and profits, leading to stable dividends.

(Unit: million yen)

	FY ended in March 2017 (FY2016) Results	FY ended in March 2018 (FY2017) Results	FY ended in March 2019 (FY2018) Results	FY ended in March 2020 (FY2019) Forecast	FY ended in March 2022 (FY2021) Forecast (compared to FY ended in March 2019)
<b>Net sales</b>	21,662	22,791	24,213	24,780	<b>27,470 (+13.5%)</b>
<b>Operating income</b>	3,825	4,103	4,129	4,180	<b>4,550 (+10.2%)</b>
<b>Current net profit</b> <small>(Note 1)</small>	2,151	2,219	2,104	2,320	<b>2,610 (+24.0%)</b>
<b>EBITDA</b> <small>(Note 2)</small>	6,161	6,737	7,501	7,970	<b>8,770 (+16.9%)</b>

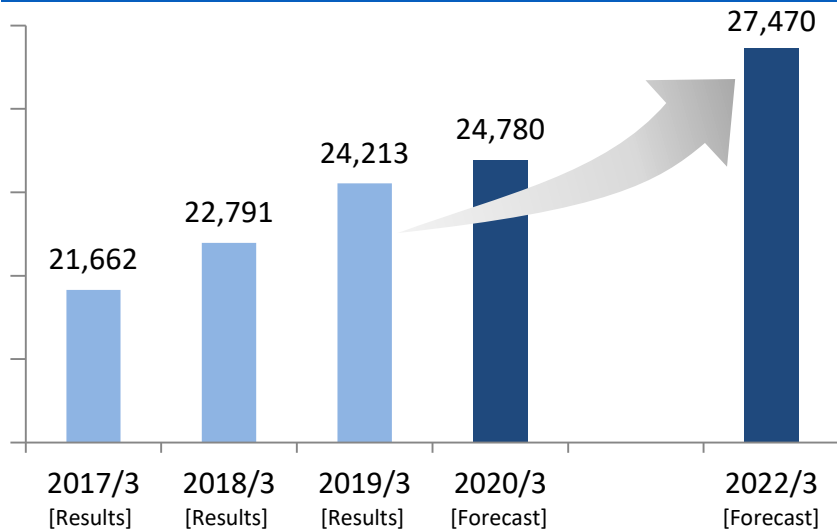
(Note 1) . . . Current profit attributable to owners of parent

(Note 2) . . . Including the recovery of the loans of overseas subsidiaries

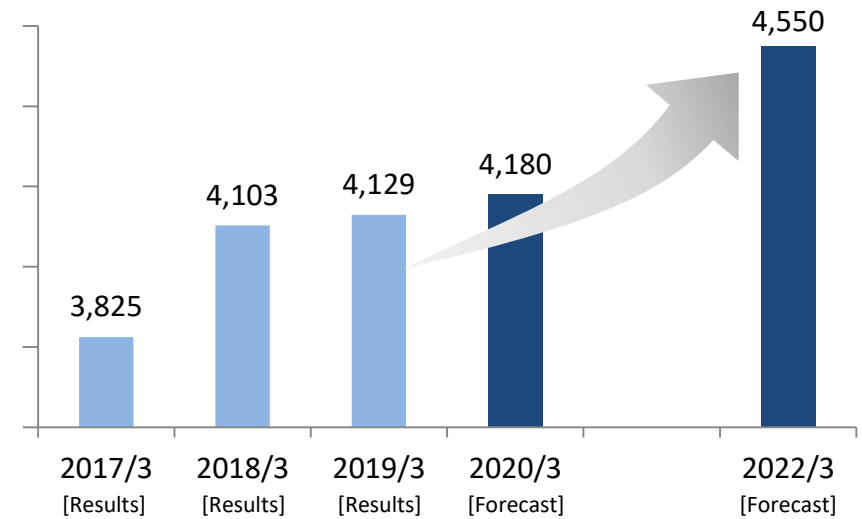
## 8. Numerical Targets (2)

(Unit: million yen)

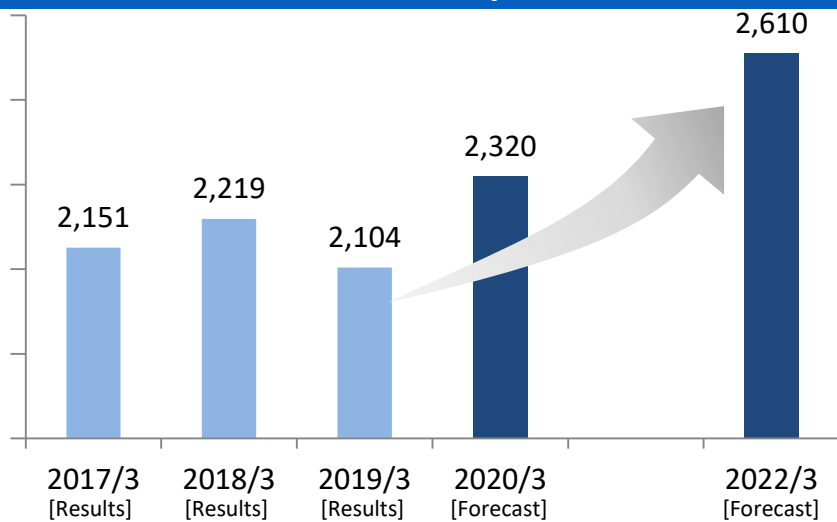
### Net sales



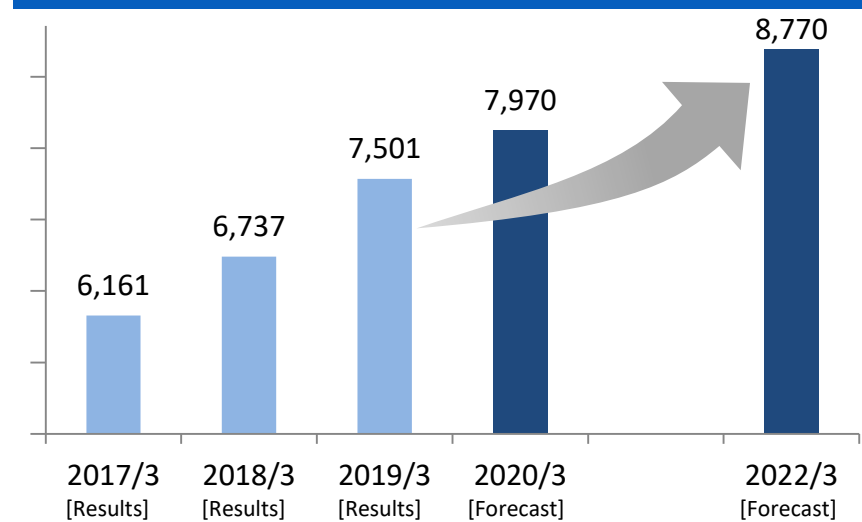
### Operating income



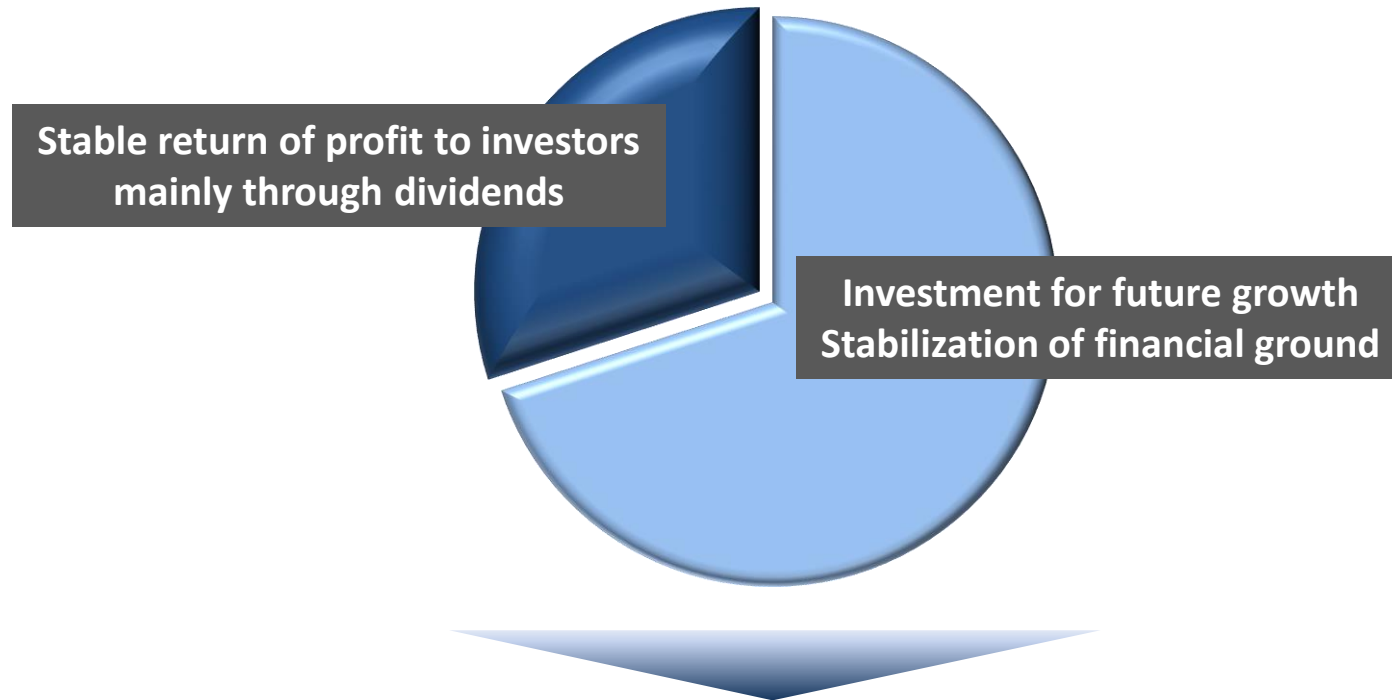
### Current net profit



### EBITDA



Our company considers the return of profits to investors as a top priority matter in company management, and aims to achieve stable and continuous return to investors with the payout ratio of 30% or more as a general rule, while also considering investment for future growth and the stability of financial ground for continuous growth.



Aim for further improvement of corporate value through sustainable growth



## Disclaimer

- This document is not for solicitation for investment.
- Future expectations are based on information that is currently available and certain premises judged as rational. The results may differ according to changes in the business environment and other factors.
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