

WE SUPPORT AVIATION INDUSTRY



ANNUAL REPORT 2017

Year Ended March 31, 2017
2016.4.01 » 2017.3.31



Our Mission

Our mission is to play a vital role in the progress of aviation as a pivotal private company operating mainly at airports, through creating and providing necessary facilities and functions at airports.

Corporate Philosophy

- 1 We will continually advance ahead of the demands and changes of the times by producing creative innovation and we will endeavor to raise corporate value.
- 2 We make effort to be a reliable and trusted company that always provides value which satisfies customers and complies with public expectation.
- 3 We will foster our staff, and encourage and reward the efforts they make and the challenges they tackle.
- 4 As a member of civil society, we observe rules and respect fairness.



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President and CEO

The statements about future described on this report such as earnings forecasts have been made based on information currently available and some conditions that we judge rational. Actual earnings may differ greatly from the above forecasts for various reasons.

Message from the President & Highlights of

We vigorously push ourselves

Business environment and the business results of our Group for the fiscal year ended March 2017

In the aviation industry, while there are positive effects of increase in the number of inbound passengers to Japan and decline in fuel price, there is also harsh competition with LCC and Shinkansen. Airline companies are currently working on reducing every cost, in addition to efforts to expand business including the improvement of networks.

Under such economic situation, the business of our Group for the fiscal year ended March 2017 resulted in increased net sales and operating income compared to the previous term, which was achieved with cost reduction in addition to continuous efforts from two years ago to cope with the problem of vacant rooms. We were able to exceed the goal set for the first fiscal year in the Medium-term Management Plan announced in October 2016.

Dividend

We recognize profit return to our shareholders as one of our business challenges. We are actively working on exploring new business opportunities to ensure profit, while also considering internal reserves to prepare for future investment opportunities

Net sales

¥ **21.6** billion
+ 4.6% year on year

Operating income

¥ **3.8** billion
+ 29.9% year on year

Business Result

forward toward active business development and stable growth.

and mid-term business outlook in a comprehensive manner, to improve the profit return.

Year-end dividend to pay for the year is ¥7.0, which is an increase by ¥1.0 from the latest dividend forecast, considering the dividend policy mentioned above and the business results of the year. In addition, we plan to offer an annual dividend of ¥14.0 per share for the fiscal year ending March, 2018. We continue with our efforts to ensure stable profit return, and aim to keep a payout ratio of 30% or more as a general rule.

Business development during the fiscal year ended March 2017

In Japan, our Group has been working on the moving in of tenants to some of the existing properties in Tokyo International Airport, which is the business foundation of the company, from two years ago. In addition, the hotel that has been constructed in the region near the airport commenced operation. On the other hand, as for businesses abroad, leasing of pilot training facilities started at Singapore Seletar Airport with an aim to further expand business. In addition, our Group considers the growth of aviation-related demands in Japan and abroad as a great opportunity to exploit

experiences and know-how developed, and formulated the Medium-term Management Plan and determined our commitment in realizing active business development and achieving stable growth.

Future efforts and outlook

We will continuously improve our business efforts in Tokyo International Airport and the regions nearby, including the provision of hotels and apartments in line with the increasing importance of the role of the Airport.

On the other hand, we will continue our business development in regional airports, including the hangar now under construction in Kitakyushu Airport, and plans to construct aviation-related facilities in other regional airports. While we are currently operating water supply and drainage business in Tokyo International Airport, we have also started water supply and drainage business in New Chitose Airport.

Based on above, we expect increased income and profits for the fiscal year ending March 2018, and both net sales and operating income exceed the expectations set forth in the Medium-term Management Plan.

Ordinary income

¥ **3.4** billion
+ 10.0% year on year

Profit attributable to owners of parent

¥ **2.1** billion
+ 11.1% year on year

Cash dividends per share

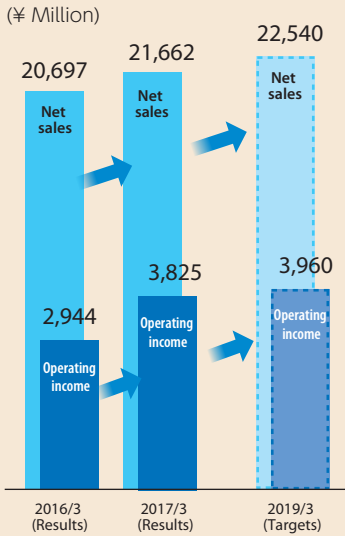
¥ **13.00**
+ ¥1.00 year on year

EBITDA + recovery

¥ **6.1** billion
+ 19.0% year on year

Numerical targets

Stable increase in net sales and operating income after hitting the bottom in the fiscal year ended March 2016.

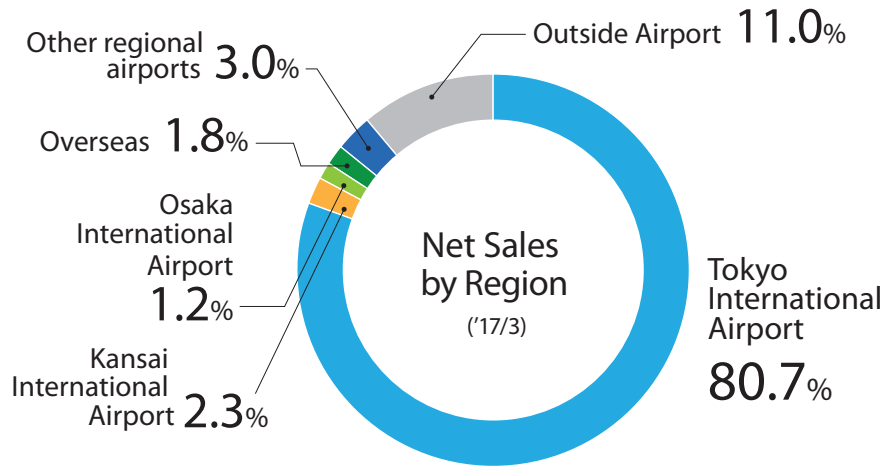
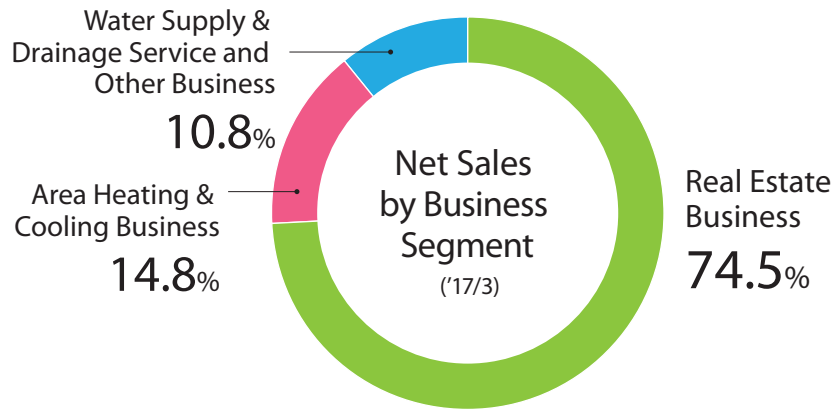


(¥ Billion)

	Results		Medium-term Management Plan	
	2016/3	2017/3	2018/3	2019/3
Net sales	20.6	21.6	22.0	22.5
Operating income	2.9	3.8	3.8	3.9
EBITDA+ recovery	5.1	6.1	6.4	7.0
Profit attributable to owners of parent	1.9	2.1	2.1	2.2

Business Outline

As a business portfolio unique to our company, we are engaged in businesses such as Real Estate Business mainly in airports and regions near the airport, Area Heating and Cooling Business that support airport infrastructure, and Water Supply and Drainage Service and Other Businesses.



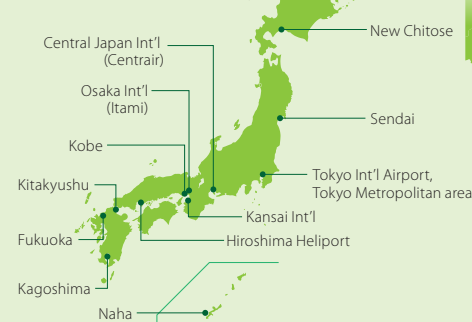
Real Estate Business

Net sales **¥16.1 billion**(+5.3%) ('17/3)



- **Core business**
Leasing of real estate such as multi-purpose general buildings, hangars, maintenance plants, apartments, and hotels in airports in Japan and abroad and regions along the railway line connected to the airport
- **Major companies**
Airport Facilities Co., Ltd., AIRPORT FACILITIES ASIA PTE. LTD.
- **Major business investments** ('17/3)
Kitakyushu Airport hangar
Haneda Asahi Cho hotel
Sendai Airport No.3 hanger

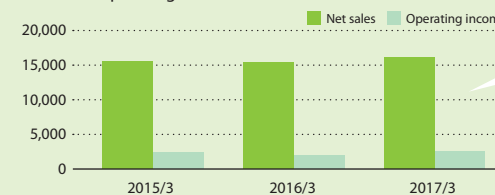
12 Airports where we deploy our business



Overseas location



Net sales/Operating income (¥ Million)



In addition to the improvement of the state of tenants moving in at Tokyo International Airport and other places, the operation of Haneda Asahi-Cho Hotel and increase in the sales of a subsidiary in Singapore also contributed to increases in net sales and operating income.



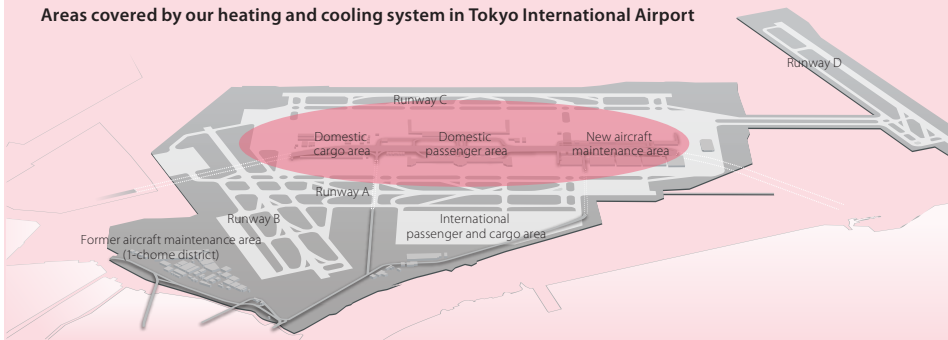
Area Heating & Cooling Business

Net sales **¥3.2** billion(+1.0%)
('17/3)

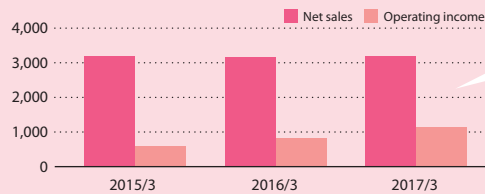


- **Core business**
Provision of cooling and heating functions at Tokyo International Airport (area heating and cooling business)
- **Major companies**
Tokyo Airport Heating & Cooling Co., Ltd.
- **Major business investments** ('17/3)
Boiler renewal work

Areas covered by our heating and cooling system in Tokyo International Airport



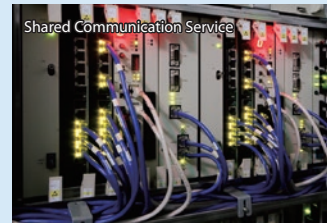
Net sales/Operating income (¥ Million)



Due to the steady performance of the sales of area heating and cooling in the reclaimed land area offshore Tokyo International Airport and a decline in electricity and fuel gas prices, net sales and operating income increased.

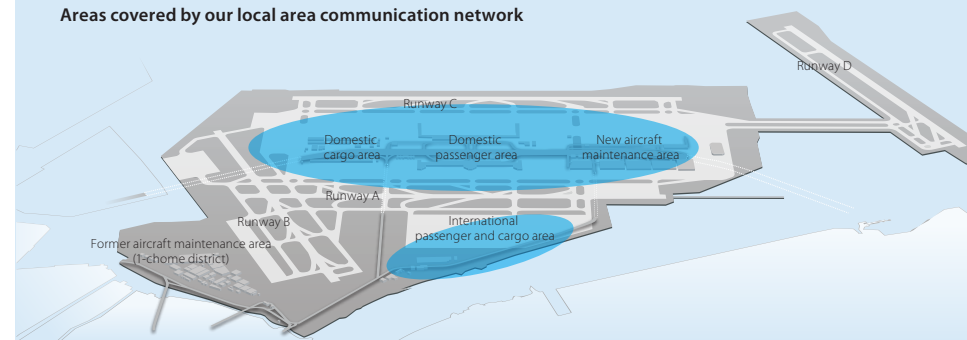
Water Supply & Drainage Service and Other Business

Net sales **¥2.3** billion(+4.9%)
('17/3)

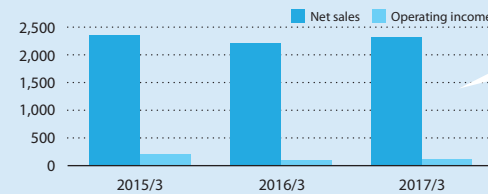


- **Core business**
Water supply and drainage business, local area communication networks business at Tokyo International Airport, and solar power generation business
- **Major companies**
Airport Facilities Co., Ltd.

Areas covered by our local area communication network



Net sales/Operating income (¥ Million)



Net sales and operating income increased due to increase in the sales of water supply and drainage in line with an increase in the number of incoming and outgoing passengers, and the operation of a solar power plant in Mizunami City, Gifu Prefecture.

Recent Efforts

For the mid- to long-term business expansion and the stable development of business

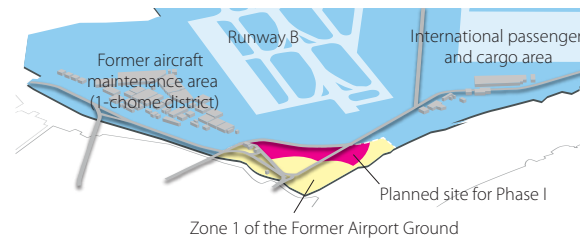
We commit ourselves to active business expansion in the mid- to long-term and ensuring the stable development of business, to aim for increasing returns to shareholders.



For the business expansion in Tokyo International Airport and regions along the railway line connected to the airport

Participation in the “Development of Zone 1 of the Former Haneda Airport Ground (Phase I)”

Information was disclosed from the Ota-ku government to the candidate development and operation organizations in May 2017. The group including our company as a member was decided as a candidate development and operation organization, and is scheduled to be engaged in businesses in the leading-edge industry and cultural industry.



The state of moving in to the existing properties is improving

We have been working on the improvement of the state of moving in of tenants to the existing properties in Tokyo International Airport. Recently, usage as pilot training facilities for airline companies, maintenance facilities, and for core function is progressing.



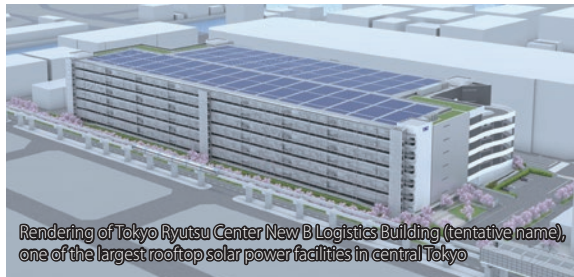
Maintenance Center Annex



Simulator

Installing one of the most powerful solar power facilities in central Tokyo

We are promoting a plan to install one of the largest solar power facilities in central Tokyo in terms of output at the rooftop of Tokyo Ryutsu Center New B Logistics Building (tentative name) in Heiwajima, Ota-ku, Tokyo. The construction is scheduled to start around summer this year. This is the fourth solar power generation project for our company.



Rendering of Tokyo Ryutsu Center New B Logistics Building (tentative name), one of the largest rooftop solar power facilities in central Tokyo

For expanding business in regional airports and local cities

Providing new facilities

We are constructing hangars in Kitakyushu Airport and Sendai Airport, which are scheduled to be used as an aircraft maintenance hangar and hangar for small aircrafts. We are also scheduling to construct a hangar for GSE vehicles (*) in New Chitose Airport and a crew training facility in Kagoshima Airport.

Hangar in Sendai Airport

Commencement of construction: February 2017
Completion of construction: End of July 2017 (scheduled)

Hangar in New Chitose Airport

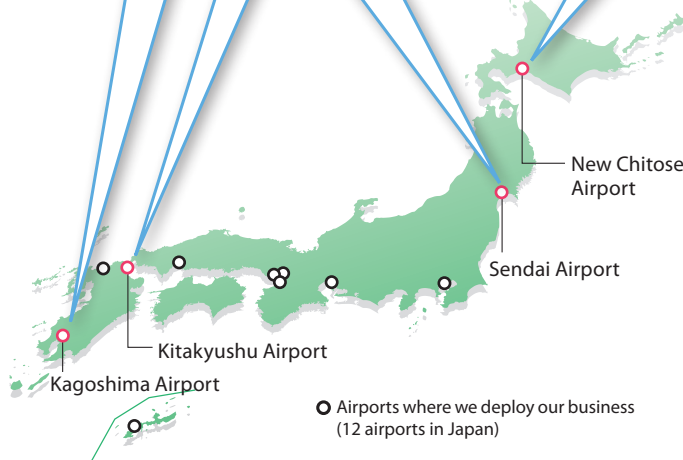
Commencement of construction: July 2017 (scheduled)
Completion of construction: End of November 2017 (scheduled)

Facility for crew training in Kagoshima Airport

Commencement of construction: July 2017 (scheduled)
Completion of construction: End of November 2017 (scheduled)

Hangar in Kitakyushu Airport

Commencement of construction: December 2016
Completion of construction: January 2018 (scheduled)



* GSE (Ground Support Equipment) vehicle: Vehicles used for work supporting the flights of aircrafts on the ground, including the loading and unloading of baggage (cargo) and fueling

For expanding business abroad

Continuously respond to increase in international demand

We will continue with our effort to respond to increasing international demand for aviation service.



Medium-term Management Plan “Challenge to the next step”; Efforts in seven areas

In the Medium-term Management Plan, we are focusing on seven areas based on “Our Mission.”

Our Mission

Our mission is to play a vital role in the progress of aviation as a pivotal private company operating mainly at airports, through creating and providing necessary facilities and functions at airports.



1 Efforts within the premises of Tokyo International Airport and regions near the airport

We will continuously improve our efforts in line with the increasing importance of the role of Tokyo International Airport.



In-flight meal plant

Number of passengers using Tokyo International Airport^{*1}



^{*1} Source: “Report on the State of Airport Management” by the Ministry of Land, Infrastructure, Transport and Tourism
^{*2} Preliminary figures

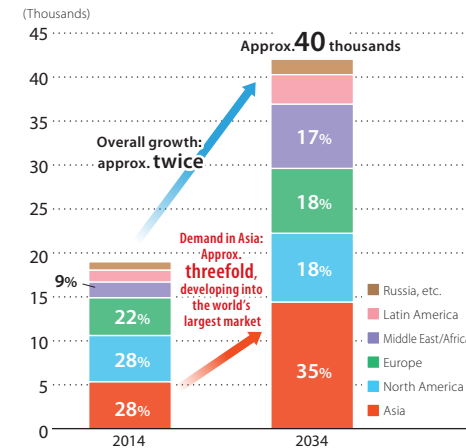
2 Efforts related to the addition of new equipment by airline companies

We will promote our efforts to respond to needs related to the maintenance and repair of aircrafts, flight training, and component procurement.



Pilot training facility (Singapore Seletar Airport)

Forecast of demand for commercial aircrafts abroad (2014-2034)



Source: Average figure calculated from the data released by BOEING/AIRBUS

3 Efforts based on collaboration with our customers and business partners

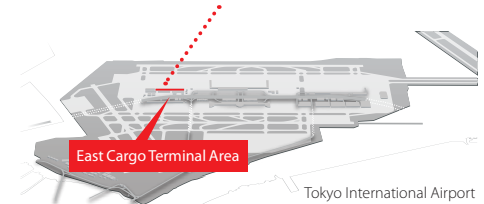
Based on collaboration with our customers and business partners, we also consider adding high-value to the cargo business, leasing of movable properties, and excellent urban development.

Refrigerating facility for our tenant

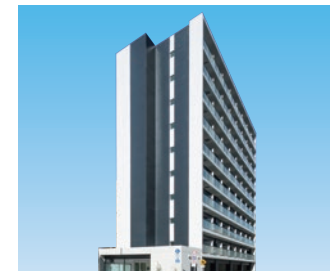
(CSN ChihouSouseiNetwork Co., Ltd.) (Tokyo Haneda Market)



Fresh fish processing center within the airport: Chosoku Sengyo (Ultra high-speed fish processing) Tokyo Haneda Market



Urban projects



Sky Residence Otorii (Ota-ku, Tokyo)



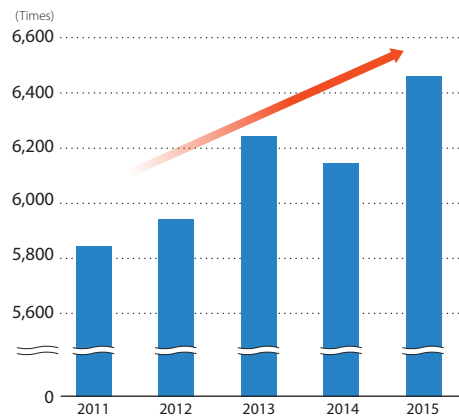
4 Efforts in business related to the maintenance of business jet aircraft

Based on the increase in demand for business jet aircrafts, we will promote the business related to the maintenance thereof.



Large-scale hangar (near Runway B of the former aircraft maintenance area in Tokyo International Airport)

Number of arrivals of business aircrafts in major domestic airports



Source: "Performance of Business Aircrafts in Japan in 2014" by the Japan Business Aviation Association (JBAA) Prepared with data extracted from the "Performance of Business Aircrafts in Japan in 2015"

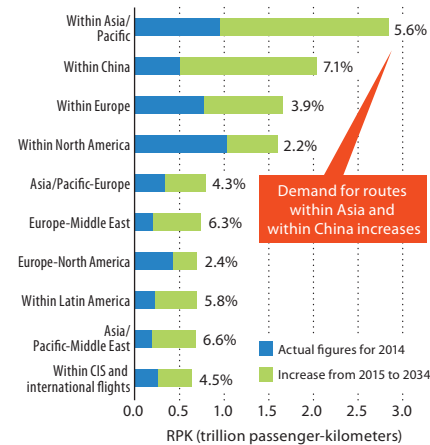
5 Efforts to support aviation in emerging regions abroad, including Asia

We are developing businesses abroad, mainly in Asia, to tap into aviation-related business, which is prospering based on population increase and high growth.



Engine maintenance plant (Singapore Seletar Airport)

Forecast of air passenger demand by route



Source: "Worldwide Market Forecast 2015-2034" by Japan Aircraft Development Corporation

6 Efforts to further expand the current business area

In addition to hotel business based on the tourism strategy of the government and increase in the number of visitors from abroad, and renewable energy business in airports and aviation-related facilities, we also consider cost reduction and increased efficiency through shifting outsourced operations to in-house operations.



Hotel JAL City Haneda Tokyo West Wing



Solar panel on the rooftop of hangar in Kagoshima Airport

7 Efforts corresponding to the changing regional airport business

We also promote efforts related to business in regional airports.

Trend of airport privatization

Schedule	Airport
April 2016	Kansai, Osaka
July 2016	Sendai
April 2018 (scheduled)	Takamatsu
April 2018 (scheduled)	Kobe
April 2019 (scheduled)	Fukuoka
FY2020 (scheduled)	7 airports in Hokkaido including New Chitose
To be determined	Hiroshima, etc.



We strive to collect information and put our efforts into projects in which we are able to commit ourselves.

Promotion of businesses at regional airports



Hangar at Hiroshima Heliport



We also actively work with businesses at regional airports.

Project Report

— Efforts in Area Heating and Cooling Business —

We support aviation in Tokyo International Airport through area heating and cooling service

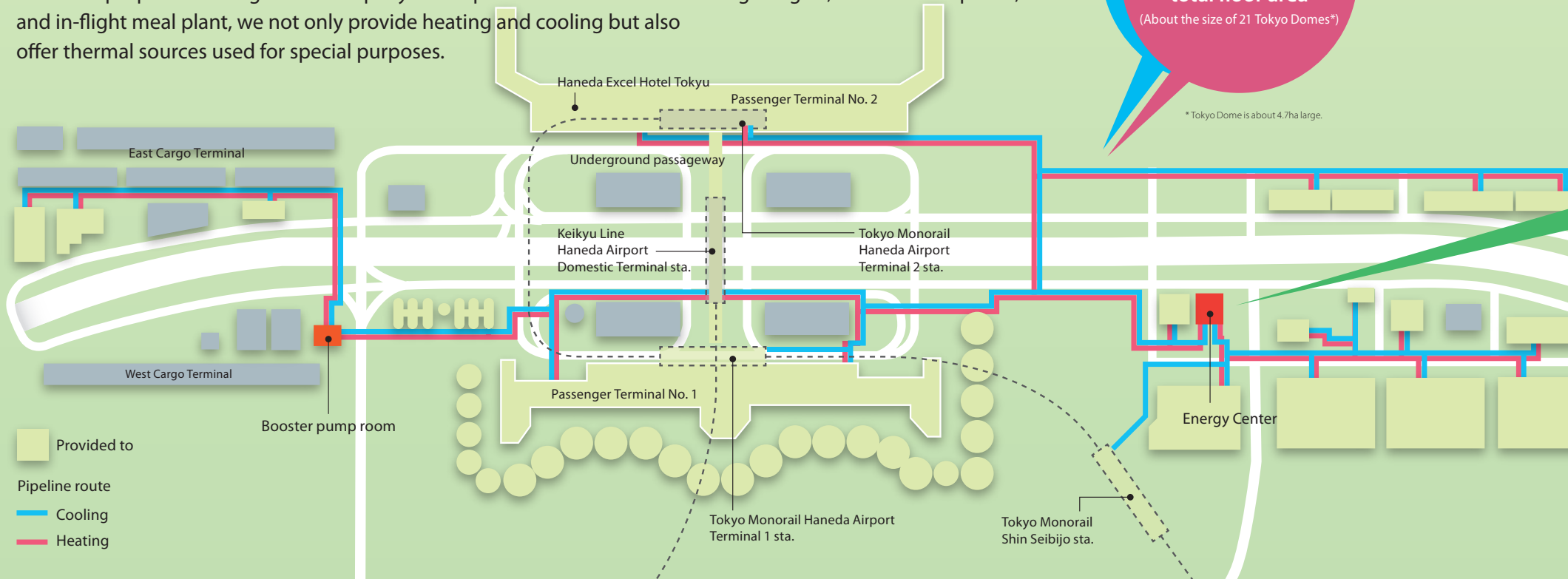
Tokyo International Airport is used by many people every day, not only for sightseeing and business trips, but also by people working within the airport area.

Tokyo Airport Heating & Cooling Co., Ltd., our group company, provides “heat,” which is one of the important infrastructures that is the underlying basis for airport function (just like electricity, communication and water supply and sewage), to support the smooth and comfortable operation of Tokyo International Airport. In specific, we offer heat and cold energy for heating and cooling to Passenger Terminals No. 1 and No. 2 and the multi-purpose building of our company. For airport-related facilities including hangars, maintenance plants, and in-flight meal plant, we not only provide heating and cooling but also offer thermal sources used for special purposes.



Provided area
Approx. **100ha**
total floor area
(About the size of 21 Tokyo Domes*)

* Tokyo Dome is about 4.7ha large.





Area heating and cooling with high efficiency and environmental friendliness

We supply heat by concentrating facilities in one location rather than installing thermal source facilities for heating and cooling at each building to generate energy-saving effects and hold down CO₂ emission. With this, we contribute to preventing global warming and environmental preservation, and also effectively utilize the limited premises of the airport.



Core base of Area Heating & Cooling Business: Energy Center (Tokyo Airport Heating & Cooling)



Energy-saving high-efficiency chiller: We actively use highly-efficient chillers to further promote our environmental responsiveness.

We commit ourselves to stable supply of heat **VOICE**

Through the concentrated operation and management of the heating and cooling system at one place, we realize safe and efficient operation 24 hours a day, 365 days a year, to support comfortable airport infrastructure.

We implement checkups, maintenance and renewal of facilities according to plan, from the perspectives of maintaining stable supply, economical efficiency and environmental friendliness. We recently renewed our chiller to one with higher efficiency, and are also renewing boilers.

We continuously commit ourselves in stable supply of heat to contribute in the maintenance of airport infrastructure.



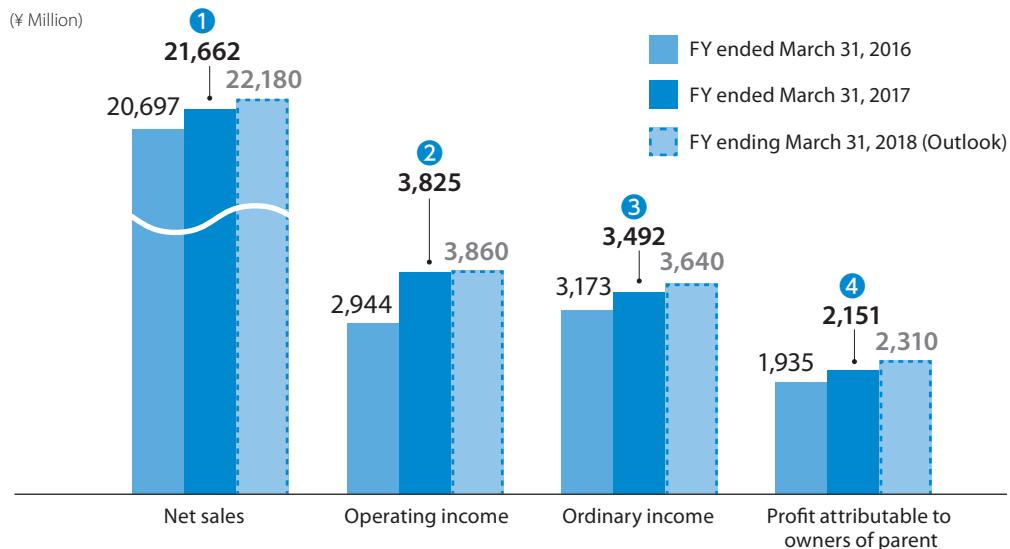
Control room: The heat energy environment of the entire area is managed 24 hours a day in day and night shifts.



Meeting on checkups, maintenance and renewal of facilities: We commit ourselves to stable supply of heat through close communication and team play.

Outline of Consolidated Financial Statement and the Forecast on the Performance and Dividend Next Year

Outline of Consolidated Financial Statement



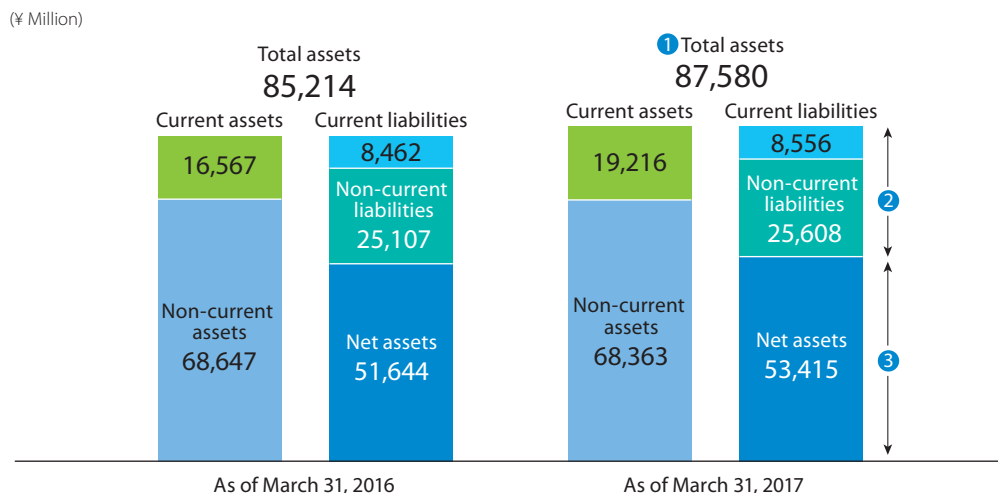
<Outline of fiscal year ended March 2017>

- (Net sales)** In addition to the improvement of the state of tenants moving in at areas near Tokyo International Airport and Kansai International Airport, the opening of Haneda Asahi-Cho Hotel, and operation of the solar power plant in Mizunami City, Gifu Prefecture, there were stable growth of the area heating and cooling business at Tokyo International Airport, solid growth of water usage according to an increase in the number of passengers, and increase in the sales of a subsidiary in Singapore, resulting in a 4.6% increase from the previous term.
- (Operating income)** In addition to sales increase in each business segment, there was a decline in electricity and fuel gas prices, resulting in a 29.9% increase from the previous term.
- (Ordinary income)** Although there was a decrease in commission fees and an increase of provision for removal costs, ordinary income increased 10.0% from the previous term mainly because of an increase in operating income.
- (Profit attributable to owners of parent)** With the increase in ordinary income, profit attributable to owners of parent increased 11.1% from the previous term.

<Outlook for the next term>

We expect increases in net sales and operating income for the fiscal year ending March 2018, with the continuous improvement of the state of tenants moving in at Tokyo International Airport, operation of facilities in Kitakyushu and Sendai Airports, and the commencement of water supply and drainage business in New Chitose Airport.

Outline of Consolidated Balance Sheet



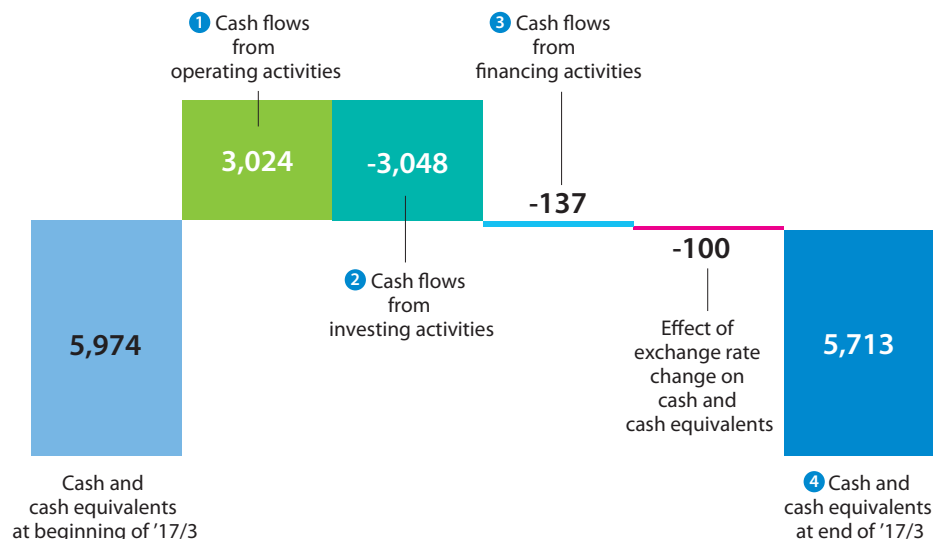
<Financial position as of March 31, 2017>

- (Total assets)** Total assets increased by ¥2,365 million, mainly due to increase in the leased assets of a subsidiary in Singapore.
- (Liabilities)** Liabilities increased by ¥594 million with increase in guarantee deposits accompanied by the moving in of tenants.
- (Net assets)** Net assets increased ¥1,770 million mainly due to an increase in retained earnings, resulted in increase of equity ratio to 58.7% (0.2 points).



Outline of Consolidated Cash Flow

(¥ Million)



- ① Net cash provided by operating activities was ¥3,024 million (compared to ¥809 million in the previous term). This is attributable to an increase in income before income taxes and a decrease in operating loans.
- ② Net cash used in investment activities was ¥3,048 million (compared to ¥2,453 million in the previous term). This is attributable to purchase of non-current assets.
- ③ Net cash used in financial activities was ¥137 million (compared to the ¥1,731 million of net cash provided in the previous term). This is mainly attributable to payments of long-term debt.
- ④ As a result, cash and cash equivalents as of March 31, 2017 decreased ¥260 million to ¥5,713 million.

Changes in Major Financial Indicators

Equity Ratio

58.7%

+ 0.2 points year on year

As a result of the increase of total assets by ¥2,365 million (2.8%) and equity capital by ¥1,549 million (3.1%), the equity ratio increased by 0.2 points.

EBITDA + recovery

¥ 6.1 billion

+ 19.0% year on year

EBITDA + recovery increased by 19.0% from the previous term, with the recovery of operating income before depreciation and recovery from overseas finance.

Outlook of Business Results and Dividend for the Next Term

Outlook for consolidated business results and dividend for the year ending March 31, 2018

Net sales	¥22,180 million (+ 2.3% year on year)
Operating income	¥3,860 million (+ 0.9% year on year)
Ordinary income	¥3,640 million (+ 4.2% year on year)
Annual dividend (forecast)	¥14.0 (interim ¥7.0, year-end ¥7.0)

For more detailed financial information, please refer to our website "Investor Relations"

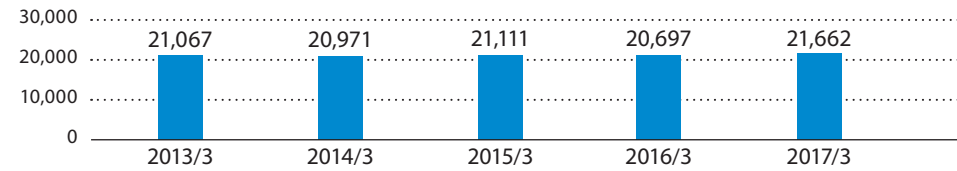
[Airport Facilities Co., Ltd.](#)

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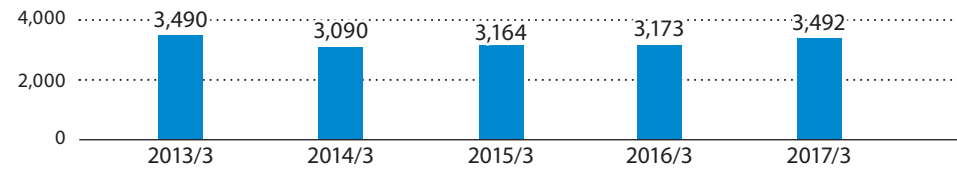
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Financial Highlights (Five years)

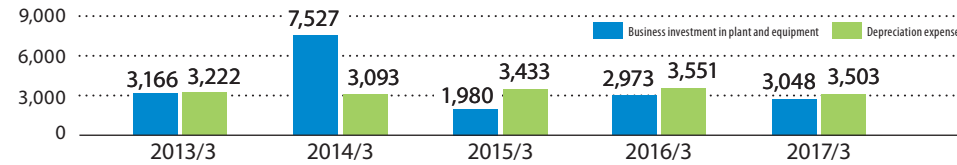
Net sales (¥ Million)



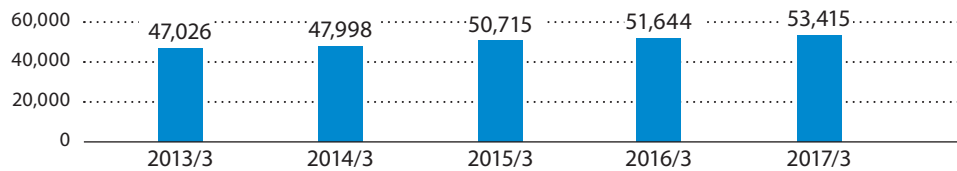
Ordinary income (¥ Million)



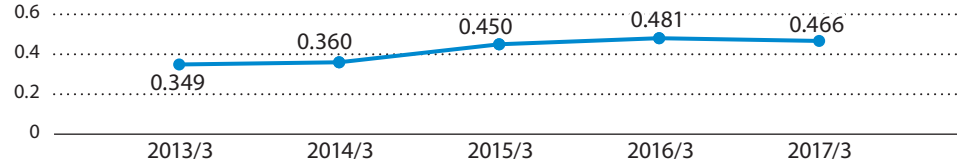
Business investment in plant and equipment/Depreciation expense (¥ Million)



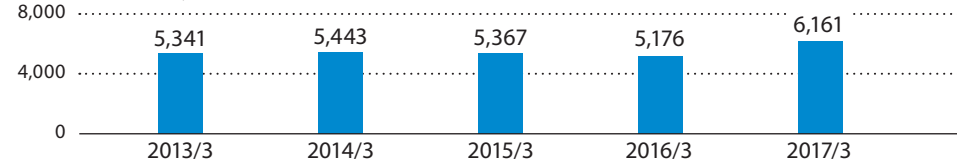
Net assets (¥ Million)



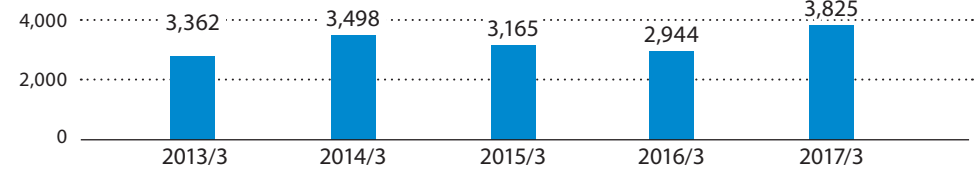
Debt to equity (Times)



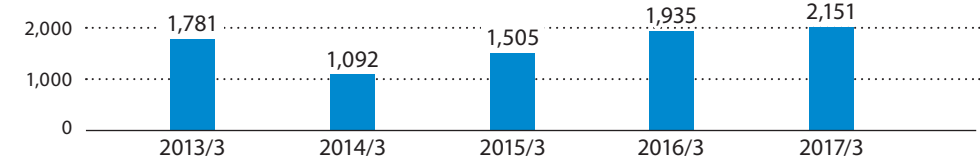
EBITDA + recovery (¥ Million)



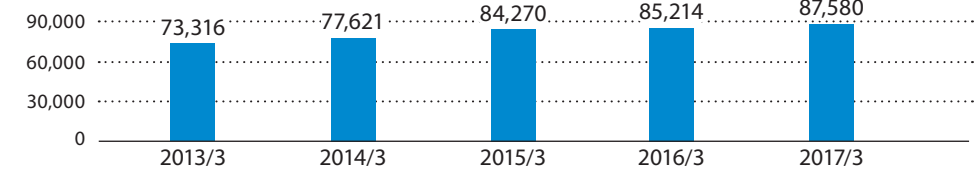
Operating income (¥ Million)



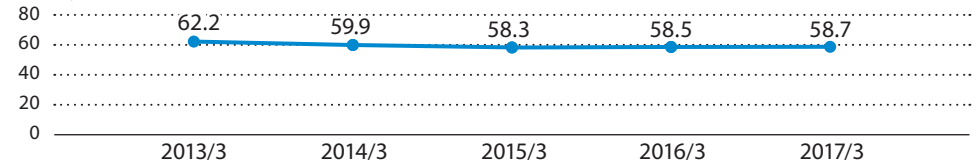
Profit attributable to owners of parent (¥ Million)



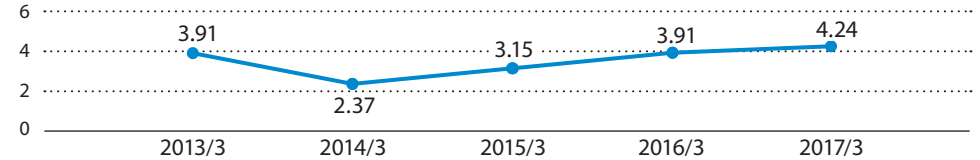
Total assets (¥ Million)



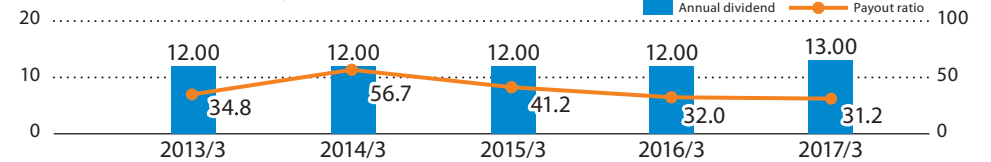
Equity ratio (%)



ROE (%)



Annual dividend (¥: left axis) / Payout ratio (consolidated) (%: right axis)



Corporate Governance



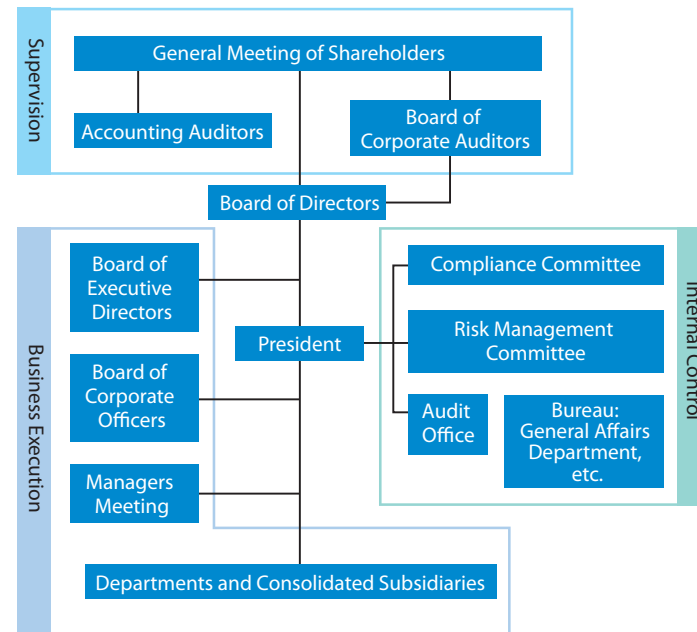
Basic Philosophy

We are fully aware of our management responsibility relegated from shareholders and social responsibility as a company with its business based on services in airports. With our mission and corporate philosophy in mind, we strive to complete our corporate governance to improve our corporate value and for the common benefit of our shareholders.

Structure of Organization

We maintain the system where adequate business judgment and management supervision is constantly ensured, by regularly holding the Board of Directors meeting and Board of Corporate Auditors meeting, and holding them on a temporary basis when necessary. The number of directors shall be 17 or less, including both internal and external directors. There are currently 14 directors. Also, based on the criteria of independence set forth by the Tokyo Stock Exchange, we appointed 2 independent external directors. In addition, we adopt the Corporate Officer System aiming at rapid decision-making, etc. Furthermore, we strive to ensure managerial compliance, appropriateness and efficiency by maintaining and enhancing the internal control system shouldered by the Audit Office monitoring our business activities, Compliance Committee, and Risk Management Committee.

Diagram of Internal Control System



Executives (As of June 29, 2017)

Directors	Chairman	Tomoyuki Takahashi
	President and CEO	Hiroshi Maruyama
	Executive Vice President	Toshitaka Watanabe
	Executive Vice President	Toshiaki Norita
	Senior Managing Director	Toshiyuki Nagayoshi
	Senior Managing Director	Hiroyuki Hoshi
	Managing Director	Kosei Ashikaga
	Managing Director	Kazuo Katahira
	Managing Director	Keisuke Komatsu
	Director and Senior Corporate Officer	Shigeo Tamura
	External Director	Shigeyuki Takemura
	External Director	Tadao Nishio
	External Director (Independent Officer)	Takehiko Sugiyama
	External Director (Independent Officer)	Kayo Aoyama
Corporate Auditors	Full-time Statutory Auditor	Mineo Tsuguchi
	Full-time Statutory Auditor	Kazuhiko Muraishi
	Statutory Auditor (Independent Officer)	Akihiko Shiba
Corporate Officers	Statutory Auditor (Independent Officer)	Satoshi Iwamura
	Senior Corporate Officer	Hiroki Osawa
	Senior Corporate Officer	Yukihiko Takada
	Senior Corporate Officer	Minoru Kitajima
	Corporate Officer	Hiroshi Hokazono
Corporate Officer	Keiji Fukumoto	
Corporate Officer	Ryuichi Yasuda	

Corporate Profile

Corporate Name: Airport Facilities Co., Ltd. (AFC)

Established: February 1970

Capital: 6,826.10 million yen

Employees: 110
(Consolidated as of March 31, 2017)

Main Banks: Development Bank of Japan

Resona Bank

Mizuho Bank

The Bank of Tokyo-Mitsubishi UFJ

Sumitomo Mitsui Trust Bank

Sumitomo Mitsui Banking Corporation

Stock Information (as of March 31, 2017)

Stock Listings: Tokyo Stock Exchange (TSE) 1st Section
(Ticker Code: 8864)

Total Number of Shares Authorized: 124,800,000

Total Number of Shares Issued: 54,903,750

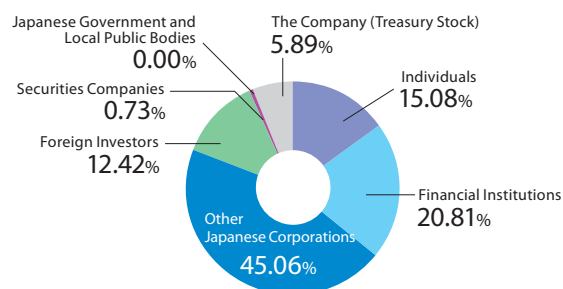
Number of Shareholders: 6,455

Share Unit Number 100 shares

Major Shareholders

Shareholder	Number of Shares Owned (thousands)	Ratio of Shareholding (%)
Japan Airlines Co., Ltd.	10,521	19.16
ANA HOLDINGS INC.	10,521	19.16
Development Bank of Japan Inc.	6,920	12.60
Kokusai Kogyo Co., Ltd.	1,924	3.50
MLI FOR CLIENT GENERAL OMNI NON COLLATERAL NON TREATY-PB	1,574	2.86

Composition of Shareholders



Stock Price and Trading Volume (Monthly)

