

Financial Results for the Second Quarter of the Year Ending March 31, 2019 [J-GAAP] (Consolidated)

Company name: AIRPORT FACILITIES CO., LTD. (AFC)
 Stock exchange listed on: Tokyo Stock Exchange (First Section)
 Company code: 8864 URL: <http://www.afc.jp>
 Representative: Tomoyuki Takahashi, Chairman
 Inquiries: Takahiro Hama, Corporate Officer, General Manager of Accounting Dept. TEL: +81-3-3747-0251
 The date of filing the quarterly securities report: November 5, 2018
 The date of the dividend payment start: November 22, 2018
 Preparation of quarterly earnings presentation material: Yes
 Holding of quarterly earnings announcement: Yes (for analysts)

(Figures are rounded off to the nearest million yen.)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 2019 (April 1, 2018 - September 30, 2018)

(1) Consolidated Business Results (Percentages are changes from the same period of the previous year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First six months ended								
September 30, 2018	12,214	6.9	2,264	4.2	2,020	(1.3)	1,311	7.6
September 30, 2017	11,420	5.3	2,171	6.1	2,049	(2.0)	1,218	(3.4)

(Note) Comprehensive income: First six months ended September 30, 2018: 1,322 million yen ((26.7%))
 First six months ended September 30, 2017: 1,805 million yen (198.5%)

	Basic earnings per share	Diluted earnings per share
First six months ended	Yen	Yen
September 30, 2018	26.35	26.24
September 30, 2017	23.58	23.51

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2018	99,367	55,402	53.4	1,067.44
As of March 31, 2018	87,961	54,482	59.4	1,050.69

(Reference) Equity capital: As of September 30, 2018: 53,115 million yen As of March 31, 2018: 52,277 million yen

2. Dividends

	Dividends per share				
	Q1	Q2	Q3	Q4	Annual
	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2018	—	7.00	—	7.00	14.00
FY ending March 31, 2019	—	7.00			
FY ending March 31, 2019 (Forecasts)			—	7.00	14.00

(Note) Changes in the latest forecasts released: No

3. Forecast of Consolidated Earnings for the Year Ending March 2019 (April 1, 2018 - March 31, 2019)

(Percentages are changes from the same period of the previous year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full fiscal year	23,690	3.9	4,180	1.9	3,850	3.3	2,290	3.2	46.03

(Note) Changes in the latest forecasts released: No

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting from changes in scope of consolidation): No

(2) Application of specific accounting treatments in preparing the quarterly consolidated financial statements: Yes

Note: For details, please refer to “2. Quarterly Consolidated Financial Statements and Major Notes (3) Notes on Quarterly Consolidated Financial Statements (Application of Specific Accounting Treatments in Preparing the Quarterly Consolidated Financial Statements)” on page 9.

(3) Changes in accounting policies, changes in accounting estimates, and restatement of revisions

- 1) Changes in accounting policies with revision of accounting standards, etc. : Yes
- 2) Changes in accounting policies other than 1) above: No
- 3) Changes in accounting estimates: No
- 4) Restatement of revisions: No

(4) Number of issued shares (common shares)

1) Number of issued shares (including treasury stock)	As of September 30, 2018:	52,979,350 shares	As of March 31, 2018:	52,979,350 shares
2) Number of treasury stock	As of September 30, 2018:	3,219,631 shares	As of March 31, 2018:	3,223,911 shares
3) Average number of shares during the period	First six months ended September 30, 2018:	49,757,576 shares	First six months ended September 30, 2017:	51,673,993 shares

* Financial Results report is outside the scope of a quarterly review by certified public accountants or an audit corporation.

* Explanation of the proper use of earnings forecasts and other special notes

(Remarks on forward-looking statements)

The statements about future described on this report such as earnings forecasts have been made based on information currently available and certain assumptions considered reasonable, and it is not intended to assure that we will achieve such results. Actual earnings may differ significantly from the above forecasts for various reasons. For the assumptions for earnings forecasts and cautions regarding the use of the earnings forecasts, please refer to “1. Qualitative Information on Consolidated Financial Results for the Quarter Ended September 30, 2018 (3) Qualitative Information on Consolidated Earnings Forecast” on page 4.

1. Qualitative Information on Consolidated Financial Results for the Quarter Ended September 30, 2018

(1) Explanation about Business Results

During the six months ended September 30, 2018, the Japanese economy showed a moderate recovery trend overall due to a steady growth of domestic capital investments and production. The Bank of Japan expressed its intention to continue the monetary easing policy to achieve its price stability target.

However, there remain global uncertainties arising from the further confusion in the international politics and economy as well as a hike in crude oil prices and interest rates and fluctuations in exchange rates, amid the accelerating protectionism in the U.S. In Japan, there are concerns over adverse impacts on the economy of sluggish consumption and corporate activities as a consequence of the recent series of abnormal climate conditions and natural disasters.

The aviation industry witnessed a strong international flight demand supported by an increase in inbound tourists. However, the growth of certain domestic flights slowed down as Northern Osaka Prefecture Earthquake in June and the Heavy Rain Event in western Japan in July suppressed demands for inbound tourists. Moreover, the damage to Kansai International Airport by Typhoon Jebi (No. 21) in early September and the damage to New Chitose Airport by the Hokkaido Eastern Iburi Earthquake forced airline companies to cancel a large number of flights, which affected sightseeing and cargo flights. In addition, a hike in crude oil prices increased jet fuel costs. To deal with these situations, domestic airline companies are working on implementing advanced equipment, expanding network and enhancing LCC business while making efforts to increase cost competitiveness.

Under such economic conditions, the Group (the Company and its consolidated subsidiaries) is committed to expanding business domains based on the Medium-term Management Plan, and a dispersed hotel with 5 buildings in Kyoto, which the Group acquired and started leasing in late June as part of the initiatives targeting inbound tourists, started operation in mid-October.

The Group recorded net sales of ¥12,214 million (up 6.9% from the same period of the previous year) as a result of solid growth in sales at Tokyo International Airport and steady operation of new facilities in local airports as well as the consolidation of a Canadian subsidiary. Operating income was ¥2,264 million (up 4.2%) despite an increase in real estate acquisition tax and depreciation expense associated with the acquisition of the hotel in Kyoto. However, ordinary income was ¥2,020 million (down 1.3%) due to provision for removal cost associated with renewal of certain aging facilities at Tokyo International Airport and bond issuance cost although a subsidiary in Singapore recorded foreign exchange gains, an improvement from losses in the previous year. Profit attributable to owners of parent was ¥1,311 million (up 7.6%).

Performance by business segment is as follows:

(i) Real Estate Business

Real Estate Business recorded net sales of ¥9,026 million (up 7.0% from the same period of the previous year), due to an improved occupancy ratio of tenants at Tokyo International Airport, the commencement of operation of new facilities in local airports and outside airports, and consolidation of a Canadian subsidiary. Operating income was ¥1,587 million (up 6.2%).

(ii) Area Heating & Cooling Business

Area Heating & Cooling Business recorded net sales of ¥1,702 million (up 2.1% from the same period of the previous year) as Tokyo Airport Heating & Cooling Co., Ltd., a consolidated subsidiary, showed a steady growth in the Area Heating & Cooling Business in the reclaimed land area offshore Tokyo International Airport due to extremely hot summer. However, operating income was ¥484 million (down 13.8%) due to an increase in fuel costs.

(iii) Water Supply & Drainage Service and Other Business

Water Supply & Drainage Service and Other Business recorded net sales of ¥1,485 million (up 12.4% from the same period of the previous year) as a result of a solid growth in sales of water supply and drainage usage due to an increase in water supply to various constructions at Tokyo International Airport, and smooth operation of the solar

power facility that started electric power selling in Heiwajima, Ota-ku from February. Operating income was ¥192 million (up 67.0%).

(2) Qualitative Information on Consolidated Financial Position

(Assets)

Total assets as of September 30, 2018 amounted to ¥99,367 million, an increase by ¥11,405 million compared to March 31, 2018, mainly due to the acquisition of the hotel in Kyoto.

(Liabilities)

Liabilities as of September 30, 2018 amounted to ¥43,965 million, an increase by ¥10,485 million from March 31, 2018, due to bond issuance associated with acquisition of the hotel in Kyoto and an increase in long-term loans payable.

(Net assets)

Net assets as of September 30, 2018 increased by ¥919 million compared to March 31, 2018 to ¥55,402 million mainly due to an increase in retained earnings.

As a result, equity ratio as of September 30, 2018 decreased by 6.0 points to 53.4% compared to March 31, 2018.

(3) Qualitative Information on Consolidated Earnings Forecast

There is no change as to Consolidated Earnings Forecast for the Year Ending March 2019 which was announced in the Financial Results for the Year Ended March 31, 2018 [J-GAAP] dated May 10, 2018.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	FY3/18 (As of March 31, 2018)	Second quarter of FY3/19 (As of September 30, 2018)
Assets		
Current assets		
Cash and deposits	4,608,382	4,854,533
Notes and accounts receivable-trade	1,210,390	1,232,611
Lease receivables and investment assets	5,991,149	6,782,194
Operating loans	5,422,908	6,230,157
Raw materials and supplies	14,676	12,464
Others	284,004	1,788,352
Total current assets	17,531,512	20,900,313
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	44,534,344	48,841,766
Machinery, equipment and vehicles, net	5,384,270	5,161,143
Tools, furniture and fixtures, net	156,341	680,711
Land	10,307,875	14,596,026
Construction in progress	1,422,667	774,421
Total property, plant and equipment	61,805,499	70,054,069
Intangible assets		
Software	34,851	30,545
Others	15,055	14,980
Total intangible assets	49,907	45,526
Investments and other assets		
Investment securities	7,483,456	7,348,251
Long-term loans receivable	2,217	1,932
Deferred tax assets	259,037	202,736
Net defined benefit asset	218,585	199,193
Others	646,334	650,038
Allowance for doubtful accounts	(34,567)	(34,567)
Total investments and other assets	8,575,064	8,367,584
Total non-current assets	70,430,471	78,467,179
Total assets	87,961,984	99,367,492

(Thousands of yen)

	FY3/18 (As of March 31, 2018)	Second quarter of FY3/19 (As of September 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,023,054	684,539
Short-term loans payable	5,879,559	5,033,635
Accounts payable	674,381	309,728
Income taxes payable	651,257	694,923
Accrued expenses	93,808	108,262
Unearned revenue	977,315	2,205,141
Provision for bonuses	128,398	142,059
Provision for directors' bonuses	27,980	30,058
Provision for removal cost of property, plant and equipment	173,200	172,370
Others	421,549	498,706
Total current liabilities	10,050,504	9,879,423
Non-current liabilities		
Bonds payable	—	6,000,000
Long-term loans payable	17,279,899	21,553,757
Long-term guarantee deposited	5,638,318	5,870,831
Long-term accounts payable-other	311,526	325,976
Provision for directors' retirement benefits	6,846	348
Provision for removal cost of property, plant and equipment	192,311	334,835
Total non-current liabilities	23,428,901	34,085,748
Total liabilities	33,479,405	43,965,172
Net assets		
Shareholders' equity		
Capital stock	6,826,100	6,826,100
Capital surplus	6,982,890	6,982,851
Retained earnings	37,381,745	38,332,852
Treasury stock	(1,786,417)	(1,784,048)
Total shareholders' equity	49,404,317	50,357,755
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,853,576	2,989,939
Foreign currency translation adjustment	19,613	(232,029)
Total accumulated other comprehensive income	2,873,189	2,757,909
Subscription rights to shares	79,896	113,808
Non-controlling interests	2,125,175	2,172,846
Total net assets	54,482,578	55,402,320
Total liabilities and net assets	87,961,984	99,367,492

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)

(Thousands of yen)

	First six months of FY3/18 (April 1, 2017 – September 30, 2017)	First six months of FY3/19 (April 1, 2018 – September 30, 2018)
Net sales	11,420,409	12,214,580
Cost of sales	8,343,407	8,931,772
Gross profit	3,077,001	3,282,807
Selling, general, and administrative expenses		
Directors' compensations	140,229	144,939
Salaries and bonuses	202,604	220,092
Provision for bonuses	79,450	88,058
Provision for directors' bonuses	27,980	30,058
Transportation and communication expenses	54,762	55,989
Taxes and dues	79,552	92,631
Depreciation	6,537	13,970
Others	314,182	372,108
Total selling, general, and administrative expenses	905,299	1,017,847
Operating income	2,171,702	2,264,960
Non-operating income		
Interest income	9	0
Dividends income	135,770	141,149
Commission fee	47,281	7,323
Foreign exchange gains	—	44,664
Others	47,523	50,356
Total non-operating income	230,585	243,494
Non-operating expenses		
Interest expenses	174,086	203,052
Removal cost of property, plant and equipment	64,977	22,411
Provision for removal cost of property, plant and equipment	—	142,524
Foreign exchange losses	113,307	—
Bond issuance cost	—	119,788
Others	696	—
Total non-operating expenses	353,068	487,775
Ordinary income	2,049,219	2,020,679
Extraordinary loss		
Loss on retirement of non-current assets	366	4,289
Total extraordinary loss	366	4,289
Income before income taxes	2,048,852	2,016,389
Income taxes	691,347	619,259
Profit	1,357,505	1,397,129
Profit attributable to non-controlling interests	138,986	86,000
Profit attributable to owners of parent	1,218,519	1,311,129

(Quarterly Consolidated Statements of Comprehensive Income)

(Thousands of yen)

	First six months of FY3/18 (April 1, 2017 – September 30, 2017)	First six months of FY3/19 (April 1, 2018 – September 30, 2018)
Profit	1,357,505	1,397,129
Other comprehensive income		
Valuation difference on available-for-sale securities	416,492	136,362
Foreign currency translation adjustment	31,474	(211,038)
Total other comprehensive income	447,967	(74,675)
Comprehensive income	1,805,472	1,322,454
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,666,486	1,236,453
Comprehensive income attributable to non-controlling interests	138,986	86,000

(3) Notes on Quarterly Consolidated Financial Statements

(Notes on Premise of Going Concern)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

Not applicable.

(Changes in Accounting Policies)

(Application of Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions)

“Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions” (Practical Issues Task Force No.36, January 12, 2018; hereinafter, “PITF No.36”), etc. has become available for application from the date of its publication. Accordingly, the Group has adopted PITF No.36 on or after the date of publication and decided to apply accounting methods conforming to the Accounting Standards for Stock Options (Corporate Accounting Standards No. 8, December 27, 2005) for transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions.

In applying PITF No.36, the Group followed the transitional treatments provided in Paragraph 10 (3) of PITF No.36. Accordingly, transactions in which stock acquisition rights, which involve considerations, with vesting conditions, were granted to employees and others prior to the date of application of PITF No.36 have continued to be accounted for using the previously adopted accounting treatment.

(Application of Specific Accounting Treatments in Preparing the Quarterly Consolidated Financial Statements)

Tax expenses are calculated as income before income taxes for the period multiplied by the estimated effective tax rate. The effective tax rate is reasonably estimated taking into consideration deferred tax accounting as the rate applicable to income before income taxes for the consolidated fiscal year including the period ended September 30, 2018.

(Additional information)

(Application of the Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.)

Effective April 1, 2018, the Group applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.” (Accounting Standards Board of Japan (“ASBJ”) Statement No.28, February 16, 2018), and accordingly, deferred tax assets are presented in investments and other assets.