July 26, 2018

Financial Results for the First 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
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The date of filing the quarterly securities report: August 2, 2018
The date of the dividend payment start: ―
Preparation of quarterly earnings presentation material: No
Holding of quarterly earnings announcement: No

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

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 2019 (April 1, 2018 - June 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	
First three months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2018	5,858	6.4	1,096	5.3	982	(5.0)	565	(5.1)
June 30, 2017	5,503	5.5	1,040	2.9	1,034	0.8	595	0.5

(Note) Comprehensive income: First three months ended June 30, 2018: 516million yen ((47.7%))
First three months ended June 30, 2017: 988 million yen (269.3%)

	Basic earnings per share	Diluted earnings per share
First three months ended	Yen	Yen
June 30, 2018	11.36	11.32
June 30, 2017	11.53	11.51

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of June 30, 2018	101,024	54,600	51.8	1,052.40
As of March 31, 2018	87,961	54,482	59.4	1,050.69

(Reference) Equity capital: As of June 30, 2018: 52,362 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	―				
FY ending March 31, 2019 (Forecasts)		7.00	―	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
First half	11,850	3.8	2,200	1.3	2,080	1.5	1,250	2.6	25.13
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

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(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 June 30, 2018:	52,979,350 shares	As of March 31, 2018:	52,979,350 shares
2) Number of treasury stock	As of June 30, 2018:	3,223,931 shares	As of March 31, 2018:	3,223,911 shares
3) Average number of shares during the period	First three months ended June 30, 2018:	49,755,432 shares	First three months ended June 30, 2017:	51,667,953 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 June 30, 2018 (3) Qualitative Information on Consolidated Earnings Forecast” on page 4.

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

(1) Explanation about Business Results

During the quarter ended June 30, 2018, the Japanese economy showed a moderate recovery trend overall due to a steady growth of domestic capital investments and production backed by ongoing monetary easing policy of the Bank of Japan, and the yen's appreciation and fall in stock prices, which had continued since the beginning of the year, appeared to have come to a halt.

However, there are concerns over the impact on the Japanese economy of increasing global uncertainties arising from the further confusion in the international politics and economies 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.

The aviation industry witnessed a strong demand both in Japan and overseas including inbound tourists which exceeded 15 million in the first half of the year and continued to achieve a record high, and leading airline companies saw a strong demand in excess of those of the previous year for both international and domestic flights during the Golden Week holidays.

However, demands for domestic flights and inbound tourists may be affected by the recent earthquake in the northern part of Osaka and the heavy flooding in western Japan in the future. 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 consolidate subsidiaries) is committed to expanding business domains based on the Medium-term Management Plan, and, in late June, acquired a dispersed hotel with 5 buildings in Kyoto scheduled to be opened in October as part of initiatives targeting inbound tourists.

The Group recorded net sales of ¥5,858 million (up 6.4% 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 ¥1,096 million (up 5.3%) despite an increase in real estate acquisition tax and depreciation expense associated with the acquisition of the hotel in Kyoto. However, ordinary income was ¥982 million (down 5.0%) mainly due to bond issuance cost and foreign exchange losses recorded in Singapore, and profit attributable to owners of parent was ¥565 million (down 5.1%).

Performance by business segment is as follows:

(i) Real Estate Business

Real Estate Business recorded net sales of ¥4,374 million (up 6.6% 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 and outside local airports, and consolidation of an overseas subsidiary. Operating income, however, was ¥725 million (down 2.6%) mainly due to an increase in land rent and recording expenses associated with the acquisition of the hotel in Kyoto.

(ii) Area Heating & Cooling Business

In Area Heating & Cooling Business, Tokyo Airport Heating & Cooling Co., Ltd., a consolidated subsidiary recorded net sales with respect to the reclaimed land area offshore Tokyo International Airport of ¥755 million (up 1.0% from the same period of the previous year) partly due to higher temperatures in April. Operating income was ¥289 million (up 19.5% from the same period of the previous year) due to decrease in repair expenses, despite increases in rates of electricity and gas and an increase in depreciation resulting from renewal of boilers.

(iii) Water Supply & Drainage Service and Other Business

Water Supply & Drainage Service and Other Business recorded net sales of ¥728 million (up 11.4% 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 the commencement of electric power selling by the solar power facility in Heiwajima, Ota-ku. Operating income was ¥81 million (up 52.2%).

(2) Qualitative Information on Consolidated Financial Position

(Assets)

Total assets as of June 30, 2018 amounted to ¥101,024 million, an increase by ¥13,062 million compared to March 31, 2018, mainly due to the acquisition of the hotel in Kyoto in late June and the consolidation of a Canadian subsidiary.

(Liabilities)

Liabilities as of June 30, 2018 amounted to ¥46,423 million, an increase by ¥12,944 million from March 31, 2018, due to issuance of the Company's first corporate bonds in addition to an increase in long-term loans payable.

(Net assets)

Net assets as of June 30, 2018 increased by ¥118 million compared to March 31, 2018 to ¥54,600 million mainly due to an increase in retained earnings.

As a result, equity ratio as of June 30, 2018 decreased by 7.6 points to 51.8% 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)	First quarter of FY3/19 (As of June 30, 2018)
Assets		
Current assets		
Cash and deposits	4,608,382	4,774,582
Notes and accounts receivable-trade	1,210,390	1,675,351
Lease receivables and investment assets	5,991,149	6,864,453
Operating loans	5,422,908	6,304,861
Raw materials and supplies	14,676	12,884
Others	284,004	2,357,731
Total current assets	17,531,512	21,989,863
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	44,534,344	50,238,041
Machinery, equipment and vehicles, net	5,384,270	5,306,554
Tools, furniture and fixtures, net	156,341	153,249
Land	10,307,875	14,596,026
Construction in progress	1,422,667	516,451
Total property, plant and equipment	61,805,499	70,810,323
Intangible assets		
Software	34,851	32,923
Others	15,055	15,018
Total intangible assets	49,907	47,941
Investments and other assets		
Investment securities	7,483,456	7,145,099
Long-term loans receivable	2,217	2,065
Deferred tax assets	259,037	208,400
Net defined benefit asset	218,585	208,889
Others	646,334	646,674
Allowance for doubtful accounts	(34,567)	(34,567)
Total investments and other assets	8,575,064	8,176,562
Total non-current assets	70,430,471	79,034,827
Total assets	87,961,984	101,024,690

(Thousands of yen)

	FY3/18 (As of March 31, 2018)	First quarter of FY3/19 (As of June 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,023,054	739,399
Short-term loans payable	5,879,559	5,008,789
Accounts payable	674,381	202,862
Income taxes payable	651,257	394,576
Accrued expenses	93,808	3,105,543
Unearned revenue	977,315	1,262,799
Provision for bonuses	128,398	71,028
Provision for directors' bonuses	27,980	15,029
Provision for removal cost of property, plant and equipment	173,200	173,200
Others	421,549	618,118
Total current liabilities	10,050,504	11,591,345
Non-current liabilities		
Bonds payable	—	6,000,000
Long-term loans payable	17,279,899	22,476,362
Long-term guarantee deposited	5,638,318	5,844,655
Long-term accounts payable-other	311,526	319,266
Provision for directors' retirement benefits	6,846	—
Provision for removal cost of property, plant and equipment	192,311	192,311
Total non-current liabilities	23,428,901	34,832,595
Total liabilities	33,479,405	46,423,941
Net assets		
Shareholders' equity		
Capital stock	6,826,100	6,826,100
Capital surplus	6,982,890	6,982,890
Retained earnings	37,381,745	37,587,106
Treasury stock	(1,786,417)	(1,786,430)
Total shareholders' equity	49,404,317	49,609,665
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,853,576	2,976,998
Foreign currency translation adjustment	19,613	(223,683)
Total accumulated other comprehensive income	2,873,189	2,753,315
Subscription rights to shares	79,896	79,896
Non-controlling interests	2,125,175	2,157,872
Total net assets	54,482,578	54,600,749
Total liabilities and net assets	87,961,984	101,024,690

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

(Quarterly Consolidated Statements of Income)

(Thousands of yen)

	First three months of FY3/18 (April 1, 2017 – June 30, 2017)	First three months of FY3/19 (April 1, 2018 – June 30, 2018)
Net sales	5,503,895	5,858,275
Cost of sales	4,030,359	4,253,585
Gross profit	1,473,535	1,604,690
Selling, general, and administrative expenses		
Directors’ compensations	68,127	67,977
Salaries and bonuses	102,399	111,546
Provision for bonuses	39,324	44,028
Provision for directors’ bonuses	13,990	15,029
Transportation and communication expenses	26,842	26,186
Taxes and dues	45,150	51,746
Depreciation	3,021	6,745
Others	133,844	185,299
Total selling, general, and administrative expenses	432,699	508,557
Operating income	1,040,835	1,096,132
Non-operating income		
Dividends income	127,901	123,503
Commission fee	27,005	2,407
Others	34,759	35,921
Total non-operating income	189,666	161,831
Non-operating expenses		
Interest expenses	87,789	91,312
Removal cost of property, plant and equipment	26,649	20,780
Foreign exchange losses	80,172	43,430
Bond issuance cost	―	119,788
Others	1,345	―
Total non-operating expenses	195,956	275,311
Ordinary income	1,034,545	982,652
Extraordinary loss		
Loss on retirement of non-current assets	39	4,289
Total extraordinary loss	39	4,289
Income before income taxes	1,034,505	978,362
Income taxes	379,674	341,953
Profit	654,831	636,409
Profit attributable to non-controlling interests	58,907	71,026
Profit attributable to owners of parent	595,923	565,383

(Quarterly Consolidated Statements of Comprehensive Income)

(Thousands of yen)

	First three months of FY3/18 (April 1, 2017 – June 30, 2017)	First three months of FY3/19 (April 1, 2018 – June 30, 2018)
Profit	654,831	636,409
Other comprehensive income		
Valuation difference on available-for-sale securities	352,565	123,422
Foreign currency translation adjustment	(19,005)	(243,296)
Total other comprehensive income	333,560	(119,873)
Comprehensive income	988,391	516,535
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	929,483	445,509
Comprehensive income attributable to non-controlling interests	58,907	71,026

(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 June 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.