

Financial Results for the Second Quarter of the Year Ending March 31, 2020 [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: November 5, 2019
 The date of the dividend payment start: November 21, 2019
 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 2020 (April 1, 2019 - September 30, 2019)

(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, 2019	12,559	2.8	2,507	10.7	2,429	20.2	1,532	16.8
September 30, 2018	12,214	6.9	2,264	4.2	2,020	(1.3)	1,311	7.6

(Note) Comprehensive income: First six months ended September 30, 2019: 1,297 million yen ((1.9 %))
 First six months ended September 30, 2018: 1,322 million yen ((26.7 %))

	Basic earnings per share	Diluted earnings per share
First six months ended	Yen	Yen
September 30, 2019	30.77	30.63
September 30, 2018	26.35	26.24

(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, 2019	104,905	56,677	51.7	1,089.13
As of March 31, 2019	101,384	55,740	52.6	1,072.90

(Reference) Equity capital: As of September 30, 2019: 54,247 million yen As of March 31, 2019: 53,387 million yen

2. Dividends

	Dividends per share				
	Q1	Q2	Q3	Q4	Annual
	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2019	—	7.00	—	7.00	14.00
FY ending March 31, 2020	—	7.00			
FY ending March 31, 2020 (Forecasts)			—	7.00	14.00

(Note) Changes in the latest forecasts released: No

3. Forecast of Consolidated Earnings for the Year Ending March 2020 (April 1, 2019 - March 31, 2020)

(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	24,780	2.2	4,170	0.8	3,710	11.2	2,320	10.2	46.62

(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. : No

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, 2019:	52,979,350 shares	As of March 31, 2019:	52,979,350 shares
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2) Number of treasury stock

As of September 30, 2019:	3,171,294 shares	As of March 31, 2019:	3,219,779 shares
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3) Average number of shares during the period

First six months ended September 30, 2019:	49,783,847 shares	First six months ended September 30, 2018:	49,757,576 shares
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* 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, 2019 (3) Qualitative Information on Consolidated Earnings Forecast” on page 4.

1. Qualitative Information on Consolidated Financial Results for the Quarter Ended September 30, 2019

(1) Explanation about Business Results

During the six months ended September 30, 2019, the Japanese economy continued to show a gradual growth supported by a pickup of personal consumption and an increase in capital investment under the continuing monetary easing policy by the Bank of Japan, but export and production were on a weak note due to the stagnant global economy attributable to the U.S.-China trade friction as well as repeated natural disasters such as typhoons in Japan.

There are concerns over the impact on the Japanese economy of factors including consumption tax hike in Japan as well as the U.S.-China trade friction, the slowdown of Chinese economy, growing tension in the Middle East stemming from the U.S.-Iran conflict and the deteriorating Japan-Korea relations.

In the aviation industry, the number of passengers remained steady for both international and domestic flights. For international flights, although the deteriorating Japan-Korea relations resulted in suspension and reduction of certain Japan-Korea flights, there was an increase in passengers from China and Thailand as well as a strong growth of visitors from participating countries of the Rugby World Cup 2019 in September. Domestic flights maintained a growing trend during the first half of the year despite flight cancellation due to Typhoon Krosa (No. 10) that hit western Japan during Obon holiday season and Faxai (No.15) in September. On the other hand, air freight was slightly stagnant due to the U.S.-China trade friction.

Tokyo International Airport is now working on the functional enhancement including an increase in annual international arrival and departure slots by 39 thousand from March 2020, and the slot allocation for additional flights was announced in September 2019.

While the number of passengers has been increasing with strong inbound demand, airline companies are facing intensifying price competition as well as concerns over unstable movement of crude oil prices and exchange rate fluctuations, and therefore working to implement advanced equipment, expand network, and strengthen LCC business.

Under such economic conditions, the Group (the Company and its consolidated subsidiaries) recorded net sales of ¥12,559 million (up 2.8% from the same period of the previous year) due to full-year operation of the hotel in Kyoto acquired in 2018 and the launch of the leasing business that leases training planes to Civil Aviation College. Operating income was ¥2,507 million (up 10.7%) due to a decrease in taxes and dues associated with the acquisition of the hotel in 2018. Also, due to an absence of bond issuance cost and provision for removal cost which were recorded in non-operating expenses in the previous fiscal year, ordinary income was ¥2,429 million (up 20.2%) and profit attributable to owners of parent was ¥1,532 million (up 16.8%), generally showing steady results.

Performance by business segment is as follows:

(i) Real Estate Business

Real Estate Business recorded net sales of ¥9,398 million (up 4.1% from the same period of the previous fiscal year) due to an improved occupancy ratio of our tenants in Tokyo International Airport, a raise in rent for some existing facilities, full-year operation of the hotel in Kyoto which started leasing in late June in 2018 and inclusion of income from leasing training planes to Civil Aviation College. Operating income was ¥1,853 million (up 16.7%).

(ii) Area Heating & Cooling Business

Net sales of Area Heating & Cooling Business operated by our consolidated subsidiary Tokyo Airport Heating & Cooling Co., Ltd. remained almost unchanged year-on-year at ¥1,685 million (down 1.0% from the same period of the previous fiscal year) due to low temperatures in July. The cool summer also resulted in a decrease in usage of electricity and gas, but operating income was ¥475 million (down 1.9%) because of an increase in depreciation of boiler equipment that was renewed in 2018.

(iii) Water Supply & Drainage Service and Other Business

Water Supply & Drainage Service and Other Business recorded net sales of ¥1,474 million (down 0.7 % from the same period of the previous fiscal year) due to a decrease in water supply for constructions at Tokyo International Airport. Operating income was ¥178 million (down 7.2%) due to an increase in repair expenses.

(2) Qualitative Information on Consolidated Financial Position

(Assets)

Total assets as of September 30, 2019 amounted to ¥104,905 million, an increase by ¥3,520 million compared to March 31, 2019, due to an increase in construction in progress associated with the extension or reconstruction of in-flight meal factory in ARC Building at Tokyo International Airport scheduled to be completed by March 2020, construction of a new SD plant, construction of a new warehouse building of the Technical Center, and the extension of a hangar at Kobe Airport.

(Liabilities)

Liabilities as of September 30, 2019 amounted to ¥48,227 million, an increase by ¥2,582 million from March 31, 2019, due to an increase in long-term loans payable.

(Net assets)

Net assets as of September 30, 2019 increased by ¥937 million compared to March 31, 2019 to ¥56,677 million mainly due to an increase in retained earnings.

As a result, equity ratio as of September 30, 2019 decreased by 0.9 points to 51.7% compared to March 31, 2019.

(3) Qualitative Information on Consolidated Earnings Forecast

Although both sales and profits for the six months ended September 30, 2019 exceeded the forecast, we do not revise at this point the Consolidated Earnings Forecast for the Year Ending March, 2020 announced in the Financial Results for the Year Ended March 31, 2019 [J-GAAP] dated May 10, 2019.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	FY3/19 (As of March 31, 2019)	Second quarter of FY3/20 (As of September 30, 2019)
Assets		
Current assets		
Cash and deposits	4,324,573	5,642,680
Notes and accounts receivable-trade	1,208,590	1,297,833
Securities	1,500,000	—
Lease receivables and investment assets	6,600,080	7,391,732
Operating loans	5,741,839	5,119,180
Raw materials and supplies	12,908	11,356
Others	1,456,944	2,001,213
Total current assets	20,844,937	21,463,995
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	47,359,577	45,911,966
Machinery, equipment and vehicles, net	5,395,693	5,084,746
Tools, furniture and fixtures, net	568,807	504,752
Land	14,596,026	14,902,098
Construction in progress	3,299,425	5,897,753
Total property, plant and equipment	71,219,530	72,301,316
Intangible assets		
Software	27,023	32,518
Software in progress	—	39,679
Others	14,906	14,831
Total intangible assets	41,929	87,028
Investments and other assets		
Investment securities	7,671,946	7,773,338
Long-term loans receivable	1,732	1,532
Deferred tax assets	320,447	445,316
Net defined benefit asset	203,945	183,989
Others	1,090,548	2,658,851
Allowance for doubtful accounts	(10,267)	(10,267)
Total investments and other assets	9,278,352	11,052,759
Total non-current assets	80,539,812	83,441,105
Total assets	101,384,749	104,905,101

(Thousands of yen)

	FY3/19 (As of March 31, 2019)	Second quarter of FY3/20 (As of September 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,532,544	761,664
Short-term loans payable	5,974,226	6,735,052
Accounts payable	1,064,205	984,143
Income taxes payable	557,004	835,986
Accrued expenses	109,744	104,887
Unearned revenue	1,045,001	2,289,003
Provision for bonuses	131,094	145,148
Provision for bonuses for directors (and other officers)	30,058	25,740
Provision for removal cost of property, plant and equipment	364,598	471,098
Others	384,329	349,717
Total current liabilities	11,192,806	12,702,442
Non-current liabilities		
Bonds payable	6,000,000	6,000,000
Long-term loans payable	21,729,366	22,958,648
Long-term guarantee deposited	5,915,755	5,954,681
Long-term accounts payable-other	476,128	348,511
Provision for retirement benefits for directors (and other officers)	1,044	1,740
Deferred tax liabilities	6,379	6,690
Provision for removal cost of property, plant and equipment	323,237	216,737
Others	—	37,965
Total non-current liabilities	34,451,910	35,524,974
Total liabilities	45,644,717	48,227,416
Net assets		
Shareholders' equity		
Capital stock	6,826,100	6,826,100
Capital surplus	6,982,890	6,982,890
Retained earnings	38,777,424	39,961,067
Treasury stock	(1,784,131)	(1,757,268)
Total shareholders' equity	50,802,282	52,012,789
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,817,756	2,534,823
Foreign currency translation adjustment	(232,638)	(300,118)
Total accumulated other comprehensive income	2,585,117	2,234,705
Subscription rights to shares	113,808	114,110
Non-controlling interests	2,238,823	2,316,079
Total net assets	55,740,032	56,677,684
Total liabilities and net assets	101,384,749	104,905,101

(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 FY3/19 (April 1, 2018 – September 30, 2018)	First six months of FY3/20 (April 1, 2019 – September 30, 2019)
Net sales	12,214,580	12,559,145
Cost of sales	8,931,772	9,011,708
Gross profit	3,282,807	3,547,436
Selling, general, and administrative expenses		
Remuneration for directors (and other officers)	144,939	148,399
Salaries and bonuses	220,092	232,189
Provision for bonuses	88,058	90,414
Provision for bonuses for directors (and other officers)	30,058	25,740
Provision for retirement benefits for directors (and other officers)	696	696
Transportation and communication expenses	55,989	50,375
Depreciation	13,970	11,885
Taxes and dues	92,631	90,103
Others	371,412	389,935
Total selling, general, and administrative expenses	1,017,847	1,039,737
Operating income	2,264,960	2,507,698
Non-operating income		
Interest income	0	0
Dividends income	141,149	144,665
Commission fee	7,323	7,580
Foreign exchange gains	44,664	—
Others	50,356	22,355
Total non-operating income	243,494	174,602
Non-operating expenses		
Interest expenses	203,052	210,795
Removal cost of property, plant and equipment	22,411	21,348
Provision for removal cost	142,524	—
Foreign exchange losses	—	19,154
Bond issuance cost	119,788	—
Others	—	1,449
Total non-operating expenses	487,775	252,748
Ordinary income	2,020,679	2,429,553
Extraordinary loss		
Loss on retirement of non-current assets	4,289	—
Total extraordinary loss	4,289	—
Income before income taxes	2,016,389	2,429,553
Income taxes	619,259	781,914
Profit	1,397,129	1,647,638
Profit attributable to non-controlling interests	86,000	115,584
Profit attributable to owners of parent	1,311,129	1,532,054

(Quarterly Consolidated Statements of Comprehensive Income)

(Thousands of yen)

	First six months of FY3/19 (April 1, 2018 – September 30, 2018)	First six months of FY3/20 (April 1, 2019 – September 30, 2019)
Profit	1,397,129	1,647,638
Other comprehensive income		
Valuation difference on available-for-sale securities	136,362	(282,932)
Foreign currency translation adjustment	(211,038)	(67,479)
Total other comprehensive income	(74,675)	(350,412)
Comprehensive income	1,322,454	1,297,226
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,236,453	1,181,642
Comprehensive income attributable to non-controlling interests	86,000	115,584

(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)

Not applicable.

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

(Calculation of tax expenses)

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, 2019.