

Financial Results for the Third 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: Hiroshi Maruyama, President and CEO
 Inquiries: Takahiro Hama, Corporate Officer, General Manager of Accounting Dept. TEL: +81-3-3747-0251
 The date of filing the quarterly securities report: February 1, 2019
 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 Third Quarter of the Fiscal Year Ending March 2019 (April 1, 2018 - December 31, 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 nine months ended								
December 31, 2018	18,137	6.7	3,304	2.7	2,824	(4.8)	1,818	2.8
December 31, 2017	16,992	5.0	3,215	3.3	2,967	(0.0)	1,767	(4.7)

(Note) Comprehensive income: First nine months ended December 31, 2018: 1,616 million yen ((43.7%))
 First nine months ended December 31, 2017: 2,872 million yen (77.4%)

	Basic earnings per share	Diluted earnings per share
First nine months ended	Yen	Yen
December 31, 2018	36.53	36.38
December 31, 2017	34.21	34.11

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2018	100,841	55,348	52.5	1,065.40
As of March 31, 2018	87,961	54,482	59.4	1,050.69

(Reference) Equity capital: As of December 31, 2018: 53,014 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 December 31, 2018:	52,979,350 shares	As of March 31, 2018:	52,979,350 shares
2) Number of treasury stock	As of December 31, 2018:	3,219,682 shares	As of March 31, 2018:	3,223,911 shares
3) Average number of shares during the period	First nine months ended December 31, 2018:	49,758,278 shares	First nine months ended December 31, 2017:	51,675,978 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 December 31, 2018 (3) Qualitative Information on Consolidated Earnings Forecast” on page 4.

1. Qualitative Information on Consolidated Financial Results for the Quarter Ended December 31, 2018

(1) Explanation about Business Results

During the nine months ended December 31, 2018, the Japanese economy showed a moderate recovery trend overall due to a steady growth of domestic capital investments and production. However, uncertainty about the U.S. economy and its monetary policy spread toward the end of the year caused a disturbance in the financial market, which also triggered lower stock prices and yen's appreciation in Japan. In addition, there are concerns over the impact on the Japanese economy of the uncertain outlook of trade negotiation between the U.S. and China and the forecast of economic slowdown in European countries and China.

In the aviation industry, strong demands of domestic and international passengers continued despite a temporary decline due to typhoon and earthquake in September. In particular, demands of international flights continued to be strong with the number of foreign passengers visiting Japan over the year exceeding 31 million.

As efforts to enhance functions of airports in the Tokyo Metropolitan area are being made toward achievement of the government target of the number of foreign passengers visiting Japan of 40 million by 2020, leading domestic and foreign airline companies as well as LCCs are expected to increase their flights. On the other hand, with concerns over pilot shortage, wild swing in crude oil prices and fluctuations in exchange rates, domestic airline companies are continuing to work on enhancing cost competitiveness while implementing advanced equipment, expanding network and strengthening LCC business.

Under such economic conditions, the Group (the Company and its consolidated subsidiaries) recorded net sales of ¥18,137 million (up 6.7% from the same period of the previous year) due to an improved occupancy ratio of our tenants in Tokyo International Airport, full-year operation of aviation related facilities in local airports and the start of leasing of the hotel in Kyoto acquired at the end of June. Operating income was ¥3,304 million (up 2.7%) despite an increase in real estate acquisition tax and depreciation expense associated with the acquisition of the hotel in Kyoto.

Ordinary income was ¥2,824 million (down 4.8%) as a result of recording provision for removal cost for ARC Building in relation to extension or reconstruction of a new in-flight meal factory that was commenced in late January 2019 in Tokyo International Airport although a subsidiary in Singapore recorded foreign exchange gains. Profit attributable to owners of parent was ¥1,818 million (up 2.8%).

Performance by business segment is as follows:

(i) Real Estate Business

Real Estate Business recorded net sales of ¥13,540 million (up 7.0% from the same period of the previous year), due to an improved occupancy ratio of our tenants in Tokyo International Airport, full-year operation of aviation related facilities in local airports, the start of leasing of the hotel acquired in Kyoto and consolidation of a Canadian subsidiary. Operating income was ¥2,392 million (up 9.2%).

(ii) Area Heating & Cooling Business

Area Heating & Cooling Business recorded net sales of ¥2,429 million (up 1.6% from the same period of the previous year) as Tokyo Airport Heating & Cooling Co., Ltd., a consolidated subsidiary, showed a steady growth in area heating and cooling services in the reclaimed land area offshore Tokyo International Airport due to extremely hot summer. However, operating income was ¥683 million (down 23.1%) due to an increase in fuel costs for electricity and gas.

(iii) Water Supply & Drainage Service and Other Business

Water Supply & Drainage Service and Other Business recorded net sales of ¥2,167 million (up 10.7% 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 full-year operation of

the solar power facility that started electric power selling in Heiwajima, Ota-ku. Operating income was ¥228 million (up 66.9%).

(2) Qualitative Information on Consolidated Financial Position

(Assets)

Total assets as of December 31, 2018 amounted to ¥100,841 million, an increase by ¥12,879 million compared to March 31, 2018, mainly due to the acquisition of the hotel in Kyoto.

(Liabilities)

Liabilities as of December 31, 2018 amounted to ¥45,493 million, an increase by ¥12,013 million from March 31, 2018, mainly 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 December 31, 2018 increased by ¥865 million compared to March 31, 2018 to ¥55,348 million mainly due to an increase in retained earnings.

As a result, equity ratio as of December 31, 2018 decreased by 6.9 points to 52.5% 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)	Third quarter of FY3/19 (As of December 31, 2018)
Assets		
Current assets		
Cash and deposits	4,608,382	7,150,059
Notes and accounts receivable-trade	1,210,390	1,180,385
Lease receivables and investment assets	5,991,149	6,838,536
Operating loans	5,422,908	6,158,657
Raw materials and supplies	14,676	12,569
Others	284,004	1,726,470
Total current assets	17,531,512	23,066,679
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	44,534,344	48,116,330
Machinery, equipment and vehicles, net	5,384,270	5,531,459
Tools, furniture and fixtures, net	156,341	629,525
Land	10,307,875	14,596,026
Construction in progress	1,422,667	902,484
Total property, plant and equipment	61,805,499	69,775,825
Intangible assets		
Software	34,851	28,221
Others	15,055	14,943
Total intangible assets	49,907	43,164
Investments and other assets		
Investment securities	7,483,456	6,770,953
Long-term loans receivable	2,217	1,832
Deferred tax assets	259,037	379,679
Net defined benefit asset	218,585	189,497
Others	646,334	648,352
Allowance for doubtful accounts	(34,567)	(34,567)
Total investments and other assets	8,575,064	7,955,748
Total non-current assets	70,430,471	77,774,738
Total assets	87,961,984	100,841,418

(Thousands of yen)

	FY3/18 (As of March 31, 2018)	Third quarter of FY3/19 (As of December 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,023,054	644,190
Short-term loans payable	5,879,559	5,864,273
Accounts payable	674,381	153,365
Income taxes payable	651,257	382,758
Accrued expenses	93,808	380,336
Unearned revenue	977,315	1,593,387
Provision for bonuses	128,398	63,402
Provision for directors' bonuses	27,980	15,029
Provision for removal cost of property, plant and equipment	173,200	370,771
Others	421,549	441,187
Total current liabilities	10,050,504	9,908,702
Non-current liabilities		
Bonds payable	—	6,000,000
Long-term loans payable	17,279,899	23,035,355
Long-term guarantee deposited	5,638,318	5,935,240
Long-term accounts payable-other	311,526	334,942
Provision for directors' retirement benefits	6,846	696
Provision for removal cost of property, plant and equipment	192,311	278,237
Total non-current liabilities	23,428,901	35,584,471
Total liabilities	33,479,405	45,493,174
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	38,491,492
Treasury stock	(1,786,417)	(1,784,079)
Total shareholders' equity	49,404,317	50,516,364
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,853,576	2,589,410
Foreign currency translation adjustment	19,613	(91,565)
Total accumulated other comprehensive income	2,873,189	2,497,844
Subscription rights to shares	79,896	113,808
Non-controlling interests	2,125,175	2,220,226
Total net assets	54,482,578	55,348,244
Total liabilities and net assets	87,961,984	100,841,418

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

(Thousands of yen)

	First nine months of FY3/18 (April 1, 2017–December 31, 2017)	First nine months of FY3/19 (April 1, 2018–December 31, 2018)
Net sales	16,992,394	18,137,005
Cost of sales	12,396,304	13,332,244
Gross profit	4,596,089	4,804,760
Selling, general, and administrative expenses		
Directors' compensations	237,561	252,679
Salaries and bonuses	387,765	417,473
Provision for bonuses	34,854	39,150
Provision for directors' bonuses	13,990	15,029
Transportation and communication expenses	83,479	80,608
Taxes and dues	114,247	132,400
Depreciation	10,024	21,321
Others	499,065	541,396
Total selling, general, and administrative expenses	1,380,987	1,500,058
Operating income	3,215,102	3,304,701
Non-operating income		
Interest income	0	0
Dividends income	162,625	171,384
Commission fee	49,369	13,844
Foreign exchange gains	—	53,905
Others	50,641	60,521
Total non-operating income	262,637	299,656
Non-operating expenses		
Interest expenses	257,430	312,119
Removal cost of property, plant and equipment	88,606	31,050
Provision for removal cost	—	316,524
Foreign exchange losses	146,629	—
Bond issuance cost	—	119,788
Others	17,637	—
Total non-operating expenses	510,302	779,481
Ordinary income	2,967,437	2,824,876
Extraordinary income		
Insurance income	—	5,703
Total extraordinary income	—	5,703
Extraordinary loss		
Loss on retirement of non-current assets	366	4,289
Loss on disaster	—	3,581
Total extraordinary loss	366	7,870
Income before income taxes	2,967,070	2,822,708
Income taxes	979,412	871,241
Profit	1,987,657	1,951,467
Profit attributable to non-controlling interests	220,022	133,380
Profit attributable to owners of parent	1,767,634	1,818,087

(Quarterly Consolidated Statements of Comprehensive Income)

(Thousands of yen)

	First nine months of FY3/18 (April 1, 2017 – December 31, 2017)	First nine months of FY3/19 (April 1, 2018 – December 31, 2018)
Profit	1,987,657	1,951,467
Other comprehensive income		
Valuation difference on available-for-sale securities	758,772	(264,166)
Foreign currency translation adjustment	126,077	(70,574)
Total other comprehensive income	884,850	(334,740)
Comprehensive income	2,872,508	1,616,727
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,652,485	1,483,346
Comprehensive income attributable to non-controlling interests	220,022	133,380

(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 December 31, 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.