

These consolidated financial results are an English translation of excerpts from the Japanese “*Kessan Tanshin*” including attachments filed with the Tokyo Stock Exchange, solely for the convenience of readers outside Japan.

This report has been prepared in accordance with accounting principles and practices generally accepted in Japan. Amounts less than ¥1 million have been omitted unless otherwise stated.

Consolidated Financial Results (Kessan Tanshin) for the Nine Months of Fiscal Year Ending March 31, 2019 [Japan GAAP]

February 4, 2019

Name of Listed Company: Tokyo Century Corporation

Stock Exchange Listing: Tokyo

Securities Code: 8439

(URL: <https://www.tokyoCentury.co.jp/en/>)

Representative: Shunichi Asada, President & CEO, Representative Director

Contact: Koichi Baba, Director and Senior Managing Executive Officer

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Scheduled Reportable Date of Quarterly Securities Report: February 6, 2019

Scheduled Payment Date of Dividends: —

Preparation of Supplementary Reference Documents: Yes

Holding of Quarterly Earnings Announcement: None

(Amounts less than one million yen are omitted.)

1. Consolidated Performance

	Nine Months Ended December 31, 2017	Nine Months Ended December 31, 2018	YoY
	<i>(Millions of yen)</i>		<i>(Percentage change)</i>
(1) Consolidated business results:			
Revenues	746,329	787,672	5.5%
Operating income	57,313	59,221	3.3%
Ordinary income	58,990	66,755	13.2%
Net income attributable to owners of parent	35,795	40,780	13.9%
Basic earnings per share (<i>Yen</i>)	339.02	386.13	
Diluted earnings per share (<i>Yen</i>)	337.97	384.69	

Notes:

Total comprehensive income

For the nine months ended December 31, 2018: ¥40,895 million (5.2%)

For the nine months ended December 31, 2017: ¥43,128 million 124.3%

	As of March 31, 2018	As of December 31, 2018
	<i>(Millions of yen)</i>	
(2) Consolidated financial condition:		
Total assets	3,755,127	3,991,029
Net assets	456,036	512,836
Shareholders' equity ratio	10.5%	10.5%

Reference:

Shareholders' equity

As of December 31, 2018: ¥418,410 million

As of March 31, 2018: ¥395,992 million

2. Dividends

	Dividends per Share (Yen)				
	First Quarter	Second Quarter	Third Quarter	Year-End	Total
Fiscal 2017	—	52.00	—	62.00	114.00
Fiscal 2018	—	61.00	—		
Fiscal 2018 (Forecast)				61.00	122.00

Note: Revisions to the most recently announced forecast of dividends: None

3. Consolidated Results Forecast for the Fiscal Year Ending March 31, 2019 (As of February 4, 2019)

	Full year	YoY
	(Millions of yen)	(Percentage change)
Revenues	1,050,000	3.7%
Operating income	76,000	3.1%
Ordinary income	83,000	5.0%
Net income attributable to owners of parent	51,500	0.3%
Basic earnings per share (Yen)	487.74	

Note: Revisions to the most recently announced forecast of consolidated results: None

Notes

(1) Changes in status of significant subsidiaries during the period under review (changes in status of specified subsidiaries resulting in change in scope of consolidation): Yes

New: One company Name: Tokyo Century Asia Pte. Ltd.

Exclusion: — company Name: —

Note: For details, please refer to “2. Consolidated Financial Statements and Primary Notes (3) Notes to the Consolidated Financial Statements (Changes in Status of Significant Subsidiaries during the Period under Review)” on page 8 of the Attached Documents.

(2) Adoption of special accounting treatments for quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates, and retrospective restatements

1) Changes in accounting policies due to reforms of accounting standards: None

2) Changes in accounting policies other than item 1) above: Yes

3) Changes in accounting estimates: None

4) Retrospective restatements: None

(4) Number of shares of common stock issued

1) Number of shares issued at the end of the period (including treasury stock)

As of March 31, 2018: 106,624,620 shares

As of December 31, 2018: 106,624,620 shares

2) Number of shares of treasury stock at the end of the period

As of March 31, 2018: 1,036,352 shares

As of December 31, 2018: 1,009,480 shares

3) Average number of shares during the period (cumulative from the beginning of the fiscal year)

Nine months ended December 31, 2017: 105,585,380 shares

Nine months ended December 31, 2018: 105,614,570 shares

These quarterly financial results are outside the scope of quarterly review by certified public accountant or audit firm.

Explanation related to forward-looking statements and other items warranting special mention

(Regarding forward-looking statements)

The statements concerning future performance presented in this document are prepared based on currently available information and certain preconditions that Tokyo Century Corporation and its Group companies believe to be reasonable at the publication of this document. Actual results may be substantially different from any projections presented herein due to various factors.

(Methods for obtaining supplementary reference documents for quarterly financial statements)

The supplementary reference documents were disclosed on the TDnet on the same date as this document (Japanese only) and were also posted on the Company’s website.

1. Qualitative Information Concerning Financial Results for the Nine Months of Fiscal Year Ending March 31, 2019

(1) Explanation of Results of Operations

During the nine months ended December 31, 2018, revenues increased ¥41,342 million, or 5.5%, to ¥787,672 million, and gross profit increased ¥13,715 million, or 11.2%, to ¥136,183 million, respectively from the same period of the previous consolidated fiscal year, mainly due to the steady progress of the Specialty Financing business, including the growth in aircraft-related businesses and the conversion of SHINKO REAL ESTATE CO., LTD. (“Shinko Real Estate”) into a consolidated subsidiary, also assisted by the business expansion of the Group companies in the Domestic Automobile Financing business.

Selling, general and administrative expenses increased ¥11,807 million, or 18.1%, to ¥76,962 million from the same period of the previous consolidated fiscal year, mainly due to the business expansion of the Group companies in the Domestic Automobile Financing business and the conversion of Shinko Real Estate into a consolidated subsidiary.

Non-operating income and loss increased ¥5,856 million, or 349.3%, to an income of ¥7,533 million from the same period of the previous consolidated fiscal year. This was mainly attributable to an increase of ¥6,103 million, or 849.2%, in equity in investment gain on equity method from the same period of the previous consolidated fiscal year, as a result of reflecting the business results of Aviation Capital Group LLC, a leading U.S.-based commercial aircraft lessor, in which we invested in December 2017 (shareholding ratio: 20%).

Due to the factors mentioned above, ordinary income increased ¥7,764 million, or 13.2%, to ¥66,755 million from the same period of the previous consolidated fiscal year.

Income taxes increased ¥1,165 million, or 6.2%, to ¥19,860 million, and net income attributable to non-controlling interests increased ¥753 million, or 15.4%, to ¥5,645 million, respectively from the same period of the previous consolidated fiscal year.

As a result, net income attributable to owners of parent increased ¥4,984 million, or 13.9%, to ¥40,780 million from the same period of the previous consolidated fiscal year.

(2) Explanation of Financial Conditions

Total assets at the end of the nine months under review increased ¥235,901 million, or 6.3%, to ¥3,991,029 million from the end of the previous consolidated fiscal year. Although finance lease (lease receivables and investment assets) and installment sales receivable decreased through measures focused on asset efficiency improvement, operating lease (leased assets) increased due in part to the business expansion of each Group companies in the Domestic Automobile Financing business and the conversion of Shinko Real Estate into a consolidated subsidiary, and the power generation-related assets centered on solar power generation (other operating assets) as well.

Total liabilities increased ¥179,101 million, or 5.4%, to ¥3,478,193 million, and interest-bearing debts increased ¥219,391 million, or 7.8%, to ¥3,030,072 million, respectively from the end of the previous consolidated fiscal year. This was mainly due to increases in short-term borrowings and long-term debt, as a result of responding to demand for funding, arising in part from the acquisition of equity of Shinko Real Estate.

Total net assets increased ¥56,799 million, or 12.5%, to ¥512,836 million from the end of the previous consolidated fiscal year, mainly due to an increase in retained earnings of ¥27,748 million, an increase in non-controlling interests of ¥33,953 million.

As a result, the shareholders' equity ratio remained at the same level from the end of the previous consolidated fiscal year at 10.5%.

(3) Explanation of Future Forecast Information such as Consolidated Results Forecast

We have made no revision to the consolidated results forecast which was announced on May 9, 2018.

2. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
Assets		
Current assets		
Cash on hand and in banks	82,212	101,876
Accounts receivable - installment sales	210,523	200,662
Lease receivables and investment assets	1,544,595	1,518,222
Loans	548,522	542,135
Operational investment securities	235,531	281,372
Accounts receivable - leases	30,577	33,530
Short-term investment securities	5,550	5,460
Inventories	1,177	11,102
Other current assets	77,471	102,055
Allowance for doubtful accounts	(3,475)	(3,264)
Total current assets	2,732,687	2,793,152
Non-current assets		
Property and equipment		
Leased assets	637,456	770,547
Advances for purchases of property for lease	13,055	15,160
Other operating assets	68,868	82,560
Construction in progress	42,517	51,409
Own assets in use	17,740	18,511
Total property and equipment	779,638	938,190
Intangible assets		
Computer programs leased to customers	354	1,298
Goodwill	16,885	34,956
Other intangible assets	9,485	9,564
Total intangible assets	26,725	45,819
Investments and other assets		
Investments in securities	165,272	153,173
Claims provable in bankruptcy or rehabilitation	1,379	1,367
Deferred tax assets	9,883	12,419
Long-term loans and other assets	40,311	47,520
Allowance for doubtful accounts	(1,143)	(1,173)
Total investments and other assets	215,702	213,307
Total non-current assets	1,022,067	1,197,317
Deferred assets	373	559
Total assets	3,755,127	3,991,029

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
Liabilities		
Current liabilities		
Notes and accounts payable-trade	247,209	184,338
Short-term borrowings	428,850	521,065
Current portion of bonds	70,460	98,700
Current portion of long-term debt	333,063	350,573
Commercial papers	848,000	878,600
Payables under fluidity lease receivables	61,900	76,400
Current portion of long-term payables under fluidity lease receivables	1,301	983
Accrued income taxes	11,964	5,559
Deferred profit on installment sales	16,232	16,327
Provision for bonuses	2,893	2,532
Provision for directors' bonuses	231	214
Other provision	594	611
Other current liabilities	85,289	86,914
Total current liabilities	2,107,989	2,222,821
Long-term liabilities		
Bonds payable	194,232	200,133
Long-term debt	870,102	901,538
Long-term payables under fluidity lease receivables	2,771	2,077
Deferred tax liabilities	13,437	30,143
Provision for directors' retirement benefits	248	463
Provision for automobile inspection costs	1,036	1,129
Net defined benefit liability	9,501	10,871
Other long-term liabilities	99,772	109,012
Total long-term liabilities	1,191,101	1,255,371
Total liabilities	3,299,091	3,478,193
Net assets		
Shareholders' equity		
Common stock without par value	34,231	34,231
Capital surplus	9,060	9,073
Retained earnings	339,910	367,659
Treasury stock	(2,682)	(2,614)
Total shareholders' equity	380,520	408,349
Accumulated other comprehensive income		
Net unrealized holding gains on securities	17,745	12,537
Net unrealized losses on derivative instruments	(942)	(280)
Translation adjustments	(579)	(1,680)
Remeasurements of defined benefit plans	(751)	(514)
Total accumulated other comprehensive income	15,472	10,060
Share subscription rights	1,196	1,624
Non-controlling interests	58,847	92,801
Total net assets	456,036	512,836
Total liabilities and net assets	3,755,127	3,991,029

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

Consolidated Statements of Income
(For the nine months ended December 31, 2017 and 2018)

(Millions of yen)

	Nine months ended December 31, 2017 (Apr. 1 to Dec. 31, 2017)	Nine months ended December 31, 2018 (Apr. 1 to Dec. 31, 2018)
Revenues	746,329	787,672
Costs	623,860	651,488
Gross profit	122,468	136,183
Selling, general and administrative expenses	65,154	76,962
Operating income	57,313	59,221
Non-operating income		
Interest income	85	167
Dividend income	698	794
Equity in earnings of affiliates	718	6,822
Rent income	214	217
Other	384	427
Total non-operating income	2,101	8,429
Non-operating expenses		
Interest expense	207	361
Foreign exchange losses	32	309
Cost of lease revenue	98	102
Other	86	122
Total non-operating expenses	424	896
Ordinary income	58,990	66,755
Extraordinary income		
Gain on sales of investments securities	505	128
Other	178	20
Total extraordinary income	684	148
Extraordinary losses		
Loss on valuation of investment securities	3	396
Loss on disposal of non-current assets	59	105
Loss on step acquisitions	138	—
Other	90	115
Total extraordinary losses	292	617
Income before income taxes	59,382	66,287
Income taxes	18,694	19,860
Net income	40,688	46,426
Net income attributable to non-controlling interests	4,892	5,645
Net income attributable to owners of parent	35,795	40,780

Consolidated Statements of Comprehensive Income
(For the nine months ended December 31, 2017 and 2018)

(Millions of yen)

	Nine months ended December 31, 2017 (Apr. 1 to Dec. 31, 2017)	Nine months ended December 31, 2018 (Apr. 1 to Dec. 31, 2018)
Net income	40,688	46,426
Other comprehensive income		
Net unrealized holding gains (losses) on securities	5,271	(5,257)
Net unrealized gains (losses) on derivative instruments	(391)	561
Translation adjustments	(1,879)	(496)
Remeasurements of defined benefit plans	226	258
Share of other comprehensive income of affiliates accounted for using equity method	(786)	(596)
Total other comprehensive income (losses)	2,440	(5,531)
Comprehensive income	43,128	40,895
Comprehensive income attributable to:		
Owners of parent	38,075	35,369
Non-controlling interests	5,053	5,525

(3) Notes to the Consolidated Financial Statements

Notes on Going Concern Assumption

Not applicable

Notes in the Case of Material Changes in Shareholders' Equity

Not applicable

Changes in Status of Significant Subsidiaries during the Period under Review

In the third quarter of the current consolidated fiscal year, Tokyo Century Asia Pte. Ltd. was established in Singapore and has been included in the scope of consolidation.

Tokyo Century Asia Pte. Ltd. falls under the category of specified subsidiary.

Adoption of Special Accounting Treatments for Quarterly Consolidated Financial Statements

(Calculation of tax expenses)

We reasonably estimate an effective tax rate after applying tax effect accounting to income before income taxes for the consolidated fiscal year under review, and adopt a method to calculate tax expenses by multiplying income before income taxes by the estimated effective tax rate.

Changes in Accounting Policies

The Company changed its retirement payments and pension plan on October 1, 2018, to terminate defined benefit corporate pension (DB) plan previously employed and streamline to defined contribution corporate pension (DC) plan. However, as the maximum amount of premium contribution in a DC plan is prescribed in laws and regulations (¥660 thousand per year), the portion exceeding the maximum amount is paid as lump-sum retirement payments. As a result, in calculation of retirement benefit obligations, etc. in relation to the lump-sum retirement payments, method of attributing retirement benefit obligations to periods has been changed from the straight-line basis previously employed to a benefit formula basis. This change was made based on the judgment that since the vast majority of retirement benefit expenses in the new plan consists of the expenses based on the DC plan, applying the lump-sum retirement payments to the benefit formula basis under which the expenses are incurred in a pattern similar to the DC plan is more in line with the actual situation.

This change has an insignificant impact on income or loss for the nine months ended December 31, 2018.

Additional Information

(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting")

Since the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and others have been applicable from the beginning of the first quarter of the current consolidated fiscal year, deferred tax assets and deferred tax liabilities are classified under investments and other assets and long-term liabilities, respectively. To reflect this change in description, the reclassification of amounts has been made for the balance sheet for the previous consolidated fiscal year.

(Changes in holding purpose of investment securities)

Regarding "investments in securities" under investments and other assets, the Company reviewed its holding purpose in the third quarter of the consolidated fiscal year, primarily in line with changes in the capital policy of investee companies. As a result, a portion of "investments in securities" has been reclassified as "operational investment securities" under current assets as securities held for the purpose of earning finance income for business purposes. Accordingly, the balance of the security whose holding purpose has been changed in the amount of ¥25,435 million has been included in "operational investment securities" in the third quarter of the consolidated fiscal year.

Significant Subsequent Events

Not applicable

3. Supplementary Information

(1) Operating Transactions

1) New transactions volume (from April 1, 2018 to December 31, 2018)

(Millions of yen)

Classification		Nine months ended December 31, 2018	
		Amount	Change over the same period of the previous year (%)
Leasing and Installment Sales	Finance lease	424,636	113.8
	Operating lease	123,605	101.1
	Subtotal	548,242	110.6
	Installment sales	53,981	94.5
	Total	602,223	109.0
Finance		421,708	95.4
Other		19,112	73.2
Total		1,043,044	102.2

Notes: 1: For the "Operating lease," the acquisition cost of lease properties is presented, and the said amount does not include re-leasing transaction volume.

2: For the "Finance lease," the cost of acquisition of lease assets acquired during the nine months ended December 31, 2018 review is presented. For the "Installment sales," the amount of installment sales receivable, after deducting deferred profit on installment sales, is presented.

2) Balance of Operating Assets (As of December 31, 2018)

(Millions of yen)

Classification		Fiscal 2017		Q3 Fiscal 2018	
		Amount	Share (%)	Amount	Share (%)
Leasing and Installment Sales	Finance lease	1,544,595	47.9	1,518,222	44.9
	Operating lease	637,811	19.7	771,846	22.8
	Subtotal	2,182,406	67.6	2,290,068	67.7
	Installment sales	194,291	6.0	184,334	5.5
	Total	2,376,698	73.6	2,474,403	73.2
Finance		785,074	24.3	824,731	24.4
Other		68,868	2.1	82,560	2.4
Total		3,230,641	100.0	3,381,696	100.0

Note: For the "Installment sales," the amount of installment sales receivable, after deducting deferred profit on installment sales, is presented.

(Reference)

(Millions of yen)

	Fiscal 2017	Q3 Fiscal 2018
Business guarantees	38,164	38,613