

NON-CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)

FIRST QUARTER OF THE FISCAL YEAR ENDING

December 31, 2018 (January 1, 2018 to March 31, 2018)

April 27, 2018

Arealink Co., Ltd. is listed on the Mothers market of the Tokyo Stock Exchange under the securities code number 8914.

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Holding of quarterly financial results meeting: No

Dividend payment commencement date (planned): —

(Millions of yen rounded down)

1. Non-Consolidated Operating Results for the First Quarter of Fiscal 2018 (January 1, 2018 to March 31, 2018)

(1) Non-Consolidated Operating Results (Cumulative)

(Percentage figures are the increase / (decrease) for the corresponding period of the previous fiscal year.)

	Operating Revenues		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
1Q FY2018	6,498	27.8	629	(6.1)	623	(5.5)	424	(1.4)
1Q FY2017	5,083	17.4	670	5.7	659	(0.6)	430	2.4

	Net Income per Share	Net Income per Share after Dilution
	Yen	Yen
1Q FY2018	34.60	—
1Q FY2017	35.06	—

(2) Non-Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio
	Millions of yen	Millions of yen	%
March 31, 2018	30,385	16,286	53.6
As of December 31, 2017	29,904	16,351	54.7

(Reference) Shareholders' equity: March 31, 2018: 16,286 million yen December 31, 2017: 16,351 million yen

2. Dividends

(Record Date)	Dividends per Share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal 2016	—	0.00	—	40.0	40.0
Fiscal 2017	—	—	—	—	—
Fiscal 2018 (Forecast)	—	0.00	—	46.0	46.0

Note: Revision to the most recently announced cash dividend forecast: None

3. Forecasts of Non-Consolidated Operating Results for the Fiscal Year Ending December 31, 2018 (January 1, 2018 to December 31, 2018)

(% figures for the full fiscal year represent year-on-year increase or decrease,

% figures for the interim period are the increase / (decrease) for the corresponding period of the previous fiscal year)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Interim period	13,500	29.9	1,185	(7.0)	1,130	(13.1)	765	(10.8)	62.36
Fiscal year ending December 31, 2018	30,000	39.6	3,000	26.1	2,870	17.6	1,855	19.9	151.21

Note: Revision to the most recently announced operating results forecast: No

Notes

- (1) Application of Special Accounting Practices in the Preparation of the Quarterly Non-Consolidated Financial Statements: No
- (2) Changes in Accounting Policies, Changes in Accounting Estimates, and Restatements
 - 1) Changes of accounting principles in line with revisions to accounting and other standards: No
 - 2) Changes of accounting principles other than 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Retrospective restatement: No
- (3) Number of Shares Issued and Outstanding (Common Stock)
 1. Total number of shares issued and outstanding (including treasury stock) as of the period-end:
 March 31, 2018: 12,576,300 shares As of December 31, 2017: 12,576,300 shares
 2. Total number of treasury stock as of the period-end:
 March 31, 2018: 309,261 shares As of December 31, 2017: 308,555 shares
 3. Average number of shares for the period (Cumulative total for the quarterly non-consolidated period)
 First quarter fiscal 2018: 12,267,419 shares First quarter fiscal 2017: 12,271,838 shares

* The financial statement summary is not subject to auditing by certified public accountants or audit firms.

Cautionary Statement Concerning Operating Results Forecasts and Other Special Items

The aforementioned forecasts were made based on information available to management as of the date of this report. Actual results could differ significantly from forecasts due to a variety of factors. Please refer to "Explanation of Results Forecasts and Other Future Predictions" on page 4 for assumptions of the revision of forecasts of business results.

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1. Qualitative Information Regarding Non-Consolidated Quarterly Business Results

(1) Explanation of Business Results

During the first quarter period (January 1, 2018 to March 31, 2018) of fiscal 2018 (ending December 31, 2018), the Japanese economy maintained a basic tone of moderate recovery, with improvement in corporate earnings and employment conditions. The global economy grew steadily centered on the United States, though the worldwide economic outlook remains turbid due to such factors as uncertainty in U.S. government policy, and heightened tensions in the Middle East. Careful attention to circumstances remains warranted.

In the real estate industry, Arealink's principal business field, land prices in urban areas continue to rise due to the effects of low interest rate policy and other factors, and market conditions have been stable overall. Under such conditions, Arealink proactively developed its "stock-type" (service oriented) business model centered on the Property Management Service business, as well as its Property Revitalization & Liquidation Service business centered on the limited land rights business.

In the Property Management Service business, for its location opening strategy in the mainstay self-storage business, Arealink made a full-fledged shift to self-storage units with accompanying land (asset-type indoor storage). As part of this strategy, in partnership with Resona Bank, Limited and HASEKO Real Estate Investment Management, Inc. (Minato-ku, Tokyo), Arealink established "Hello Storage Fund No. 1 LLC," the industry's first private placement fund exclusively for investment in storage units, and sold four self-storage properties with accompanying land. We also strengthened our brand power through collaboration with Sanrio's popular Hello Kitty character, and took other proactive steps for business expansion. As a result, net sales in the Property Management Service segment amounted to ¥5,819 million (an increase of 28.4% from the same period of the previous fiscal year), with operating income of ¥852 million (an increase of 9.8%).

In the Property Revitalization & Liquidation Service business, Arealink concentrated on the limited land rights business, which is less susceptible to real estate market conditions, buying and selling limited land rights. As a result, net sales in the Property Revitalization & Liquidation Service business amounted to ¥678 million (an increase of 23.5%), with operating income of ¥101 million (a decrease of 45.1%). Of note, the sale in the previous year of highly profitable properties due to special factors resulted in a revenue gain with earnings decline.

As a result, net sales for the first quarter period of fiscal 2018 amounted to ¥6,498 million (an increase of 27.8% from the same period of the previous fiscal year), with operating income of ¥629 million (a decrease of 6.1%), ordinary income of ¥623 million (a decrease of 5.5%), and net income of ¥424 million (a decrease of 1.4%). Compared to the same period of the previous fiscal year, the main factors behind the revenue gain with earnings decline were the addition of sales of six properties with accompanying land (two in the same period of the previous fiscal year) that contributed to revenue, against a scaling back of container storage location openings due to the shift to self-storage with accompanying land, and the earnings decline in the limited lands rights business noted above.

(2) Explanation of Financial Position

Total assets as of the end of the first quarter period (March 31, 2018) stood at ¥30,385 million, an increase of ¥480 million compared with the end of the previous fiscal year (December 31, 2017). The main factors were an increase of ¥1,657 million in costs on uncompleted construction contracts; a decrease of ¥1,014 million in cash and deposits; and a decrease of ¥231 million in real estate for sale.

Total liabilities amounted to ¥14,098 million, an increase of ¥545 million compared with the end of the previous fiscal year. The main factors were an increase of ¥1,361 million in long-term loans payable; a decrease of ¥427 million in accounts payable for construction contracts; and a decrease of ¥53 million in bonds payable.

Total net assets amounted to ¥16,286 million, a decrease of ¥64 million compared with the end of the previous fiscal year. The main factor was a decrease of ¥66 million in retained earnings (comprising mainly a ¥424 million increase from net income, and a ¥490 million decrease from dividend payments). As a result, the equity ratio was 53.6%.

(3) Explanation of Results Forecasts and Other Future Predictions

For the second quarter cumulative period and full fiscal year period of the fiscal year ending December 31, 2018, because performance in all businesses has been stable, results forecasts are unchanged from those announced in "Non-Consolidated Financial Report Fiscal 2017" dated February 14, 2018.

Of note, regarding dividends for the fiscal year ending December 31, 2018, based on its basic

policy and current earnings forecasts, the Company plans to pay an annual dividend of ¥46.00 per share. There are no plans for an interim dividend payment.

2. Summary Information and Notes

Not applicable.

3. Quarterly Financial Statements

(1) Non-Consolidated Quarterly Balance Sheets

	(Thousands of yen)	
	End of the Fiscal Year Ended December 31, 2017 (As of December 31, 2017)	End of the First Quarter of the Fiscal Year Ending December 31, 2018 (As of March 31, 2018)
ASSETS		
Current assets:		
Cash and deposits	6,594,460	5,580,347
Accounts receivable — trade	108,339	118,267
Merchandise	219,797	208,881
Real estate for sale	4,832,711	4,600,925
Real estate for sale in process	5,010,939	6,668,265
Costs on uncompleted construction contracts	39,177	22,504
Supplies	24,232	25,271
Other current assets	728,883	774,926
Allowance for doubtful accounts	(26,051)	(27,416)
Total current assets	17,532,490	17,971,974
Noncurrent assets:		
Property, plant and equipment:		
Buildings	6,012,353	6,019,522
Accumulated depreciation	(1,809,469)	(1,873,312)
Accumulated impairment loss	(196,556)	(196,556)
Buildings, net	4,006,328	3,949,653
Land	4,224,697	4,224,697
Other	4,072,461	4,109,767
Accumulated depreciation	(1,430,933)	(1,484,461)
Accumulated impairment loss	(224,194)	(223,079)
Other, net	2,417,334	2,402,226
Total property, plant and equipment	10,648,359	10,576,577
Intangible assets:		
Other	134,736	154,064
Total intangible assets	134,736	154,064
Investments and other assets:		
Other	2,893,038	2,986,598
Allowance for doubtful accounts	(1,303,866)	(1,303,784)
Total investments and other assets	1,589,172	1,682,814
Total noncurrent assets	12,372,268	12,413,456
Total assets	29,904,759	30,385,431

(Thousands of yen)

	End of the Fiscal Year Ended December 31, 2017 (As of December 31, 2017)	End of the First Quarter of the Fiscal Year Ending December 31, 2018 (As of March 31, 2018)
LIABILITIES		
Current liabilities:		
Accounts payable — trade	315,268	311,706
Accounts payable for construction contracts	696,046	268,515
Short-term loans payable	1,939,294	1,959,294
Current portion of bonds	107,000	107,000
Current portion of long-term loans payable	672,305	700,563
Income taxes payable	567,932	185,959
Other	1,393,835	1,398,678
Total current liabilities	5,691,682	4,931,717
Noncurrent liabilities:		
Bonds payable	439,500	386,000
Long-term loans payable	5,911,947	7,273,642
Asset retirement obligations	687,697	702,447
Other	822,503	805,021
Total noncurrent liabilities	7,861,648	9,167,111
Total liabilities	13,553,330	14,098,829
NET ASSETS		
Shareholders' equity:		
Capital stock	5,568,222	5,568,222
Capital surplus		
Legal capital surplus	5,612,719	5,612,719
Total capital surplus	5,612,719	5,612,719
Retained earnings		
Other retained earnings		
Retained earnings brought forward	5,432,200	5,365,897
Total retained earnings	5,432,200	5,365,897
Treasury stock	(269,737)	(271,552)
Total shareholders' equity	16,343,404	16,275,287
Valuation and translation adjustments:		
Valuation difference on available-for-sale securities	8,511	12,739
Deferred gains or losses on hedges	(487)	(1,424)
Total valuation and translation adjustments	8,023	11,314
Total net assets	16,351,428	16,286,601
Total liabilities and net assets	29,904,759	30,385,431

(2) Non-Consolidated Quarterly Statements of Income
First Quarter Cumulative

(Thousands of yen)

	First Quarter of the Fiscal Year Ended December 31, 2017 (January 1, 2017 to March 31, 2017)	First Quarter of the Fiscal Year Ending December 31, 2018 (January 1, 2018 to March 31, 2018)
Net sales	5,083,666	6,498,210
Cost of Sales	3,625,520	4,978,690
Gross profit	1,458,146	1,519,519
Selling, general and administrative expenses	787,335	889,654
Operating income	670,810	629,865
Non-operating income:		
Interest income	2,183	2,028
Reversal of allowance for doubtful accounts	26	26
Default charge income	295	468
Compensation for transfer	3,865	22,747
Other	6,596	5,130
Total non-operating income	12,968	30,401
Non-operating expenses:		
Interest expenses	13,193	22,356
Interest on bonds	83	297
Bond issuance cost	9,182	—
Foreign exchange losses	1,110	1,251
Other	474	12,715
Total non-operating expenses	24,044	36,620
Ordinary income	659,734	623,647
Extraordinary income:		
Gain on sales of noncurrent assets	4,302	7,614
Gain on transfer of business	2,887	2,887
Total extraordinary income	7,189	10,501
Extraordinary loss:		
Head office transfer cost	15,229	—
Loss on retirement of noncurrent assets	14,591	3,044
Total extraordinary losses	29,820	3,044
Net income before income taxes	637,103	631,105
Income taxes — current	188,707	169,226
Income taxes — deferred	18,121	37,471
Total income taxes	206,828	206,697
Net income	430,274	424,407

(3) Notes Regarding the Quarterly Financial Statements
(Notes Regarding Going Concern Assumptions)

Not applicable.

(Notes Regarding Substantial Changes in Shareholders' Equity)

Not applicable.

(Segment and Other Information)

1) Overview of Reportable Segments

The reportable segments of the Company are components for which separate financial information is available and whose operating results are regularly reviewed by the Company's Board of Directors when making decision about the allocation of management resources and assessing performance.

Arealink is primarily engages in Property Management Service and Property Revitalization & Liquidation Service business activities. In its Property Management Service business, the Company leases land, vacant facilities, and other property assets while also acquiring, holding, and operating land, buildings, and other property assets. In addition, Arealink receives orders and provides for the installation and construction of containers and storage rooms in accordance with the needs of land and building property owners. In the Property Revitalization & Liquidation Service business, the Company refurbishes existing real estate properties held for the purpose of adding value and increasing operating efficiency. These properties are then sold to investors and other interested parties. In addition, the Company resolves problems for both landowners and leaseholders through the buying and selling of leaseholds and limited land rights where the rights interests are complicated.

2) Information Relating to the Amounts of Net Sales, Profit, and Loss

The first quarter of fiscal 2017 (January 1, 2017 to March 31, 2017)

(Thousands of yen)

	Reportable Segment			Adjustment amount	Amount recorded on consolidated quarterly statements of income
	Property Management Service	Property Revitalization & Liquidation Service	Total		
Net Sales					
Sales to Outside Customers	4,533,898	549,768	5,083,666	—	5,083,666
Inter-Segment Sales and Transfers	—	—	—	—	—
Total	4,533,898	549,768	5,083,666	—	5,083,666
Segment Profit	776,433	185,687	962,120	(291,310)	670,810

Notes:

1. The negative segment profit adjustment of ¥291,310 thousand represents corporate expenses that are not allocated to each segment. These expenses mainly relate to the Administration Division.
2. Segment profit is adjusted based on operating income recorded in the quarterly statement of income.

The first quarter of fiscal 2018 (January 1, 2018 to March 31, 2018)

(Thousands of yen)

	Reportable Segment			Adjustment amount	Amount recorded on consolidated quarterly statements of income
	Property Management Service	Property Revitalization & Liquidation Service	Total		
Net Sales					
Sales to Outside Customers	5,819,444	678,766	6,498,210	—	6,498,210
Inter-Segment Sales and Transfers	—	—	—	—	—
Total	5,819,444	678,766	6,498,210	—	6,498,210
Segment Profit	852,344	101,862	954,206	(324,340)	629,865

Notes:

1. The negative segment profit adjustment of ¥324,340 thousand represents corporate expenses that are not allocated to each segment. These expenses mainly relate to the Administration Division.
2. Segment profit is adjusted based on operating income recorded in the quarterly statement of income.