

NON-CONSOLIDATED FINANCIAL REPORT
FISCAL 2017 (Japanese GAAP)
(January 1, 2017 to December 31, 2017)

February 14, 2018

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

Representative: Naomichi Hayashi, President and CEO
 Inquiries: Yasuaki Otaki, Executive Officer, General Manager, Administration Division
 Tel: +81-3-3526-8555
 URL: <http://www.arealink.co.jp/>

Annual General Meeting of Shareholders date (planned): March 28, 2018

Fiscal 2017 Securities Report filing date (planned): March 29, 2018

Dividend payment commencement date (planned): March 29, 2018

Supplemental materials prepared for financial results: Yes

Holding of financial results meeting: Yes (for institutional investors and security analysts)

(Millions of yen rounded down)

1. Non-Consolidated Operating Results for FY 2017 (January 1, 2017 to December 31, 2017)

(1) Non-Consolidated Business Results

(% figures represent year-on-year increase or decrease)

	Operating Revenues		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY 2017	21,489	27.1	2,379	22.9	2,441	24.0	1,547	35.4
FY 2016	16,908	(1.5)	1,935	(27.2)	1,968	(19.4)	1,142	(26.3)

	Net Income Per Share	Net Income Per Share (Diluted)	ROE	Ordinary Income to Total Assets	Ordinary Income to Operating Revenues
	Yen	Yen	%	%	%
FY 2017	126.08	—	9.8	9.1	11.1
FY 2016	93.06	—	7.6	9.1	11.4

Note: Arealink Co., Ltd. conducted a 1:10 consolidation of its common stock effective July 1, 2016. Figures for net income per share have been adjusted to reflect the impact of the stock consolidation as if the consolidation had occurred at the beginning of the prior fiscal year.

(2) Non-Consolidated Financial Position

	Total Assets	Net Assets	Net Assets to Total Assets	Net Assets per Share of Common Stock
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2017	29,904	16,351	54.7	1,332.88
As of December 31, 2016	23,791	15,283	64.2	1,245.09

(Reference) Shareholders' equity: As of December 31, 2017: ¥16,351 million As of December 31, 2016: ¥15,283 million

Note: Arealink Co., Ltd. conducted a 1:10 consolidation of its common stock effective July 1, 2016. Figures for net asset per share of common stock have been adjusted to reflect the impact of the stock consolidation as if the consolidation had occurred at the beginning of the prior fiscal year.

(3) Non-Consolidated Cash Flows

	Operating Activities	Investing Activities	Financing Activities	Cash and Cash Equivalents at the End of the Period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY 2017	(2,992)	(1,423)	3,854	6,594
FY 2016	(708)	(1,544)	2,999	7,158

2. Dividends

	Cash Dividends per Share of Common Stock					Cash Dividends Paid (Annual)	Dividend Payout Ratio (Consolidated)	Cash Dividends to Net Assets (Consolidated)
	End of 1Q	End of 2Q	End of 3Q	End of 4Q	Annual			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY 2016	—	0.00	—	39.00	39.00	478	41.9	3.2
FY 2017	—	0.00	—	40.00	40.00	490	31.7	3.1
FY 2018 (planned)	—	0.00	—	46.00	46.00		30.4	

Note: Arealink Co., Ltd. conducted a 1:10 consolidation of its common stock, with an effective date of July 1, 2016.

3. Forecast of Non-Consolidated Results for FY 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)

	Operating Revenues		Operating Income		Ordinary Income		Net Income		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Interim	13,500	29.9	1,185	(7.0)	1,130	(13.1)	765	(10.8)	62.36
Full Fiscal Year	30,000	39.6	3,000	26.1	2,870	17.6	1,855	19.9	151.21

Notes

(1) 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

(2) Number of shares issued and outstanding (common shares)

1. Number of shares issued and outstanding as of the end of the period (including treasury stock)
As of December 31, 2017: 12,576,300 shares As of December 31, 2016: 12,576,300 shares
2. Number of treasury stock
As of December 31, 2017: 308,555 shares As of December 31, 2016: 303,975 shares
3. Average number of shares for the year
FY2017: 12,270,095 shares FY2016: 12,274,993 shares

Note: Arealink Co., Ltd. conducted a 1:10 consolidation of its common stock, with an effective date of July 1, 2016. The figures for “Number of shares issued and outstanding (common stock)” have been adjusted to reflect the impact of the stock consolidation as if the stock consolidation had occurred at the beginning of the prior fiscal year.

The financial report is not subject to the review procedures.

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 “1. Summary of Business Results (4) Outlook for Fiscal 2018” on page 6 for more information on points to be remembered in connection with assumptions for projections and the use of projections.

The Company plans to hold a results briefing on February 21, 2018, for institutional investors and analysts. A report on the briefing and explanations provided (audio), together with the presentation materials used that day, will be made available on the Company’s website promptly after the meeting.

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1. Summary of Business Results

(1) Summary of Business Results for Fiscal 2017

During fiscal 2017 (ended December 31, 2017), the Japanese economy maintained a basic tone of moderate recovery, with improvement in corporate earnings, capital investment, and employment conditions. The global economy, despite geopolitical risks such as increasing tensions with North Korea, also continued to recover at a moderate pace, with firm employment conditions in the U.S., and a recovery in manufacturing driving the Eurozone.

In the real estate industry, Arealink's principal business field, there were signs of recovery, including an upturn in land prices in urban areas amid increased market activity stemming from the Bank of Japan's negative interest rate policy. The industry has steadily recovered from the harsh conditions of the past few years, and performance has been stable on the whole. Under such conditions, Arealink proactively developed its Property Management Service business, centered on a "stock-type" (service oriented) business model, as well as its Property Revitalization & Liquidation Service business, centered on the land rights business.

As a result, net sales for fiscal 2017 amounted to ¥21,489 million (up 27.1% year on year), with operating income of ¥2,379 million (up 22.9%), ordinary income of ¥2,441 million (up 24.0%), and net income of ¥1,547 million (up 35.4%).

Property Management Service

In the mainstay self-storage business, Arealink proactively opened new locations and maintained steady operations in terms of management operations, contributing to greater earnings. Along with conventional container units, we also revealed new customer demand by developing a new type of storage unit with accompanying land and opening new locations, 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 ¥19,619 million (up 24.0% year on year), with operating income of ¥3,133 million (up 14.5%).

Principal Indicators for Property Management Service (number of units)

	At Dec. 31, 2015	At Dec. 31, 2016	At Dec. 31, 2017
Container rooms	45,053	53,736	63,571
Trunk rooms	17,272	16,915	17,984

Property Revitalization & Liquidation Service

Arealink expanded its business development in the land rights business, which is less susceptible to real estate market conditions, proactively buying and selling land rights.

As a result, net sales in the Property Revitalization & Liquidation Service segment amounted to ¥1,869 million (up 71.9%), with operating income of ¥464 million (up 88.5%).

(2) Summary of Financial Condition for Fiscal 2017

Assets

Total assets at the end of fiscal 2017 (December 31, 2017) increased 25.7% compared with the end of the previous fiscal year (December 31, 2016), to ¥29,904 million.

Current assets increased 44.1% from the end of the previous fiscal year to ¥17,532 million. This was due mainly to increases of ¥1,271 million in real estate for sale; and ¥4,675 million in real estate for sale in process; against a decrease of ¥564 million in cash and deposits.

Noncurrent assets increased 6.4% year on year to ¥12,372 million. This was due mainly to an increase of ¥643 million in total property, plant and equipment stemming from acquisition of tangible fixed assets.

Liabilities

Total liabilities increased 59.3% from the previous fiscal year to ¥13,553 million.

Current liabilities increased 14.8% year on year to ¥5,691 million. This was due mainly to increase of ¥224 million in accounts payable for construction contracts; and ¥183 million in current portion of long-term loans payable.

Noncurrent liabilities increased 121.5% year on year to ¥7,861 million. This was due mainly to increases of ¥3,895 million in long-term loans payable; and ¥264 million in bonds payable.

Net Assets

Net assets increased 7.0% from the previous fiscal year to ¥16,351 million. This was due mainly to an increase of ¥1,068 million in retained earnings brought forward.

(3) Summary of Cash Flows for Fiscal 2017

Cash and cash equivalents (“cash”) at the end of fiscal 2017 (December 31, 2017) decreased ¥564 million from the end of the previous fiscal year (December 31, 2016), to ¥6,594 million. The condition of each cash flow during the subject fiscal year and the primary factors affecting them are as follows.

Cash flow from operating activities

Cash used in operating activities amounted to ¥2,992 million. This was due mainly to decreasing factors of a ¥5,787 million increase in inventories; and ¥579 million income taxes paid; against increasing factors of ¥2,322 million in net income before tax; and ¥585 million in depreciation.

Cash flow from investing activities

Cash used in investing activities amounted to ¥1,423 million. This was due mainly to decreasing factors of ¥1,446 million in expenditures for acquisition of property, plant and equipment.

Cash flow from financing activities

Cash provided by financing activities amounted to ¥3,854 million. This was due mainly to increasing factors of ¥5,156 million in proceeds from long-term loans payable; against decreasing factors of ¥38 million in decrease of short-term loans payable; ¥479 million in cash dividends paid; and ¥1,076 million in expenditures for repayment of long-term loans payable.

(Reference) Trends in cash flow indices

	FY2013 (Non-consolidated)	FY2014 (Non-consolidated)	FY2015 (Non-consolidated)	FY2016 (Non-consolidated)	FY2017 (Non-consolidated)
Equity ratio (%)	53.4	69.2	75.7	64.2	54.7
Equity ratio, based on market value (%)	69.3	88.0	91.5	64.3	97.5
Ratio of Interest-bearing debt to cash flow (times)	772.3	38.7	33.3	—	—
Interest coverage ratio (times)	5.9	50.7	78.4	—	—

Equity ratio: shareholders' equity/ total assets

Market-based rate of equity ratio: total market capitalization/ total assets

Ratio of interest-bearing debt to cash flow: interest-bearing debt/ cash flows

Interest coverage ratio: cash flows/ interest expense

Notes:

1. The total market value of stocks is calculated based on the number of shares issued less treasury stock.
2. “Cash flow” refers to cash flow from operating activities.
3. “Interest-bearing debt” refers to all debts listed in the balance sheets for which the Company pays interest. “Interest payments” denotes interest payments shown in the statements of cash flows.
4. Since cash flows from operating activities were negative for the year ended December 2016 and December 2017, ratio of interest-bearing debt to cash flow and interest coverage ratio have been omitted from the presentation.

(4) Outlook for Fiscal 2018

For fiscal 2018 (ending December 31, 2018), despite the recovery trend in the general economy, the outlook for business conditions in the real estate industry remains uncertain as a result of concerns including the impact that U.S. policies and political instability in East Asia will have on the Japanese economy, and continued high real estate prices.

Under such conditions, in the Property Management Service business, Arealink has increased location openings for its mainstay self-storage business. Along with conventional trunk and container units, we have added new asset-type indoor self-storage units that allow for openings in urban areas where storage needs are greater, accelerating openings of storage locations in prime areas and increasing our share of the self-storage market. By increasing the number of managed units in the self-storage business, we plan to establish a stable foundation for earnings, and make progress with such issues as differentiating ourselves from the competition, while expanding our “stock-type” (property management service oriented) business model.

In the self-storage business, competition is becoming increasingly fierce in terms of price, as well as differentiation of products and services. Under such conditions, Arealink is differentiating itself from the competition by expanding locations of Hello Storage in collaboration with Sanrio’s popular Hello Kitty character. We are also introducing a sales support system, and utilizing databases of previous location openings to establish stricter criteria for location openings and optimize product types, as well as pursuing differentiation in terms of services, such as the “Speed 3-Minute Contract” (automated contract) offering 24-hour service for contract procedures. Arealink recognizes that amid the continual increase in demand and awareness among customers of rental storage services, our efforts for safety and security, easy accessibility similar to a convenience store, and brand strength developed through the nationwide Hello Storage network, presents business opportunities for further expansion. Further, the opening of asset-type self-storage locations in suburban and urban areas will permit locations in a wide range of conditions (site location and size). We will focus on enhancing the strength and recognition of our Hello Storage brand and expanding our market share through regional location opening strategies, work to increase sales, and seek stable operations through such means as expansion of the customer support system.

In the Property Revitalization & Liquidation Service, for real estate trading we are focusing on the buying and selling of land rights, which is comparatively less susceptible to real estate market conditions, and will pursue slow and steady sales activities to develop a business centered on sales to land lease right holders.

In terms of costs, we anticipate increases including for the introduction of the sales support system and other measures related to business expansion, but will lower expenditures through enhanced business efficiency with the introduction of IT systems, and continued far-reaching cost controls.

In consideration of these factors, for the fiscal year ending December 31, 2018, Arealink is forecasting net sales of ¥30,000 million, comprising an increase in the Property Management Service segment to ¥27,730 million, and an increase in the Property Revitalization & Liquidation Service segment to ¥2,270 million. In terms of earnings, we forecast operating income of ¥3,000 million, ordinary income of ¥2,870 million, and net income of ¥1,855 million.

2. Basic Stance on Selection of Accounting Standards

Arealink’s policy, in consideration of comparability between financial periods and companies, for the present will prepare consolidated financial statements in accordance with Japanese accounting standards. Regarding the application of International Financial Reporting Standards (IFRS), our policy is to consider of the situation in Japan and overseas, and take appropriate measures.

3. Financial Statements

(1) Non-Consolidated Balance Sheets

(Thousands of yen)

	End of the Fiscal Year Ended December 31, 2016 (As of December 31, 2016)	End of the Fiscal Year Ended December 31, 2017 (As of December 31, 2017)
ASSETS		
Current assets:		
Cash and deposits	7,158,615	6,594,460
Accounts receivable — trade	95,455	108,339
Accounts receivable — completed construction	124,057	—
Merchandise	335,501	219,797
Real estate for sale	3,561,365	4,832,711
Real estate for sale in process	335,707	5,010,939
Costs on uncompleted construction contracts	92,875	39,177
Supplies	13,509	24,232
Prepaid expenses	243,747	279,137
Advance payments — trade	23,934	196,766
Deferred tax assets	67,333	82,433
Other current assets	144,374	170,545
Allowance for doubtful accounts	(27,821)	(26,051)
Total current assets	12,168,657	17,532,490
Noncurrent assets:		
Property, plant and equipment:		
Buildings	5,660,158	6,012,353
Accumulated depreciation	(1,576,407)	(1,809,469)
Accumulated impairment loss	(179,717)	(196,556)
Buildings, net	3,904,033	4,006,328
Structures	1,243,583	1,680,463
Accumulated depreciation	(303,422)	(417,649)
Accumulated impairment loss	(99,868)	(154,968)
Structures, net	840,292	1,107,845
Machinery and equipment	82,058	77,236
Accumulated depreciation	(63,625)	(68,845)
Accumulated impairment loss	(6,465)	(6,465)
Machinery and equipment, net	11,968	1,925
Vehicles	13,878	13,878
Accumulated depreciation	(8,691)	(11,008)
Vehicles, net	5,186	2,869
Tools, furniture and fixtures	1,949,088	2,096,514
Accumulated depreciation	(672,638)	(820,064)
Accumulated impairment loss	(52,656)	(62,760)
Tools, furniture and fixtures, net	1,223,793	1,213,689
Land	3,954,095	4,224,697
Lease assets	161,774	176,774
Accumulated depreciation	(96,408)	(113,365)
Lease assets, net	65,366	63,409
Construction in progress	—	27,593
Total property, plant and equipment	10,004,737	10,648,359

	(Thousands of yen)	
	End of the Fiscal Year Ended December 31, 2016 (As of December 31, 2016)	End of the Fiscal Year Ended December 31, 2017 (As of December 31, 2017)
Intangible assets:		
Right of trademark	516	445
Software	106,562	133,930
Other	360	360
Total intangible assets	<u>107,439</u>	<u>134,736</u>
Investments and other assets:		
Investment securities	159,169	170,120
Long-term loans receivable	16,280	6,964
Claims provable in bankruptcy, claims provable in rehabilitation and other	1,290,069	1,290,069
Long-term prepaid expenses	29,701	60,828
Guarantee deposits	1,285,195	1,330,973
Other	34,081	34,081
Allowance for doubtful accounts	(1,303,675)	(1,303,866)
Total investments and other assets	<u>1,510,821</u>	<u>1,589,172</u>
Total noncurrent assets	<u>11,622,998</u>	<u>12,372,268</u>
Total assets	<u>23,791,656</u>	<u>29,904,759</u>

(Thousands of yen)

	End of the Fiscal Year Ended December 31, 2016 (As of December 31, 2016)	End of the Fiscal Year Ended December 31, 2017 (As of December 31, 2017)
LIABILITIES		
Current liabilities:		
Accounts payable — trade	243,555	315,268
Accounts payable for construction contracts	471,248	696,046
Short-term loans payable	1,977,500	1,939,294
Current portion of bonds	50,000	107,000
Current portion of long-term loans payable	488,400	672,305
Accounts payable-other	533,865	375,820
Accrued expenses	146,299	179,927
Income taxes payable	316,580	567,932
Advances received	629,489	639,240
Advances received on uncompleted construction	—	29,374
Deposits received	7,614	4,123
Unearned revenue	35,420	26,313
Lease obligations	20,107	21,276
Other	39,286	117,400
Total current liabilities	4,959,368	5,691,682
Noncurrent liabilities:		
Bonds payable	175,000	439,500
Long-term loans payable	2,016,144	5,911,947
Guarantee deposited	565,076	596,116
Lease obligations	66,317	61,241
Long-term accounts payable — other	—	41,270
Asset retirement obligations	585,340	687,697
Deferred tax liabilities	25,004	31,434
Other	115,877	92,439
Total noncurrent liabilities	3,548,760	7,861,648
Total liabilities	8,508,128	13,553,330
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	4,363,787	5,432,200
Total retained earnings	4,363,787	5,432,200
Treasury stock	(261,525)	(269,737)
Total shareholders' equity	15,283,203	16,343,404
Valuation and translation adjustments:		
Valuation difference on available-for-sale securities	2,281	8,511
Deferred gains or losses on hedges	(1,957)	(487)
Total valuation and translation adjustments	324	8,023
Total net assets	15,283,527	16,351,428
Total liabilities and net assets	23,791,656	29,904,759

(2) Non-Consolidated Statements of Income

(Thousands of yen)

	Fiscal Year Ended December 31, 2016 (January 1, 2016 to December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 to December 31, 2017)
Net sales		
Rent operating revenue	10,484,210	11,914,887
Construction sales	5,162,194	5,888,481
Real estate sales	1,244,309	3,661,061
Other sales	17,400	24,786
Total net sales	16,908,115	21,489,217
Cost of Sales		
Rent operating expenses	7,582,465	8,547,696
Beginning goods	436,634	335,501
Cost of purchased goods	3,727	2,565
Total	440,362	338,066
Transfer to other account	104,861	118,268
Ending merchandise	335,501	219,797
Cost of construction sales	3,660,769	4,499,537
Cost of sales-real estate	893,452	2,758,559
Total cost of sales	12,136,686	15,805,792
Gross profit	4,771,428	5,683,424
Selling, general and administrative expenses		
Directors' compensations	153,293	174,390
Salaries and allowances	778,603	796,853
Other salaries	31,378	25,176
Welfare expenses	148,739	144,091
Advertising expenses	373,651	405,323
Entertainment expenses	71,689	54,322
Traveling and transportation expenses	81,394	75,644
Communication expenses	156,615	158,615
Insurance expenses	2,971	4,320
Utilities expenses	8,845	11,656
Supplies expenses	69,206	46,151
Commission fee	505,382	565,840
Compensations	158,969	337,440
Repair expenses	9,166	6,620
Taxes and dues	75,615	143,263
Depreciation	53,436	63,818
Provision of allowance for doubtful accounts	5,189	4,885
Bad debts expenses	478	310
Rents	81,458	170,189
Research and development expenses	8,700	30,800
Other	60,971	84,111
Total selling, general and administrative expenses	2,835,759	3,303,827
Operating income	1,935,669	2,379,597

(Thousands of yen)

	Fiscal Year Ended December 31, 2016 (January 1, 2016 to December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 to December 31, 2017)
Non-operating income:		
Interest income	10,238	8,517
Dividends income	244	320
Default charge income	1,486	1,513
Penalty income	62,949	106,169
Other	18,120	32,647
Total non-operating income	93,040	149,169
Non-operating expenses:		
Interest expenses	39,944	62,918
Interest on bonds	272	1,151
Commission fee	4,291	11,845
Foreign exchange losses	2,799	2,174
Provision of allowance for doubtful accounts	1,194	1,035
Other	11,550	8,178
Total non-operating expenses	60,052	87,304
Ordinary income	1,968,657	2,441,462
Extraordinary income:		
Gain on sales of noncurrent assets	17,208	31,547
Gain on transfer of business	11,550	11,550
Penalty income	61,343	—
Total extraordinary income	90,101	43,097
Extraordinary loss:		
Loss on store closings	15,992	22,298
Head office transfer cost	6,267	16,469
Loss on redemption of investment securities	2,406	—
Loss on retirement of noncurrent assets	12,798	22,498
Impairment loss	115,354	101,009
Loss on valuation of membership	3,530	—
Total extraordinary losses	156,349	162,275
Net income before income taxes	1,902,410	2,322,283
Income taxes — current	667,153	787,317
Income taxes — deferred	92,947	(12,067)
Total income taxes	760,101	775,250
Net income	1,142,308	1,547,033

(3) Non-Consolidated Statements of Changes in Shareholders' Equity

Fiscal 2016 (January 1, 2016 to December 31, 2016)

(Thousands of yen)

	Shareholders' Equity						
	Common stock	Capital Surplus		Retained Earnings		Treasury Stock	Total Shareholders' Equity
		Legal Reserve	Total Capital Surplus	Other Reserve	Total Retained Earnings		
Balance as of December 31, 2015	5,568,222	5,612,719	5,612,719	3,700,254	3,700,254	(256,584)	14,624,612
Increase (decrease) during the period ended December 31, 2016							
Dividends from surplus				(478,775)	(478,775)		(478,775)
Net income				1,142,308	1,142,308		1,142,308
Purchase of treasury shares						(4,941)	(4,941)
Net changes in items excluding shareholders' equity during the period							
Total	—	—	—	663,532	663,532	(4,941)	658,590
Balance as of December 31, 2016	5,568,222	5,612,719	5,612,719	4,363,787	4,363,787	(261,525)	15,283,203

(Thousands of yen)

	Valuation and Conversions			Total Net Assets
	Net Unrealized Gains on Marketable Securities	Deferred on Gains or Losses on Hedges	Total Valuation and Conversions	
Balance as of December 31, 2015	1,778	—	1,778	14,626,390
Increase (decrease) during the period ended December 31, 2016				
Dividends from surplus				(478,775)
Net income				1,142,308
Purchase of treasury shares				(4,941)
Net changes in items excluding shareholders' equity during the period	503	(1,957)	(1,453)	(1,453)
Total	503	(1,957)	(1,453)	657,136
Balance as of December 31, 2016	2,281	(1,957)	324	15,283,527

Fiscal 2017 (January 1, 2017 to December 31, 2017)

(Thousands of yen)

	Shareholders' Equity						
	Common stock	Capital Surplus		Retained Earnings		Treasury Stock	Total Shareholders' Equity
		Legal Reserve	Total Capital Surplus	Other Reserve	Total Retained Earnings		
Balance as of December 31, 2016	5,568,222	5,612,719	5,612,719	4,363,787	4,363,787	(261,525)	15,283,203
Increase (decrease) during the period ended December 31, 2017							
Dividends from surplus				(478,620)	(478,620)		(478,620)
Net income				1,547,033	1,547,033		1,547,033
Purchase of treasury shares						(8,211)	(8,211)
Net changes in items excluding shareholders' equity during the period							
Total	—	—	—	1,068,412	1,068,412	(8,211)	1,060,201
Balance as of December 31, 2017	5,568,222	5,612,719	5,612,719	5,432,200	5,432,200	(269,737)	16,343,404

(Thousands of yen)

	Valuation and Conversions			Total Net Assets
	Net Unrealized Gains on Marketable Securities	Deferred on Gains or Losses on Hedges	Total Valuation and Conversions	
Balance as of December 31, 2016	2,281	(1,957)	324	15,283,527
Increase (decrease) during the period ended December 31, 2017				
Dividends from surplus				(478,620)
Net income				1,547,033
Purchase of treasury shares				(8,211)
Net changes in items excluding shareholders' equity during the period	6,229	1,469	7,699	7,699
Total	6,229	1,469	7,699	1,067,900
Balance as of December 31, 2017	8,511	(487)	8,023	16,351,428

(4) Non-Consolidated Statements of Cash Flows

(Thousands of yen)

	Fiscal Year Ended December 31, 2016 (January 1, 2016 to December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 to December 31, 2017)
Cash flows from operating activities:		
Income before income taxes	1,902,410	2,322,283
Depreciation	518,930	585,540
Impairment loss	115,354	101,009
Interest and dividends income	(10,483)	(8,833)
Interest expenses	40,216	64,070
Loss (gain) on sales of noncurrent assets	(17,208)	(31,547)
Loss on retirement of noncurrent assets	12,798	22,498
Loss (gain) on transfer of business	(11,550)	(11,550)
Loss (gain) on redemption of investment securities	2,406	—
Decrease (increase) in notes and accounts receivable — trade	(117,203)	111,173
Decrease (increase) in inventories	(2,263,281)	(5,787,899)
Decrease (increase) in consumption taxes refund receivable	70,194	—
Increase (decrease) in notes and accounts payable — trade	196,905	296,510
Increase (decrease) in accrued consumption taxes	1,404	57,057
Increase (decrease) in guarantee deposits received	41,390	31,039
Other, net	(74,657)	(108,949)
Subtotal	407,627	(2,357,600)
Interest and dividends income received	10,529	8,780
Interest expenses paid	(45,728)	(64,943)
Income taxes paid	(1,081,385)	(579,089)
Net cash provided by (used in) operating activities	(708,957)	(2,992,852)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(1,537,966)	(1,446,336)
Proceeds from sales of property, plant and equipment	—	69,788
Purchase of intangible assets	(49,017)	(51,966)
Purchase of investment securities	—	1,980
Collection of loans receivable	17,978	17,978
Proceeds from sales and redemption of investment securities	30,188	—
Other, net	(5,510)	(11,312)
Net cash provided by (used in) investing activities	(1,544,326)	(1,423,829)
Cash flows from financing activities:		
Net increase (decrease) of short-term loans payable	1,644,160	(38,205)
Proceeds from long-term loans payable	2,000,000	5,156,676
Repayment of long-term loans payable	(360,836)	(1,076,967)
Proceeds from issuance of bonds	250,000	400,000
Redemption of bonds	(25,000)	(78,500)
Purchase of treasury shares	(4,941)	(8,211)
Cash dividends paid	(477,255)	(479,990)
Repayments of lease obligations	(26,221)	(20,107)
Net cash provided by (used in) financing activities	2,999,905	3,854,694
Effect of exchange rate changes on cash and cash equivalents	(3,077)	(2,168)
Net increase (decrease) in cash and cash equivalents	743,542	(564,155)
Cash and cash equivalents at beginning of period	6,415,073	7,158,615
Cash and cash equivalents at end of period	7,158,615	6,594,460

(5) Notes regarding the Financial Statements

(Notes Regarding Going Concern Assumptions)

Not applicable.

(Segment and other information)

Segment 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.

2) Method of computing net sales, income (loss), assets, liabilities and other items by reporting segment

The accounting treatment method for the Company's reporting segments is generally the same as the preparation of consolidated financial statements.

3) Information Relating to net sales, income (loss), assets, liabilities and other items by reportable segment

Fiscal 2016 (January 1, 2016 to December 31, 2016)

(Thousands of yen)

	Reportable Segment			Adjustment amount	Amount recorded on consolidated statements of income
	Property Management Service	Property Revitalization & Liquidation Service	Total		
Net Sales					
Sales to Outside Customers	15,820,824	1,087,290	16,908,115	—	16,908,115
Inter-Segment Sales and Transfers	—	—	—	—	—
Total	15,820,824	1,087,290	16,908,115	—	16,908,115
Segment Profit	2,735,572	246,208	2,981,780	(1,046,111)	1,935,669
Segment Assets	12,379,270	3,408,630	15,787,901	8,003,754	23,791,656
Other Items					
Depreciation	490,336	—	490,336	28,594	518,930
Increase in Property, Plant and Equipment and Intangible Assets	1,650,481	—	1,650,481	137,382	1,787,864

Notes:

1. The negative segment profit adjustment of ¥1,046,111 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 statement of income.
3. The segment assets adjustment of ¥8,003,754 thousand represents corporate expenses that are not allocated to each segment. These expenses mainly relate to the Administration Division.
4. Depreciation expenses and increase in tangible and intangible assets include long-term prepaid expenses and cost of depreciation related to the expenses.

Fiscal 2017 (January 1, 2017 to December 31, 2017)

(Thousands of yen)

	Reportable Segment			Adjustment amount	Amount recorded on consolidated statements of income
	Property Management Service	Property Revitalization & Liquidation Service	Total		
Net Sales					
Sales to Outside Customers	19,619,780	1,869,436	21,489,217	—	21,489,217
Inter-Segment Sales and Transfers	—	—	—	—	—
Total	19,619,780	1,869,436	21,489,217	—	21,489,217
Segment Profit	3,133,559	464,204	3,597,764	(1,218,166)	2,379,597
Segment Assets	17,976,713	4,335,356	22,312,070	7,592,689	29,904,759
Other Items					
Depreciation	544,289	—	544,289	41,251	585,540
Increase in Property, Plant and Equipment and Intangible Assets	1,189,308	—	1,189,308	181,378	1,370,687

Notes:

1. The negative segment profit adjustment of ¥1,218,166 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 statement of income.
3. The segment assets adjustment of ¥7,592,689 thousand represents corporate expenses that are not allocated to each segment. These expenses mainly relate to the Administration Division.
4. Depreciation expenses and increase in tangible and intangible assets include long-term prepaid expenses and cost of depreciation related to the expenses.

(Related information)

Preceding business year (From January 1, 2016 to December 31, 2016)

1) Information for each product and service

Any statement is omitted here as similar information is disclosed under segment information.

2) Information for each region

(1) Net sales

As the total of sales to outside customers based in Japan of all business segments represented over 90% of the Company's net sales in the non-consolidated statements of income, geographical information has been omitted.

(2) Tangible fixed assets

As the total of property, plant and equipment based in Japan of all business segments represented over 90% of the Company's property, plant and equipment in the non-consolidated balance sheets, geographical information has been omitted.

3) Information for each major customer

Not applicable.

Current business year (From January 1, 2017 to December 31, 2017)

1) Information for each product and service

Any statement is omitted here as similar information is disclosed under segment information.

2) Information for each region

(1) Net sales

As the total of sales to outside customers based in Japan of all business segments represented over 90% of the Company's net sales in the non-consolidated statements of income, geographical information has been omitted.

(2) Tangible fixed assets

As the total of property, plant and equipment based in Japan of all business segments represented over 90% of the Company's property, plant and equipment in the non-consolidated balance sheets, geographical information has been omitted.

3) Information for each major customer

Not applicable.

(Information regarding the impairment losses on the fixed assets in each reporting segment)
 Preceding business year (From January 1, 2016 to December 31, 2016)

(Unit: thousand yen)

	Reporting segment			Adjustment	Total
	Property Management Service	Property Revitalization & Liquidation Service	Total		
Impairment losses	112,698	—	112,698	2,656	115,354

Note: The adjustment of ¥2,656 thousand represents impairment losses that are related to the assets of Administration Division of the headquarters.

Current business year (From January 1, 2017 to December 31, 2017)

(Unit: thousand yen)

	Reporting segment			Adjustment	Total
	Property Management Service	Property Revitalization & Liquidation Service	Total		
Impairment losses	101,009	—	101,009	—	101,009

(Information regarding the amortization and unamortized balance of goodwill for each reporting segment)
 Preceding business year (From January 1, 2016 to December 31, 2016)
 Not applicable.

Current business year (From January 1, 2017 to December 31, 2017)
 Not applicable.

(Information regarding the gain from negative goodwill for each reporting segment)
 Not applicable.

(Notes on profit or loss, etc. under the equity method)
 Not applicable.

(Per share information)

	Preceding business year (From January 1, 2016 to December 31, 2016)	Current business year (From January 1, 2017 to December 31, 2017)
Per share amount of net assets	1,245.09yen	1,332.88yen
Per share amount of net profit for the period	93.06 yen	126.08 yen

(Notes)

- 1) Arealink Co., Ltd. conducted a 1:10 consolidation of its common stock, with an effective date of July 1, 2016.
- 2) No statement is made regarding diluted per share net profit for the period because dilutive shares possessing a dilutive effect do not exist.
- 3) The basis for the computation of the per share amount of net profit for the period is as follows.

Item	Preceding business year (From January 1, 2016 to December 31, 2016)	Current business year (From January 1, 2017 to December 31, 2017)
Net profit for the period in the statements of income (thousand yen)	1,142,308	1,547,033
Amounts that do not belong to the common stockholders (thousand yen)	—	—
Net profit for the period related to common shares (thousand yen)	1,142,308	1,547,033
Average number of common shares during the period (shares)	12,274,993	12,270,095
Overview of the dilutive shares that were not included in the computation of the diluted per share amount of net profit for the period because they did not possess a dilutive effect	—	

(Important subsequent events)
 Not applicable.