

NON-CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)
FIRST HALF OF THE FISCAL YEAR ENDING
December 31, 2018
(January 1, 2018 to June 30, 2018)

July 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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Supplemental materials prepared for quarterly financial results: Yes

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

Dividend payment commencement date (planned): —

(Millions of yen rounded down)

1. Non-Consolidated Operating Results for the First Half of Fiscal 2018
(January 1, 2018 to June 30, 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	%
FY2018 First Half	13,943	34.2	1,494	17.2	1,344	3.4	910	6.2
FY2017 First Half	10,394	17.4	1,274	4.2	1,300	4.5	857	8.7

	Net Income per Share	Net Income per Share after Dilution
	Yen	Yen
FY2018 First Half	74.16	74.02
FY2017 First Half	69.90	—

(2) Non-Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio
	Millions of yen	Millions of yen	%
June 30, 2018	33,153	17,479	52.7
December 31, 2017	29,904	16,351	54.7

(Reference) Shareholders' equity: June 30, 2018: 17,463 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 2017	—	0.00	—	40.00	40.00
Fiscal 2018	—	0.00	—	—	—
Fiscal 2019 (Forecast)	—	—	—	46.00	46.00

Note: Revision to the most recently announced cash dividend forecast: No

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

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

	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
Fiscal 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: None

The figure for net income per share has been calculated based on the number of shares issued and outstanding as of the end of the previous fiscal year.

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:
 June 30, 2018: 12,809,500 shares December 31, 2017: 12,576,300 shares
 2. Total number of treasury stock as of the period-end:
 June 30, 2018: 309,771 shares December 31, 2017: 308,555 shares
 3. Average number of shares for the period (Cumulative total for the quarterly non-consolidated period)
 FY2018 First Half: 12,284,211 shares FY2017 First Half: 12,271,182 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 5 for assumptions of the revision of forecasts of business results.

The Company plans to hold a results briefing on August 1, 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. Qualitative Information Regarding Non-Consolidated Quarterly Business Results

(1) Explanation of Business Results

During the second quarter cumulative period (January 1, 2018 to June 30, 2018) of fiscal 2018 (ending December 31, 2018), the Japanese economy maintained a basic tone of moderate recovery, with improvement in corporate earnings, and continued increases in capital investment. 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 careful attention to circumstances remains warranted.

In the real estate industry, Arealink's principal business field, firm market conditions continue against a backdrop of low interest rates and other factors, though conditions need to be watched closely due to a change in attitudes to lending among financial institutions prompted by fraudulent loans. 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, Arealink established "Hello Storage Premium LLC," a private placement fund exclusively for investment in storage units similar to the "Hello Storage Fund No. 1 LLC" established in March 2018, and sold three self-storage properties with accompanying land. As a result of these measures, net sales in the Property Management Service segment amounted to ¥12,356 million (an increase of 34.6% from the same period of the previous fiscal year), with operating income of ¥1,855 million (an increase of 22.5%).

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 ¥1,587 million (an increase of 30.9%), with operating income of ¥298 million (a decrease of 13.6%). 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 second quarter cumulative period of fiscal 2018 amounted to ¥13,943 million (an increase of 34.2% from the same period of the previous fiscal year), with operating income of ¥1,494 million (an increase of 17.2%), ordinary income of ¥1,344 million (an increase of 3.4%), and net income of ¥910 million (an increase of 6.2%).

(2) Explanation of Financial Position

Assets, liabilities, and net assets

Total assets as of the end of the subject second quarter cumulative period (June 30, 2018) amounted to ¥33,153 million, an increase of ¥3,248 million compared with the end of the previous fiscal year (December 31, 2017). This was due mainly to increases of ¥2,407 million in real estate for sale in process; and ¥1,103 million in cash and deposits; along with a decrease of ¥240 million in real estate for sale.

Total liabilities amounted to ¥15,673 million, an increase of ¥2,120 million compared with the end of the previous fiscal year. This was mainly due to an increase of ¥2,439 million in long-term loans payable; and decreases of ¥366 million in accounts payable for construction contracts; and ¥53 million in bonds payable.

Total net assets amounted to ¥17,479 million, an increase of ¥1,127 million compared with the end of the previous fiscal year. This was due mainly to increases of ¥346 million in capital stock stemming from the exercise of share acquisition rights and the issuance of common shares; ¥346 million in legal capital surplus; and ¥420 million in retained earnings (comprised mainly of a ¥910 million increase from net income, and a ¥490 million decrease from dividend payments). As a result, the equity ratio was 52.7%.

Cash flows

Cash and cash equivalents ("Cash") at the end of the subject second quarter cumulative period (June 30, 2018) amounted to ¥7,698 million, an increase of ¥1,103 million compared with the previous fiscal year-end.

Cash used in operating activities amounted to ¥1,270 million (compared to ¥193 million in cash used in the same period of the previous fiscal year). This was due mainly to increasing factors of ¥1,354

million in net income before tax; against decreasing factors including a ¥2,183 million increase in inventories.

Cash used in investing activities amounted to ¥318 million (compared to ¥517 million in cash used in the same period of the previous fiscal year). This was due mainly to decreasing factors of ¥154 million in purchase of property, plant and equipment; and ¥120 million in purchase of investment securities

Cash provided by financing activities amounted to ¥2,694 million (compared to ¥517 million in cash provided in the same period of the previous fiscal year). This was due mainly to increasing factors of ¥4,836 million in proceeds from long-term loans payable; and ¥690 million in proceeds from issuance of common shares related to the exercise of share acquisition rights; against decreasing factors of ¥2,211 million in repayments of long-term loans payable; and ¥489 million cash dividend paid.

(3) Explanation of Results Forecasts and Other Future Predictions

For the full fiscal period of the fiscal year ending December 31, 2018, because performance in all businesses has been steady, the Company maintains unchanged its results forecasts announced in “Non-Consolidated Financial Report Fiscal 2017” dated February 14, 2018.

Regarding dividends for the fiscal year ending December 31, 2018, based on the Company’s basic policy and current earnings forecasts, Arealink plans to pay an annual dividend of ¥46.00 per share. There are no plans for an interim dividend payment.

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 Second Quarter of the Fiscal Year Ending December 31, 2018 (As of June 30, 2018)
ASSETS		
Current assets:		
Cash and deposits	6,594,460	7,698,447
Accounts receivable — trade	108,339	114,912
Merchandise	219,797	191,943
Real estate for sale	4,832,711	4,592,550
Costs on uncompleted construction contracts	5,010,939	7,418,466
Costs on uncompleted construction contracts	39,177	78,609
Supplies	24,232	28,778
Other current assets	728,883	733,222
Allowance for doubtful accounts	(26,051)	(29,863)
Total current assets	<u>17,532,490</u>	<u>20,827,068</u>
Noncurrent assets:		
Property, plant and equipment:		
Buildings	6,012,353	6,013,064
Accumulated depreciation	(1,809,469)	(1,935,439)
Accumulated impairment loss	(196,556)	(196,556)
Buildings, net	<u>4,006,328</u>	<u>3,881,068</u>
Land	4,224,697	4,224,697
Other	4,072,461	4,150,501
Accumulated depreciation	(1,430,933)	(1,559,337)
Accumulated impairment loss	(224,194)	(223,079)
Other, net	<u>2,417,334</u>	<u>2,368,084</u>
Total property, plant and equipment	<u>10,648,359</u>	<u>10,473,850</u>
Intangible assets:		
Other	<u>134,736</u>	<u>153,138</u>
Total intangible assets	<u>134,736</u>	<u>153,138</u>
Investments and other assets:		
Other	2,893,038	3,002,945
Allowance for doubtful accounts	(1,303,866)	(1,303,847)
Total investments and other assets	<u>1,589,172</u>	<u>1,699,097</u>
Total noncurrent assets	<u>12,372,268</u>	<u>12,326,086</u>
Total assets	<u>29,904,759</u>	<u>33,153,154</u>

(Thousands of yen)

	End of the Fiscal Year Ended December 31, 2017 (As of December 31, 2017)	End of the Second Quarter of the Fiscal Year Ending December 31, 2018 (As of June 30, 2018)
LIABILITIES		
Current liabilities:		
Accounts payable — trade	315,268	213,660
Accounts payable for construction contracts	696,046	329,295
Short-term loans payable	1,939,294	1,865,600
Current portion of bonds	107,000	107,000
Current portion of long-term loans payable	672,305	857,810
Income taxes payable	567,932	457,057
Other	1,393,835	1,346,888
Total current liabilities	5,691,682	5,177,311
Noncurrent liabilities:		
Bonds payable	439,500	386,000
Long-term loans payable	5,911,947	8,351,412
Asset retirement obligations	687,697	707,928
Other	822,503	1,051,200
Total noncurrent liabilities	7,861,648	10,496,540
Total liabilities	13,553,330	15,673,852
NET ASSETS		
Shareholders' equity:		
Capital stock	5,568,222	5,914,610
Capital surplus		
Legal capital surplus	5,612,719	5,959,108
Total capital surplus	5,612,719	5,959,108
Retained earnings		
Other retained earnings		
Retained earnings brought forward	5,432,200	5,852,485
Total retained earnings	5,432,200	5,852,485
Treasury stock	(269,737)	(273,479)
Total shareholders' equity	16,343,404	17,452,724
Valuation and translation adjustments:		
Valuation difference on available-for-sale securities	8,511	12,469
Deferred gains or losses on hedges	(487)	(1,723)
Total valuation and translation adjustments	8,023	10,746
Share acquisition rights	—	15,830
Total net assets	16,351,428	17,479,302
Total liabilities and net assets	29,904,759	33,153,154

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

(Thousands of yen)

	First Half of the Fiscal Year Ended December 31, 2017 (January 1, 2017 to June 30, 2017)	First Half of the Fiscal Year Ending December 31, 2018 (January 1, 2018 to June 30, 2018)
Net sales	10,394,057	13,943,820
Cost of Sales	7,510,403	10,603,739
Gross profit	2,883,654	3,340,081
Selling, general and administrative expenses	1,608,938	1,845,654
Operating income	1,274,715	1,494,426
Non-operating income:		
Interest income	4,265	3,988
Reversal of allowance for doubtful accounts	26	36
Default charge income	604	1,059
Compensation for transfer	44,004	22,747
Other	20,442	10,686
Total non-operating income	69,343	38,518
Non-operating expenses:		
Interest expenses	25,977	49,721
Interest on bonds	437	588
Bond issuance cost	9,182	—
Foreign exchange losses	1,402	390
Commission fee	25	111,404
Other	6,218	26,558
Total non-operating expenses	43,244	188,213
Ordinary income	1,300,814	1,344,731
Extraordinary income:		
Gain on sales of noncurrent assets	8,604	11,916
Gain on transfer of business	5,775	2,887
Total extraordinary income	14,379	14,803
Extraordinary loss:		
Head office transfer cost	16,150	—
Loss on retirement of noncurrent assets	18,534	5,342
Total extraordinary losses	34,685	5,342
Net income before income taxes	1,280,508	1,354,193
Income taxes — current	420,693	411,555
Income taxes — deferred	2,028	31,641
Total income taxes	422,721	443,197
Net income	857,787	910,995

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(3) Non-Consolidated Quarterly Statements of Cash Flows

(Thousands of yen)

	First Half of the Fiscal Year Ended December 31, 2017 (January 1, 2017 to June 30, 2017)	First Half of the Fiscal Year Ending December 31, 2018 (January 1, 2018 to June 30, 2018)
Cash flows from operating activities:		
Income before income taxes	1,280,508	1,354,193
Depreciation	285,352	303,343
Interest and dividends income	(4,449)	(4,218)
Interest expenses and interest on bonds	26,415	49,860
Loss (gain) on sales of noncurrent assets	(8,604)	(11,916)
Loss on retirement of noncurrent assets	18,534	5,342
Decrease (increase) in notes and accounts receivable — trade	97,148	(6,572)
Decrease (increase) in inventories	(1,395,447)	(2,183,490)
Increase (decrease) in notes and accounts payable — trade	(6,541)	(468,359)
Increase (decrease) in accrued consumption taxes	72,165	(15,089)
Increase (decrease) in guarantee deposits received	26,124	(30,611)
Other, net	(282,231)	327,637
Subtotal	108,975	(679,881)
Interest and dividends income received	4,391	4,218
Interest expenses paid	(26,913)	(53,334)
Income taxes paid	(280,300)	(541,893)
Net cash provided by (used in) operating activities	(193,846)	(1,270,891)
Cash flows from investing activities:		
Purchase of noncurrent assets	(496,775)	(154,071)
Proceeds from sales of property, plant and equipment	—	6,723
Purchase of intangible assets	(27,464)	(36,720)
Purchase of investment securities	(1,980)	(120,000)
Collection of loans receivable	8,989	6,101
Payments for investments in capital	—	(21,030)
Net cash provided by (used in) investing activities	(517,231)	(318,996)
Cash flows from financing activities:		
Net increase (decrease) of short-term loans payable	(580,864)	(73,694)
Proceeds from long-term loans payable	1,536,878	4,836,316
Repayment of long-term loans payable	(322,870)	(2,211,346)
Proceeds from issuance of bonds	400,000	—
Redemption of bonds	(25,000)	(53,500)
Proceeds from issuance of common shares	—	690,686
Proceeds from issuance of share acquisition rights	—	10,055
Repayments of lease obligations	(9,922)	(10,636)
Cash dividends paid	(478,154)	(489,764)
Purchase of treasury shares	(2,763)	(3,741)
Net cash provided by (used in) financing activities	517,303	2,694,374
Effect of exchange rate changes on cash and cash equivalents	(1,371)	(499)
Net increase (decrease) in cash and cash equivalents	(195,146)	1,103,987
Cash and cash equivalents at beginning of period	7,158,615	6,594,460
Cash and cash equivalents at end of period	6,963,469	7,698,447

(4) Notes Regarding Quarterly Financial Statements
(Notes Regarding Going Concern Assumptions)

Not applicable.

(Notes Regarding Substantial Changes in Shareholders' Equity)

The Company received payment from the issuance of common shares related to the partial exercise of its first issuance of share acquisition rights (share acquisition rights with an amended exercise price through third party allocation) issued on June 8, 2018. Capital stock and legal capital both increased by 346,388 thousand yen.

As a result, at the end of the subject second quarter cumulative period, capital stock amounted to 5,914,610 thousand yen, and legal capital surplus 5,959,108 thousand yen.

(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 half of fiscal 2017 (January 1, 2017 to June 30, 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	9,181,259	1,212,798	10,394,057	—	10,394,057
Inter-Segment Sales and Transfers	—	—	—	—	—
Total	9,181,259	1,212,798	10,394,057	—	10,394,057
Segment Profit	1,514,732	345,877	1,860,609	(585,893)	1,274,715

Notes:

1. The negative segment profit adjustment of ¥585,893 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 half of fiscal 2018 (January 1, 2018 to June 30, 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	12,356,025	1,587,795	13,943,820	—	13,943,820
Inter-Segment Sales and Transfers	—	—	—	—	—
Total	12,356,025	1,587,795	13,943,820	—	13,943,820
Segment Profit	1,855,261	298,673	2,153,935	(659,508)	1,494,426

Notes:

1. The negative segment profit adjustment of ¥659,508 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.