

NON-CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)
NINE-MONTH PERIOD OF THE FISCAL YEAR ENDING
December 31, 2018
(January 1, 2018 to September 30, 2018)

October 26, 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: No

Holding of quarterly financial results meeting: No

Dividend payment commencement date (planned): —

(Millions of yen rounded down)

1. Non-Consolidated Operating Results for Nine-Month Period of Fiscal 2018
(January 1, 2018 to September 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 Nine-Month Period	19,793	28.9	1,998	18.3	1,763	0.7	1,156	(0.5)
FY2017 Nine-Month Period	15,350	21.3	1,689	9.3	1,751	11.6	1,162	17.8

	Net Income per Share	Net Income per Share after Dilution
	Yen	Yen
FY2018 Nine-Month Period	93.42	93.17
FY2017 Nine-Month Period	94.76	—

(2) Non-Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio
	Millions of yen	Millions of yen	%
September 30, 2018	35,768	18,114	50.6
December 31, 2017	29,904	16,351	54.7

(Reference) Shareholders' equity: September 30, 2018: 18,100 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 2018 (Forecast)	—	—	—	46.00	46.00

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, 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:
September 30, 2018: 12,940,900 shares December 31, 2017: 12,576,300 shares
 2. Total number of treasury stock as of the period-end:
September 30, 2018: 309,841 shares December 31, 2017: 308,555 shares
 3. Average number of shares for the period (Cumulative total for the quarterly non-consolidated period)
FY2018 Nine-Month Period: 12,382,915 shares
FY2017 Nine-Month Period: 12,270,718 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 third quarter cumulative period (January 1, 2018 to September 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, Arealink established "Hello Storage Fund No. 1 LLC" in March 2018 and "Hello Storage Premium LLC" in June 2018, and sold seven self-storage properties with accompanying land. As a result, net sales in the Property Management Service segment amounted to ¥17,453 million (an increase of 25.8% from the same period of the previous fiscal year), with operating income of ¥2,549 million (an increase of 14.5%).

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 ¥2,339 million (an increase of 58.4%), with operating income of ¥426 million (an increase of 11.4%).

As a result, net sales for the third quarter cumulative period of fiscal 2018 amounted to ¥19,793 million (an increase of 28.9% from the same period of the previous fiscal year), with operating income of ¥1,998 million (an increase of 18.3%), ordinary income of ¥1,763 million (an increase of 0.7%), and net income of ¥1,156 million (a decrease of 0.5%).

(2) Explanation of Financial Position

Total assets as of the end of the subject third quarter cumulative period (September 30, 2018) amounted to ¥35,768 million, an increase of ¥5,863 million compared with the end of the previous fiscal year (December 31, 2017). This was due mainly to increases of ¥1,065 million in cash and deposits; ¥1,401 million in real estate for sale; and ¥3,593 million in real estate for sale in process.

Total liabilities amounted to ¥17,653 million, an increase of ¥4,099 million compared with the end of the previous fiscal year. This was mainly due to increases of ¥293 million in bonds payable; and ¥3,796 million in long-term loans payable; along with decreases of ¥359 million in accounts payable for construction contracts; and ¥356 million in income taxes payable.

Total net assets amounted to ¥18,114 million, an increase of ¥1,763 million compared with the end of the previous fiscal year. This was due mainly to increases of ¥543 million in capital stock stemming from the exercise of share acquisition rights and the issuance of common shares; ¥543 million in legal capital surplus; and ¥666 million in retained earnings (comprised mainly of a ¥1,156 million increase from net income, and a ¥490 million decrease from dividend payments). As a result, the equity ratio was 50.6%.

(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.

2. Quarterly Financial Statements and Notes
(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 Third Quarter of the Fiscal Year Ending December 31, 2018 (As of September 30, 2018)
ASSETS		
Current assets:		
Cash and deposits	6,594,460	7,660,163
Accounts receivable — trade	108,339	117,322
Merchandise	219,797	171,418
Real estate for sale	4,832,711	6,234,271
Real estate for sale in process	5,010,939	8,603,998
Costs on uncompleted construction contracts	39,177	23,974
Supplies	24,232	37,529
Other current assets	728,883	696,080
Allowance for doubtful accounts	(26,051)	(31,882)
Total current assets	17,532,490	23,512,877
Noncurrent assets:		
Property, plant and equipment:		
Buildings	6,012,353	6,044,040
Accumulated depreciation	(1,809,469)	(1,999,188)
Accumulated impairment loss	(196,556)	(194,650)
Buildings, net	4,006,328	3,850,201
Land	4,224,697	4,224,679
Other	4,072,461	4,186,728
Accumulated depreciation	(1,430,933)	(1,633,133)
Accumulated impairment loss	(224,194)	(223,079)
Other, net	2,417,334	2,330,515
Total property, plant and equipment	10,648,359	10,405,395
Intangible assets:		
Other	134,736	171,058
Total intangible assets	134,736	171,058
Investments and other assets:		
Other	2,893,038	2,982,759
Allowance for doubtful accounts	(1,303,866)	(1,303,857)
Total investments and other assets	1,589,172	1,678,901
Total noncurrent assets	12,372,268	12,255,356
Total assets	29,904,759	35,768,233

(Thousands of yen)

	End of the Fiscal Year Ended December 31, 2017 (As of December 31, 2017)	End of the Third Quarter of the Fiscal Year Ending December 31, 2018 (As of September 30, 2018)
LIABILITIES		
Current liabilities:		
Accounts payable — trade	315,268	219,576
Accounts payable for construction contracts	696,046	328,243
Short-term loans payable	1,939,294	2,239,560
Current portion of bonds	107,000	207,000
Current portion of long-term loans payable	672,305	1,052,760
Income taxes payable	567,932	208,095
Other	1,393,835	1,480,819
Total current liabilities	5,691,682	5,736,055
Noncurrent liabilities:		
Bonds payable	439,500	732,500
Long-term loans payable	5,911,947	9,708,864
Asset retirement obligations	687,697	713,076
Other	822,503	762,748
Total noncurrent liabilities	7,861,648	11,917,188
Total liabilities	13,553,330	17,653,244
NET ASSETS		
Shareholders' equity:		
Capital stock	5,568,222	6,111,539
Capital surplus		
Legal capital surplus	5,612,719	6,156,037
Total capital surplus	5,612,719	6,156,037
Retained earnings		
Other retained earnings		
Retained earnings brought forward	5,432,200	6,098,332
Total retained earnings	5,432,200	6,098,332
Treasury stock	(269,737)	(273,701)
Total shareholders' equity	16,343,404	18,092,208
Valuation and translation adjustments:		
Valuation difference on available-for-sale securities	8,511	9,855
Deferred gains or losses on hedges	(487)	(1,728)
Total valuation and translation adjustments	8,023	8,126
Share acquisition rights	—	14,653
Total net assets	16,351,428	18,114,988
Total liabilities and net assets	29,904,759	35,768,233

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

(Thousands of yen)

	Nine-Month Period of the Fiscal Year Ended December 31, 2017 (January 1, 2017 to September 30, 2017)	Nine-Month Period of the Fiscal Year Ending December 31, 2018 (January 1, 2018 to September 30, 2018)
Net sales	15,350,116	19,793,113
Cost of Sales	11,221,120	15,031,046
Gross profit	4,128,995	4,762,067
Selling, general and administrative expenses	2,439,334	2,763,330
Operating income	1,689,661	1,998,736
Non-operating income:		
Interest income	6,470	6,055
Reversal of allowance for doubtful accounts	71	46
Default charge income	1,023	1,690
Foreign exchange losses	—	342
Compensation for transfer	88,886	22,747
Other	26,760	17,254
Total non-operating income	123,211	48,137
Non-operating expenses:		
Interest expenses	42,213	76,705
Interest on bonds	797	902
Bond issuance cost	9,182	6,239
Foreign exchange losses	2,237	—
Commission fee	783	151,159
Other	6,410	48,515
Total non-operating expenses	61,624	283,523
Ordinary income	1,751,248	1,763,349
Extraordinary income:		
Gain on sales of noncurrent assets	27,245	16,218
Gain on transfer of business	8,662	2,887
Total extraordinary income	35,907	19,105
Extraordinary loss:		
Head office transfer cost	16,469	—
Loss on sales of noncurrent assets	—	3,021
Loss on redemption of noncurrent assets	18,902	5,735
Total extraordinary losses	35,371	8,757
Net income before income taxes	1,751,785	1,773,698
Income taxes — current	571,799	573,925
Income taxes — deferred	17,173	42,930
Total income taxes	588,972	616,855
Net income	1,162,812	1,156,842

(3) 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 543,317 thousand yen.

As a result, at the end of the subject third quarter cumulative period, capital stock amounted to 6,111,539 thousand yen, and legal capital surplus 6,156,037 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 nine-month of fiscal 2017 (January 1, 2017 to September 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	13,873,148	1,476,968	15,350,116	—	15,350,116
Inter-Segment Sales and Transfers	—	—	—	—	—
Total	13,873,148	1,476,968	15,350,116	—	15,350,116
Segment Profit	2,226,940	382,692	2,609,633	(919,971)	1,689,661

Notes:

1. The negative segment profit adjustment of ¥919,971 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 nine-month of fiscal 2018 (January 1, 2018 to September 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	17,453,489	2,339,623	19,793,113	—	19,793,113
Inter-Segment Sales and Transfers	—	—	—	—	—
Total	17,453,489	2,339,623	19,793,113	—	19,793,113
Segment Profit	2,549,610	426,326	2,975,936	(977,199)	1,998,736

Notes:

1. The negative segment profit adjustment of ¥977,199 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.

(Material Subsequent Events)

(Acquisition and Cancellation of Share Acquisition Rights)

The Company's Board of Directors, at a meeting held on October 26, 2018, decided to acquire and cancel share acquisition rights, as outlined below.

1. Reason for the acquisition and cancellation of share acquisition rights

The Company issued share acquisition rights on June 8, 2018, as announced in "Notice of Issuance of 1st Share Acquisition Rights (with Exercise Price Amendment Provision) through Third-Party Allotment and Conclusion of a Facility Agreement (with Exercise Suspension Designation Provision and Target Price Provision)" on May 22, 2018. However, going forward, in order to pursue business development with cash and deposits, and centered on debt financing including procuring funds through the commitment line agreement already concluded with financial institutions, considering that the price of the Company's ordinary shares is currently remaining below the minimum exercise price, the Company decided to terminate financing through the share acquisition rights.

The Company is currently making steady progress with the sale of real estate (including sales to private placement funds). Also, considering the many inquiries the Company has received from investors regarding investment in a private placement fund, the Company has established a project office and begun making specific preparations for the formation of Japan's first self-storage (rental storage) private placement REIT.

Considering these factors, in accordance with Articles 273-1 and 274-1 of the Companies Act, and the content of the share subscription rights (Issuance Guide Paragraph 14, Reason for Acquiring the Share Acquisition Rights No. 1), the Company decided to acquire and cancel all remaining share acquisition rights.

2. Content of the share acquisition rights to be acquired and canceled

- (1) Name of share acquisition rights: Arealink Co., Ltd. 1st Share Acquisition Rights (with Exercise Price Amendment Provision)
- (2) Acquisition amount: ¥896 per share acquisition right (total ¥14,653 thousand)
- (3) Number of share acquisition rights to be acquired: 16,354
- (4) Number of share acquisition rights remaining after cancellation: 0
- (5) Date of share acquisition rights acquisition and cancellation: November 12, 2018