

NON-CONSOLIDATED FINANCIAL REPORT
FISCAL 2018 (Japanese GAAP)
(January 1, 2018 to December 31, 2018)

February 14, 2019

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 27, 2019

Fiscal 2017 Securities Report filing date (planned): March 28, 2019

Dividend payment commencement date (planned): March 28, 2019

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

(1) Non-Consolidated Business Results

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

	Net sales		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY 2018	28,828	34.2	2,782	16.9	2,536	3.9	1,810	17.0
FY 2017	21,489	27.1	2,379	22.9	2,441	24.0	1,547	35.4

	Net Income Per Share	Net Income Per Share (Diluted)	ROE	Ordinary Income to Total Assets	Ordinary Income to Net Sales
	Yen	Yen	%	%	%
FY 2018	145.47	145.46	10.3	7.5	9.7
FY 2017	126.08	—	9.8	9.1	11.1

(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, 2018	37,862	18,749	49.5	1,484.44
As of December 31, 2017	29,904	16,351	54.7	1,332.88

(Reference) Shareholders' equity: As of December 31, 2018: ¥18,749 million As of December 31, 2017: ¥16,351 million

(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 2018	(2,070)	(484)	5,634	9,672
FY 2017	(2,992)	(1,423)	3,854	6,594

2. Dividends

	Cash Dividends per Share of Common Stock					Cash Dividends Paid (Annual) Millions of yen	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			
FY 2017	—	0.00	—	40.00	40.00	490	31.7	3.1
FY 2018	—	0.00	—	46.00	46.00	581	31.6	3.3
FY 2019 (planned)	—	0.00	—	40.00	40.00		45.5	

3. Forecast of Non-Consolidated Results for FY 2019 (January 1, 2019 to December 31, 2019)

(% 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	13,313	(4.5)	1,407	(5.8)	1,285	(4.4)	867	(4.8)	68.65
Full Fiscal Year	24,618	(14.6)	2,194	(21.1)	2,000	(21.2)	1,111	(38.6)	88.00

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, 2018: 12,940,900 shares As of December 31, 2017: 12,576,300 shares
2. Number of treasury stock
As of December 31, 2018: 309,931 shares As of December 31, 2017: 308,555 shares
3. Average number of shares for the year
FY2018: 12,445,273 shares FY2017: 12,270,095 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 “1. Summary of Business Results (4) Outlook for Fiscal 2019 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 20, 2019, 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 2018

During fiscal 2018 (ended December 31, 2018), the Japanese economy maintained a basic tone of moderate recovery, supported by increases in capital investment and firm consumer spending. The global economy grew steadily, centered on the United States, though the worldwide economic outlook remains turbid due to such factors as the trade frictions between the U.S. and China.

In the real estate industry, Arealink's principal business field, steady growth continued against a backdrop of low interest rates and other factors, though there were signs of stricter stances toward lending among financial institutions in response to fraudulent loans from certain regional banks. Conditions need to be watched closely going forward, ahead of the scheduled increase in the consumption tax in October 2019.

Under such conditions, Arealink proactively developed the Property Management Service business, centered on the "stock-type" (service oriented) self-storage business, as well as the Property Revitalization & Liquidation Service business centered on the land rights management business.

As a result, net sales for fiscal 2018 amounted to ¥28,828 million (up 34.2% year on year), with operating income of ¥2,782 million (up 16.9%), ordinary income of ¥2,536 million (up 3.9%), and net income of ¥1,810 million (up 17.0%).

Property Management Service

Arealink focused on openings of self-storage units with accompanying land (asset-type indoor storage). These types of units can be opened in densely populated areas unsuited to conventional container types, helping to uncover new customer demand. These properties also attracted buying demand from investors as non-residential investment properties, and Arealink actively sold self-storage properties with accompanying land, including forming two private placement funds.

As a result, net sales in the Property Management Service segment amounted to ¥25,129 million (up 28.1% year on year), with operating income of ¥3,445 million (up 9.9%).

Principal Indicators for Property Management Service (number of units)

	At Dec. 31, 2016	At Dec. 31, 2017	At Dec. 31, 2018
Container rooms	53,736	63,571	69,120
Trunk rooms	16,915	17,984	22,425

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 ¥3,698 million (up 97.8%), with operating income of ¥650 million (up 40.2%).

(2) Summary of Financial Condition for Fiscal 2018

Assets

Total assets at the end of fiscal 2018 (December 31, 2018) increased 26.6% compared with the end of the previous fiscal year (December 31, 2017), to ¥37,862 million.

Current assets increased 48.0% from the end of the previous fiscal year to ¥25,947 million. This was due mainly to increases of ¥4,660 million in real estate for sale; and ¥3,078 million in cash and deposits.

Noncurrent assets decreased 3.7% year on year to ¥11,914 million. This was due mainly to the transfer of ¥817 million in land and buildings to real estate for sale, in accordance with a change in the holding purpose.

Liabilities

Total liabilities increased 41.0% from the end of the previous fiscal year to ¥19,112 million.

Current liabilities increased 16.1% year on year to ¥6,607 million. This was due mainly to an increase of ¥713 million in current portion of long-term loans payable.

Noncurrent liabilities increased 59.1% year on year to ¥12,505 million. This was due mainly to increases of ¥3,980 million in long-term loans payable; and ¥293 million in bonds payable.

Net Assets

Net assets increased 14.7% from the previous fiscal year to ¥18,749 million. This was due mainly to increases of ¥543 million in capital stock due to the exercise of share options and the issuance of stock; ¥543 million in legal capital surplus; and ¥1,319 million in retained earnings brought forward.

(3) Summary of Cash Flows for Fiscal 2018

Cash and cash equivalents (“cash”) at the end of fiscal 2018 (December 31, 2018) increased ¥3,078 million from the end of the previous fiscal year (December 31, 2017), to ¥9,672 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 ¥2,070 million. This was due mainly to decreasing factors of a ¥4,278 million increase in inventories; and ¥892 million income taxes paid; against increasing factors of ¥2,267 million in net income before tax; and ¥645 million in depreciation.

Cash flow from investing activities

Cash used in investing activities amounted to ¥484 million. This was due mainly to decreasing factors of ¥299 million in expenditures for acquisition of property, plant and equipment.

Cash flow from financing activities

Cash provided by financing activities amounted to ¥5,634 million. This was due mainly to increasing factors of ¥9,430 million in proceeds from long-term loans payable; and ¥1,083 million in proceeds from issuance of stock stemming from the exercise of share options; against decreasing factors of ¥490 million in cash dividends paid; and ¥4,735 million in expenditures for repayment of long-term loans payable.

(Reference) Trends in cash flow indices

	FY2014 (Non-consolidated)	FY2015 (Non-consolidated)	FY2016 (Non-consolidated)	FY2017 (Non-consolidated)	FY2018 (Non-consolidated)
Equity ratio (%)	69.2	75.7	64.2	54.7	49.5
Equity ratio, based on market value (%)	88.0	91.5	64.3	97.5	39.1
Ratio of Interest-bearing debt to cash flow (times)	38.7	33.3	—	—	—
Interest coverage ratio (times)	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, December 2017 and December 2018 ratio of interest-bearing debt to cash flow and interest coverage ratio have been omitted from the presentation.

(4) Outlook for Fiscal 2019

For fiscal 2019 (ending December 31, 2019), despite expectations for a continued mild recovery in economic conditions, the outlook for the global economy remains turbid as a result of such factors as uncertainty in the direction of U.S. government policy. In the financial and real estate industry, firm conditions continue against a backdrop of low interest rates, but considering tighter attitudes toward lending among certain financial institutions due to the fallout from last year's fraudulent loan scandal, the direction of market conditions need to be watched closely going forward.

Under such conditions, in the Property Management Service business, Arealink has increased location openings for its mainstay self-storage business. Along with indoor trunk rooms and outdoor container units, we have added self-storage units with accompanying land, asset-type indoor storage units that can be developed in urban areas where storage needs are greater. Along with selling these units to existing investors, we are also developing them as company-held assets. Holding self-storage units with accompanying land will lead to a temporary decline in profit on sales, but over the longer term we expect this to lead to improved profitability, and a stronger cumulative-type business. By opening locations in areas with firm self-storage needs, and increasing the number of units under management in the self-storage business, we plan to establish a cumulative-type foundation for earnings, and while resolving such issues as differentiating ourselves from the competition, expand and grow our "stock-type" business.

In the self-storage business, competition is becoming increasingly fierce in terms of price, as well as differentiation in products and services. Under such conditions, Arealink has taken steps to differentiate itself from the competition by moving quickly to expand locations of Hello Storage in collaboration with Sanrio's popular Hello Kitty character. We are also pursuing differentiation in the areas of data utilization, operational efficiency, and security, including introducing marketing automation for customer management, and smart keys at storage locations. 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. We will continue to focus on enhancing the strength and recognition of our Hello Storage brand, and expanding our market share through more location openings, as well as 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 consideration of these factors, for the fiscal year ending December 31, 2019, Arealink is forecasting net sales of ¥24,618 million, comprising a decrease in the Property Management Service segment to ¥18,913 million stemming from the sale of self-storage properties with accompanying land to the usual investors and holdings of properties by the Company, and an increase in the Property Revitalization & Liquidation Service segment to ¥5,705 million. In terms of earnings, we forecast operating income of ¥2,194 million, ordinary income of ¥2,000 million, and net income of ¥1,111 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, 2017 (As of December 31, 2017)	End of the Fiscal Year Ended December 31, 2018 (As of December 31, 2018)
ASSETS		
Current assets:		
Cash and deposits	6,594,460	9,672,895
Accounts receivable — trade	108,339	110,156
Merchandise	219,797	157
Real estate for sale	4,832,711	9,493,172
Real estate for sale in process	5,010,939	5,853,893
Costs on uncompleted construction contracts	39,177	47,979
Supplies	24,232	43,773
Prepaid expenses	279,137	260,524
Advance payments — trade	196,766	141,540
Deferred tax assets	82,433	107,487
Other current assets	170,545	241,166
Allowance for doubtful accounts	(26,051)	(24,900)
Total current assets	17,532,490	25,947,846
Noncurrent assets:		
Property, plant and equipment:		
Buildings	6,012,353	5,789,018
Accumulated depreciation	(1,809,469)	(1,894,556)
Accumulated impairment loss	(196,556)	(217,115)
Buildings, net	4,006,328	3,677,346
Structures	1,680,463	1,762,998
Accumulated depreciation	(417,649)	(545,016)
Accumulated impairment loss	(154,968)	(404,318)
Structures, net	1,107,845	813,664
Machinery and equipment	77,236	75,968
Accumulated depreciation	(68,845)	(67,204)
Accumulated impairment loss	(6,465)	(6,465)
Machinery and equipment, net	1,925	2,297
Vehicles	13,878	—
Accumulated depreciation	(11,008)	—
Vehicles, net	2,869	—
Tools, furniture and fixtures	2,096,514	2,252,329
Accumulated depreciation	(820,064)	(966,761)
Accumulated impairment loss	(62,760)	(68,699)
Tools, furniture and fixtures, net	1,213,689	1,216,868
Land	4,224,697	3,674,867
Lease assets	176,774	486,858
Accumulated depreciation	(113,365)	(130,350)
Lease assets, net	63,409	356,508
Construction in progress	27,593	—
Total property, plant and equipment	10,648,359	9,741,552

	(Thousands of yen)	
	End of the Fiscal Year Ended December 31, 2017 (As of December 31, 2017)	End of the Fiscal Year Ended December 31, 2018 (As of December 31, 2018)
Intangible assets:		
Right of trademark	445	347
Software	133,930	176,986
Other	360	360
Total intangible assets	134,736	177,721
Investments and other assets:		
Investment securities	170,120	245,408
Long-term loans receivable	6,964	535
Claims provable in bankruptcy, claims provable in rehabilitation and other	1,290,069	1,290,069
Long-term prepaid expenses	60,828	33,850
Guarantee deposits	1,330,973	1,342,991
Deferred tax assets	—	331,382
Other	34,081	54,991
Allowance for doubtful accounts	(1,303,866)	(1,303,898)
Total investments and other assets	1,589,172	1,995,330
Total noncurrent assets	12,372,268	11,914,604
Total assets	29,904,759	37,862,450

(Thousands of yen)

	End of the Fiscal Year Ended December 31, 2017 (As of December 31, 2017)	End of the Fiscal Year Ended December 31, 2018 (As of December 31, 2018)
LIABILITIES		
Current liabilities:		
Accounts payable — trade	315,268	216,101
Accounts payable for construction contracts	696,046	324,541
Short-term loans payable	1,939,294	1,923,100
Current portion of bonds	107,000	207,000
Current portion of long-term loans payable	672,305	1,385,996
Accounts payable-other	375,820	540,504
Accrued expenses	179,927	253,002
Income taxes payable	567,932	495,281
Advances received	639,240	927,975
Advances received on uncompleted construction	29,374	87,200
Deposits received	4,123	3,989
Unearned revenue	26,313	23,095
Lease obligations	21,276	35,113
Sublease loss allowance	—	137,338
Other	117,400	46,826
Total current liabilities	5,691,682	6,607,067
Noncurrent liabilities:		
Bonds payable	439,500	732,500
Long-term loans payable	5,911,947	9,892,823
Guarantee deposited	596,116	535,616
Lease obligations	61,241	336,211
Long-term accounts payable — other	41,270	135,988
Asset retirement obligations	687,697	777,812
Sublease loss allowance	—	23,352
Deferred tax liabilities	31,434	—
Other	92,439	71,183
Total noncurrent liabilities	7,861,648	12,505,487
Total liabilities	13,553,330	19,112,555
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	6,751,957
Total retained earnings	5,432,200	6,751,957
Treasury stock	(269,737)	(273,906)
Total shareholders' equity	16,343,404	18,745,627
Valuation and translation adjustments:		
Valuation difference on available-for-sale securities	8,511	5,543
Deferred gains or losses on hedges	(487)	(1,275)
Total valuation and translation adjustments	8,023	4,267
Total net assets	16,351,428	18,749,895
Total liabilities and net assets	29,904,759	37,862,450

(2) Non-Consolidated Statements of Income

(Thousands of yen)

	Fiscal Year Ended December 31, 2017 (January 1, 2017 to December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 to December 31, 2018)
Net sales		
Rent operating revenue	11,914,887	13,234,310
Construction sales	5,888,481	4,209,345
Real estate sales	3,661,061	11,345,972
Other sales	24,786	38,643
Total net sales	21,489,217	28,828,272
Cost of Sales		
Rent operating expenses	8,547,696	9,997,448
Beginning goods	335,501	219,797
Cost of purchased goods	2,565	4,777
Total	338,066	224,574
Transfer to other account	118,268	224,417
Ending merchandise	219,797	157
Cost of construction sales	4,499,537	3,162,706
Cost of sales-real estate	2,758,559	9,012,893
Total cost of sales	15,805,792	22,173,049
Gross profit	5,683,424	6,655,223
Selling, general and administrative expenses		
Directors' compensations	174,390	172,580
Salaries and allowances	796,853	868,638
Other salaries	25,176	30,775
Welfare expenses	144,091	145,240
Advertising expenses	405,323	513,168
Entertainment expenses	54,322	53,260
Traveling and transportation expenses	75,644	64,171
Communication expenses	158,615	236,437
Insurance expenses	4,320	5,273
Utilities expenses	11,656	10,876
Supplies expenses	46,151	29,047
Commission fee	565,840	753,679
Compensations	337,440	412,264
Repair expenses	6,620	7,895
Taxes and dues	143,263	215,890
Depreciation	63,818	74,518
Provision of allowance for doubtful accounts	4,885	5,504
Bad debts expenses	310	894
Rents	170,189	163,968
Research and development expenses	30,800	—
Other	84,111	109,066
Total selling, general and administrative expenses	3,303,827	3,873,155
Operating income	2,379,597	2,782,067

(Thousands of yen)

	Fiscal Year Ended December 31, 2017 (January 1, 2017 to December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 to December 31, 2018)
Non-operating income:		
Interest income	8,517	8,010
Dividends income	320	399
Insurance income	5,399	6,134
Receive delinquency charges	1,513	2,469
Compensation for transfer	106,169	23,731
Other	32,647	16,608
Total non-operating income	149,169	57,354
Non-operating expenses:		
Interest expenses	62,918	110,801
Interest on bonds	1,151	1,661
Commission fee	11,845	159,032
Foreign exchange losses	2,174	6,507
Provision of allowance for doubtful accounts	1,035	710
Other	8,178	23,768
Total non-operating expenses	87,304	302,481
Ordinary income	2,441,462	2,536,940
Extraordinary income:		
Gain on sales of noncurrent assets	31,547	20,520
Gain on transfer of business	11,550	2,887
Total extraordinary income	43,097	23,407
Extraordinary loss:		
Loss on store closings	22,298	—
Head office transfer cost	16,469	—
Loss on sales of noncurrent assets	—	3,021
Loss on retirement of noncurrent assets	22,498	9,938
Impairment loss	101,009	279,773
Total extraordinary losses	162,275	292,734
Net income before income taxes	2,322,283	2,267,614
Income taxes — current	787,317	843,477
Income taxes — deferred	(12,067)	(386,330)
Total income taxes	775,250	457,146
Net income	1,547,033	1,810,467

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

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							
Issuance of new shares							—
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				
Issuance of new shares				—
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

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

(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		
				Retained Earnings Brought Forward			
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
Increase (decrease) during the period ended December 31, 2018							
Issuance of new shares	543,317	543,317	543,317				1,086,635
Dividends from surplus				(490,709)	(490,709)		(490,709)
Net income				1,810,467	1,810,467		1,80,467
Purchase of treasury shares						(4,169)	(4,169)
Net changes in items excluding shareholders' equity during the period							
Total	543,317	543,317	543,317	1,319,757	1,319,757	(4,169)	2,402,223
Balance as of December 31, 2018	6,111,539	6,156,037	6,156,037	6,751,957	6,751,957	(273,906)	18,745,627

(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, 2017	8,511	(487)	8,023	16,351,428
Increase (decrease) during the period ended December 31, 2018				
Issuance of new shares				1,086,635
Dividends from surplus				(490,709)
Net income				1,810,467
Purchase of treasury shares				(4,169)
Net changes in items excluding shareholders' equity during the period	(2,967)	(788)	(3,756)	(3,756)
Total	(2,967)	(788)	(3,756)	2,398,467
Balance as of December 31, 2018	5,543	(1,275)	4,267	18,749,895

(4) Non-Consolidated Statements of Cash Flows

(Thousands of yen)

	Fiscal Year Ended December 31, 2017 (January 1, 2017 to December 31, 2017)	Fiscal Year Ended December 31, 2018 (January 1, 2018 to December 31, 2018)
Cash flows from operating activities:		
Income before income taxes	2,322,283	2,267,614
Depreciation	585,540	645,290
Impairment loss	101,009	279,773
Interest and dividends income	(8,833)	(8,410)
Increase (decrease) in sublease loss allowance	—	160,691
Interest expenses paid on loans and bonds	64,070	112,462
Loss (gain) on sales of noncurrent assets	(31,547)	(17,498)
Loss on retirement of noncurrent assets	22,498	9,938
Loss (gain) on transfer of business	(11,550)	(2,887)
Decrease (increase) in notes and accounts receivable — trade	111,173	(1,816)
Decrease (increase) in inventories	(5,787,899)	(4,278,308)
Decrease (increase) in consumption taxes refund receivable	—	(50,183)
Increase (decrease) in notes and accounts payable — trade	296,510	(470,672)
Increase (decrease) in accrued consumption taxes	57,057	(58,461)
Increase (decrease) in guarantee deposits received	31,039	(60,500)
Other, net	(108,949)	400,808
Subtotal	(2,357,600)	(1,072,160)
Interest and dividends income received	8,780	8,410
Interest expenses paid	(64,943)	(114,511)
Income taxes paid	(579,089)	(892,518)
Net cash provided by (used in) operating activities	(2,992,852)	(2,070,780)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(1,446,336)	(299,292)
Proceeds from sales of property, plant and equipment	69,788	8,500
Purchase of intangible assets	(51,966)	(57,722)
Purchase of investment securities	1,980	(120,000)
Collection of loans receivable	17,978	9,316
Other, net	(11,312)	(25,108)
Net cash provided by (used in) investing activities	(1,423,829)	(484,308)
Cash flows from financing activities:		
Net increase (decrease) of short-term loans payable	(38,205)	(16,194)
Proceeds from long-term loans payable	5,156,676	9,430,557
Repayment of long-term loans payable	(1,076,967)	(4,735,989)
Proceeds from issuance of bonds	400,000	500,000
Redemption of bonds	(78,500)	(107,000)
Proceeds from issuance of common shares	—	1,083,368
Proceeds from issuance of share acquisition rights	—	10,055
Purchase of treasury share acquisition rights	—	(14,653)
Purchase of treasury shares	(8,211)	(4,169)
Cash dividends paid	(479,990)	(490,350)
Repayments of lease obligations	(20,107)	(21,379)
Net cash provided by (used in) financing activities	3,854,694	5,634,243
Effect of exchange rate changes on cash and cash equivalents	(2,168)	(720)
Net increase (decrease) in cash and cash equivalents	(564,155)	3,078,435
Cash and cash equivalents at beginning of period	7,158,615	6,594,460
Cash and cash equivalents at end of period	6,594,460	9,672,895

(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. 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) 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 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.

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

(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	25,129,684	3,698,588	28,828,272	—	28,828,272
Inter-Segment Sales and Transfers	—	—	—	—	—
Total	25,129,684	3,698,588	28,828,272	—	28,828,272
Segment Profit	3,445,072	650,915	4,095,988	(1,313,920)	2,782,067
Segment Assets	21,742,833	5,082,038	26,824,872	11,037,578	37,862,450
Other Items					
Depreciation	598,805	—	598,805	46,484	645,290
Increase in Property, Plant and Equipment and Intangible Assets	774,333	—	774,333	67,718	842,052

Notes:

1. The negative segment profit adjustment of ¥1,313,920 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 ¥11,037,578 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, 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.

Current business year (From January 1, 2018 to December 31, 2018)

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

(Unit: thousand yen)

Japan	United States	Total
8,751,156	990,395	9,741,552

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, 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

Current business year (From January 1, 2018 to December 31, 2018)

(Unit: thousand yen)

	Reporting segment			Adjustment	Total
	Property Management Service	Property Revitalization & Liquidation Service	Total		
Impairment losses	279,773	—	279,773	—	279,773

(Information regarding the amortization and unamortized balance of goodwill for each reporting segment)
Preceding business year (From January 1, 2017 to December 31, 2017)
Not applicable.

Current business year (From January 1, 2018 to December 31, 2018)
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, 2017 to December 31, 2017)	Current business year (From January 1, 2018 to December 31, 2018)
Per share amount of net assets	1,332.88 yen	1,484.44 yen
Per share amount of net profit	126.08 yen	145.47 yen
Diluted per share amount of net profit	—	145.46 yen

(Notes) 1) No statement is made regarding diluted per share net profit for the preceding business year because dilutive shares possessing a dilutive effect do not exist.

2) 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, 2017 to December 31, 2017)	Current business year (From January 1, 2018 to December 31, 2018)
Per share amount of net profit		
Net profit (thousand yen)	1,547,033	1,810,467
Amounts that do not belong to the common stockholders (thousand yen)	—	—
Net profit related to common shares (thousand yen)	1,547,033	1,810,467
Average number of common shares during the period (shares)	12,270,095	12,445,273
Diluted per share amount of net profit		
Increased number of common shares (thousand yen)	—	1,495
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.