

NON-CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)
FIRST HALF OF THE FISCAL YEAR ENDING
December 31, 2017
(January 1, 2017 to June 30, 2017)

July 28, 2017

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/>

Quarterly Securities Report filing date (planned): August 10, 2017

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 2017
(January 1, 2017 to June 30, 2017)

(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	%
FY2017 First Half	10,394	17.4	1,274	4.2	1,300	4.5	857	8.7
FY2016 First Half	8,850	(20.3)	1,223	(44.1)	1,244	(37.3)	788	(40.2)

	Net Income per Share	Net Income per Share after Dilution
	Yen	Yen
FY2017 First Half	69.90	—
FY2016 First Half	64.27	—

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	Shareholders' Equity Ratio
	Millions of yen	Millions of yen	%
June 30, 2017	25,260	15,663	62.0
December 31, 2016	23,791	15,283	64.2

(Reference) Shareholders' equity: June 30, 2017: 15,663 million yen December 31, 2016: 15,283 million yen

2. Dividends

(Record Date)	Dividends per Share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal 2016	—	0.00	—	39.00	39.00
Fiscal 2017	—	0.00	—	—	—
Fiscal 2017 (Forecast)	—	—	—	40.00	40.00

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

(% 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 2017	19,447	15.0	2,354	21.6	2,320	17.8	1,416	24.0	115.45

Note: Revision to the most recently announced operating results forecast: None

For details regarding the revision to FY12/17 results forecasts, see “Notice of Revision to Results Forecast” released July 24, 2017.

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, 2017: 12,576,300 shares December 31, 2016: 12,576,300 shares
 2. Total number of treasury stock as of the period-end:
June 30, 2017: 305,995 shares December 31, 2016: 303,975 shares
 3. Average number of shares for the period (Cumulative total for the quarterly non-consolidated period)
FY2017 First Half: 12,271,182 shares FY2016 First Half: 12,276,300 shares

Note: Arealink Co., Ltd. conducted a 1:10 consolidation of its common stock effective July 1, 2016. Figures for average number of share during the period have been calculated assuming the stock consolidation had occurred at the beginning of the prior fiscal year.

The quarterly financial report is not subject to the quarterly 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 “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, 2017, 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.

Contents

1. Qualitative Information Regarding Non-Consolidated Quarterly Business Results	4
(1) Explanation of Business Results	4
(2) Explanation of Financial Position	4
(3) Explanation of Results Forecasts and Other Future Predictions	5
2. Summary Information and Notes	5
3. Quarterly Financial Statements	6
(1) Non-Consolidated Quarterly Balance Sheets	6
(2) Non-Consolidated Quarterly Statements of Income	8
(3) Non-Consolidated Quarterly Statements of Cash Flows	9
(4) Notes Regarding Quarterly Financial Statements	10
(Notes Regarding Going Concern Assumptions)	10
(Notes Regarding Substantial Changes in Shareholders' Equity)	10
(Segment and Other Information)	10

1. Qualitative Information Regarding Non-Consolidated Quarterly Business Results

(1) Explanation of Business Results

During the second quarter cumulative period (January 1, 2017 to June 30, 2017) of fiscal 2017(ending 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 grew steadily at a moderate pace, centered on the United States with a continued firm employment environment, and the euro region driven by recovery in the manufacturing sector. However, uncertainty has increased due to the volatile global situation, and the economic outlook remains turbid.

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.

For the Property Management Service business, in the mainstay self-storage business, Arealink proactively opened new locations, and maintained steady operations in terms of management operations, contributing to greater earnings. We also uncovered 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 ¥9,181 million (+13.6% from the same period of the previous fiscal year), with operating income of ¥1,514 million (+0.8%).

For the Property Revitalization & Liquidation Service business, Arealink expanded its business operations 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 business amounted to ¥1,212 million (+57.8%), with operating income of ¥345 million (+72.5%).

As a result, net sales for the second quarter cumulative period of fiscal 2017 amounted to ¥10,394 million (+17.4% from the same period of the previous fiscal year), with operating income of ¥1,274 million (+4.2%), ordinary income of ¥1,300 million (+4.5%), and net income of ¥857 million (+8.7%).

(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, 2017) stood at ¥25,260 million, an increase of ¥1,468 million compared with the end of the previous fiscal year (December 31, 2016). This was due mainly to an increase of ¥1,550 million in costs on uncompleted construction contracts; and decreases of ¥195 million in cash and deposits; and ¥71 million in real estate for sale.

Total liabilities amounted to ¥9,597 million, an increase of ¥1,089 million compared with the end of the previous fiscal year. This was mainly due to an increase of ¥1,172 million in long-term loans payable; and a decrease of ¥580 million in short-term loans payable.

Total net assets amounted to ¥15,663 million, an increase of ¥379 million compared with the end of the previous fiscal year. This was due mainly to an increase of ¥379 million in retained earnings (comprised mainly of an ¥857 million increase from net income, and a ¥478 million decrease from dividend payments). As a result, the equity ratio was 62.0%.

Cash flows

Cash and cash equivalents ("Cash") at the end of the subject second quarter cumulative period (June 30, 2017) amounted to ¥6,963 million, a decrease of ¥195 million compared with the previous fiscal year-end.

Cash used in operating activities amounted to ¥193 million (compared to ¥536 million in cash provided in the same period of the previous fiscal year). This was due mainly to increasing factors of ¥1,280 million in net income before tax; against decreasing factors including a ¥1,395 million increase in inventories.

Cash used in investing activities amounted to ¥517 million (compared to ¥520 million in cash used in the same period of the previous fiscal year). This was due mainly to decreasing factors of ¥496 million in expenditures for the acquisition of property, plant and equipment.

Cash provided by financing activities amounted to ¥517 million (compared to ¥674 million in cash provided in the same period of the previous fiscal year). This was due mainly to increasing factors of ¥1,536 million in proceeds from long-term loans payable; against decreasing factors of ¥478 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, 2017, because performance in all businesses has grown steadily, the Company is revising its results forecasts from those announced in “Non-Consolidated Financial Report Fiscal 2017” dated February 14, 2017, as detailed in “Notice of Revision to Results Forecast” released July 24, 2017.

Regarding dividends for the fiscal year ending December 31, 2017, based on the Company’s basic policy and current earnings forecasts, Arealink plans to pay an annual dividend of ¥40.00 per share. There are no plans for an interim dividend payment.

2. Summary Information and Notes

Not applicable.

3. Quarterly Financial Statements

(1) Non-Consolidated Quarterly Balance Sheets

	(Thousands of yen)	
	End of the Fiscal Year Ended December 31, 2016 (As of December 31, 2016)	End of the Second Quarter of the Fiscal Year Ending December 31, 2017 (As of June 30, 2017)
ASSETS		
Current assets:		
Cash and deposits	7,158,615	6,963,469
Accounts receivable — trade	95,455	110,946
Accounts receivable from completed construction contracts	124,057	11,417
Merchandise	335,501	300,316
Real estate for sale	3,561,365	3,490,329
Costs on uncompleted construction contracts	335,707	1,885,969
Costs on uncompleted construction contracts	92,875	40,144
Supplies	13,509	17,646
Other current assets	479,390	753,158
Allowance for doubtful accounts	(27,821)	(35,899)
Total current assets	12,168,657	13,537,500
Noncurrent assets:		
Property, plant and equipment:		
Buildings	5,660,158	5,655,938
Accumulated depreciation	(1,576,407)	(1,695,206)
Accumulated impairment loss	(179,717)	(179,335)
Buildings, net	3,904,033	3,781,396
Land	3,954,095	3,954,095
Other	3,450,383	3,736,305
Accumulated depreciation	(1,144,785)	(1,281,518)
Accumulated impairment loss	(158,990)	(153,755)
Other, net	2,146,608	2,301,031
Total property, plant and equipment	10,004,737	10,036,523
Intangible assets:		
Other	107,439	119,360
Total intangible assets	107,439	119,360
Investments and other assets:		
Other	2,814,496	2,870,814
Allowance for doubtful accounts	(1,303,675)	(1,303,793)
Total investments and other assets	1,510,821	1,567,020
Total noncurrent assets	11,622,998	11,722,905
Total assets	23,791,656	25,260,405

(Thousands of yen)

	End of the Fiscal Year Ended December 31, 2016 (As of December 31, 2016)	End of the Second Quarter of the Fiscal Year Ending December 31, 2017 (As of June 30, 2017)
LIABILITIES		
Current liabilities:		
Accounts payable — trade	243,555	225,949
Accounts payable for construction contracts	471,248	482,313
Short-term loans payable	1,977,500	1,396,635
Current portion of bonds	50,000	107,000
Current portion of long-term loans payable	488,400	529,923
Income taxes payable	316,580	474,342
Other	1,412,083	1,277,910
Total current liabilities	4,959,368	4,494,073
Noncurrent liabilities:		
Bonds payable	175,000	493,000
Long-term loans payable	2,016,144	3,188,629
Asset retirement obligations	585,340	641,301
Other	772,275	780,239
Total noncurrent liabilities	3,548,760	5,103,170
Total liabilities	8,508,128	9,597,244
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	4,742,953
Total retained earnings	4,363,787	4,742,953
Treasury stock	(261,525)	(264,289)
Total shareholders' equity	15,283,203	15,659,606
Valuation and translation adjustments:		
Valuation difference on available-for-sale securities	2,281	4,125
Deferred gains or losses on hedges	(1,957)	(570)
Total valuation and translation adjustments	324	3,555
Total net assets	15,283,527	15,663,161
Total liabilities and net assets	23,791,656	25,260,405

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

(Thousands of yen)

	First Half of the Fiscal Year Ended December 31, 2016 (January 1, 2016 to June 30, 2016)	First Half of the Fiscal Year Ending December 31, 2017 (January 1, 2017 to June 30, 2017)
Net sales	8,850,035	10,394,057
Cost of Sales	6,267,004	7,510,403
Gross profit	2,583,030	2,883,654
Selling, general and administrative expenses	1,359,159	1,608,938
Operating income	1,223,871	1,274,715
Non-operating income:		
Interest income	5,805	4,265
Reversal of allowance for doubtful accounts	53	26
Default charge income	839	604
Compensation for transfer	41,543	44,004
Other	9,996	20,442
Total non-operating income	58,237	69,343
Non-operating expenses:		
Interest expenses	16,789	25,977
Interest on bonds	93	437
Bond issuance cost	4,195	9,182
Foreign exchange losses	5,912	1,402
Other	10,433	6,244
Total non-operating expenses	37,425	43,244
Ordinary income	1,244,683	1,300,814
Extraordinary income:		
Gain on sales of noncurrent assets	8,604	8,604
Gain on transfer of business	5,775	5,775
Total extraordinary income	14,379	14,379
Extraordinary loss:		
Head office transfer cost	—	16,150
Loss on retirement of noncurrent assets	921	18,534
Loss on redemption of investment securities	2,406	—
Total extraordinary losses	3,327	34,685
Net income before income taxes	1,255,735	1,280,508
Income taxes — current	404,130	420,693
Income taxes — deferred	62,631	2,028
Total income taxes	466,762	422,721
Net income	788,973	857,787

,

(3) Non-Consolidated Quarterly Statements of Cash Flows

(Thousands of yen)

	First Half of the Fiscal Year Ended December 31, 2016 (January 1, 2016 to June 30, 2016)	First Half of the Fiscal Year Ending December 31, 2017 (January 1, 2017 to June 30, 2017)
Cash flows from operating activities:		
Income before income taxes	1,255,735	1,280,508
Depreciation	249,027	285,352
Interest and dividends income	(5,952)	(4,449)
Interest expenses and interest on bonds	16,882	26,415
Loss (gain) on sales of noncurrent assets	(8,604)	(8,604)
Loss on retirement of noncurrent assets	921	18,534
Decrease (increase) in notes and accounts receivable — trade	(47,129)	97,148
Decrease (increase) in inventories	(714,652)	(1,395,447)
Decrease (increase) in consumption taxes refund receivable	70,194	—
Increase (decrease) in notes and accounts payable — trade	351,703	(6,541)
Increase (decrease) in accrued consumption taxes	65,755	72,165
Increase (decrease) in guarantee deposits received	24,885	26,124
Other, net	(13,068)	(282,231)
Subtotal	1,245,700	108,975
Interest and dividends income received	6,114	4,391
Interest expenses paid	(19,345)	(26,913)
Income taxes paid	(695,792)	(280,300)
Net cash provided by (used in) operating activities	536,677	(193,846)
Cash flows from investing activities:		
Purchase of noncurrent assets	(524,974)	(496,775)
Purchase of intangible assets	(28,772)	(27,464)
Purchase of investment securities	—	(1,980)
Proceeds from redemption of investment securities	30,188	—
Collection of loans receivable	8,989	8,989
Other, net	(5,510)	—
Net cash provided by (used in) investing activities	(520,079)	(517,231)
Cash flows from financing activities:		
Net increase (decrease) of short-term loans payable	1,039,040	(580,864)
Proceeds from long-term loans payable	—	1,536,878
Repayment of long-term loans payable	(122,172)	(322,870)
Proceeds from issuance of bonds	250,000	400,000
Redemption of bonds	—	(25,000)
Repayments of lease obligations	(16,674)	(9,922)
Cash dividends paid	(475,868)	(478,154)
Purchase of treasury shares	—	(2,763)
Net cash provided by (used in) financing activities	674,325	517,303
Effect of exchange rate changes on cash and cash equivalents	(5,919)	(1,371)
Net increase (decrease) in cash and cash equivalents	685,003	(195,146)
Cash and cash equivalents at beginning of period	6,415,073	7,158,615
Cash and cash equivalents at end of period	7,100,077	6,963,469

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

Not applicable.

(Notes Regarding Substantial Changes in Shareholders' Equity)

Not applicable.

(Segment and Other Information)

1) Overview of Reportable Segments

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

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

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

The first half of fiscal 2016 (January 1, 2016 to June 30, 2016)

(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	8,081,664	768,371	8,850,035	—	8,850,035
Inter-Segment Sales and Transfers	—	—	—	—	—
Total	8,081,664	768,371	8,850,035	—	8,850,035
Segment Profit	1,503,435	200,524	1,703,959	(480,088)	1,223,871

Notes:

1. The negative segment profit adjustment of ¥480,088 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 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.