

NON-CONSOLIDATED FINANCIAL REPORT
FISCAL 2016 (Japanese GAAP)
(January 1, 2016 to December 31, 2016)

February 14, 2017

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

(1) Non-Consolidated Business Results

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

	Operating Revenues		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY 2016	16,908	(1.5)	1,935	(27.2)	1,968	(19.4)	1,142	(26.3)
FY 2015	17,173	(5.2)	2,657	18.9	2,442	17.0	1,550	0.6

	Net Income Per Share	Net Income Per Share (Diluted)	ROE	Ordinary Income to Total Assets	Ordinary Income to Operating Revenues
	Yen	Yen	%	%	%
FY 2016	93.06	—	7.6	9.1	11.4
FY 2015	126.32	—	11.0	12.6	15.5

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

(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, 2016	23,791	15,283	64.2	1,245.09
As of December 31, 2015	19,312	14,626	75.7	1,191.43

(Reference) Shareholders' equity: As of December 31, 2016: ¥15,283 million As of December 31, 2015: ¥14,626 million

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

(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 2016	(708)	(1,544)	2,999	7,158
FY 2015	3,941	(1,069)	(1,888)	6,415

2. Dividends

	Cash Dividends per Share of Common Stock					Cash Dividends Paid (Annual)	Dividend Payout Ratio (Consolidated)	Cash Dividends to Net Assets (Consolidated)
	End of 1Q	End of 2Q	End of 3Q	End of 4Q	Annual			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY 2015	—	0.00	—	3.90	3.90	478	30.9	3.4
FY 2016	—	0.00	—	39.00	39.00	478	41.9	3.2
FY 2017 (planned)	—	0.00	—	40.00	40.00		36.3	

Note: Arealink Co., Ltd. conducted a 1:10 consolidation of its common stock, with an effective date of July 1, 2016. Cash dividend per share of common stock for the year ended December 31, 2015 indicated above is the actual dividend before said stock consolidation.

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

(% 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	9,127	3.1	977	(20.1)	958	(23.0)	606	(23.1)	49.45
Full Fiscal Year	19,447	15.0	2,254	16.5	2,220	12.8	1,353	18.5	110.31

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, 2016: 12,576,300 shares As of December 31, 2015: 12,576,300 shares
2. Number of treasury stock
As of December 31, 2016: 303,975 shares As of December 31, 2015: 300,000 shares
3. Average number of shares for the year
FY2016: 12,274,993 shares FY2015: 12,276,300 shares

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

Regarding the Status of Review Procedure Implementation

This financial report for the fiscal 2016 is not subject to the review procedures stipulated in the Financial Instruments and Exchange Act of Japan. As of the date of disclosure of this report, the review procedures for the financial statements under the Financial Instruments and Exchange Act had not been completed.

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 “Analysis of Business Results and Financial Condition” on page 4 for assumptions of the revision of forecasts of business results.

The Company plans to hold a results briefing on February 15, 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.

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1. Analysis of Business Results and Financial Condition

(1) Analysis of Business Results

1) Business Results for Fiscal 2016

During fiscal 2016 (ended December 31, 2016), the Japanese economy maintained a basic tone of moderate recovery, with signs of improvement in corporate earnings and employment stemming from expectations for government economic policies, and proactive monetary easing by the Bank of Japan. However, the economic outlook remains turbid as a result of such factors as uncertainty in the U.S. with President Trump's warnings of an "America first" stance and policy shifts, the Brexit issue, and concerns over economic slowdown in emerging economies. 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 expanded 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 sale of properties held for resale in response to market conditions.

As a result, net sales for fiscal 2016 amounted to ¥16,908 million (-1.5% year on year), with operating income of ¥1,935 million (-27.2%), ordinary income of ¥1,968 million (-19.4%), and net income of ¥1,142 million (-26.3%).

Property Management Service

In the mainstay self-storage business, to strengthen openings of new community-oriented locations and improve customer service, Arealink leveraged its full-fledged operations and new location development structure, centered on existing offices and sales agencies, to maintain a steady pace for openings and operations, which contributed to greater earnings. We also opened collaboration locations combining Arealink's self-storage brand Hello Storage with Sanrio's popular Hello Kitty character, and took proactive steps for business expansion, including acquiring self-storage properties in the United States.

As a result, net sales in the Property Management Service segment amounted to ¥15,820 million (+21.9% year on year), with operating income of ¥2,735 million (+15.1%).

Principal Indicators for Property Management Service	(number of units)		
	At Dec. 31, 2014	At Dec. 31, 2015	At Dec. 31, 2016
Container rooms	37,207	45,053	53,736
Trunk rooms	16,357	17,272	16,915
Office rooms	655	648	610
Meeting rooms	93	113	133

Property Revitalization & Liquidation Service

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. Of note, in the previous fiscal year, in response to favorable real estate market conditions, Arealink actively sold commercial property, office buildings, and residential apartments held for resale.

As a result, net sales in the Property Revitalization & Liquidation Service segment amounted to ¥1,087 million (-74.1% year on year), with operating income of ¥246 million (-79.0%).

2) Outlook for Fiscal 2017

For fiscal 2017 (ending December 31, 2017), despite the recovery trend in the general economy, the outlook for business conditions in the real estate industry remains uncertain as a result of concerns including the impact that U.S. President Trump's policies will have on the Japanese economy, and continued high real estate prices.

Under such conditions, in the Property Management Service, Arealink has increased location openings for its mainstay self-storage business. With the addition of the new 2x4 Trunk-type self-storage units alongside conventional trunk and container units, we are accelerating openings of storage locations and increasing our share of the self-storage market. Along with proactive expansion of the self-storage business, we plan to establish a stable foundation for earnings centered on strengthening the Office Division through new openings of rental meeting room locations, which will address such issues as differentiating ourselves from the competition, while expanding our "stock-type" (property management service oriented) business model.

In the self-storage business, competition is becoming increasingly fierce in terms of price, as well as differentiation of products and services. Under such conditions, Arealink is differentiating itself from the competition by expanding locations of Hello Storage in collaboration with Sanrio's popular Hello Kitty character. We are also utilizing databases developed from our sales support system to clarify location opening criteria and optimize product types, and pursuing differentiation through such services as the "Speed 3-Minute Contract" (automated contract) offering 24-hour service for contract procedures. Arealink recognizes that amid the continual increase in demand and awareness among customers of rental storage services, our efforts for safety and security, easy accessibility similar to a convenience store, and brand strength developed through the nationwide Hello Storage network, presents business opportunities for further expansion. The opening of 2x4 Trunk-type self-storage units in suburban areas will permit locations in a wide range of conditions (site location and size), enhancing our brand strength and recognition. Further, we will focus on expanding our market share through community strategies with a view to nationwide expansion, work to increase sales, and seek stable operations through such means as expansion of the customer support system.

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

In terms of costs, we anticipate increases in expenses for introduction of the sales support system and other measures related to business expansion, as well as IT system investments to improve services, but expect to lower expenditures through enhanced business efficiency with the introduction of IT systems, and far-reaching cost controls.

In consideration of these factors, for the fiscal year ending December 31, 2017, Arealink is forecasting net sales of ¥19,447 million, comprising an increase in the Property Management Service segment to ¥18,547 million, and a decline in the Property Revitalization & Liquidation Service segment to ¥900 million. In terms of earnings, we forecast operating income of ¥2,254 million, ordinary income of ¥2,220 million, and net income of ¥1,353 million.

(2) Analysis of Financial Condition

1) Assets, Liabilities, and Net Assets

Assets

Total assets at the end of fiscal 2016 (December 31, 2016) increased 23.2% compared with the end of the previous fiscal year (December 31, 2015), to ¥23,791 million.

Current assets increased 33.4% from the end of the previous fiscal year to ¥12,168 million. This was due mainly to increases of ¥2,142 million in real estate for sale; and ¥743 million in cash and deposits.

Noncurrent assets increased 14.0% year on year to ¥11,622 million. This was due mainly to increases of ¥1,133 million in total property, plant and equipment stemming from acquisition of tangible fixed assets; and ¥305 million in guarantee deposits.

Liabilities

Total liabilities increased 81.5% from the previous fiscal year to ¥8,508 million.

Current liabilities increased 72.2% year on year to ¥4,959 million. This was due mainly to increases of ¥1,644 million in short-term loans payable; and ¥244 million in current portion of long-term loans payable; against a decrease of ¥398 million in income taxes payable.

Noncurrent liabilities increased 96.5% year on year to ¥3,548 million. This was due mainly to increases of ¥1,395 million in long-term loans payable; and ¥175 million in bonds payable.

Net Assets

Net assets increased 4.5% from the previous fiscal year to ¥15,283 million. This was due mainly to an increase of ¥663 million in retained earnings brought forward.

2) Cash Flows

Cash and cash equivalents (“cash”) at the end of fiscal 2016 (December 31, 2016) increased ¥743 million from the end of the previous fiscal year (December 31, 2015), to ¥7,158 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 ¥708 million. This was due mainly to decreasing factors of a ¥2,263 million increase in inventories; and ¥1,081 million income taxes paid; against increasing factors of ¥1,902 million in net income before tax; and ¥518 million in depreciation.

Cash flow from investing activities

Cash used in investing activities amounted to ¥1,544 million. This was due mainly to decreasing factors of ¥1,537 million in expenditures for acquisition of property, plant and equipment.

Cash flow from financing activities

Cash provided by financing activities amounted to ¥2,999 million. This was due mainly to increasing factors of ¥2,000 million in proceeds from long-term loans payable; and ¥1,644 million in increase of short-term loans payable; against ¥447 million in cash dividends paid; and ¥360 million in expenditures for repayment of long-term loans payable.

(Reference) Trends in cash flow indices

	FY2012 (Non-consolidated)	FY2013 (Non-consolidated)	FY2014 (Non-consolidated)	FY2015 (Non-consolidated)	FY2016 (Non-consolidated)
Equity ratio (%)	58.8	53.4	69.2	75.7	64.2
Equity ratio, based on market value (%)	45.4	69.3	88.0	91.5	64.3
Ratio of Interest-bearing debt to cash flow (times)	1,249.7	772.3	38.7	33.3	—
Interest coverage ratio (times)	3.4	5.9	50.7	78.4	—

Equity ratio: shareholders' equity/ total assets
Market-based rate of equity ratio: total market capitalization/ total assets
Ratio of interest-bearing debt to cash flow: interest-bearing debt/ cash flows
Interest coverage ratio: cash flows/ interest expense

Notes:

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

(3) Basic Policy on Profit Distribution, and Dividends for FY2016 and FY2017

Arealink regards the long-term, comprehensive expansion of profit to shareholders as an important management objective. Our basic policy is to maintain a stable target payment of payout ratio of 30 % commensurate with the Company's financial condition and earnings, based on the long-term business plan, and assessing the market environment and opportune timing for capital expenditures, while also keeping in mind retention of earnings for reinvestment. The basic policy for the number of payouts is once per year at the end of the fiscal period, as determined by the General Meeting of Shareholders.

Of note, the Articles of Incorporation state that "By resolution of the Board of Directors, the Company may pay an interim dividend with a record date of June 30 annually." Accordingly, the decision-making body for the dividend of surplus is the General Meeting of Shareholders for year-end dividends, and the Board of Directors for interim dividends.

For fiscal 2016, based on a comprehensive consideration of current economic conditions, the Company's financial condition, and business results for the year, Arealink plans to pay an annual dividend of ¥39.0 per share.

For fiscal 2017, in accordance with the above basic policy and earnings forecasts at the present time, Arealink plans to pay an annual dividend of ¥40.0 per share. There are no plans for an interim dividend.

(4) Risk Factors

Of the matters regarding the status of business operations and accounting presented in this report, those matters that could significantly influence the decisions of investors are presented below.

The following also includes matters that Arealink does not necessarily consider to be business risks, as well as matters the Company considers important in terms of understanding its business activities, which are presented in the interest of proactive disclosure to investors.

Arealink recognizes the possibility that these risks could arise, and is prepared to make a maximum effort to prevent them from arising, and to address them if they should arise.

Forward-looking statements in the text are the judgments of the Company as of the end of the subject fiscal year.

- 1) Risk of changes in customer needs, market conditions, and other aspects of the external operating environment

Arealink's policy for the purchase of properties for use in its various businesses, as in the past, is primarily to search for properties that match customer needs, and to carefully consider the location, market for the surrounding area, and other factors.

For the sale or disposal of properties as well, the Company's policy is to strengthen our business position to present effective means of utilizing properties in line with investor needs, and in considering of the local real estate market and other factors, to recover investment capital in a timely matter.

However, should Arealink's forecast for potential demand be inadequate, or demand decline as a result of unforeseen changes in the external environment, or should there be rapid fluctuations in rent or real estate prices in surrounding areas, this could affect the Company's business results and financial condition.

2) Risk in Arealink's holding of property

The properties held by Arealink have been carefully selected for investment on the basis of (i) scarcity value; (ii) target investment return of 8% or higher; (iii) prospects for immediately generating revenue; and (iv) the potential to utilize the Company's expertise in real estate manage to fill vacancies. Further, where investment capital is procured through borrowing, we work to avoid the risk of interest rate increases by procuring funds in line with the investment period, and when necessary borrowing at fixed interest rates.

However, should Arealink's forecast for potential demand be inadequate, or demand decline as a result of unforeseen changes in the external environment, or should there be rapid fluctuations in rents or real estate prices in surrounding areas, this could affect the Company's business results and financial condition.

3) Risk from low barriers to market entry

As opposed to the businesses of other companies based on products, Arealink's business originated from consulting for the revitalization of real estate. We feel that even among companies in businesses related to real estate, we have established our own market niche. Further, Arealink is unique in that it can offer combinations of services from among its extensive product lineup.

However, Arealink has no patents or other legal means to exclude other companies from the market, and the business model itself is simple, so fierce competition could arise as a result of other firms following the Company into the market.

4) Suppliers of the containers used for the storage business

Arealink has selected three specific firms from among numerous candidates to supply the containers used for the storage business.

The selection of three suppliers was made in recognition of the importance of selecting and building close relationships with companies able to maintain a stable supply of the containers used for the storage business at a consistent level of quality, and to provide special fixtures and follow-up service. The cost per container is also lowered through bulk purchases.

However, should production of containers be curtailed as a result of natural disasters or other difficulties in China and South Korea, the places where the containers supplied by the three companies are made, or should other events unforeseen by the Company arise, Arealink could become unable to acquire a supply of containers in a timely manner, even by shifting to different sales channels with other suppliers. This could result in lost business opportunities, a slower speed of business development, an increase in the cost of containers, or other developments that could affect the Company's business results and financial condition.

5) Possibility that lease contracts with property owners will be terminated after a short period

For its Property Management Service, Arealink concludes lease contracts with property owners, with the Company as the lessee.

In principle the lease periods for individual contracts are fixed, but in some cases the terms provide for termination of the contract on declaration of intent by one of the parties.

For such properties, should there be a change in the leasing policy of the owner (lessor), or should a more beneficial method of asset utilization or other situation arise, this could result in termination of the lease contract, which could affect the Company's business results and financial condition.

Of note, since the launch of this business through the end of December 2016, there have been 64 cases

in which contracts were terminated by the owner (lessor) prior to the conclusion of the contract period.

6) Possibility of tighter regulation of the storage business

Of the types of storage offered by Arealink, there has been a rapid increase in recent years of the number of “container warehouses,” including those established by other companies in the industry. In conjunction with this expansion, there have been media reports of certain operators experiencing problems with nearby residents over the living environment and other issues, as well as the issuance of removal orders based on the Building Standards Act certifying a container as a building.

As for containers placed by Arealink, as of the end of December 2016 there have been no cases of problems with nearby residents, or any removal orders or other administrative sanctions. However, should there be a tightening of administrative guidance or other regulations in the future, this could affect the Company’s storage business.

7) The proportion of overall business performance from the storage business (brokerage) in the Property Management Service segment

Arealink conducts the storage business (brokerage) as part of the Property Management Service business. Since the gross profit margin from this business is large compared to other businesses, it accounts for a relatively large percentage of overall gross profit. The amounts of net sales and gross profit from the storage business (brokerage) for fiscal 2016 (ended December 2016), and their proportion of results for the entire company, are shown in the following chart.

Unit: Thousands of yen, %

	Item	FY2016
Results for the entire company	Net sales	16,908,115
	Gross profit	4,771,428
Results for the storage business (brokerage)	Net sales	5,325,417
	Gross profit	1,533,646
Proportion	Net sales	31.5%
	Gross profit	32.1%

(5) Material Events Related to Going Concern Assumptions

Nothing applicable

2. Organization of the Corporate Group

Nothing applicable, as Arealink does not have any affiliates.

3. Management Policies

(1) Basic Management Policy

Arealink's stated basic policies are to be the acknowledged leader in the storage business in terms of both market share and quality, to achieve extremely stable and strong growth by strengthening our business foundation (Storage Division, Asset Division, and rental meeting rooms in the Office Division), to expand human resources development, and to pay a stable dividend. We operate the "Hello" series of storage products (Hello Trunk, Hello Container), centered on the Tokyo metropolitan area.

In the spirit of "a problem is a business opportunity," Arealink offers owners of under-utilized real estate with added value, such as storage (Hello Trunk, Hello Container) through its unique business model, and in doing so provides end users with spaces that are convenient and easy to use.

(2) Key Performance Indicators

Arealink has established as a key performance indicator enhancing long-term profitability and capital efficiency to raise overall corporate value. This is accomplished through operations centered on the steady revenue from the Property Management Service, comprising mainly the Storage Division, Asset Division, and rental meeting rooms in the Office Division, and in the Property Revitalization & Liquidation Service by purchasing new inventory and selling real estate, giving due consideration to conditions in the real estate market.

(3) Longer Term Business Strategies

Arealink, to realize the Basic Management Strategy outlined above, has set as longer term business strategies in the Storage Division with a view to nationwide business development of increasing the number of locations, and strengthening services, products, brand appeal, and name recognition, in the Asset Division holding income-generating properties, and in the Office Division expanding locations for rental meeting rooms.

In the Storage Division (Hello Trunk and Hello Container), we will achieve scale merit, further accumulate expertise, and enhance service and product capabilities, as well as utilize IT technology to pursue enhancements in operational efficiency and a stronger management structure. Further, we will accelerate the opening of storage locations by establishing offices and sales agencies in various regions with a view to nationwide business expansion, and build a structure for comprehensive support with close connections to both customers and owners.

In the Asset Division, with due consideration of real estate market conditions, our policy is to hold income-generating properties carefully chosen based on our own criteria, such as properties with a target return on investment of 8% or higher.

In the Office Division, for rental meeting rooms we will expand the number of locations as new priority "stock-type" (service oriented) business.

(4) Key Issues Requiring Attention

1) Sustainable growth in the Property Management Service business

To achieve sustainable growth in the Property Management Service business, centered on the Storage Division (Hello Trunk and Hello Container) and Asset Division, we will strengthen order-type store openings, broaden information gathering, enhance services, strengthen planning and development capabilities, and bolster the management structure by making full use of IT strategies. In the Property Revitalization & Liquidation Service business, we think it is important to enhance human resources to achieve sustainable growth, and will further emphasize the securing and training of personnel.

2) Further enhancement of product, service, and brand appeal

As noted in the “Risks Factors” section, Arealink’s Property Management Service is a simple business model, and as such there are few barriers to entry and the potential for intense competition from new market entrants. However, we believe that through product appeal based on developing Hello Storage in collaboration with Sanrio’s popular Hello Kitty character, accumulated expertise, service improvements such as the “Speed 3-Minute Contract” (automated contract), expansion of our network nationwide, and by establishing brand power and recognition, we will clearly differentiate ourselves from the competition, and capture customer needs to the fullest extent.

(5) Other Material Business Matters

Nothing applicable

4. 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.

5. Financial Statements
(1) Non-Consolidated Balance Sheets

(Thousands of yen)

	End of the Fiscal Year Ended December 31, 2015 (As of December 31, 2015)	End of the Fiscal Year Ended December 31, 2016 (As of December 31, 2016)
ASSETS		
Current assets:		
Cash and deposits	6,415,073	7,158,615
Accounts receivable — trade	102,309	95,455
Accounts receivable — completed construction	—	124,057
Merchandise	436,634	335,707
Real estate for sale	1,419,233	* ¹ 3,561,365
Real estate for sale in process	—	* ¹ 335,707
Costs on uncompleted construction contracts	211,364	92,875
Supplies	8,446	13,509
Prepaid expenses	203,568	243,747
Short-term investment securities	32,594	—
Advance payments — trade	19,100	23,934
Deferred tax assets	106,759	67,333
Other current assets	196,879	144,374
Allowance for doubtful accounts	(30,332)	(27,821)
Total current assets	9,121,631	12,168,657
Noncurrent assets:		
Property, plant and equipment:		
Buildings	* ¹ 4,981,239	* ¹ 5,660,158
Accumulated depreciation	(1,387,966)	(1,576,407)
Accumulated impairment loss	(132,442)	(179,717)
Buildings, net	3,460,830	3,904,033
Structures	823,381	1,243,583
Accumulated depreciation	(218,847)	(303,422)
Accumulated impairment loss	(44,367)	(99,868)
Structures, net	560,166	840,292
Machinery and equipment	87,087	82,058
Accumulated depreciation	(57,418)	(63,625)
Accumulated impairment loss	(6,427)	(6,465)
Machinery and equipment, net	23,241	11,968
Vehicles	13,878	13,878
Accumulated depreciation	(6,373)	(8,691)
Vehicles, net	7,504	5,186
Tools, furniture and fixtures	1,653,306	1,949,088
Accumulated depreciation	(560,911)	(672,638)
Accumulated impairment loss	(47,076)	(52,656)
Tools, furniture and fixtures, net	1,045,318	1,223,793
Land	* ¹ 3,685,328	* ¹ 3,954,095
Lease assets	170,774	161,774
Accumulated depreciation	(82,682)	(96,408)
Lease assets, net	88,092	65,366
Construction in progress	348	—
Total property, plant and equipment	8,870,830	10,004,737

	End of the Fiscal Year Ended December 31, 2015 (As of December 31, 2015)	End of the Fiscal Year Ended December 31, 2016 (As of December 31, 2016)
Intangible assets:		
Right of trademark	658	516
Software	85,246	106,562
Other	360	360
Total intangible assets	<u>86,265</u>	<u>107,439</u>
Investments and other assets:		
Investment securities	158,455	159,169
Long-term loans receivable	34,258	16,280
Claims provable in bankruptcy, claims provable in rehabilitation and other	1,280,149	1,290,069
Long-term prepaid expenses	26,006	29,701
Guarantee deposits	979,796	1,285,195
Deferred tax assets	27,855	—
Other	29,612	34,081
Allowance for doubtful accounts	(1,302,013)	(1,303,675)
Total investments and other assets	<u>1,234,120</u>	<u>1,510,821</u>
Total noncurrent assets	<u>10,191,216</u>	<u>11,622,998</u>
Total assets	<u>19,312,847</u>	<u>23,791,656</u>

(Thousands of yen)

	End of the Fiscal Year Ended December 31, 2015 (As of December 31, 2015)	End of the Fiscal Year Ended December 31, 2016 (As of December 31, 2016)
LIABILITIES		
Current liabilities:		
Accounts payable — trade	249,831	243,555
Accounts payable for construction contracts	268,066	471,248
Short-term loans payable	333,340	*1 1,977,500
Current portion of bonds	—	50,000
Current portion of long-term loans payable	*1 244,284	*1 488,400
Accounts payable-other	306,791	533,865
Accrued expenses	46,190	146,299
Income taxes payable	715,203	316,580
Advances received	569,458	629,489
Advances received on uncompleted construction	49,494	—
Deposits received	5,941	7,614
Unearned revenue	35,420	35,420
Lease obligations	21,395	20,107
Other	35,140	39,286
Total current liabilities	2,880,559	4,959,368
Noncurrent liabilities:		
Bonds payable	—	175,000
Long-term loans payable	*1 621,096	*1 2,016,144
Guarantee deposited	523,686	565,076
Lease obligations	91,251	66,317
Asset retirement obligations	418,565	585,340
Deferred tax liabilities	—	25,004
Other	151,297	115,877
Total noncurrent liabilities	1,805,897	3,548,760
Total liabilities	4,686,456	8,508,128
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	3,700,254	4,363,787
Total retained earnings	3,700,254	4,363,787
Treasury stock	(256,584)	(261,525)
Total shareholders' equity	14,624,612	15,283,203
Valuation and translation adjustments:		
Valuation difference on available-for-sale securities	1,778	2,281
Deferred gains or losses on hedges	—	(1,957)
Total valuation and translation adjustments	1,778	324
Total net assets	14,626,390	15,283,527
Total liabilities and net assets	19,312,847	23,791,656

(2) Non-Consolidated Statements of Income

(Thousands of yen)

	Fiscal Year Ended December 31, 2015 (January 1, 2015 to December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 to December 31, 2016)
Net sales		
Rent operating revenue	9,442,644	10,484,210
Construction sales	3,525,673	5,162,194
Real estate sales	4,188,037	1,244,309
Other sales	17,151	17,400
Total net sales	17,173,505	16,908,115
Cost of Sales		
Rent operating expenses	6,771,485	7,582,465
Beginning goods	389,830	436,634
Cost of purchased goods	136,291	3,727
Total	526,122	440,362
Transfer to other account	89,487	104,861
Ending merchandise	436,634	335,501
Cost of construction sales	2,469,260	3,660,769
Cost of sales-real estate	2,859,309	893,452
Total cost of sales	12,100,054	12,136,686
Gross profit	5,073,451	4,771,428
Selling, general and administrative expenses		
Directors' compensations	152,927	153,293
Salaries and allowances	704,745	778,603
Other salaries	23,950	31,378
Welfare expenses	137,824	148,739
Advertising expenses	288,354	373,651
Entertainment expenses	28,018	71,689
Traveling and transportation expenses	61,990	81,394
Communication expenses	111,284	156,615
Insurance expenses	3,235	2,971
Utilities expenses	8,662	8,845
Supplies expenses	40,672	69,206
Commission fee	464,719	505,382
Compensations	111,278	115,289
Repair expenses	7,629	9,166
Taxes and dues	60,571	75,615
Depreciation	50,021	53,436
Provision of allowance for doubtful accounts	28,092	5,189
Bad debts expenses	1,612	478
Rents	51,593	81,458
Research and development expenses	—	8,700
Consulting expenses	39,993	43,679
Other	38,449	60,971
Total selling, general and administrative expenses	2,415,631	2,835,759
Operating income	2,657,819	1,935,669

	Fiscal Year Ended December 31, 2015 (January 1, 2015 to December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 to December 31, 2016)
Non-operating income:		
Interest income	12,589	10,238
Dividends income	190	244
Default charge income	2,820	1,486
Penalty income	9,864	62,949
Reversal of allowance for doubtful accounts	490	—
Other	22,959	18,120
Total non-operating income	48,915	93,040
Non-operating expenses:		
Interest expenses	46,948	39,944
Interest on bonds	—	272
Commission fee	28,588	4,291
Early repayment of loans	161,453	—
Foreign exchange losses	—	2,799
Provision of allowance for doubtful accounts	—	1,194
Other	27,586	11,550
Total non-operating expenses	264,575	60,052
Ordinary income	2,442,159	1,968,657
Extraordinary income:		
Gain on sales of noncurrent assets	27,022	17,208
Gain on transfer of business	12,562	11,550
Penalty income	—	61,343
Total extraordinary income	39,585	90,101
Extraordinary loss:		
Loss on store closings	—	15,992
Head office transfer cost	—	6,267
Loss on redemption of investment securities	—	2,406
Loss on retirement of noncurrent assets	2,307	12,798
Impairment loss	58,827	115,354
Loss on valuation of securities	15,236	—
Loss on valuation of membership	—	3,530
Total extraordinary losses	76,371	156,349
Net income before income taxes	2,405,372	1,902,410
Income taxes — current	774,340	667,153
Income taxes — deferred	80,260	92,947
Total income taxes	854,600	760,101
Net income	1,550,772	1,142,308

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

Fiscal 2015 (January 1, 2015 to December 31, 2015)

(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, 2014	5,568,222	5,612,719	5,612,719	2,591,429	2,591,429	(256,584)	13,515,786
Increase (decrease) during the period ended December 31, 2015							
Dividends from surplus				(441,946)	(441,946)		(441,946)
Net income				1,550,772	1,550,772		1,550,772
Purchase of treasury shares							—
Net changes in items excluding shareholders' equity during the period							
Total	—	—	—	1,108,825	1,108,825	—	1,108,25
Balance as of December 31, 2015	5,568,222	5,612,719	5,612,719	3,700,254	3,700,254	(256,584)	14,624,612

(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, 2014	(1,339)	—	(1,339)	13,514,447
Increase (decrease) during the period ended December 31, 2015				
Dividends from surplus				(441,946)
Net income				1,550,772
Purchase of treasury shares				—
Net changes in items excluding shareholders' equity during the period	3,117	—	3,117	3,117
Total	3,117	—	3,117	1,111,942
Balance as of December 31, 2015	1,778	—	1,778	14,626,390

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

(Thousands of yen)

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

(Thousands of yen)

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

(4) Non-Consolidated Statements of Cash Flows

(Thousands of yen)

	Fiscal Year Ended December 31, 2015 (January 1, 2015 to December 31, 2015)	Fiscal Year Ended December 31, 2016 (January 1, 2016 to December 31, 2016)
Cash flows from operating activities:		
Income before income taxes	2,405,372	1,902,410
Depreciation	463,265	518,930
Impairment loss	58,827	115,354
Loss (gain) on sales of investment securities	15,236	—
Interest and dividends income	(12,780)	(10,483)
Interest expenses	46,948	40,216
Loss (gain) on sales of noncurrent assets	(27,022)	(17,208)
Loss on retirement of noncurrent assets	2,307	12,798
Loss (gain) on redemption of investment securities	—	2,406
Loss (gain) on transfer of business	(12,562)	(11,550)
Decrease (increase) in notes and accounts receivable — trade	30,117	(117,203)
Decrease (increase) in inventories	1,872,326	(2,263,281)
Decrease (increase) in consumption taxes refund receivable	(70,194)	70,194
Increase (decrease) in notes and accounts payable — trade	(18,859)	196,905
Increase (decrease) in accrued consumption taxes	(370,351)	1,404
Increase (decrease) in guarantee deposits received	(58,456)	41,390
Other, net	(177,580)	(74,657)
Subtotal	4,146,594	407,627
Interest and dividends income received	13,707	10,529
Interest expenses paid	(50,256)	(45,728)
Income taxes paid	(168,582)	(1,081,385)
Net cash provided by (used in) operating activities	3,941,462	(708,957)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(1,055,545)	(1,537,966)
Proceeds from sales of property, plant and equipment	9,814	—
Purchase of intangible assets	(54,706)	(49,017)
Payments of loans receivable	(48,200)	—
Collection of loans receivable	79,032	17,978
Proceeds from redemption of investment securities	—	30,188
Other, net	—	(5,510)
Net cash provided by (used in) investing activities	(1,069,604)	(1,544,326)
Cash flows from financing activities:		
Net increase (decrease) of short-term loans payable	333,340	1,644,160
Proceeds from long-term loans payable	120,000	2,000,000
Repayment of long-term loans payable	(1,879,617)	(360,836)
Proceeds from issuance of bonds	—	250,000
Redemption of bonds	—	(25,000)
Purchase of treasury shares	—	(4,941)
Cash dividends paid	(440,702)	(477,255)
Repayments of lease obligations	(21,365)	(26,221)
Net cash provided by (used in) financing activities	(1,888,346)	2,999,905
Effect of exchange rate changes on cash and cash equivalents	—	(3,077)
Net increase (decrease) in cash and cash equivalents	983,512	743,542
Cash and cash equivalents at beginning of period	5,431,560	6,415,073
Cash and cash equivalents at end of period	*1 6,415,073	*1 7,158,615

(5) Notes regarding the Financial Statements

(Notes Regarding Going Concern Assumptions)

Not applicable.

(Significant accounting policies)

1. Securities valuation criteria and valuation method

(1) Other securities

Securities with a market value

The market value method based on market prices, etc. on the last day of the financial year (the valuation difference is processed using the method of direct entry of all net assets, and the cost of sales is computed using the method of moving average)

Securities without a market value

Cost method based on the method of moving average

2. Valuation criteria and valuation method for the net claims (or obligations) generated by derivative transactions

Market value method

3. Inventory assets valuation criteria and valuation method

(1) Merchandise

Cost method based on the individual method (Method of writing down the book value based on the decline in profitability for the balance sheet value)

Note that depreciation of items currently on loan is carried out in accordance with the method for tangible fixed assets.

(2) Real estate for sale

Cost method based on the individual method (Method of writing down the book value based on the decline in profitability for the balance sheet value)

Note that depreciation of items currently on loan is carried out in accordance with the method for tangible fixed assets.

(3) Real estate for sale in process

Cost method based on the individual method (Method of writing down the book value based on the decline in profitability for the balance sheet value)

(4) Uncompleted construction contract expenditure

Cost method based on the individual method (Method of writing down the book value based on the decline in profitability for the balance sheet value)

(5) Supplies

Cost method based on the recent purchase method

4. Method of depreciation of fixed assets

(1) Tangible fixed assets (excluding leased assets)

The straight-line method is employed.

Note that the durable years of main assets are as follows:

Buildings and structures: 2 - 41 years

Machinery and equipment: 2 - 9 years

Tools, furniture and fixtures: 2 - 20 years

(2) Intangible fixed assets (excluding leased assets)

The straight-line method is employed.

Note that software used in-house by the Company is based on the period in which the software can be used in-house (5 years).

(3) Leased assets

Leased assets related to finance and lease transactions exempt from passage of title

These are based on the straight-line method assuming that the lease period is the durable years and that the residual value is zero.

(4) Long-term prepaid expenses

Mainly the straight-line method is employed.

5. Standards for recognition of allowances

Allowance for doubtful accounts

In order to prepare for losses caused by the writing off of claims, the Company examines general claims using the loan loss ratio and examines the collectability of individual specific claims such as doubtful accounts receivable, in order to report the expected uncollectable claims.

6. Standards for translation into Japanese yen of Assets and liabilities denominated in foreign currencies

Monetary debts and credits denominated in foreign currencies are translated into yen at the spot exchange rates on the fiscal year-end date, with the differences resulting from such translations recorded as losses or profits.

7. Standards for recognition of amount of completed work and cost of completed work

Regarding construction contracts for which the certainty of the outcome for the portion of progress until the end of the current business year is recognized, percentage of completion basis is applied, and for other construction contracts the completed contracts basis is applied. Note that the estimate of the degree of progress at the end of the current business year of the construction to which the percentage of completion basis is applied is based on the cost-to-cost method.

8. Method of hedge accounting

(1) Method of hedge accounting

As a general rule hedge accounting is based on deferred hedge accounting. Designation (furiate-shori) is applied to monetary assets/liabilities denominated in foreign currencies with foreign exchange forward contracts qualifying for such designation. Regarding interest rate swaps, in the case that the requirements for special accounting treatment are satisfied, special accounting treatment is implemented.

(2) Hedging instruments and hedged items

The hedging instrument and hedged item to which hedge accounting is applied are as follows.

Hedging instrument... foreign exchange forward contracts, interest rate swaps

Hedged item... monetary assets/liabilities denominated in foreign currencies and forecasted transactions denominated in foreign currencies, interest on borrowings

(3) Hedging policy

The Company uses derivative transactions in order to avoid risks resulting from market fluctuations in interest rates and exchange fluctuation risk in respect of foreign currency denominated receivables and payables; they are not for the purpose of speculation.

(4) Method of hedge efficacy evaluation

In the period from the time of the commencement of the hedge to the time of the determination of efficacy, the accumulated amount of rate fluctuations of the hedged item and hedging instrument are compared, and the judgment is made based on the fluctuation amount, etc. of both the hedged item and the hedging instrument.

9. Scope of funds in the cash flow statement

The scope of funds in the cash flow statement is comprised of cash on hand, deposits that can be withdraw as needed, and short-term investments that can be easily converted to cash, and carry only a slight risk of a fluctuation in value because their time of maturity is due within three months of the date of acquisition of the investment.

10. Other significant matters that serve as the basis for preparing financial statements

Accounting method for consumption tax, etc.

The accounting method for consumption tax and local consumption tax is based on the tax exclusion method, and non-deductible consumption tax and local consumption tax are treated as expenses for the period.

(Change in accounting policies)

Not applicable.

(Unimplemented accounting and other standards)

• Implementation Guidance on Recoverability of Deferred Tax Assets (Accounting Standards Board of Japan (ASBJ) Guidance No.26, December 28, 2015)

(1) Overview

Regarding the treatment related to the recoverability of deferred tax assets, basically we have adhered to the framework of the Audit Committee Report No. 66 “Audit Treatment related to Judgment of the Recoverability of Deferred Tax Assets,” namely, a framework that classifies companies into five categories and estimates the recorded amount of deferred tax assets based on said categories; consequently we have carried out the necessary revisions regarding the following treatment.

1) Treatment of companies that do not satisfy any of the category requirements for (Category 1) through (Category 5)

2) Category requirements for (Category 2) and (Category 3)

3) Treatment related to a future deductible temporary difference for which scheduling is not possible, in a company that qualifies as (Category 2)

4) Treatment related to the reasonable estimable period for taxable income before future additions and subtractions such as temporary difference, etc., in a company that qualifies as (Category 3)

5) Treatment in the case that a company that satisfies the category requirements for (Category 4) qualifies as (Category 2) or (Category 3)

(2) Planned implementation date

We plan to implement the guidance from the beginning of the fiscal year ending December 31, 2017.

(3) Impact due to the implementation of these accounting and other standards

The impact is under evaluation during preparation of the relevant financial statements.

(In relation to the balance sheet)

***1 The collateral assets and secured obligations**

The assets provided as collateral are as follows.

	Preceding business year (December 31, 2015)	Current business year (December 31, 2016)
Real estate for sale in process	— yen	155,300,000 yen
Real estate for sale	— yen	1,255,967,000 yen
Land	1,798,840,000 yen	898,920,000 yen
Buildings	633,604,000 yen	349,093,000 yen
Total	2,432,444,000 yen	2,659,281,000 yen

The secured obligations are as follows.

	Preceding business year (December 31, 2015)	Current business year (December 31, 2016)
Short-term borrowings	— yen	1,220,800,000 yen
Current portion of long-term borrowings	224,244,000 yen	55,344,000 yen
Long-term borrowings	561,176,000 yen	561,176,000 yen
Total	785,420,000 yen	1,837,320,000 yen

(In relation to statements of income)

***1 The amount of writing down the book value based on the decline in profitability of the inventory assets held for the purpose of standard sales is as follows.**

	Preceding business year (From January 1, 2015 to December 31, 2015)	Current business year (From January 1, 2016 to December 31, 2016)
Lease operating expenses	103,281,000 yen	104,861,000 yen
Costs of real estate sales	— yen	13,574,000 yen
Total	103,281,000 yen	118,435,000 yen

***2 The main content of the transfer to other accounts is as follows.**

	Preceding business year (From January 1, 2015 to December 31, 2015)	Current business year (From January 1, 2016 to December 31, 2016)
Lease operating expenses	89,487,000 yen	104,861,000 yen
Total	89,487,000 yen	104,861,000 yen

***3 The total amount of research and development expenses included in general and administrative expenses is as follows.**

	Preceding business year (From January 1, 2015 to December 31, 2015)	Current business year (From January 1, 2016 to December 31, 2016)
General and administrative expenses	— yen	8,700,000 yen
Total	— yen	8,700,000 yen

***4 The breakdown of the gain on sales of fixed assets is as follows.**

	Preceding business year (From January 1, 2015 to December 31, 2015)	Current business year (From January 1, 2016 to December 31, 2016)
Mainly land and buildings	9,675,000 yen	— yen
Machinery and equipment	138,000 yen	— yen
Tools, furniture and fixtures	17,208,000 yen	17,208,000 yen
Total	27,022,000 yen	17,208,000 yen

***5 The breakdown of the gain on transfer of business is as follows.**

	Preceding business year (From January 1, 2015 to December 31, 2015)	Current business year (From January 1, 2016 to December 31, 2016)
	This is due to the fact that we transferred a part of the parking lot business	As left

***6 The breakdown of the loss on sales of fixed assets is as follows.**

	Preceding business year (From January 1, 2015 to December 31, 2015)	Current business year (From January 1, 2016 to December 31, 2016)
Buildings	— yen	10,217,000 yen
Structures	399,000 yen	1,132,000 yen
Machinery, equipment and delivery equipment	1,460,000 yen	543,000 yen
Tools, furniture and fixtures	270,000 yen	893,000 yen
Goodwill	177,000 yen	— yen
Other	— yen	11,000 yen
Total	2,307,000 yen	12,798,000 yen

***7 Impairment losses**

Preceding business year (From January 1, 2015 to December 31, 2015)

The Company reported impairment losses as follows in the current business year.

(1) Overview of the main assets for which impairment losses were identified

Application	Place	Type	Amount
Business use assets	Kamijujyo, Kita-ku, Tokyo, and others	Buildings, tools, furniture and fixtures, and structures	58,827,000 yen

(2) Background leading up to the identification of impairment losses

Regarding buildings, tools, furniture and fixtures, machinery and equipment, and structures, which are business use assets, the profit or loss generated by the operating activities will continue to be negative or is expected to continue to be negative, and thus the Company reduced the book value to the recoverable value, and identified this decrease as an impairment loss. The breakdown of this impairment loss is 1,386,000 yen for buildings, 19,910,000 yen for tools, furniture and fixtures, 36,508,000 yen for structures and 1,021,000 yen for long-term prepaid expenses.

(3) Method of grouping assets

The Company implements grouping of the assets mainly for each property as the minimum unit that generates cash flow.

(4) Method of computing the recoverable value

The Company measures business use assets based on use value, and thus the Company reduced the book value to the recoverable value based on the future cash flow. In case that the valuation amount based on the future cash flow is negative, and thus the recoverable value is computed to be zero.

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

The Company reported impairment losses as follows in the current business year.

(1) Overview of the main assets for which impairment losses were identified

Application	Place	Type	Amount
Business use assets	Sotokanda, Chiyoda-ku, Tokyo, and others	Buildings, tools, furniture and fixtures, and structures	115,354,000 yen

(2) Background leading up to the identification of impairment losses

Regarding buildings, tools, furniture and fixtures, machinery and equipment, and structures, which are business use assets, the profit or loss generated by the operating activities will continue to be negative or is expected to continue to be negative, and thus the Company reduced the book value to the recoverable value, and identified this decrease as an impairment loss. The breakdown of this impairment loss is 47,275,000 yen for buildings, 5,594,000 yen for tools, furniture and fixtures, 60,594,000 yen for structures, 38,000 yen for machinery and equipment and 1,851,000 yen for long-term prepaid expenses.

(3) Method of grouping assets

The Company implements grouping of the assets mainly for each property as the minimum unit that generates cash flow.

(4) Method of computing the recoverable value

The Company measures business use assets based on use value, and thus the Company reduced the book value to the recoverable value based on the future cash flow. In case that the valuation amount based on the future cash flow is negative, and thus the recoverable value is computed to be zero.

(In relation to the statement of changes in shareholders' equity)
 Preceding business year (From January 1, 2015 to December 31, 2015)

1. Matters regarding the classes and total number of issued shares, and the classes and number of treasury shares

	Beginning of the current business year	Increase	Decrease	End of the current business year
Issued shares				
Common shares	125,763,000	—	—	125,763,000
Total	125,763,000	—	—	125,763,000
Treasury shares				
Common shares	3,000,000	—	—	3,000,000
Total	3,000,000	—	—	3,000,000

2. Matters related to dividends

(1) Dividends paid

Resolution	Classes of shares	Total amount of the dividends (thousand yen)	Per share dividend (yen)	Base date	Date of entry into force
March 26, 2015 ordinary general meeting of shareholders	Common shares	441,946	3.6	December 31, 2014	March 27, 2015

(2) Those dividends with a base date in the current business year for which the date of entry into force of the dividends is in the following business year

Resolution	Classes of shares	Source of funds for the dividends	Total amount of the dividends (thousand yen)	Per share dividend (yen)	Base date	Date of entry into force
March 24, 2016 ordinary general meeting of shareholders	Common shares	Retained earnings	478,775	3.9	December 31, 2015	March 25, 2016

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

1. Matters regarding the classes and total number of issued shares, and the classes and number of treasury shares

	Beginning of the current business year	Increase	Decrease	End of the current business year
Issued shares				
Common shares	125,763,000	—	113,186,700	125,576,300
Total	125,763,000	—	113,186,700	125,576,300
Treasury shares				
Common shares	3,000,000	3,975	2,700,000	303,975
Total	3,000,000	3,975	2,700,000	303,975

(Notes)

- 1) Overview of decrease in the number of common shares in the current business year
 Decrease by stock consolidation 113,186,700 shares
- 2) Overview of increase / decrease in the number of treasury shares in the current business year
 Increase in the buyback of fractional shares less than the trading unit by stock consolidation 3,975 shares
 Decrease by stock consolidation 2,700,000 shares

2. Matters related to dividends

(1) Dividends paid

Resolution	Classes of shares	Total amount of the dividends (thousand yen)	Per share dividend (yen)	Base date	Date of entry into force
March 24, 2016 ordinary general meeting of shareholders	Common shares	478,775	3.9	December 31, 2015	March 25, 2016

Note: Arealink Co., Ltd. conducted a 1:10 consolidation of its common stock, with an effective date of July 1, 2016. Cash dividend per share of common stock for the year ended December 31, 2015 indicated above is the actual dividend before said stock consolidation.

(2) Those dividends with a base date in the current business year for which the date of entry into force of the dividends is in the following business year

Resolution	Classes of shares	Source of funds for the dividends	Total amount of the dividends (thousand yen)	Per share dividend (yen)	Base date	Date of entry into force
March 30, 2017 ordinary general meeting of shareholders	Common shares	Retained earnings	478,620	39.0	December 31, 2016	March 31, 2017

(In relation to the cash flow statement)

*1 The relationship between the ending balance of cash and cash equivalents, and the amount in the account title set down in the balance sheet

	Preceding business year (From January 1, 2015 to December 31, 2015)	Current business year (From January 1, 2016 to December 31, 2016)
Cash and deposit accounts	6,415,073,000 yen	7,158,615,000 yen
Term deposits for which the deposit term exceeds 3 months and term deposits provided as collateral	— yen	— yen
Cash and cash equivalents	6,415,073,000 yen	7,158,615,000 yen

(In relation to securities)

1. Other securities

Preceding business year (December 31, 2015)

(Unit: thousand yen)

Category	Amount reported on the balance sheet	Acquisition cost	Difference
Amount reported on the balance sheet exceeds the acquisition cost			
Shares	7,425	4,800	2,625
Sub-total	7,425	4,800	2,625
Amount reported on the balance sheet does not exceed the acquisition cost			
Bonds	32,594	32,594	—
Sub-total	32,594	32,594	—
Total	40,019	37,394	2,625

(Notes)

- 1) The “acquisition cost” in the table is the book value after impairment treatment.
- 2) Regarding non-listed shares, etc. (the amount of investment securities reported on the balance sheet: 151,030,000 yen), there is no market price and ascertaining the market value is understood to be extremely difficult, and thus they are not included in “Other securities” in the table above.

Current business year (December 31, 2016)

(Unit: thousand yen)

Category	Amount reported on the balance sheet	Acquisition cost	Difference
Amount reported on the balance sheet exceeds the acquisition cost			
Shares	6,426	3,000	3,426
Sub-total	6,426	3,000	3,426
Amount reported on the balance sheet does not exceed the acquisition cost			
Shares	1,713	1,800	(87)
Sub-total	1,713	1,800	(87)
Total	8,139	4,800	3,339

(Notes)

- 1) The “acquisition cost” in the table is the book value after impairment treatment.
- 2) Regarding non-listed shares, etc. (the amount of investment securities reported on the balance sheet: 151,030,000 yen), there is no market price and ascertaining the market value is understood to be extremely difficult, and thus they are not included in “Other securities” in the table above.

2. Other securities amortized during business year

Preceding business year (From January 1, 2015 to December 31, 2015)

Not applicable.

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

	Amount of redemption	Total amount of gains on redemption	Total amount of losses on redemption
Bonds	32,594,000 yen	—	2,406,000 yen
Total	32,594,000 yen	—	2,406,000 yen

3. Securities subject to impairment

Preceding business year (From January 1, 2015 to December 31, 2015)

With regard to securities, impairment of ¥15,236 thousand (bonds of available-for-sale securities) was made.

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

Not applicable.

(In relation to stock options, etc.)

1. The content, scale and status of fluctuation of stock options

(1) The content of the stock options

Name of company	Submitting company
Date of resolution	March 30, 2006
Category and number (name) of recipients	The Company directors: 5 The Company auditors: 3 The Company employees: 29
Classes and numbers of shares granted	Common shares: 200,000
Grant date	April 6, 2006
Condition for finalizing of rights	Remaining in the positions and enrolled continuously from the grant date to the rights finalizing date
Applicable work period	From April 6, 2006 to March 31, 2008
Rights exercise period	From March 31, 2008 to March 30, 2016

(Notes) The figures are shown converted into the number of shares. Note that shares splits and share consolidation have been implemented as shown below, and the figures given are the figures after the share splits and share consolidation.

One common share split into four on July 1, 2006

One common share split into 100 on July 1, 2013

Ten common shares consolidated into one on July 1, 2016

(2) Scale and status of fluctuation of stock options

The stock options that exist in the current business year are covered, and the number of stock options is presented converted into the number of shares.

Note that shares splits and share consolidation have been implemented as shown below, and the figures for the number of stock options and the unit price information give the figures after the share splits and share consolidation.

One common share split into four on July 1, 2006

One common share split into 100 on July 1, 2013

Ten common shares consolidated into one on July 1, 2016

(i) The number of stock options

Name of company	Submitting company
Resolution date	March 30, 2006
Grant date	April 6, 2006
Before finalizing of rights	
At the end of the preceding business year (shares)	—
Granted (shares)	—
Expiration (shares)	—
Finalizing of rights (shares)	—
Un-finalized balance (shares)	—

After the finalizing of rights	
The end of the preceding business year (shares)	7,440
Finalizing of rights (shares)	—
Exercising of rights (shares)	—
Expiration (shares)	7,440
Un-exercised balance (shares)	—

(ii) Unit price information

Name of company	Submitting company
Resolution date	March 30, 2006
Grant date	April 6, 2006
Rights exercise price (yen)	8,380
Average share price at time of exercise (yen)	—
Fair valuation unit price (grant date) (yen)	—

(Notes) The rights exercise price is the exercise price after adjustment for the share splits and share consolidation implemented after the grant and up until the end of the current business year.

(In relation to tax effect accounting)

1. Breakdown by the main causes of the occurrence of deferred tax assets and deferred tax liabilities

	Preceding business year (December 31, 2015)	Current business year (December 31, 2016)
(Deferred tax assets)		
Loss on valuation of inventory assets	219,356,000 yen	227,059,000 yen
Allowance for doubtful accounts	430,074,000 yen	410,900,000 yen
Impairment of fixed assets	69,575,000 yen	97,177,000 yen
Depreciation amount exceeding the limit	36,417,000 yen	31,394,000 yen
Loss on valuation of investment securities	8,700,000 yen	— yen
Asset retirement obligations	135,029,000 yen	180,635,000 yen
Deferred revenue	60,518,000 yen	46,690,000 yen
Other	143,147,000 yen	120,307,000 yen
Deferred tax assets sub-total	1,102,819,000 yen	1,114,165,000 yen
Valuation allowance	(885,851,000) yen	(955,785,000) yen
Total deferred tax assets	216,967,000 yen	158,379,000 yen
(Deferred tax liabilities)		
Abatement costs corresponding to asset retirement obligations	(81,506,000) yen	(114,993,000) yen
Valuation difference on other securities	(846,000) yen	(1,057,000) yen
Total deferred tax liabilities	(82,353,000) yen	(116,050,000) yen
Net amount of deferred tax assets	134,614,000 yen	42,330,000 yen

2. Breakdown by the major items that caused the difference between the normal effective statutory tax rate and the burden ratio for corporation tax, etc. after the application of tax effect accounting

	Preceding business year (December 31, 2015)	Current business year (December 31, 2016)
Normal effective statutory tax rate	Any note is omitted here as the difference between the normal effective statutory tax rate and the burden ratio for corporation tax, etc. after the application of tax effect accounting is less than five-hundredth of the normal effective statutory tax rate.	33.1%
(Adjustment)		
Items that will never be included in losses, such as entertainment expenses, etc.		1.5%
Inhabitant tax on per capita basis		0.8%
Change in valuation allowance		6.0%
Effect due to tax rate changes		(1.4)%
Other		0.0%
Burden ratio for corporation tax, etc. after the application of tax effect accounting		40.0%

3. Adjustment of the amounts of deferred tax assets and deferred tax liabilities due to a change in the tax rate for corporation tax, etc.

Following the enactment by the Diet of the Partial Revision of Income Tax Act, etc. (Act No. 15 of 2016) and the Partial Revision of Local Tax Act, etc. (Act No. 13 of 2016) on March 29, 2016, and the Act for Partial Revision to the Partial Revision, etc. of Consumption Tax Act for the Dramatic Reform of the Taxation System for Ensuring Stable Financial Resources, etc. for Social Security (Act No. 85 of 2016) and the Act for Partial Revision to the Partial Revision, etc. of Local tax Act and Local Allocation Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources, etc. for Social Security (Act No. 86 of 2016) on November 18, 2016, the statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities as of December 31, 2016 was changed from the previous 32.2% to 30.9% for temporary differences expected to be eliminated during fiscal years beginning on January 1, 2017 and ending on December 31, 2018, and 30.6% for temporary differences expected to be eliminated during fiscal years beginning on or after January 1, 2019.

An effect of this change in the tax rate is immaterial.

(In relation to asset retirement obligations)

Those asset retirement obligations that are reported on the balance sheet

(1) Overview of the said asset retirement obligations

These include asphalt paving, signboards, etc. of properties in the storage business, and the obligation to restore the sites to their original condition arising from real estate leasing contracts in the office business, etc.

(2) Method of computing the amount of the said asset retirement obligations

In order to calculate the amount of asset retirement obligations, the expected use period is estimated between 2 years and 31 years based on the durable years of the said assets, and the yield of government bonds from 0.19% to 2.19% corresponding to the expected use period is used for the discount rate.

(3) Change in the total amount of the said asset retirement obligations

	Preceding business year (From January 1, 2015 to December 31, 2015)	Current business year (From January 1, 2016 to December 31, 2016)
Beginning balance	321,515,000 yen	418,565,000 yen
Increase arising from the acquisition of tangible fixed assets	108,201,000 yen	162,645,000 yen
Adjustment due to the passing of time	5,585,000 yen	6,724,000 yen
Decrease due to the performance of asset retirement obligations	(796,000) yen	(2,595,000) yen
Other changes (() indicates a decrease)	(15,940,000) yen	— yen
Ending balance	418,565,000 yen	585,340,000 yen

(Segment and other information)

Segment Information

1) Overview of Reportable Segments

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

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

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

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

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

Fiscal 2015 (January 1, 2015 to December 31, 2015)

(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	12,980,902	4,192,603	17,173,505	—	17,173,505
Inter-Segment Sales and Transfers	—	—	—	—	—
Total	12,980,902	4,192,603	17,173,505	—	17,173,505
Segment Profit	2,376,725	1,170,231	3,546,956	(889,136)	2,657,819
Segment Assets	10,471,442	1,438,840	11,910,282	7,402,183	19,312,466
Other Items					
Depreciation	438,768	—	438,768	24,497	463,265
Increase in Property, Plant and Equipment and Intangible Assets	1,087,859	—	1,087,859	71,199	1,159,059

Notes:

1. The negative segment profit adjustment of ¥889,136 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 ¥7,402,183 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 2016 (January 1, 2016 to December 31, 2016)

(Thousands of yen)

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

Notes:

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

(Related information)

Preceding business year (From January 1, 2015 to December 31, 2015)

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

This is not applicable as there are no net sales to external customers outside Japan.

(2) Tangible fixed assets

This is not applicable as no tangible fixed assets are located outside Japan.

3. Information for each major customer

(Unit: thousand yen)

Name of company or individual	Net sales	Names of related segments
Company A	2,600,000	Property Revitalization & Liquidation Service

(Note) Arealink Co., Ltd. has concluded a Non-Disclosure Agreement with Company A so the name of that company cannot be published.

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

1. Information for each product and service

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

2. Information for each region

(1) Net sales

This is not applicable as there are no net sales to external customers outside Japan.

(2) Tangible fixed assets

This is not applicable as no tangible fixed assets are located outside Japan.

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, 2015 to December 31, 2015)

(Unit: thousand yen)

	Reporting segment			Adjustment	Total
	Property Management Service	Property Revitalization & Liquidation Service	Total		
Impairment losses	58,827	—	58,827	—	58,827

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

(Unit: thousand yen)

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

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

(Information regarding the amortization and unamortized balance of goodwill for each reporting segment)
 Preceding business year (From January 1, 2015 to December 31, 2015)

(Unit: thousand yen)

	Reporting segment			Adjustment	Total
	Property Management Service	Property Revitalization & Liquidation Service	Total		
Amortization for the period	2,165	—	2,165	—	2,165
Ending balance for the period	—	—	—	—	—

Current business year (From January 1, 2016 to December 31, 2016)
 Not applicable.

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

(Information regarding related parties)
 Not applicable.

(Per share information)

	Preceding business year (From January 1, 2015 to December 31, 2015)	Current business year (From January 1, 2016 to December 31, 2016)
Per share amount of net assets	1,191.43 yen	1,245.09yen
Per share amount of net profit for the period	126.32yen	93.06 yen

(Notes)

- 1) Arealink Co., Ltd. conducted a 1:10 consolidation of its common stock, with an effective date of July 1, 2016. The figures for net asset per share of common stock and net income per share have been adjusted to reflect the impact of the stock consolidation as if the stock consolidation had occurred at the beginning of the prior fiscal year.
- 2) No statement is made regarding diluted per share net profit for the period because dilutive shares possessing a dilutive effect do not exist.
- 3) The basis for the computation of the per share amount of net profit for the period is as follows.

Item	Preceding business year (From January 1, 2015 to December 31, 2015)	Current business year (From January 1, 2016 to December 31, 2016)
Net profit for the period in the statements of income (thousand yen)	1,550,772	1,142,308
Amounts that do not belong to the common stockholders (thousand yen)	—	—
Net profit for the period related to common shares (thousand yen)	1,550,772	1,142,308
Average number of common shares during the period (shares)	12,276,300	12,274,993
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	Resolution of the March 30, 2006 ordinary general meeting of shareholders Stock options (share warrant) Common shares: 7,440	

(Important subsequent events)
 Not applicable.