Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending June 30, 2019 (Six Months Ended December 31, 2018)

[Japanese GAAP]

February 7, 2019

Company name: URBANET CORPORATION Co., Ltd. Listing: Tokyo Stock Exchange (JASDAQ)
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Scheduled date of filing of Quarterly Report: February 7, 2019
Scheduled date of payment of dividend: March 26, 2019
Preparation of supplementary materials for financial results: Yes
Holding of financial results meeting: Yes (for institutional investors and analysts)

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending June 30, 2019 (July 1, 2018 to December 31, 2018)

(1) Consolidated results of operations (Percentages represent year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended Dec. 31, 2018	11,473	29.9	1,412	15.9	1,306	18.2	906	19.6
Six months ended Dec. 31, 2017	8,834	(17.4)	1,218	(30.8)	1,105	(32.3)	758	(32.2)

Note: Comprehensive income (millions of yen) Six months ended Dec. 31, 2018: 906 (up 19.6%)
Six months ended Dec. 31, 2017: 758 (down 32.2%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Dec. 31, 2018	36.07	-
Six months ended Dec. 31, 2017	30.19	30.17

(2) Consolidated financial condition

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Dec. 31, 2018	29,855	8,137	27.2
As of Jun. 30, 2018	28,527	7,450	26.1

Reference: Shareholders' equity (millions of yen) As of Dec. 31, 2018: 8,129 As of Jun. 30, 2018: 7,442

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2018	-	7.00	-	9.00	16.00
Fiscal year ending Jun. 30, 2019	-	7.00			
Fiscal year ending Jun. 30, 2019 (forecast)			-	8.00	15.00

Note: Revision to the most recently announced dividend forecast: None

Note: The 2Q-end dividend per share for the fiscal year ended June 30, 2018 comprises an ordinary dividend of 6.00 yen and a commemorative dividend of 1.00 yen.

3. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2019 (July 1, 2018 to June 30, 2019)

(Percentages represent year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	19,100	18.7	2,020	21.1	1,740	20.8	1,205	21.8	47.92

Note: Revisions to the most recently announced earnings forecast: None

*** Notes**

(1) Changes in consolidated subsidiaries during the period (changes in specified subsidiaries resulting in changes in the scope of consolidation): None

Newly added: - Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Restatements: None

(4) Number of shares outstanding (common shares)

1) Number of outstanding shares as of the end of the period (including treasury shares)

As of Dec. 31, 2018:	25,158,100 shares	As of Jun. 30, 2018:	25,144,100 shares

2) Number of treasury shares as of the end of the period

As of Dec. 31, 2018:	52 shares	As of Jun. 30, 2018:	52 shares

3) Average number of outstanding shares during the period

Six months ended Dec. 31, 2018:	25,146,059 shares	Six months ended Dec. 31, 2017:	25,116,082 shares

* The current quarterly consolidated financial results are not subject to the quarterly review by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts, and other special items

- Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to Urbanet Corporation's management at the time these materials were prepared. Actual results may differ significantly from these forecasts for a number of reasons. Please refer to "Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements" on page 3 of the attachments for assumptions for forecasts and notes of caution for usage.
- Urbanet Corporation plans to hold the financial results meeting for investors as follows. Materials distributed and video recorded at this event are to be posted promptly on its website following the meeting.
- Friday, February 8, 2019: Financial results meeting for institutional investors and analysts

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

For the first half of the fiscal year ending June 30, 2019 (hereinafter "the period under review"), the Urbanet Group companies (hereinafter "the Urbanet Group" or "the Group") reported net sales of 11,473 million yen (up 29.9% year-on-year) with operating profit of 1,412 million yen (up 15.9% year-on-year), ordinary profit of 1,306 million yen (up 18.2% year-on-year), and profit attributable to owners of parent of 906 million yen (up 19.6% year-on-year).

The performance by each business category is explained below.

It is noted that all activities of the Group belong to a single business segment—the real estate business—consisting primarily of the development, purchase, and sale of condominiums for investors and consumers. As such, we break down the operating results into the following categories within the real estate business segment.

(Real Estate Development and Sales)

Total amount of sales from this category was 11,180 million yen (up 30.8% year-on-year), with revenues from sale of 408 units in a total of eight one-room apartments for investors, sale of three units in one terraced house, and resale of two tracts of land.

Business for the current fiscal year is characterized by more than usual number of units sold in the first half. In fact, we have already sold 64.8% of 630 units of one-room apartments for investors that were scheduled to be sold by the end of the current fiscal year, causing the actual-to-forecast ratio for sales to substantially increase to 60.1%. Nevertheless, we expect the performance of this category to progress as planned.

(Real Estate Purchase and Sales)

Total amount of sales from this category was 76 million yen (down 29.2% year-on-year), with revenues from purchase and resale of two units of properties.

(Others)

Total amount of sales from this category was 216 million yen (up 20.1% year-on-year), with revenues from real estate brokerage and real estate leasing among others.

(2) Explanation of Financial Condition

1) Analysis of Financial Position

Total assets on a consolidated basis amounted to 29,855 million yen at the end of the period under review, an increase of 1,327 million yen over the end of the previous fiscal year.

This was mainly due to an increase in cash and deposits thanks to steady sales of properties with increased profits, which was partially offset by an increase in inventories of 1,056 million yen resulting from smooth purchase of land for development in the Real Estate Development and Sales business.

Liabilities totaled 21,718 million yen, an increase of 641 million yen over the end of the previous fiscal year.

This was mainly due to an increase in accounts payable-trade related to the Real Estate Development and Sales business.

Net assets totaled 8,137 million yen, an increase of 686 million yen over the end of the previous fiscal year.

This was mainly due to an increase in retained earnings from profit attributable to owners of parent, which was partially offset by the payment of dividends to our shareholders.

2) Analysis of Cash Flows

Cash and cash equivalents (hereinafter "net cash") at the end of the period under review amounted to 4,421 million yen, an increase of 199 million yen over the end of the previous fiscal year. This was mainly due to an increase in net cash provided by operating activities, which was partially offset by a decrease in net cash used in investing and financing activities.

The cash flow components during the period under review and the main reasons for changes are as described below.

Cash flows from operating activities

Net cash provided by operating activities totaled 586 million yen (compared with net cash used of 1,009 million yen for the same period of the previous fiscal year).

This was mainly due to the booking of profit before income taxes and an increase in notes and accounts payable-trade, which were partially offset by an increase in inventories resulting from aggressive purchase of land for development in the Real Estate Development and Sales business.

Cash flows from investing activities

Net cash used in investing activities totaled 8 million yen (compared with net cash used of 804 million yen for the same period of the previous fiscal year).

This was due to a decrease in net cash from purchase of property, plant and equipment.

Cash flows from financing activities

Net cash used in financing activities totaled 378 million yen (compared with net cash provided of 1,625 million yen for the same period of the previous fiscal year).

This was mainly due to the payment of dividends to our shareholders, as well as a decrease in net cash caused by the repayment of long-term loans payable made from sale of properties, which was balanced by an increase in net cash from proceeds of long-term loans to use for purchasing land for development in the Real Estate Development and Sales business.

(3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements

We maintain the consolidated earnings forecast for the fiscal year ending June 30, 2019 that was announced on December 13, 2018 in "Notice of Revision to the Consolidated Full-year Earnings Forecast." This is because we expect net sales, operating profit, ordinary profit, and profit attributable to owners of parent for the period under review to progress as planned although the actual-to-forecast ratios for all of these measures have exceeded 60%.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	FY6/18 (As of Jun. 30, 2018)	Second quarter of FY6/19 (As of Dec. 31, 2018)
Assets		
Current assets		
Cash and deposits	4,231,064	4,431,044
Real estate for sale	2,618,048	3,483,730
Real estate for sale in process	16,006,346	16,197,473
Other	206,306	284,726
Total current assets	23,061,766	24,396,975
Non-current assets		
Property, plant and equipment	4,902,753	4,881,198
Intangible assets	3,213	4,173
Investments and other assets	560,086	573,130
Total non-current assets	5,466,053	5,458,502
Total assets	28,527,820	29,855,477
Liabilities		
Current liabilities		
Accounts payable-trade	1,638,204	2,075,470
Short-term loans payable	195,000	114,000
Current portion of bonds	36,000	20,000
Current portion of long-term loans payable	8,130,739	8,574,790
Lease obligations	15,830	21,256
Income taxes payable	70,864	448,114
Other	756,922	722,225
Total current liabilities	10,843,561	11,975,857
Non-current liabilities		
Long-term loans payable	10,098,008	9,604,536
Lease obligations	32,893	46,105
Provision for shareholder benefit program	25,941	12,368
Net defined benefit liability	44,020	45,768
Other	32,779	33,786
Total non-current liabilities	10,233,641	9,742,563
Total liabilities	21,077,203	21,718,421
Net assets		
Shareholders' equity		
Capital stock	1,682,463	1,685,249
Capital surplus	1,180,590	1,183,376
Retained earnings	4,579,854	5,260,481
Treasury shares	(14)	(14)
Total shareholders' equity	7,442,893	8,129,092
Share acquisition rights	7,723	7,964
Total net assets	7,450,617	8,137,056
Total liabilities and net assets	28,527,820	29,855,477

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(For the Six-month Period)

(Thousands of yen)

	First six months of FY6/18 (Jul. 1, 2017 – Dec. 31, 2017)	First six months of FY6/19 (Jul. 1, 2018 – Dec. 31, 2018)
Net sales	8,834,118	11,473,758
Cost of sales	7,012,484	9,426,915
Gross profit	1,821,634	2,046,843
Selling, general and administrative expenses	602,869	634,756
Operating profit	1,218,764	1,412,086
Non-operating income		
Interest income	32	19
Other	1,904	3,757
Total non-operating income	1,937	3,777
Non-operating expenses		
Interest expenses	90,206	92,089
Commission fee	22,702	17,362
Other	2,747	16
Total non-operating expenses	115,656	109,468
Ordinary profit	1,105,044	1,306,395
Profit before income taxes	1,105,044	1,306,395
Income taxes-current	333,763	418,938
Income taxes-deferred	13,130	(19,467)
Total income taxes	346,893	399,471
Profit	758,150	906,923
Profit attributable to non-controlling interests	-	-
Profit attributable to owners of parent	758,150	906,923

Quarterly Consolidated Statement of Comprehensive Income

(For the Six-month Period)

(Thousands of yen)

	First six months of FY6/18 (Jul. 1, 2017 – Dec. 31, 2017)	First six months of FY6/19 (Jul. 1, 2018 – Dec. 31, 2018)
Profit	758,150	906,923
Other comprehensive income	-	-
Comprehensive income	758,150	906,923
Comprehensive income attributable to:		
Owners of parent	758,150	906,923
Non-controlling interests	-	-

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of FY6/18 (Jul. 1, 2017 – Dec. 31, 2017)	First six months of FY6/19 (Jul. 1, 2018 – Dec. 31, 2018)
Cash flows from operating activities		
Profit before income taxes	1,105,044	1,306,395
Depreciation	57,540	57,662
Increase (decrease) in provision for shareholder benefit program	-	(13,572)
Interest and dividend income	(32)	(19)
Interest expenses	90,206	92,089
Decrease (increase) in lease investment assets	(357,538)	11,438
Decrease (increase) in inventories	(1,434,423)	(1,056,810)
Increase (decrease) in accrued consumption taxes	(9,611)	(3,365)
Increase (decrease) in notes and accounts payable-trade	399,859	437,266
Increase (decrease) in net defined benefit liability	1,813	1,748
Other, net	(352,753)	(99,595)
Subtotal	(499,895)	733,237
Interest and dividend income received	33	20
Interest expenses paid	(88,064)	(90,910)
Income taxes paid	(421,773)	(56,191)
Net cash provided by (used in) operating activities	(1,009,700)	586,155
Cash flows from investing activities		
Purchase of property, plant and equipment	(804,743)	(8,150)
Net cash provided by (used in) investing activities	(804,743)	(8,150)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	370,000	(81,000)
Proceeds from long-term loans payable	4,733,500	4,200,428
Repayments of long-term loans payable	(3,124,680)	(4,249,849)
Redemption of bonds	(56,000)	(16,000)
Repayments of lease obligations	(10,025)	(10,367)
Proceeds from issuance of common shares	13,624	4,956
Cash dividends paid	(300,675)	(226,192)
Net cash provided by (used in) financing activities	1,625,743	(378,025)
Net increase (decrease) in cash and cash equivalents	(188,700)	199,979
Cash and cash equivalents at beginning of period	4,103,410	4,221,064
Cash and cash equivalents at end of period	3,914,709	4,421,044

(4) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Additional Information

Application of Partial Amendments to Accounting Standard for Tax Effect Accounting

Starting with the beginning of the first quarter of the fiscal year ending June 30, 2019, the Urbanet Group is applying "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018). Accordingly, the figure of deferred tax assets has been presented in the investments and other assets section of the balance sheet.

Segment and Other Information

Segment information

Omitted since the Urbanet Group has only a single business segment, the real estate business, which is engaged mainly in the development, purchase and sale of condominiums for investors and consumers.

This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.