

1. Qualitative Information Concerning Consolidated Business Results

(1) Information about operating results

During the nine months ended December 31, 2016 (April 1 to December 31, 2016), corporate earnings and the employment environment have been improved in the Japanese economy even though there were risks of fluctuation in the exchange rate of the yen and the stock market.

The housing industry, our core operating domain, recovered gradually from the end of 2015 because of improvements in employment and income statistics and economic stimulus measures such as the expansion of mortgage loan tax break and housing subsidy program. In May, 2016, the number of housing starts reached a million house (seasonally adjusted annual rate) per year. Nevertheless, in summer of 2016 and later, the market shows the slowdown of recovery.

In the retail and service industries, personal consumption has been improved due to the declines in rising price rate and employment situation even though there were some risks such as the fall in share price and adverse weather.

Against this backdrop, the Nac Group aggressively performed sales promotion in each of the operating segments.

As a result, consolidated results for the nine months ended December 31, 2016 included sales of 55,120 million yen (down 0.3% year on year), operating loss of 1,632 million yen (compared with an income of 1,127 million yen in the nine months ended December 31, 2015) and ordinary loss of 1,590 million yen (compared with an income of 1,139 million yen a year earlier). Loss attributable to owners of parent was 1,407 million yen (compared with a loss of 1,017 million yen a year earlier).

Operating results by business segment were as follows.

In addition to the operating income or loss of each segment, the Nac Group posted 952 million yen as corporate expenses that is not attributable to any particular segment.

[CreCla Business (Bottled Water)]

During the nine months ended December 31, 2016, the rush to enter the market by companies such as major soft drink manufacturers and providers of one-way bottles have slowed down. On the other hand, industry reorganization is advanced more and more. Hence, we expect that less companies will go out of business in the future.

Our direct managed stores continuously worked on sales promotions to increase new customers. Moreover, we tried to increase the bottle consumption per customer and improve sales per customer by the use of additional products like Hydrogen Generator “Magic Pot”. As a consequence, sales increased year on year.

In our affiliated stores, we continuously strengthened customer services and support program to increase the number of customers and sales; however, sales decreased year on year due to decreases in sales of the water cooler to affiliates and the number of customers in affiliated.

Operating income increased year on year due to an increase in sales and revisions to management costs.

As a result, during the nine months ended December 31, 2016, the CreCla Business segment posted sales of 10,072 million yen (up 1.6% year on year), and operating income of 104 million yen (compared with an loss of 215 million yen in the nine months ended December 31, 2015).

In addition, CreCla business concluded memorandum of understanding with Aqua Clara Ltd. in August, 2016 in order to provide high-quality products and services.

[Rental Business]

Based on the stable customer base, the mainstay dust control products business focused on M&A and existing customers. Consequently, the number of customers and contract termination rates held steady.

What is more, we continuously worked on the expansion of total care services to extend customer base, so sales increased year on year.

In the With-branded pest-control devices business, sales grew year on year thanks to persistent sales efforts and an increase in referrals of new customers by existing customers. As a result, sales rose year on year.

Operating income decreased year on year owing to increases in personnel expenses and sales and general administrative expenses.

Consequently, during the nine months ended December 31, 2016, the Rental Business segment posted sales of 9,920 million yen, up 3.7% year on year, and operating income of 1,391 million yen, down 1.0% year on year.

During the third quarter, we opened Hachioji Branch Store in the With-branded pest control devices business.

[Construction Consulting Business]

Although the housing industry shows a gradual recovery, situations of the construction and delivery are still weak. Thus, the condition of local construction market remained harsh.

Under these conditions, we actively worked on upgrade of products, developments of new goods and reinforcements of sales activities. On the other hand, our main

customers, small and midsize building contractors tended to reduce investments because of the market deterioration. As a result, sales declined year on year. The construction materials business, which is focused on solar energy systems, tried to meet demands for the deadline for the Feed-in Tariff (January, 2017). Furthermore, we cooperate each segments actively so as to utilize management resources in Eco & Eco. Although the number of orders regarding solar powered house increased, sales decreased year on year due to the effect of overall market deterioration. Operating income decreased largely year on year owing to sales decreases in the construction know-how systems business and the construction materials business. During the nine months ended December 31, 2016, the Construction Consulting Business segment posted sales of 4,003 million yen, down 9.7% year on year, and operating income of 450 million yen including goodwill amortization costs related to Eco & Eco, down 45.5% year on year.

[Housing Sales Business]

During the nine months ended December 31, 2016, the housing market experienced a gradual recovery; in relation to this, the number of housing starts (seasonally adjusted annual rate) regarding the owner-occupied home and subdivided housing unit rose for the 11 and 14 consecutive months year on year, respectively. On the other hand, more recently, the reflective decline in demand following the postponement of the consumption tax hike affects markets.

Against this backdrop, in order to increase orders received and orders in hand, Leohouse, Ltd. performed effective sales promotion aggressively by the use of trademarks that we won customer's satisfaction No.1 in three categories in 2015. Meanwhile, we offered diverse value-added products such as "CoCo as a lineup of Dai-ninki no ie" so as to provide a wide range of customers with many selections. As a result, the number of orders received and orders in hand rose year on year, 1,531 homes (compared with 1,326 a year earlier) and 1,361 (compared with 1,109 a year earlier), respectively, as of December 31, 2016. Nevertheless, sales declined year on year because of a decrease in orders in hand as of the end of the previous fiscal year and the delay of the construction and delivery.

Operating income declined year on year due to the effect of lower sales and increases in construction costs and promotion costs.

J-wood Co., Ltd., establishes the popular customer attraction model with "Housing cafes", and the number of orders received and orders in hand continuously rose year on year to 143 homes (compared with 114 a year earlier) and 162 homes (compared with

128 a year earlier), respectively. In relation to this, J-wood Co., Ltd., opened a new housing cafe in Utunomiya, so we carried out a sales promotion campaign aggressively. Thus, operating profit declined year on year.

Additionally, we acquired KDI Co., Ltd. in May, 2016 to explore new customers in metropolitan area and entry into the real estate business (in the financial report, a day as regarded as the acquisition date is June 30, 2016).

Taken together, during the nine months ended December 31, 2016, the Housing Sales Business posted sales of 23,114 million yen (down 1.7% year on year), and operating loss of 2,358 million yen (compared with a loss of 1,715 million yen a year earlier, including goodwill amortization costs related to J-wood Co., Ltd., and KDI Co., Ltd.). Regarding store openings, during the third quarter, J-wood Co., Ltd., opened a new housing cafe in Utunomiya.

[Mail-order Business]

At JIMOS Co., Ltd., the mainstay Macchia Label brand produced strong results because of an increase in loyal customers resulting from the development of new customers.

Furthermore, sales of the Coyori brand of skin and hair care products made from natural ingredients grew year on year as a result of a steady increase in the number of new customers. On the other hand, sales decreased year on year in the wholesaling business.

Operating income declined year on year due to aggressive investments in advertising and promotions.

As a result, during the nine months ended December 31, 2016, the Mail-order Business posted sales of 8,016 million yen (up 1.2% year on year), and operating loss of 267 million yen (compared with a loss of 217 million yen a year earlier, including goodwill amortization costs related to JIMOS).