

1. Qualitative Information Concerning Consolidated Business Results

(1) Information about operating results

During the six months ended September 30, 2017 (April 1 to September 30, 2017), the Japanese economy has been recovering gradually based on the improvement of employment environments and corporate earnings. In addition to this, in August, 2017, the recovery period became Japan's longest postwar period of economic expansion after the Izanagikeiki boom (from 1965 to 1970). Nevertheless, there are some risks such as the unstable financial market, overseas economics, American economic policy and unstable situations in North Korea.

Although low interest home loans and an inheritance tax strategy affect the housing industry positively, the number of housing starts continues to level off since consumer sentiment, especially the younger generation, is still a downward trend.

On the other hand, in the retail and services industries, personal consumption is improved due to the progress in employment environments. For instance, the declines in unemployment rates is below the full employment at 3%. Moreover, the rise in ratios of job offers to seekers is more than 1.0.

Against this backdrop, the Nac Group aggressively worked on developments and promotions of new products, improvement of customer services, encouragements and expansion of business areas.

As a result, consolidated results for the six months ended September 30, 2017 included sales of 38,148 million yen (up 11.0% year on year), operating loss of 1,561 million yen (compared with a loss of 2,272 million yen in the six months ended September 30, 2016) and ordinary loss of 1,576 million yen (compared with a loss of 2,266 million yen a year earlier). Loss attributable to owners of parent was 1,429 million yen (compared with a loss of 1,810 million yen a year earlier).

Operating results by business segments were as follows.

In addition to the operating income or loss of each segment, the Nac Group posted 594 million yen as corporate expenses not attributable to any particular segment.

[CreCla Business (Bottled Water)]

During the six months ended September 30, 2017, the market has been continuously growing, but the rush to enter the market by companies such as major soft drink manufacturers have slowed down. On the other hand, the competition crossing over the boundaries among industries is becoming more intense. In addition to this, there are worries that price hike in delivery charge affects providers of one-way

bottles.

Under the circumstances, the CreCla business carried out a variety of measures (e.g. sales promotions nationwide to increase the number of customers before the summer peak demand season, sales of the new product “Caffitaly”, improvements of customer retention rate and increases in the bottle consumption per customer). Our direct managed stores tried to win new customers and improve customer retention rate to enrich the content of customer services. What is more, sales per customers has risen thanks to increases in bottle consumption per customer.

As a result, sales rose year on year.

In our affiliated stores, we continuously focused on customer services and support programs in order to increase the number of customers and sales per customer.

However, sales declined year on year since sales of the CreCla plant that contributed to business results last year was not appropriated in this period and the sales volume of bottled water decreased owing to adverse weather conditions in East Japan.

Operating income increased year on year due to revisions to management costs.

Consequently, during the six months ended September 30, 2017, the CreCla Business segment posted sales of 6,678 million yen (down 2.6% year on year), and operating income of 131 million yen (compared with income of 14 million yen in the six months ended September 30, 2016).

In June, 2017, the CreCla Business established a cooperative corporation named ACC Co., Ltd. with Aquaclara Co., Ltd. so as to supply quality products and services through sharing of experiences and know-how. In relation to this, we try to reduce the prime costs and improve distribution of goods as a whole in terms of the market.

[Rental Business]

Based on the stable customer base, the mainstay dust control products business implemented sales promotions and focused on existing customers to improve customer satisfaction. Moreover, we utilised M&A strategy to expand business areas. Consequently, the number of customers and contract termination rates held steady. Furthermore, we broadly supply total care services (i.e. the housekeeping service, exterminator and gardener) to meet the customer needs, so sales increased year on year.

With-branded pest-control devices business strengthened sales promotions before

the summer peak demand season in both our directly managed stores and affiliated stores. Moreover, the newest product called “With” is sold from July, 2017. As a result, sales rose year on year.

Earnest Co., Ltd. that provides regular cleaning plan for business also grew sales because there were increases in referrals of new customers by existing customers. In September, 2017, the Rental business acquired AI LIFE Co., Ltd. to expand business areas and strengthen earning power more and more (in the financial report, a day as regarded as the acquisition date is September 1, 2017).

Operating income increased year on year owing to sales increases in all sections. Consequently, during the six months ended September 30, 2017, the Rental Business segment posted sales of 6,783 million yen, up 5.1% year on year, and operating income of 928 million yen including goodwill amortization costs of 0.2 million yen related to AI LIFE Co., Ltd., up 12.6% year on year.

[Construction Consulting Business]

The local construction market remains stagnant due to some factors such as the postponement of consumption tax hike. Under these conditions, the construction know-how systems have successfully increased sales thanks to continual support programs for small and midsize building contractors.

The construction materials business, which is focused on solar energy systems, increased the number of orders regarding solar powered house, especially new-built house, in the housing market by the use of “Net Zero Energy House (ZEH)”.

Additionally, we have started offering construction materials for subdivided housing unit and renovation in the adjacent market from last year, and it produced positive results. Overall, in the construction materials business, sales increased significantly year on year.

Eco & Eco Co., Ltd. have conducted an overhaul of income structure, sales promotions and process management to generate stable profits, so we have successfully changed its business model even though sales declined temporarily.

Operating income rose slightly year on year owing to sales increases in the construction know-how systems business and the construction materials business.

Consequently, during the six months ended September 30, 2017, the Consulting Business segment posted sales of 2,558 million yen, down 3.1% year on year, and operating income of 239 million yen including goodwill amortization costs of 9 million yen related to Eco & Eco, up 1.9% year on year.

[Housing Sales Business]

During the six months ended September 30, 2017, the growth of housing starts regarding the rental house have settled down. In relation to this, the number of housing starts regarding subdivided housing unit dropped for the 4 consecutive months from June, 2017.

Against this backdrop, Leohouse, Ltd. 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. Meanwhile, we performed effective sales promotions aggressively by the use of trademarks that we won customer’s satisfaction about selling price for 2 straight years. Furthermore, we developed original vibration control system called “L-SAV”. On the other hand, in order to meet a wide variety of needs and improve productivity, Leohouse Co., Ltd. changed its brand in 5 bases to “Matrix Concept” that presented by suzukuri Co., Ltd. In comparison with Leohouse’s brand, “Matrix Concept” produced semi-custom, fashionable and low-priced houses.

KDI Co., Ltd. continuously focuses on reinforcement of information collection methods regarding purchase and human resource development so as to increase the number of orders received and adequate real estate properties for stable sales (e.g. we newly opened sales bases in Tokyo).

Additionally, in order to enlarge business area and gain construction know-how, we acquired KUNIMOKU HOUSE Co., Ltd., in June, 2017 that runs the housing business in Hokkaido (in the financial report, a day as regarded as the acquisition date is June 30, 2017). Their original concept is “Strong wooden houses that stress kindness and environmental friendliness”.

Although there were the delay of the construction and delivery caused by the lack of manufacturers and craftspeople, sales rose largely year on year because of increases in hand as of the end of the previous fiscal year in Leohouse Co., Ltd. and J-wood Co., Ltd. During the six months ended September 30, 2017, the number of orders received and orders in hand in Leohouse Co., are 981 homes (compared with 1,134 a year earlier) and 1,294 (compared with 1,134 a year earlier), respectively.

Operating income improved year on year because of sales increases even though there were an upward tendency about construction costs and expenses related to new store openings.

Eventually, during the six months ended September 30, 2017, the Housing Sales Business posted sales of 17,216 million yen (up 28.6% year on year), and operating loss of 1,974 million yen (compared with a loss of 2,214 million yen a year earlier, including goodwill amortization costs at 49 million yen related to J-wood Co., Ltd., KDI Co.,

Ltd. and KUNIMOKU HOUSE Co., Ltd.).

Regarding store openings, Leohouse Co., Ltd. opened 5 sales bases and changed its brand to suzukuri Co., Ltd. in 5 bases, and KDI Co., Ltd. opened a sales base during the second quarter.

[Mail-order Business]

At JIMOS Co., Ltd., the mainstay Macchia Label brand increased in the number of new customers resulting from the aggressive investment in advertising and promotions ahead of the spending plan. However, sales decreased year on year due to a slowdown in the repeat rate and the decrease in sales per customers.

Although the number of new customers continues to be strong, sales of the Coyori brand of skin and hair care products made from natural ingredients also declined year on year as a result of a sluggish growth in sales per customers.

BELAIR Co., Ltd. that acquired in December, 2016 develops comprehensive services using management resources for an aging society and expands our sales network. As a result, during the six months ended September 30, 2017, the Mail-order Business posted sales of 4,943 million yen (down 1.6% year on year), and operating loss of 291 million yen (compared with a loss of 481 million yen a year earlier, including goodwill amortization costs at 283 million yen related to JIMOS Co., Ltd. and BELAIR Co., Ltd.).