

Explanatory Session for the Results of the First Quarter Ended June 2010

July 2010

Leopalace21 Corporation

This document and reference materials may contain forward-looking statements, but please understand that actual results may differ significantly from these forecasts due to various factors.

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Overview of Core Businesses during the 1Q ended June 2010



Apartment Construction Subcontracting Business

(Unit: 100 million yen)	FY 2007/3	FY 2008/3	FY 2009/3	FY 2010/3					FY 2011/3	
	Full-year	Full-year	Full-year	1Q	2Q	3Q	4Q	Full-year	1Q	Full-year Forecast
Total orders received	3,624	4,630	3,378	632	636	535	380	2,183	255	2,080
Total orders cancelled	218	415	683	184	115	109	98	506	86	520
Cancellation rate	6.0%	9.0%	20.2%	29.3%	18.1%	20.4%	25.8%	23.2%	33.7%	25.0%
Net orders received	3,406	4,215	2,691	448	521	427	281	1,677	169	1,560
Orders received outstanding	2,486	3,426	2,528	2,638	2,291	2,425	1,836	—	1,788	1,596

Contributing Factors

Orders received in the Apartment Construction Subcontracting segment during FY 2011/3 1Q decreased drastically compared to the previous fiscal year, as target areas were narrowed down according to the “market-out strategy” of the Medium-term Management Plan.

Breakdown of the factors contributing to the year-on-year decline: ¥20.7 billion due to the decrease in the number of orders, and ¥7.2 billion due to the decrease in average value per order.

(Unit: Billion yen)

Decline due to decrease in number of orders	-20.7	① × ②
Decline due to lowering of unit price	- 7.2	③ × ④



	FY 2010/3 1Q	FY 2011/3 1Q	Difference	% Change
Total order value	¥44.8 billion	¥16.9 billion	- ¥27.9 billion	-62.2%
No. of orders	561	④ 302	② - 259	-46.2%
Average value per order	① ¥79.9 million	¥56.0 million	③ - ¥23.8 million	-29.8%

Leasing Business -1-

	FY 2007/3	FY 2008/3	FY 2009/3	FY 2010/3					FY 2011/3	
	Full-year	Full-year	Full-year	1Q	2Q	3Q	4Q	Full-year	1Q	Full-year Forecast
Total no. of leases signed during period (1,000 leases)	362	374	384	83	90	87	131	391	71	458
Of which, by realtor-brokers (1,000 leases)	14	15	27	5	7	7	15	33	4	39
Total no. of leases terminated during period (1,000 leases)	319	330	361	96	86	82	106	370	87	394
Occupancy rate	92.8%	92.4%	88.5%	83.1%	81.9%	80.8%	83.2%	82.3%	79.9%	83.7%
Of which, corporate tenants (Occupied units/Managed units)	-	-	37.3%	33.7%	33.3%	31.9%	33.3%	33.1%	31.8%	-
Of which, personnel dispatch & outsourcing lessee tenants	-	-	5.2%	2.8%	2.6%	2.7%	2.7%	2.7%	2.7%	-
Units under management (Units)	388,500	442,025	506,742	519,743	528,785	539,109	551,773	-	559,241	578,494

1. Total number of leases signed is the combined total of leasing system contracts and monthly system use units. 2. Total number of corporate leases includes those from Leopalace Partners and subsidiary Leopalace Leasing. 3. The occupancy rate is the average value for each period (full year or quarter). Figures for units under management, corporate tenants, and personnel dispatch & outsourcing lease tenants are as of the end of the final month for the relevant period, except for full year and 3Q cumulative figures.

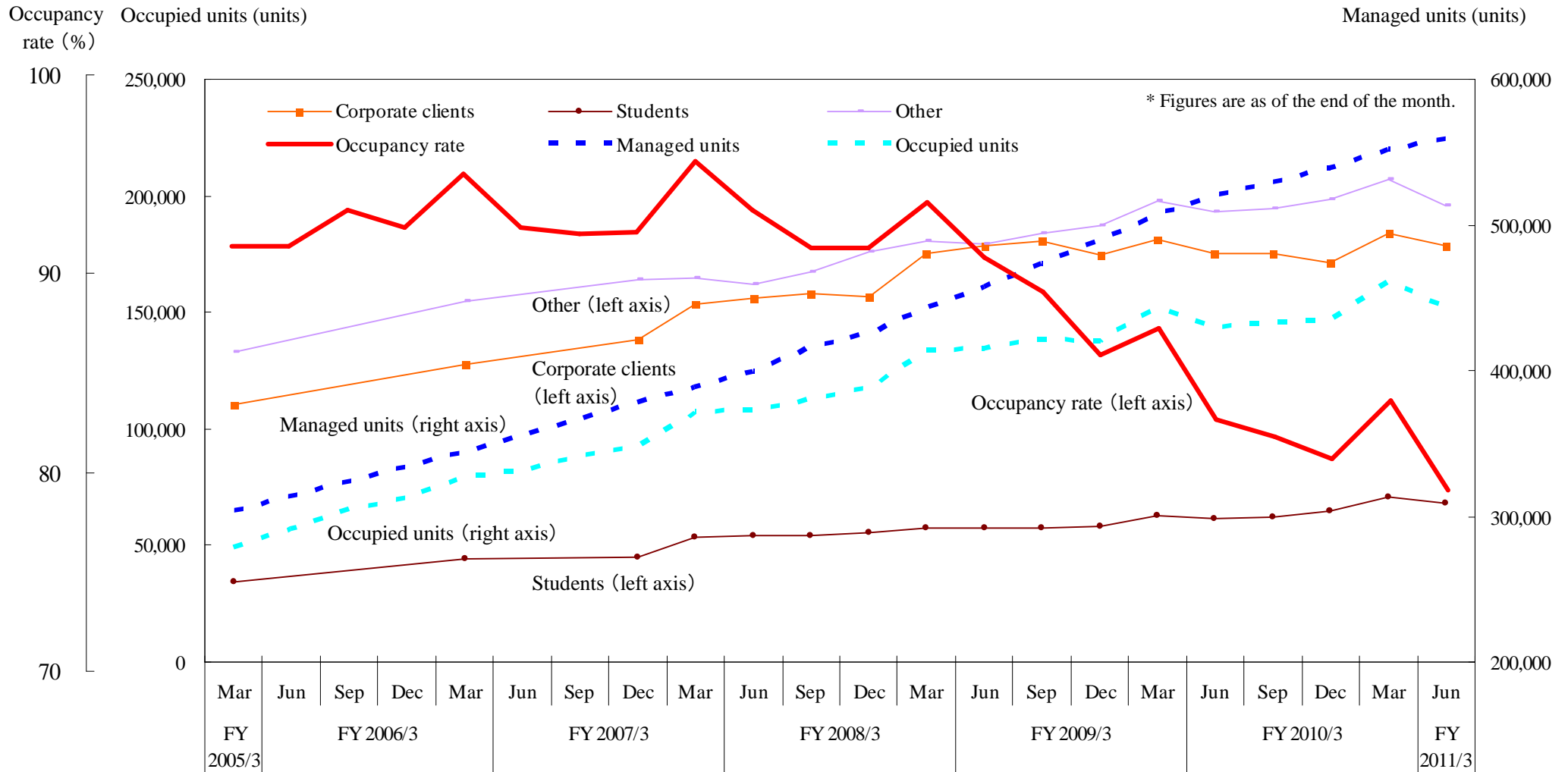
Contributing Factors

In addition to traditional seasonal factors, sluggish demand from corporate clients (which make up roughly 50% of our occupied units) continue due to persistently tight employment conditions, leading to a decline in occupancy rate in the subject 1Q.

Measures

- ① Narrowing down of new units built, according to the new area strategy (7,500 units, 57% of FY 2010/3 1Q)
- ② Front-loaded expansion of Leopalace Partners, in order to strengthen the new channel strategy
- ③ Expansion of China business (opening of Guangzhou and Dalian offices in October, making a total of four offices in China)
- ④ Since July, as part of the rent-pricing strategy accompanied by the operation of the “Leasing ALM System,” authority to set rents and arrange campaigns has been transferred to branch offices (as opposed to management headquarters), in order to respond rapidly to the actual market and strengthen area authority.

Leasing Business -2- Occupancy Conditions by Group



A shift to the new area strategy

The graph by group-types (corporate clients, students, and other) are increasing, despite a seasonality. However, since there is a gap in supply-demand, between these groups and overall units (units under management), the occupancy rate is decreasing intermittently.

Under these conditions, shifting from “product out” to “market out” by the “new area strategy”, the basic policy of the medium-term management plan, becomes an important measure.

Determination of the Provision for Apartment Vacancy Loss

(Unit: 100 million yen)

(Unit: units)

		FY 2010/3					FY 2011/3		FY 2010/3		FY 2011/3						
		1Q	2Q	3Q	4Q	New standard	1Q	PoP	Full-year		1Q (June 2010)		Compared to Mar 2010		Plan		
By building age	Beyond 3 years	52	58	79	118	153	163	10	Managed units	Occupancy rate	Managed units	Occupancy rate	Managed units	Occupancy rate	Planned new units (Jun-Mar)	New units share	Orders received outstanding as of June 2010 (units)
	Less than 3 years	17	33	60	96	164	154	△ 10									
	Total	68	91	139	214	317	317	△ 0.4									
By area	Hokkaido	4	6	8	12	9	9	0	14,327	82%	14,441	78%	114	-4%	200	1%	987
	Tohoku	11	14	18	24	8	9	1	33,796	85%	34,121	81%	325	-4%	600	3%	872
	North Kanto	7	8	12	18	37	37	0	42,497	79%	43,154	74%	657	-5%	100	0%	1,523
	Tokyo Metropolitan	4	6	12	26	29	32	3	152,629	89%	155,962	84%	3,333	-5%	10,300	48%	12,540
	Hokuriku	9	13	16	21	10	10	0	16,150	83%	16,188	81%	38	-2%	400	2%	302
	Koshinetsu	3	4	6	10	24	24	0	24,002	82%	24,503	78%	501	-4%	100	0%	815
	Chubu	11	17	30	44	105	104	△ 1	91,416	75%	92,187	71%	771	-4%	2,400	11%	3,615
	Kinki	10	12	17	26	49	47	△ 2	77,922	84%	78,927	79%	1,005	-5%	4,300	20%	5,088
	Chugoku	3	3	7	12	14	14	0	37,289	86%	37,467	82%	178	-4%	500	2%	1,081
	Shikoku	3	4	4	7	13	12	△ 1	14,384	79%	14,412	76%	28	-3%	100	0%	311
	Kyushu	3	4	8	13	18	18	0	42,869	84%	43,334	81%	465	-3%	1,000	5%	2,714
	Okinawa	0	0	0	1	1	1	0	4,492	90%	4,545	89%	53	-1%	1,400	7%	980
	Total	68	91	139	214	317	317	△ 0.4	551,773	84%	559,241	79%	7,468	-5%	21,400	100%	30,828

Reasons for a reversal of the provision for apartment vacancy loss, despite the occupancy rate being 4 points below the forecast

An extraordinary loss of ¥10.3 billion has been allocated at the end of the FY ended March 2010 as a forecasted provision for apartment vacancy loss for the period after the subject fiscal year, based on future estimates. A sum of ¥31.7 billion was allocated in the balance sheet for this provision, but there will be a reversal corresponding to the period passed if preconditions are not changed. If the average remaining period of the apartments subject to the provision is five years and reversal is spread equally during the passing period, the effect on the amount of reversal will be as follows:

Annual: ¥31.7 billion / 5 years ≒ ¥6.3 billion

Quarter: ¥6.3 billion / 4 ≒ ¥1.6 billion

Because there was a drop in occupancy rate, the reversal was ¥40 million in the subject quarter.

Outline of 1Q Results

 **Leopalace21**

Highlights of 1Q Results (Consolidated)



(Unit: Million yen)	Results				Forecasts			
	FY 2011/3 1Q	FY 2010/3 1Q	Change	% Change	FY ending March 2011	Change	Major factors (Billion yen)	
Net sales	112,634	128,918	(16,284)	-12.6%	564,700	(55,676)	Subcontracting Leasing	(56.8) +21.0
Gross profit	3,043	9,733	(6,690)	-68.7%	64,760	15,134	Subcontracting Leasing	(2.6) +14.8
(%)	2.7%	7.6%	-4.9p	-	11.5%	3.5p		
Selling, general & administrative expenses	15,930	19,946	(4,016)	-20.1%	59,460	(19,894)	Subcontracting Leasing	(6.8) (10.4)
Operating income (loss)	(12,886)	(10,212)	(2,674)	-	5,300	35,027	Subcontracting Leasing	+4.2 +25.2
(%)	-11.4%	-7.9%	-3.5p	-	0.9%	5.7p		
Recurring income (loss)	(15,971)	(11,572)	(4,399)	-	3,400	37,231	Operating loss Foreign exchange loss	+35.0 Improved 2.4
(%)	-14.2%	-9.0%	-5.2p	-	0.6%	6.1p		
Net income (loss)	(13,629)	(5,226)	(8,403)	-	3,000	82,075	Recurring loss Extraordinary loss	+37.2 +43.6

Highlights of 1Q Results for Parent & Major Subsidiaries (Consolidated)



(Unit: Million yen)		FY 2011/3 1Q	FY 2010/3 1Q	Change	% Change	FY 2011/3 1Q Depreciation expenses	FY 2010/3 1Q Depreciation expenses
Leopalace21	Net sales	111,012	127,518	(16,506)	-12.9%	1,173	1,132
	Recurring income (loss)	(15,559)	(11,411)	(4,148)	—		
Leopalace Guam	Net sales	1,887	1,988	(101)	-5.1%	359	373
	Recurring income (loss)	(1,900)	(715)	(1,185)	—		
	Foreign exchange gain (loss)	(2,157)	(972)	(1,185)	—		
Others & Exclusion	Net sales	(265)	(588)	323	—	9	7
	Recurring income (loss)	1,488	554	934	—		
Consolidated total	Net sales	112,634	128,918	(16,284)	-12.6%	1,541	1,512
	Recurring income (loss)	(15,971)	(11,572)	(4,399)	—		
	Foreign exchange gain (loss)	(2,658)	(1,010)	(1,648)	—		

Outline of Balance Sheet (Consolidated)



(Unit: Million yen)		FY 2011/3 1Q	FY 2010/3 1Q	Change	FY 2010/3
Assets	Current assets	104,308	153,125	(48,817)	146,416
	Cash & cash equivalents	42,472	38,638	3,834	72,431
	Trade/account receivables for completed projects	6,553	8,038	(1,485)	12,916
	Operating loans	5,149	9,498	(4,349)	5,482
	Real estate for sale, sale in process	2,983	22,205	(19,222)	3,955
	Payout for construction in progress	1,610	19,446	(17,836)	1,184
	Fixed assets	245,023	277,603	(32,580)	250,006
	Buildings & structures	65,686	68,374	(2,688)	63,437
	Land	96,638	116,975	(20,337)	96,293
	Construction in progress	387	3,544	(3,157)	3,367
Total assets		349,418	430,732	(81,314)	396,511
Liabilities	Current liabilities	177,783	200,570	(22,787)	208,410
	Short-term borrowings	45,900	44,482	1,418	30,000
	Long-term liabilities	111,435	84,351	27,084	117,121
	Long-term borrowings	19,395	16,025	3,370	22,761
	Provision for apartment vacancy loss	31,688	6,824	24,864	31,728
Total liabilities		289,218	284,921	4,297	325,532
Net assets	Common stock	55,640	55,640	-	55,640
	Capital surplus	33,855	34,104	(249)	33,894
	Retained earnings	(19,292)	68,185	(87,477)	(5,663)
	Total net assets		60,199	145,811	(85,612)
Shareholders' equity ratio		17.2%	33.9%	-16.7%	17.9%

Outline of Cash Flow (Consolidated)



(Unit: Million yen)	FY 2011/3 1Q	FY 2010/3 1Q	Change
Cash flows from operating activities	(40,943)	(56,167)	15,224
Net income (loss) before taxes & adjustments	(13,562)	(11,625)	(1,937)
Depreciation expenses	1,541	1,512	29
Increase (decrease) in provision for apartment vacancy loss	(40)	2,203	(2,244)
Foreign exchange loss (gain)	2,658	1,009	1,649
Decrease (increase) in accounts receivable	8,961	3,906	5,055
Decrease (increase) in real estate for sale	971	5,970	(4,999)
Decrease (increase) in work in process	(426)	(4,520)	4,094
Decrease (increase) in long-term prepaid expenses	5,193	3,976	1,216
Increase (decrease) in accounts payable	(35,733)	(42,137)	6,403
Income taxes paid	(1,468)	(13,266)	11,798
Cash flows from investing activities	(4,314)	(3,682)	(632)
Payout for purchase & proceeds from sale of property, plant and equipment	(600)	(2,278)	1,678
Payout for purchase & proceeds from sale of investment activities	365	50	314
Cash flows from financial activities	12,297	19,710	(7,413)
Proceeds from & repayment of short-term debt	16,500	30,500	(14,000)
Proceeds from & repayment of long-term debt	(3,965)	(10,383)	6,417
Net increase (decrease) in cash & cash equivalents	(33,078)	(39,736)	6,658
Cash & cash equivalents at end of period	38,953	38,638	314

Profit/Loss for Major Segments (Consolidated)



(Unit: Million yen)	FY 2011/3 1Q		FY 2010/3 1Q		Change	% Change	FY 2011/3 Full-year Forecast	
Construction Division	*Effect in switching to “% of completion method”: Net sales ¥5.7 billion; Gross profit ¥1.5 billion.							
Net sales	21,820		33,841		(12,020)	-35.5%	180,193	
Gross profit	5,948	27.3%	9,775	28.9%	(3,827)	-39.2%	61,193	34.0%
Operating income (loss)	(2,019)	-9.3%	2,002	5.9%	(4,022)		33,989	18.9%
Leasing Division								
Net sales	85,768		85,173		595	0.7%	363,771	
Gross profit	(3,083)	-3.6%	742	0.9%	(3,826)	-	4,156	1.1%
Operating income (loss)	(9,745)	-11.4%	(9,521)	-11.2%	(224)	-	(22,576)	-6.2%
Hotel Resort Division								
Net sales	2,474		2,730		(255)	-9.3%	9,555	
Gross profit	690	27.9%	710	26.0%	(19)	-2.8%	1,870	19.6%
Operating income (loss)	(112)	-4.5%	(158)	-5.8%	45	-	(1,423)	-14.9%
Other Division (including Real estate)								
Net sales	3,257		8,138		(4,880)	-60.0%	14,026	
Gross profit	163	5.0%	(559)	-6.9%	722	-	342	2.4%
Operating income (loss)	(279)	-8.6%	(1,444)	-17.8%	1,164	-	(1,587)	-11.3%

*Values are before eliminations between segments.

*Segments have been changed since the FY ending March 2010. Please see page 15 for results of segment operations.

Apartment Construction Subcontracting Business Costs

(Unit: 100 million yen) (Excludes % of completion basis)	FY 2009/3		FY 2010/3				FY 2011/3					
	Full-year		1Q		Full-year		1Q		YoY		Full-year Forecast	
	Actual	Share	Actual	Share	Actual	Share	Actual	Share	Actual	Growth	Plan	Share
Construction sales	3,590	100%	204	100%	2,305	100%	223	100%	19	9.3%	1,800	100%
Cost of sales	2,495	69.5%	142	69.6%	1,684	73.1%	164	73.5%	22	15.5%	1,190	66.1%
Direct expenses	2,263	63.0%	131	64.2%	1,467	63.6%	143	64.1%	12	9.2%	1,107	61.5%
Construction GP	1,326	37.0%	73	35.8%	838	36.4%	80	35.9%	7	9.6%	693	38.5%
Indirect expenses	232	6.5%	11	5.4%	217	9.4%	21	9.4%	10	90.9%	83	4.6%
Gross profit	1,094	30.5%	62	30.4%	621	26.9%	59	26.5%	-3	-4.8%	611	34.0%

1. Since the end of the previous period, the standard of recognizing indirect expenses in the apartment construction subcontracting division has been changed to reflect the proportion of progress toward completion of projects. Therefore, since figures of the FY 2010/3 1Q are prior to these adjustments, they cannot be compared to figures of the subject 1Q, but are disclosed for reference. Indirect expenses of ¥2.1 billion (9.4% of net sales) in the subject 1Q will converge to the full-year forecast figure of ¥8.3 billion (4.6%), due to the increase of buildings in progress.

2. Breakdown of indirect expenses:

(Unit: 100 million yen)	FY 2009/3		FY 2010/3 1Q		FY 2010/3		FY 2011/3 1Q	
Indirect expenses	232	6.5%	11	5.4%	217	9.4%	21	9.4%
(of which, labor expenses)	178	4.9%	8	3.9%	182	8.0%	16	7.2%

Current Progress in the Development of Other Businesses

 **Leopalace21**

Results of Other Business Operations (Cumulative)



(Unit: Million yen)		FY 2011/3 1Q	FY 2010/3 1Q	Change	% Change	FY 2011/3 Full-year Forecast
Real Estate Business (New segment)	Net sales	1,140	6,063	(4,922)	-81.2%	5,000
	Gross profit (loss)	169	(159)	329	-	(40)
	Operating income (loss)	99	(588)	688	-	(52)
Silver Business (Other Business)	Net sales	1,841	1,918	(77)	-4.0%	8,200
	Gross profit (loss)	(269)	(527)	258	-	(400)
	Operating income (loss)	(405)	(741)	335	-	(1,454)
Domestic Hotel Business (Hotel Resort Business)	Net sales	476	552	(76)	-13.9%	2,100
	Gross profit (loss)	231	276	(45)	-16.3%	900
	Operating income (loss)	(153)	(64)	(89)	-	(363)
Broadband Business (Leasing Business)	Net sales	3,819	3,726	93	2.5%	16,400
	Gross profit (loss)	1,029	709	319	45.1%	4,300
	Operating income (loss)	640	507	132	26.1%	3,596

Results of Leopalace Resort and Silver Business (Cumulative)



< Leopalace Resort >

(Unit: 1,000 US dollars)	Jan-Mar 2010	Jan-Mar 2009	Change	% Change	Forecasts for Jan-Dec 2010
Net sales	20,808	21,207	(399)	-1.9%	71,740
Operating income	2,724	2,739	(15)	-0.5%	2,416
Depreciation expenses	3,966	3,979	(13)	-0.3%	15,840
Operating rate (Leopalace Resort)	68.0%	62.6%	+5.4 p	-	56.3%
Operating rate (Westin)	76.1%	65.6%	+10.4 p	-	64.1%

*Operating rate represents period average.

< Silver Business (Elderly care) >

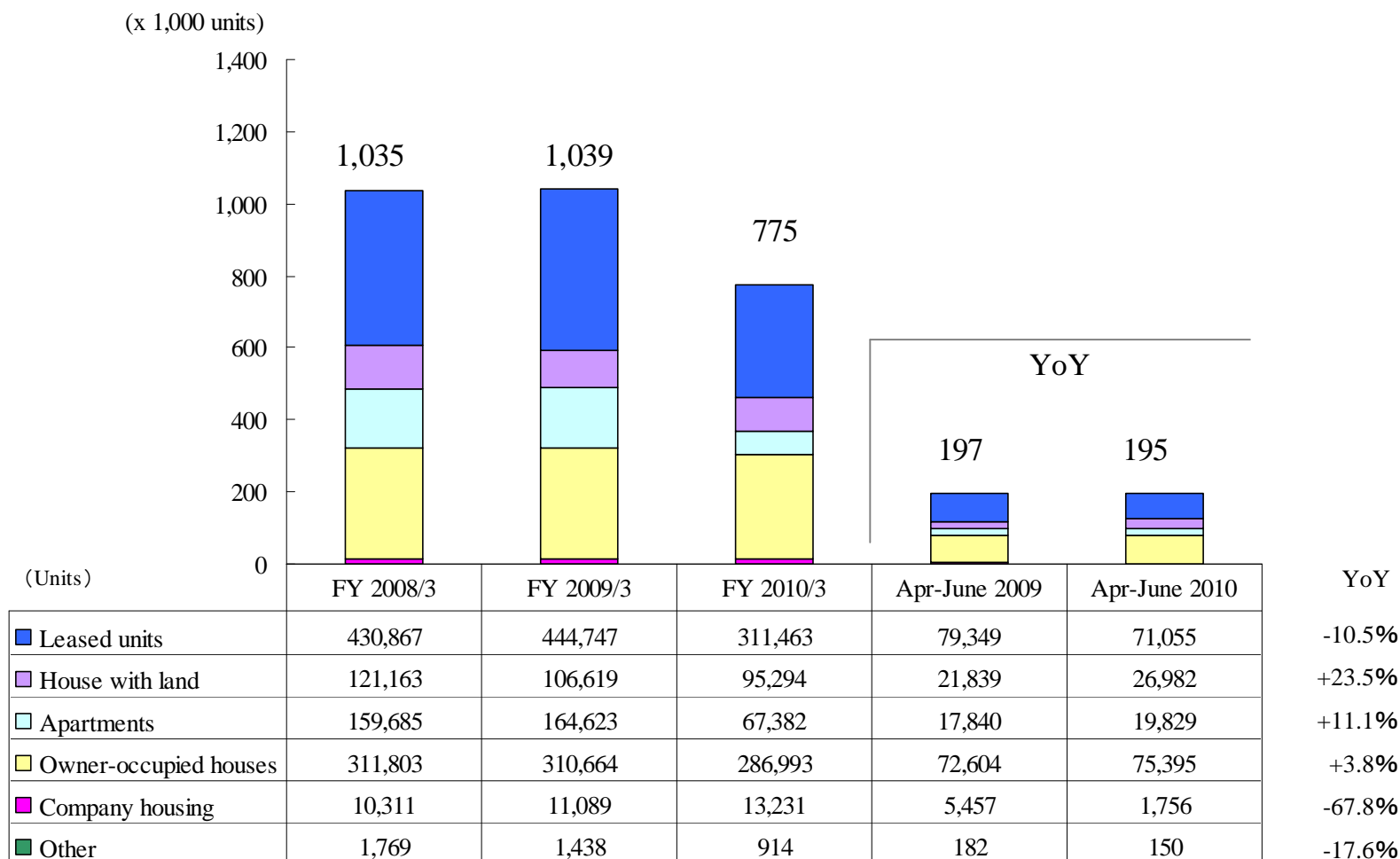
(Unit: Million yen)		FY 2011/3 1Q	FY 2010/3 1Q	Change	% Change	Forecasts for Jan-Dec 2010
Operation of facilities	Net sales	1,839	1,436	404	-28.2%	8,200
	No. of facilities (period end)	58	55	3	5.5%	58
Construction of facilities	Order amount	0	242	(242)	-	0
	No. of facilities ordered	0	1	(1)	-	0
	Net sales	1	481	(481)	-	0
Net sales of Silver Business		1,841	1,918	(77)	-4.0%	8,200

*Net sales in the construction of facilities of FY 2011/3 1Q consists of buildings and repairs.

Appendix

 **Leopalace 21**

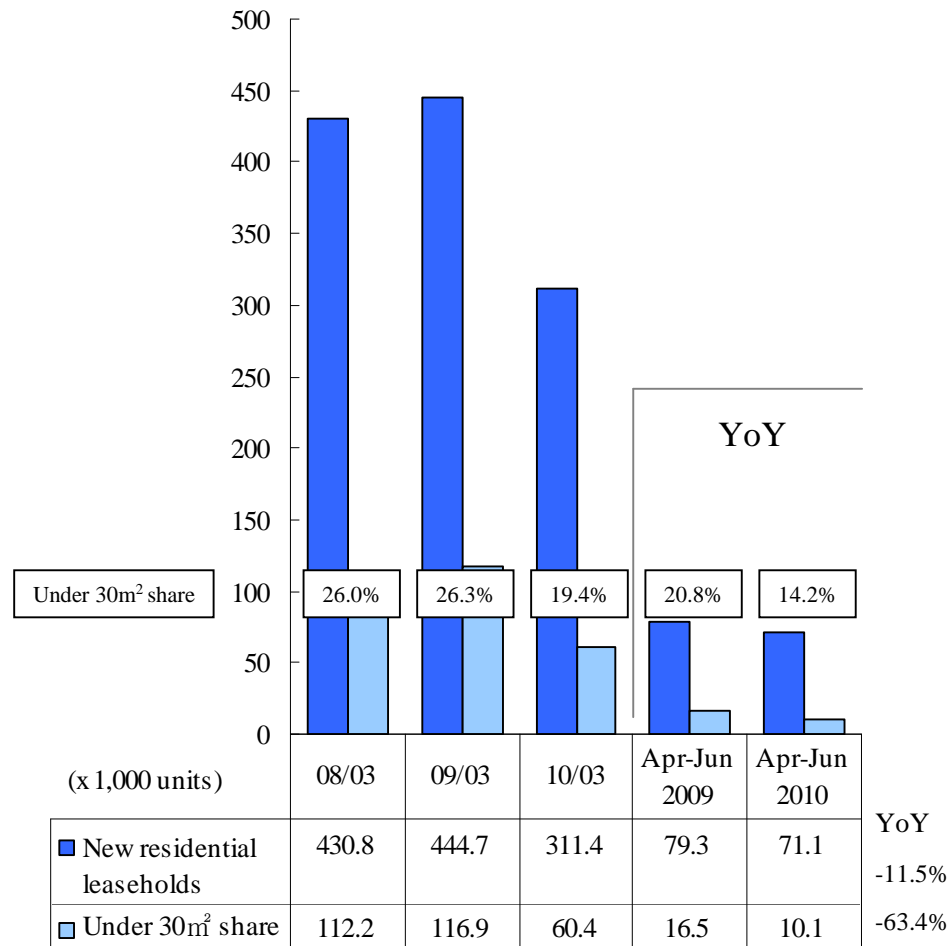
New Housing Starts (No. of use breakdown)



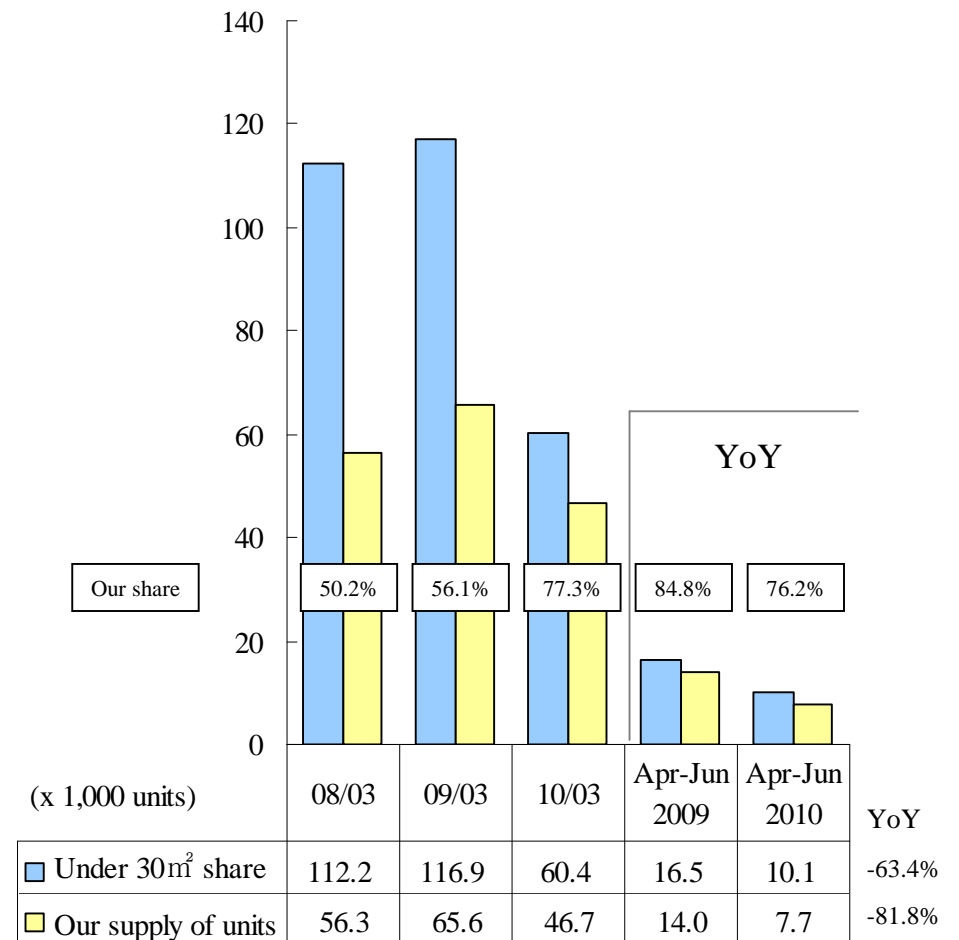
(Based on housing start statistics, Ministry of Land, Infrastructure & Transport)

New Housing Starts (Units under 30 square meters)

Trend in No. of New Residential Leaseholds Overall & Market Share for Units under 30 square meters



Trend in No. of New Residential Leaseholds under 30 square meters and Our Market Share

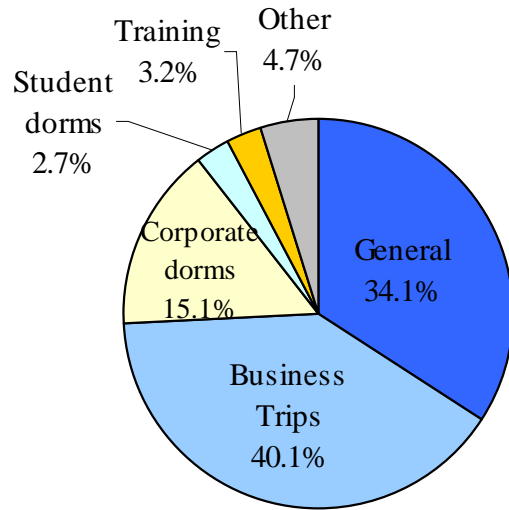


(Based on housing start statistics, Ministry of Land, Infrastructure & Transport)

Usage Pattern for Leopalace21's One-Room Units and Contract Type



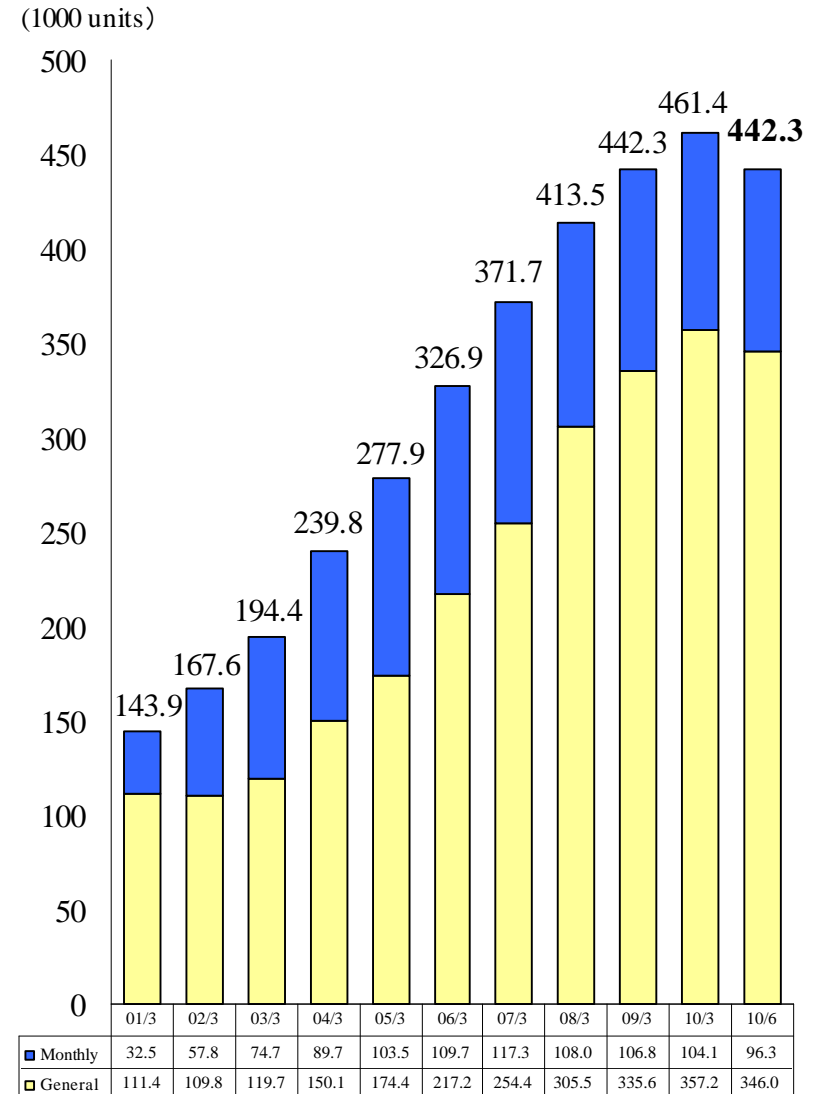
**Breakdown of Users of Month-to-Month Leases
(as of June 2010)**



Breakdown of "Other":

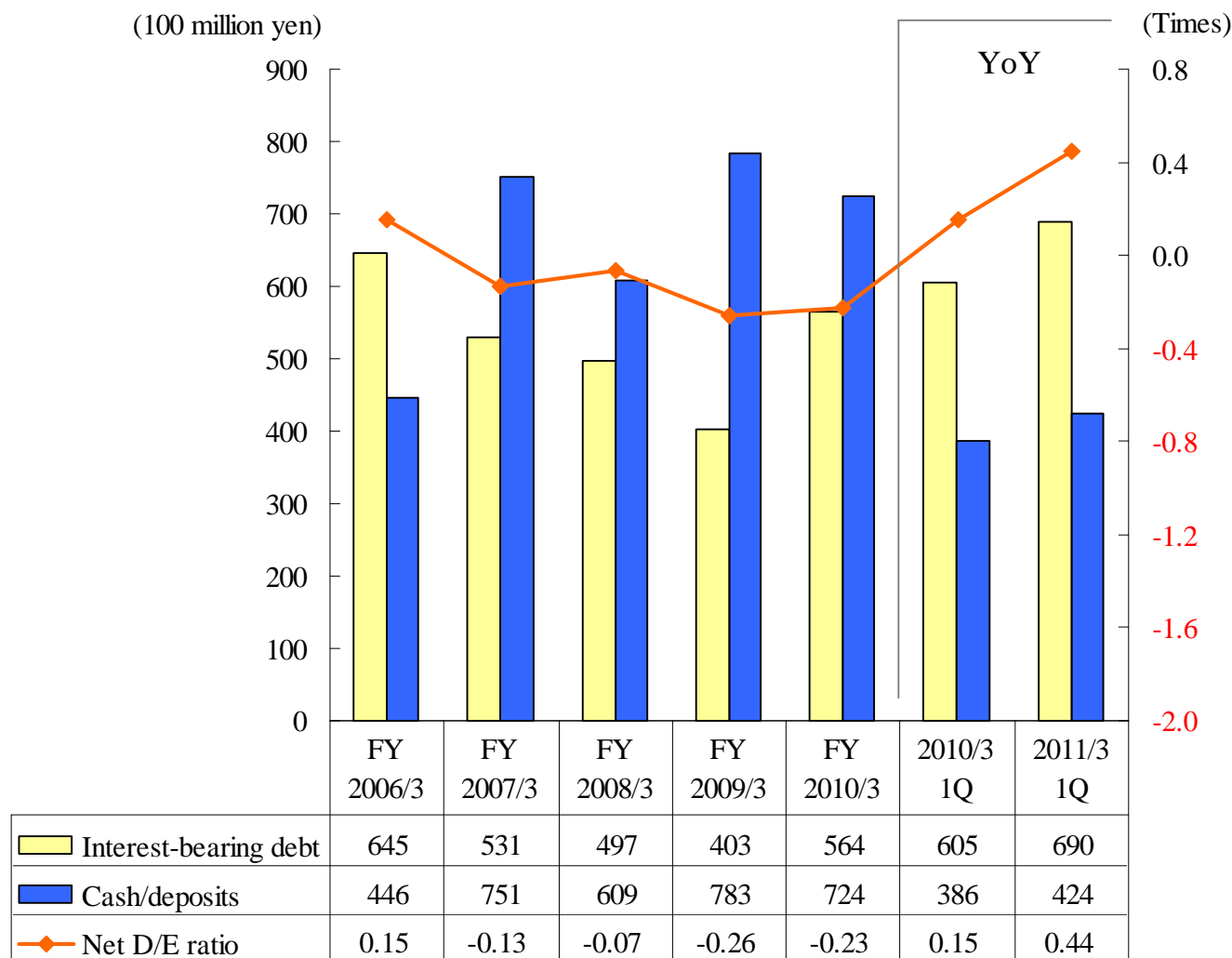
Temporary stay between moves	1.01%
Job assignment away from home	0.65%
Temporary use (for space)	0.56%
Temporary stay during home renovations	0.55%
Daily use for long commute	0.32%
Study	0.22%
Taking care of hospitalized relations	0.22%
Taking care of business bachelors	0.21%
Tourism	0.16%
Other	0.78%

No. of Tenants by Contract Type

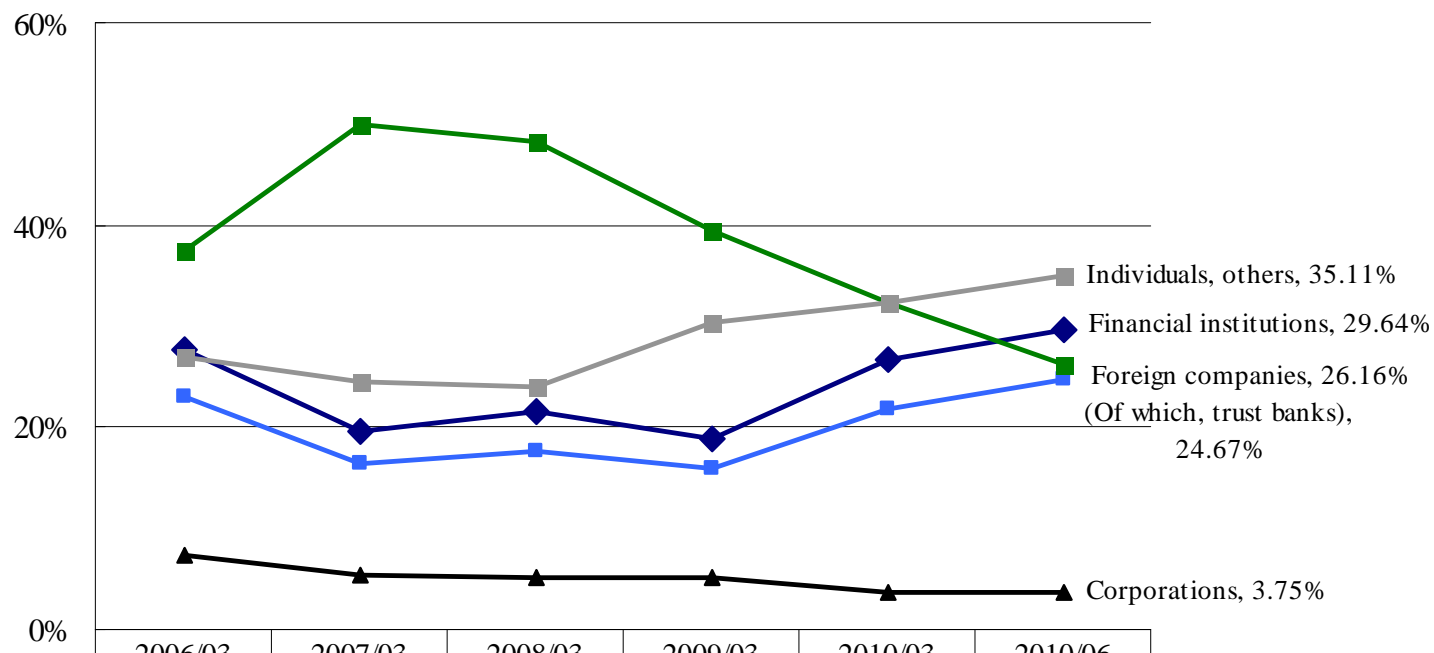


(Based on company data, as of June 30, 2010)

Balance of Cash/Deposits, and Interest-bearing Debt (Consolidated)



Trend in Shareholders



	2006/03	2007/03	2008/03	2009/03	2010/03	2010/06
◆ Financial institutions	27.61%	19.49%	21.52%	18.83%	26.78%	29.64%
■ (Of which, trust banks)	22.96%	16.36%	17.73%	15.98%	21.71%	24.67%
▲ Corporations	7.43%	5.28%	5.16%	5.21%	3.77%	3.75%
■ Foreign companies	37.56%	49.88%	48.28%	39.38%	32.37%	26.16%
■ Individuals, others	26.88%	24.38%	23.88%	30.38%	32.42%	35.11%