

# Consolidated Financial Statements (Japanese Accounting Standard)

August 5, 2016

(For the three months ended June 30, 2016)

Name of Company Listed: **Leopalace21 Corporation** Stock Listing: Tokyo Stock Exchange  
 Code Number: 8848 URL: <http://eg.leopalace21.com/> Location of Head Office: Tokyo  
 Representative: Position: President and CEO Name: Eisei Miyama  
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 Supplemental Explanatory Material Prepared: Yes Results Briefing Held: No

## 1. Results for the Three Months ended June 30, 2016 (April 1, 2016 through June 30, 2016)

(1) Consolidated financial results (Amounts less than one million yen are omitted)  
 (The percentage figures indicate rate of gain or loss compared with the same period last year)

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2016	125,998	1.0	5,646	27.6	5,203	26.2	4,429	28.9
Three months ended June 30, 2015	124,728	-	4,425	-	4,122	-	3,436	-

(Note) Comprehensive income in the three months ended June 30, 2016: 1,461 million yen (-56.1%);  
 three months ended June 30, 2015: 3,331 million yen (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended June 30, 2016	16.85	-
Three months ended June 30, 2015	13.07	-

(Note) Rate of gain or loss compared to the previous year are omitted, since figures are retrospectively adjusted due to changes in accounting policies.

## (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of June 30, 2016	315,608	143,688	45.5	546.53
As of March 31, 2016	327,609	144,865	44.2	550.94

(Reference) Shareholders' equity as of June 30, 2016: 143,669 million yen; as of March 31, 2016: 144,827 million yen

(Note) Figures as of March 31, 2016 are retrospectively adjusted due to changes in accounting policies.

## 2. Dividend Status

	Dividend per share				
	End of Q1	End of Q2	End of Q3	End of FY	Annual
	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2016	-	0.00	-	10.00	10.00
FY ending March 31, 2017	-	-	-	-	-
FY ending March 31, 2017 (Estimate)	-	10.00	-	12.00	22.00

(Note) Restatement of most recent dividend forecast: None

## 3. Estimation of Consolidated Business Results for the Fiscal Year ending March 31, 2017 (April 1, 2016 through March 31, 2017)

(The percentage figures for full year indicate rate of gain or loss compared with the previous FY, while those for the interim period indicate rate of gain or loss compared with the same term in the previous FY)

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2016	253,500	0.4	10,000	-6.5	9,800	-1.4	8,500	1.2	32.33
FY ending March 31, 2017	528,000	3.2	22,500	6.7	21,500	8.0	18,500	-5.8	70.38

(Note) Restatement of most recent consolidated business results forecast: None

(Note) Since previous year figures are retrospectively adjusted due to changes in accounting policies, rate of gain or loss compared to the previous year are adjusted.

#### 4. Other

- (1) Changes in major subsidiaries during the subject period (change in specific subsidiaries resulting in a change in the scope of consolidation): None
- (2) Use of accounting procedures specific to the preparation of quarterly financial statements: Yes  
(Note) Refer to P.6 "2. Matters Relating to Summary Information (Notes) (2) Application of Accounting Methods Specific to the Preparation of Quarterly Consolidated Financial Statements" for details.
- (3) Changes in accounting principles, procedures or reporting methods used in preparation of financial statements
  - (i) Changes in accounting policies accompanying revision of accounting standards, etc.: Yes
  - (ii) Changes in accounting policies other than (i) above: Yes
  - (iii) Changes in accounting estimates: None
  - (iv) Restatements: None(Note) For details, please refer to P.6 "2. Matters Relating to Summary Information (Notes) (3) Changes in Accounting Policy, Changes in Accounting Estimates, and Restatements."
- (3) Total number of outstanding shares (common stock)
  - (i) Total number of outstanding shares at term end (including treasury stock)  
As of June 30, 2016: 267,443,915 shares, As of March 31, 2016: 267,443,915 shares
  - (ii) Total treasury stock at term end  
As of June 30, 2016: 4,569,520 shares, As of March 31, 2016: 4,569,520 shares
  - (iii) Average number of outstanding shares during the period  
As of June 30, 2016: 262,874,395 shares, As of June 30, 2015: 262,874,485 shares

\*Indication regarding the status of auditing:

These financial statements are not subject to auditing under the Financial Instruments and Exchange Act. The review of these financial statements in accordance with the Financial Instruments and Exchange Act are not completed at the time of disclosure.

\*Explanation on the proper use of the business forecasts, and other special notices:

(Note on the business forecasts and other forward-looking statements)

The business forecasts and other forward-looking statements contained in this report are based on information currently available to the Company and on certain assumptions that Leoplace21 has judged to be reasonable. Readers should be aware that a variety of factors might cause actual results to differ significantly from these forecasts.

For assumptions of business forecasts and notes on the proper use of these forecasts, please refer to P.5 "1. Business Results (3) Explanation Concerning Business Forecasts and Other Forward-looking Statements."

(Method for the acquisition of supplemental explanatory material)

Supplemental Explanatory Material on quarterly financial statements is scheduled to be posted on the Company's web site on August 5, 2016.

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## 1. Business Results

The accounting policy concerning revenue recognition has been changed from the subject period, and previous figures have been retrospectively adjusted. Please refer to P.6 “2. Matters Relating to Summary Information (Notes) (3) Changes in Accounting Policy, Changes in Accounting Estimates, and Restatements” for details.

### (1) Analysis of Business Results

(Million yen)

	Net sales	Operating profit	Recurring profit	Net income attributable to shareholders of the parent
Three months ended June 30, 2016	125,998	5,646	5,203	4,429
Three months ended June 30, 2015	124,728	4,425	4,122	3,436
Difference	+1,269	+1,221	+1,081	+993

During the subject three months, the domestic economy showed gradual progression supported by improvements in employment and income, despite the standstill in individual consumption.

Apartment construction remains a popular strategy to reduce inheritance tax, and new housing starts of leased units has trended strongly mainly in the urban areas. On the other hand, as the number of vacant houses continues to increase and recovery in nationwide demand becomes difficult, achieving stable occupancy rates requires constructing apartments in areas with high demand, in addition to providing high-quality products and services that meet tenants' needs.

Under these conditions, the Leopalace21 Group (the “Group”) aims to achieve targets of the Medium-term Management Plan “EXPANDING VALUE,” by building a solid management structure focusing on the core businesses, made up of Leasing and Construction. In addition, the Group aims to establish new businesses that will contribute to future growth.

As a result, consolidated net sales for the subject first quarter came to 125,998 million yen (up 1.0% year-on-year). Operating profit was 5,646 million yen (up 27.6% year-on-year), recurring profit was 5,203 million yen (up 26.2% year-on-year), and net income attributable to shareholders of the parent was 4,429 million yen (up 28.9% year-on-year).

(Actual figures by segment)

(Million yen)

	Net sales			Operating profit		
	Three months ended June 30, 2015	Three months ended June 30, 2016	Difference	Three months ended June 30, 2015	Three months ended June 30, 2016	Difference
Leasing Business	102,213	104,413	+2,200	5,746	6,288	+542
Construction Business	15,423	14,339	(1,083)	(461)	(101)	+359
Elderly Care Business	2,677	2,770	+92	(277)	(474)	(196)
Hotels & Resort Business	3,159	3,070	(89)	97	378	+281
Others	1,254	1,404	+150	286	419	+132
Adjustments	—	—	—	(965)	(863)	+101
Total	124,728	125,998	+1,269	4,425	5,646	+1,221

#### (i) Leasing Business

The occupancy rate at the end of the first quarter was 88.60% (up 1.01 points from the end of the same quarter last year) and the average occupancy rate for the period was 88.71% (up 1.01 points year-on-year).

In the Leasing Business, to establish stable profits led by occupancy improvement, the Group implemented measures to promote longer rent periods such as expanding tenant services including “Room Customize” and providing a website for tenants, as well as further strengthening sales for female and corporate customers by security system installations. In addition, the Group aims to increase foreign tenants by refining customer support.

The number of units under management at the end of the first quarter was 564,000 (increasing 2,000 from the end of the previous fiscal year), the number of direct offices was 189 (no change from the end of the previous fiscal year), and the number of franchise offices was 127 (decreasing 3 from the end of the previous fiscal year).

As a result, net sales amounted to 104,413 million yen (up 2.2% year-on-year), and operating profit was 6,288 million yen (up 9.4% year-on-year).

(ii) Construction Business

Orders received during the subject first quarter amounted to 22,459 million yen (up 8.2% year-on-year) and the orders received outstanding stood at 72,632 million yen (up 8.6% from the end of the same quarter last year).

In the Construction Business, the Group focused on supplying apartments in metropolitan areas where solid leasing demand is anticipated, as well as providing high quality products with earthquake-resistance and better sound insulation. In addition, the Group implemented a new brand attempting to strengthen product competitiveness and refresh the image of tenants, expanded construction variations based on "ideal land use", and has begun reconsidering suppliers and its product prices to improve profitability.

As a result, net sales came to 14,339 million yen (down 7.0% year-on-year), and operating loss was 101 million yen (improvement of 359 million yen year-on-year).

(iii) Elderly Care Business

Net sales were 2,770 million yen (up 3.5% year-on-year) and operating loss was 474 million yen (increasing loss of 196 million yen year-on-year).

(iv) Hotels & Resort Business

Net sales of the resort facilities in Guam and hotels in Japan were 3,070 million yen (down 2.8% year-on-year) and operating profit was 378 million yen (up 289.7% year-on-year). Westin Resort Guam was sold in April 2016.

(v) Other Businesses

In Other Businesses such as the solar power generation business, the small-claims and short-term insurance business, and the finance business, net sales were 1,404 million yen (up 12.0% year-on-year) and operating profit was 419 million yen (up 46.3% year-on-year).

## (2) Analysis of Consolidated Financial Position

Position of Assets, Liabilities, and Net assets

(Million yen)

	Assets	Liabilities	Net assets
As of June 30, 2016	315,608	171,919	143,688
As of March 31, 2016	327,609	182,743	144,865
Difference	(12,000)	(10,823)	(1,177)

Total assets at the end of the first quarter decreased 12,000 million yen from the end of the previous fiscal year to 315,608 million yen. This was mainly attributable to a decrease of 5,632 million yen in cash and cash equivalents, 963 million yen in trade receivables, 3,008 million yen in buildings and structures (net), and 942 million yen in land.

Total liabilities decreased 10,823 million yen from the end of the previous fiscal year to 171,919 million yen. This primarily reflected a decrease of 4,388 million yen in accounts payable for completed projects, 3,555 million yen in other accounts payable, and 4,086 million yen in long and short term advances received, despite an increase in customer advances for projects in progress of 2,570 million yen.

Net assets decreased 1,177 million yen from the end of the previous fiscal year to 143,688 million yen, chiefly due to the payment of dividends of 2,628 million yen and a decrease in foreign currency translation adjustments of 2,912 million yen, despite a recording of 4,429 million yen in net income attributable to shareholders of the parent. The ratio of shareholders' equity to assets rose 1.3 points from the end of the previous fiscal year to 45.5%.

## (3) Explanation Concerning Business Forecasts and Other Forward-looking Statements

Business forecasts announced in the consolidated financial statements published on May 13, 2016 remain unchanged.

Please note that business forecasts and other forward-looking statements contained in this report are based on information currently available to the Group as of the publication of this statement, and actual results may differ due to a variety of factors.

## **2. Matters Relating to Summary Information (Notes)**

### **(1) Changes in Significant Subsidiaries during the First Quarter under Review**

Not applicable

### **(2) Application of Accounting Methods Specific to the Preparation of Quarterly Consolidated Financial Statements**

Tax expenses are calculated by multiplying net income before income taxes by a reasonably estimated effective tax rate, after applying the tax effect accounting to net income before income taxes for the consolidated fiscal year that includes the first quarter.

### **(3) Changes in Accounting Policy, Changes in Accounting Estimates, and Restatements**

(Changes in accounting policies)

(Change in revenue recognition standard)

Plaza Guarantee Co., Ltd., a subsidiary of Leopalace21 Corporation, had formerly recognized revenue from guarantee fees as a bulk amount at the time of contract consummations. From this subject period, by referencing the Accounting Practice Committee Research Report No. 13 “Research Report on Revenue Recognition in Japan (interim report)” from the Japanese Institute of Certified Public Accountants, the Group has decided to recognize revenue over a reasonably determined period.

The Group has determined that this change is appropriate in reflecting the economic actualities of the business, and is possible since a certain period of time has passed from the start of the guarantee business, and the average guarantee period can be reasonably determined.

This change in accounting policy has been retrospectively applied to the consolidated financial statements for the previous first quarter and fiscal year. As a result, net sales, operating profit, recurring profit, and net income before income taxes and minority interests increased by 204 million yen, respectively, as compared with the figures prior to the retrospective application. Net assets at the beginning of the previous fiscal year have reflected the cumulative effects, which resulted in a decrease by 1,545 million yen in retained earnings.

(Application of the Practical Solution on Accounting on a Change in Depreciation Method Due to Tax Reform 2016)

Following the revision to the Corporation Tax Act, the “Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016” (ASBJ PITF No. 32, June 17, 2016) was adopted effective from first quarter under review. The depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 was also changed from the declining balance method to the straight line method.

The impact on profits and losses from the changes described above is insignificant.

### 3. Consolidated Financial Statements

#### (1) Consolidated Balance Sheets

(Million yen)

	June 30, 2016	March 31, 2016
<b>&lt;Assets&gt;</b>		
<b>Current assets</b>		
Cash and cash equivalents	82,410	88,043
Trade receivables	5,815	6,779
Accounts receivable for completed projects	1,287	1,992
Operating loans	817	885
Securities	486	880
Real estate for sale	21	21
Payment for construction in progress	847	785
Raw materials and supplies	597	588
Prepaid expenses	3,034	2,847
Deferred tax assets	6,342	6,377
Other accounts receivable	922	1,630
Others	3,407	4,283
Allowance for doubtful accounts	(213)	(212)
<b>Total current assets</b>	<b>105,777</b>	<b>114,904</b>
<b>Non-current assets</b>		
Property, plant, and equipment		
Buildings and structures (net)	54,971	57,979
Machinery, equipment, and vehicles (net)	15,627	16,105
Land	83,299	84,241
Leased assets (net)	9,845	9,417
Construction in progress	3,459	2,444
Others (net)	1,741	1,848
<b>Total property, plant, and equipment</b>	<b>168,944</b>	<b>172,036</b>
Intangible fixed assets		
Goodwill	1,488	1,530
Others	7,929	7,804
<b>Total intangible fixed assets</b>	<b>9,417</b>	<b>9,334</b>
Investments and other assets		
Investment securities	8,054	8,230
Long-term loans	512	544
Bad debts	1,270	1,256
Long-term prepaid expenses	3,696	3,686
Deferred tax assets	16,779	16,734
Others	2,641	2,232
Allowance for doubtful accounts	(2,126)	(2,023)
<b>Total investments and other assets</b>	<b>30,828</b>	<b>30,661</b>
<b>Total non-current assets</b>	<b>209,190</b>	<b>212,033</b>
<b>Deferred assets</b>	<b>640</b>	<b>671</b>
<b>Total assets</b>	<b>315,608</b>	<b>327,609</b>

(Million yen)

	June 30, 2016	March 31, 2016
<b>&lt;Liabilities&gt;</b>		
<b>Current liabilities</b>		
Accounts payable	2,615	2,606
Accounts payable for completed projects	7,804	12,193
Short-term borrowings	1,287	1,677
Bonds due within one year	4,326	4,326
Lease obligations	3,248	3,054
Accounts payable-other	15,673	19,229
Accrued expenses	21	5
Accrued income taxes	1,145	2,919
Advances received	37,973	40,766
Customer advances for projects in progress	7,597	5,026
Reserve of allowance for employees' bonuses	1,700	—
Reserve for warranty obligations on completed projects	399	447
Reserve for fulfillment of guarantees	842	860
Others	3,874	4,335
<b>Total current liabilities</b>	<b>88,511</b>	<b>97,449</b>
<b>Non-current liabilities</b>		
Bonds	19,551	20,001
Long-term debt	14,014	14,106
Lease obligations	7,937	7,659
Long-term advances received	17,656	18,950
Lease/guarantee deposits received	7,425	7,516
Deferred tax liabilities	208	208
Reserve for apartment vacancy loss	3,438	3,802
Liability for retirement benefit	10,448	10,224
Others	2,728	2,824
<b>Total non-current liabilities</b>	<b>83,408</b>	<b>85,294</b>
<b>Total liabilities</b>	<b>171,919</b>	<b>182,743</b>
<b>&lt;Net assets&gt;</b>		
<b>Shareholders' equity</b>		
Common stock	75,282	75,282
Capital surplus	45,235	45,235
Retained earnings	26,580	24,779
Treasury stock	(3,660)	(3,660)
<b>Total shareholders' equity</b>	<b>143,437</b>	<b>141,636</b>
<b>Accumulated other comprehensive income</b>		
Net unrealized gains on "other securities"	297	435
Foreign currency translation adjustments	738	3,651
Remeasurements of defined benefit plans	(805)	(895)
<b>Total accumulated other comprehensive income</b>	<b>231</b>	<b>3,190</b>
<b>Share subscription rights</b>	<b>18</b>	<b>18</b>
<b>Non-controlling interests</b>	<b>1</b>	<b>20</b>
<b>Total net assets</b>	<b>143,688</b>	<b>144,865</b>
<b>Total liabilities and net assets</b>	<b>315,608</b>	<b>327,609</b>



**(2) Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income**  
Consolidated Statements of Operations

(Million yen)

	Three months ended June 30, 2016 (Apr. 2016–Jun. 2016)	Three months ended June 30, 2015 (Apr. 2015–Jun. 2015)
<b>Net sales</b>	125,998	124,728
<b>Cost of sales</b>	103,296	103,965
<b>Gross profit</b>	22,702	20,763
<b>Selling, general, and administrative expenses</b>	17,055	16,337
<b>Operating profit</b>	5,646	4,425
<b>Non-operating income</b>		
Interest income	8	7
Dividend income	41	51
Valuation gains of investment securities	64	-
Other	19	37
<b>Total non-operating income</b>	133	97
<b>Non-operating expenses</b>		
Interest expenses	180	284
Commission fee	9	75
Foreign exchange losses	274	-
Other	112	41
<b>Total non-operating expenses</b>	576	401
<b>Recurring profit</b>	5,203	4,122
<b>Extraordinary income</b>		
Gain on sales of property, plant and equipment	158	3
<b>Total extraordinary income</b>	158	3
<b>Extraordinary losses</b>		
Loss on sale of property, plant and equipment	10	-
Loss on retirement of property, plant and equipment	46	8
Loss on evaluation of investment securities	-	19
Impairment loss	-	101
<b>Total extraordinary losses</b>	56	129
<b>Income before taxes and other adjustments</b>	5,304	3,996
<b>Income taxes</b>	883	559
<b>Net income</b>	4,421	3,436
<b>Net income (loss) attributable to non-controlling interests</b>	(8)	0
<b>Net income attributable to shareholders of the parent</b>	4,429	3,436

## Consolidated Statements of Comprehensive Income

(Million yen)

	Three months ended June 30, 2016 (Apr. 2016–Jun. 2016)	Three months ended June 30, 2015 (Apr. 2015–Jun. 2015)
<b>Net income</b>	4,421	3,436
Other comprehensive income		
Net unrealized gains on “other securities”	(137)	(17)
Translation adjustments	(2,911)	(142)
Remeasurements of defined benefit plans	90	55
Share of other comprehensive income of associates	(1)	(0)
<b>Total other comprehensive income</b>	(2,959)	(105)
<b>Comprehensive income</b>	1,461	3,331
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	1,470	3,330
Comprehensive income attributable to non-controlling interests	(8)	0

### (3) Notes Regarding Consolidated Financial Statements

(Notes Regarding the Premise of the Company as a Going Concern)

There are no relevant items.

(Notes Regarding Significant Changes in Shareholders' Equity)

There are no relevant items.

(Segment Information)

## I. Information Regarding Sales, Profits, and Losses by Reportable Segment

Three months ended June 30, 2015 (April 1, 2015 through June 30, 2015)

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Segment Total				
Net sales									
(1) Sales to customers	102,213	15,423	2,677	3,159	123,474	1,254	124,728	—	124,728
(2) Inter-segment sales and transfers	191	1,752	—	942	2,885	38	2,924	(2,924)	—
Total	102,404	17,176	2,677	4,101	126,359	1,293	127,652	(2,924)	124,728
Segment earnings (or loss)	5,746	(461)	(277)	97	5,104	286	5,390	(965)	4,425

Three months ended June 30, 2016 (April 1, 2016 through June 30, 2016)

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Segment Total				
Net sales									
(1) Sales to customers	104,413	14,339	2,770	3,070	124,593	1,404	125,998	—	125,998
(2) Inter-segment sales and transfers	193	139	—	909	1,242	40	1,283	(1,283)	—
Total	104,607	14,479	2,770	3,979	125,836	1,445	127,281	(1,283)	125,998
Segment earnings (or loss)	6,288	(101)	(474)	378	6,090	419	6,510	(863)	5,646

Note 1: "Others" classification consists of the business segment not included in reportable segments, and comprises such businesses as the small-claims and short-term insurance business, solar power generation business and financing businesses.

Note 2: Breakdown of adjustments is as follows.

Segment earnings (or loss)

(Million yen)

	Three months ended June 30, 2016	Three months ended June 30, 2015
Inter-segment eliminations	(3)	(185)
Corporate expenses*	(859)	(779)
Total	(863)	(965)

\*Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

Note 3: Segment profit (loss) is adjusted to the operating profit on the Consolidated Statements of Operations

## II. Changes Regarding Reportable Segments

(Change in revenue recognition standard)

As stated in P.6 "(3) Changes in Accounting Policy, Changes in Accounting Estimates, and Restatements," the standard for revenue recognition has been changed starting this subject period. This change in accounting policy has been retrospectively applied to segment information figures. As a result, net sales in the Leasing Business have increased by 204 million yen. Segment earnings increased 201 million yen in the Leasing Business, 2 million yen in the Construction Business, 0 million yen in the Elderly Care Business, 0 million yen in the Hotels & Resort Business, and 0 million yen in Other Businesses.