Consolidated Financial Statements (Japanese Accounting Standard)

February 10, 2017

(For the nine months ended December 31, 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
Name of Contact Person: Position: Director Name: Bunya Miyao Telephone: +81-3-5350-0216
Scheduled Date of Filing of Securities Report (Japanese only): February 13, 2017
Supplemental Explanatory Material Prepared: Yes
Results Briefing Held: No

1. Results for the nine months ended December 31, 2016 (April 1, 2016 through December 31, 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	%
Nine months ended December 31, 2016	380,634	1.0	15,802	-0.8	15,465	3.2	12,854	1.5
Nine months ended December 31, 2015	376,863	-	15,930	-	14,985	-	12,670	-

(Note) Comprehensive income in the nine months ended December 31, 2016: 5,570 million yen (-56.2%);
nine months ended December 31, 2015: 12,704 million yen (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended December 31, 2016	48.90	48.88
Nine months ended December 31, 2015	48.20	-

(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 December 31, 2016	315,246	145,252	46.0	552.12
As of March 31, 2016	327,609	144,865	44.2	550.94

(Reference) Shareholders' equity as of December 31, 2016: 145,139 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	―	10.00	―		
FY ending March 31, 2017 (Estimate)				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)

	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
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 December 31, 2016: 267,443,915 shares; as of March 31, 2016: 267,443,915 shares
- (ii) Total treasury stock at term end
  As of December 31, 2016: 4,569,840 shares; as of March 31, 2016: 4,569,520 shares
- (iii) Average number of outstanding shares during the period
  As of December 31, 2016: 262,874,301 shares; as of December 31, 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 financial statements in accordance with the Financial Instruments and Exchange Act are 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 Leopalace21 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 February 10, 2017.

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1. Business Results

The accounting policy concerning revenue recognition has been changed from the previous quarter, 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
Nine months ended December 31, 2016	380,634	15,802	15,465	12,854
Nine months ended December 31, 2015	376,863	15,930	14,985	12,670
Difference	3,770	(128)	480	184

During the subject nine months, the domestic economy showed gradual progression supported by improvements in employment and income, despite the standstill in corporate earnings.

New housing starts of leased units has trended strongly, due to the prolonged period of low interest rates and strong demand for apartment construction as a strategy to reduce inheritance taxes. 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 nine months came to 380,634 million yen (up 1.0% year-on-year). Operating profit was 15,802 million yen (down 0.8% year-on-year), recurring profit was 15,465 million yen (up 3.2% year-on-year), and net income attributable to shareholders of the parent was 12,854 million yen (up 1.5% year-on-year).

(Actual figures by segment) (Million yen)

	Net sales			Operating profit		
	Nine months ended December 31, 2015	Nine months ended December 31, 2016	Difference	Nine months ended December 31, 2015	Nine months ended December 31, 2016	Difference
Leasing Business	305,309	310,304	4,995	18,472	17,077	(1,395)
Construction Business	51,494	49,990	(1,503)	856	1,992	1,136
Elderly Care Business	8,072	8,594	522	(934)	(1,235)	(301)
Hotels & Resort Business	8,518	5,763	(2,754)	(388)	(373)	14
Others	3,468	5,980	2,511	530	1,006	475
Adjustments	—	—	—	(2,605)	(2,664)	(59)
Total	376,863	380,634	3,770	15,930	15,802	(128)

(i) Leasing Business

The occupancy rate at the end of the third quarter was 86.97% (up 0.08 points from the end of the same quarter last year) and the average occupancy rate for the period was 88.00% (up 0.59 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 “my DIY” (formerly known as “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 third quarter was 567 thousand (increasing 5 thousand 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 117 (decreasing 13 from the end of the previous fiscal year).

As a result, net sales amounted to 310,304 million yen (up 1.6% year-on-year), and operating profit was 17,077 million yen (down 7.6% year-on-year).

(ii) Construction Business

Orders received during the subject nine months amounted to 66,307 million yen (up 8.7% year-on-year) and orders received outstanding stood at 74,478 million yen (up 13.9% from the end of the same quarter last year).

In the Construction Business, the Group focused on providing high-quality apartments in metropolitan areas where solid leasing demand is anticipated. 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.

Also, subsidiary Morizou Co., Ltd., provides luxury custom-built homes made with Kiso-hinoki.

As a result, net sales came to 49,990 million yen (down 2.9% year-on-year), and operating profit was 1,992 million yen (up 132.7% year-on-year).

(iii) Elderly Care Business

Net sales were 8,594 million yen (up 6.5% year-on-year) and operating loss was 1,235 million yen (increasing loss of 301 million yen year-on-year).

(iv) Hotels & Resort Business

Net sales of the resort facilities in Guam and hotels in Japan were 5,763 million yen (down 32.3% year-on-year) and operating loss was 373 million yen (improvement of 14 million yen 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 5,980 million yen (up 72.4% year-on-year) and operating profit was 1,006 million yen (up 89.7% year-on-year).

(2) Analysis of Consolidated Financial Position

(i) Position of Assets, Liabilities, and Net assets

(Million yen)

	Assets	Liabilities	Net assets
As of December 31, 2016	315,246	169,993	145,252
As of March 31, 2016	327,609	182,743	144,865
Difference	(12,362)	(12,749)	387

Total assets at the end of the third quarter decreased 12,362 million yen from the end of the previous fiscal year to 315,246 million yen. This was mainly attributable to a decrease of 17,873 million yen in buildings and structures (net), 3,986 million yen in land, and 1,875 million yen in cash and cash equivalents, despite an increase of 4,333 million yen in investment securities, 3,251 million yen in leased assets (net), and 2,446 million yen in real estate for sale in process.

Total liabilities decreased 12,749 million yen from the end of the previous fiscal year to 169,993 million yen. This primarily reflected a decrease of 7,914 million yen in short and long-term advances received, 7,699 million yen in other accounts payable, and 3,742 million yen in borrowings and bonds, despite an increase of 3,581 million yen in lease obligations and 2,786 million yen in customer advances for projects in progress.

Net assets increased 387 million yen from the end of the previous fiscal year to 145,252 million yen, due to a recording of 12,854 million yen in net income attributable to shareholders of the parent despite a payment of dividends of 5,257 million yen and a decrease in foreign currency translation adjustments of 7,755 million yen. The ratio of shareholders' equity to assets rose 1.8 points from the end of the previous fiscal year to 46.0%.

(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 Third 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 third 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 the first quarter of this fiscal year, 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 third quarter and fiscal year. As a result, net sales, operating profit, recurring profit, and net income before income taxes and minority interests for the nine months of the previous year increased by 321 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 of 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.

As a result, operating profit, recurring profit, and net income before income taxes and minority interests during the subject nine months increased by 6 million yen, respectively.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Million yen)

	December 31, 2016	March 31, 2016
<Assets>		
Current assets		
Cash and cash equivalents	86,167	88,043
Trade receivables	5,532	6,779
Accounts receivable for completed projects	2,631	1,992
Operating loans	715	885
Securities	289	880
Real estate for sale	598	21
Real estate for sale in process	2,446	-
Payment for construction in progress	1,489	785
Raw materials and supplies	529	588
Prepaid expenses	3,279	2,847
Deferred tax assets	6,390	6,377
Other accounts receivable	1,282	1,630
Others	3,414	4,283
Allowance for doubtful accounts	(191)	(212)
Total current assets	114,577	114,904
Non-current assets		
Property, plant, and equipment		
Buildings and structures (net)	40,106	57,979
Machinery, equipment, and vehicles (net)	14,627	16,105
Land	80,255	84,241
Leased assets (net)	12,668	9,417
Construction in progress	3,034	2,444
Others (net)	1,309	1,848
Total property, plant, and equipment	152,001	172,036
Intangible fixed assets		
Goodwill	3,310	1,530
Others	8,259	7,804
Total intangible fixed assets	11,569	9,334
Investments and other assets		
Investment securities	12,564	8,230
Long-term loans	517	544
Bad debts	1,277	1,256
Long-term prepaid expenses	3,745	3,686
Deferred tax assets	17,621	16,734
Others	2,877	2,232
Allowance for doubtful accounts	(2,086)	(2,023)
Total investments and other assets	36,516	30,661
Total non-current assets	200,088	212,033
Deferred assets	580	671
Total assets	315,246	327,609

(Million yen)

	December 31, 2016	March 31, 2016
<Liabilities>		
Current liabilities		
Accounts payable	3,124	2,606
Accounts payable for completed projects	10,204	12,193
Short-term borrowings	1,279	1,677
Bonds due within one year	3,966	4,326
Lease obligations	4,199	3,054
Accounts payable-other	11,529	19,229
Accrued expenses	18	5
Accrued income taxes	1,623	2,919
Advances received	35,792	40,766
Customer advances for projects in progress	7,813	5,026
Reserve of allowance for employees' bonuses	4,335	—
Reserve for warranty obligations on completed projects	328	447
Reserve for fulfillment of guarantees	839	860
Others	4,076	4,335
Total current liabilities	89,131	97,449
Non-current liabilities		
Bonds	17,568	20,001
Long-term debt	13,554	14,106
Lease obligations	10,094	7,659
Long-term advances received	16,010	18,950
Lease/guarantee deposits received	7,220	7,516
Deferred tax liabilities	208	208
Reserve for apartment vacancy loss	2,710	3,802
Liability for retirement benefit	10,941	10,224
Others	2,552	2,824
Total non-current liabilities	80,862	85,294
Total liabilities	169,993	182,743
<Net assets>		
Shareholders' equity		
Common stock	75,282	75,282
Capital surplus	45,235	45,235
Retained earnings	32,376	24,779
Treasury stock	(3,660)	(3,660)
Total shareholders' equity	149,233	141,636
Accumulated other comprehensive income		
Net unrealized gains on "other securities"	632	435
Foreign currency translation adjustments	(4,103)	3,651
Remeasurements of defined benefit plans	(623)	(895)
Total accumulated other comprehensive income	(4,094)	3,190
Share subscription rights	102	18
Non-controlling interests	11	20
Total net assets	145,252	144,865
Total liabilities and net assets	315,246	327,609

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

(Million yen)

	Nine months ended December 31, 2016 (Apr. 2016–Dec. 2016)	Nine months ended December 31, 2015 (Apr. 2015–Dec. 2015)
Net sales	380,634	376,863
Cost of sales	313,377	311,661
Gross profit	67,256	65,201
Selling, general, and administrative expenses	51,454	49,270
Operating profit	15,802	15,930
Non-operating income		
Interest income	32	28
Dividend income	110	69
Foreign exchange gains	111	-
Valuation gains of investment securities	174	-
Other	93	146
Total non-operating income	522	244
Non-operating expenses		
Interest expenses	543	750
Commission fee	36	162
Other	279	276
Total non-operating expenses	858	1,189
Recurring profit	15,465	14,985
Extraordinary income		
Gain on sales of property, plant and equipment	398	25
Total extraordinary income	398	25
Extraordinary losses		
Loss on sale of property, plant and equipment	89	0
Loss on retirement of property, plant and equipment	89	81
Loss on evaluation of investment securities	-	19
Impairment loss	167	120
Total extraordinary losses	346	222
Income before taxes and other adjustments	15,517	14,789
Income taxes	2,660	2,105
Net income	12,856	12,683
Net income (loss) attributable to non-controlling interests	1	12
Net income attributable to shareholders of the parent	12,854	12,670

Consolidated Statements of Comprehensive Income

(Million yen)

	Nine months ended December 31, 2016 (Apr. 2016–Dec. 2016)	Nine months ended December 31, 2015 (Apr. 2015–Dec. 2015)
Net income	12,856	12,683
Other comprehensive income		
Net unrealized gains on “other securities”	197	94
Translation adjustments	(7,752)	(236)
Remeasurements of defined benefit plans	272	166
Share of other comprehensive income of associates	(2)	(2)
Total other comprehensive income	(7,285)	21
Comprehensive income	5,570	12,704
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	5,569	12,692
Comprehensive income attributable to non-controlling interests	1	12

(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

Nine months ended December 31, 2015 (April 1, 2015 through December 31, 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	305,309	51,494	8,072	8,518	373,394	3,468	376,863	—	376,863
(2) Inter-segment sales and transfers	600	2,501	—	2,759	5,862	105	5,967	(5,967)	—
Total	305,909	53,995	8,072	11,278	379,256	3,574	382,830	(5,967)	376,863
Segment earnings (or loss)	18,472	856	(934)	(388)	18,005	530	18,536	(2,605)	15,930

Nine months ended December 31, 2016 (April 1, 2016 through December 31, 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	310,304	49,990	8,594	5,763	374,653	5,980	380,634	-	380,634
(2) Inter-segment sales and transfers	572	457	-	2,293	3,322	129	3,452	(3,452)	-
Total	310,877	50,447	8,594	8,057	377,976	6,109	384,086	(3,452)	380,634
Segment earnings (or loss)	17,077	1,992	(1,235)	(373)	17,460	1,006	18,467	(2,664)	15,802

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)

	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Inter-segment eliminations	(186)	(309)
Corporate expenses*	(2,477)	(2,296)
Total	(2,664)	(2,605)

*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. Information Regarding Impairment Losses and Goodwill by Reportable Segments

(Significant impairment losses)

In the Leasing Business, the Group wrote down book value of the rental assets whose profitability seriously decreased due to the slump in the rental income market and continuous decline in land prices, to recoverable amounts and recognized the reduced values as impairment loss of 108 million yen and 167 million yen under extraordinary loss in the nine months ended December 2015 and 2016, respectively.

Also, the book value of inactive fixed assets not allocated to any of the reportable segments was written down to recoverable amounts and an impairment loss of 11 million yen was recorded under extraordinary losses during the nine months ended December 2015.

(Significant changes in goodwill)

There are no relevant items.

III. 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 in the first quarter of this subject fiscal year. This change in accounting policy has been retrospectively applied to segment information figures. As a result, net sales for the nine months ended December 2015 in the Leasing Business have increased by 321 million yen. Segment earnings increased 316 million yen in the Leasing Business, 3 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.