

Consolidated Financial Statements (Japanese Accounting Standard)

February 8, 2019

(For the nine months ended December 31, 2018)

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: +81-50-2016-2907
Scheduled Date of Filing of Securities Report (Japanese only):	February 12, 2019
Scheduled Date of Commencement of Dividend Payments:	-
Supplemental Explanatory Material Prepared: Yes	Results Briefing Held: No

1. Results for the Nine Months ended December 31, 2018 (April 1, 2018 through December 31, 2018)

(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, 2018	376,366	-2.4	6,502	-65.3	6,246	-66.4	-43,989	—
Nine months ended December 31, 2017	385,521	1.3	18,763	18.7	18,585	20.2	12,863	0.1

(Note) Comprehensive income in the nine months ended December 31, 2018: -44,044 million yen (-%);
nine months ended December 31, 2017: 12,190 million yen (118.8%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended December 31, 2018	-177.85	-
Nine months ended December 31, 2017	50.15	50.10

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2018	304,313	107,439	35.2
As of March 31, 2018	337,134	159,438	47.2

(Reference) Shareholders' equity as of December 31, 2018: 106,994 million yen; as of March 31, 2018: 159,044 million yen

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, 2018	—	10.00	—	12.00	22.00
FY ending March 31, 2019	—	0.00	—		
FY ending March 31, 2019 (Estimate)				0.00	0.00

(Note) Restatement of most recent dividend forecast: None

3. Consolidated Earnings Forecasts for the Fiscal Year ending March 31, 2019 (April 1, 2018 through March 31, 2019)

(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
FY ending March 31, 2019	510,000	-3.9	7,500	-67.3	7,000	-68.7	-40,000	—	-161.72
	~516,000	~ -2.8	~10,500	~ -54.2	~10,000	~ -55.3	~ -38,000	—	~ -153.63

(Note) Restatement of most recent consolidated earnings forecasts: None

Consolidated earnings forecasts for the fiscal year ending March 31, 2019 is disclosed as range estimates. Please refer to pg. 6 "1. Business Results (3) Explanation of Consolidated Earnings Forecasts and Other Future Predictions" for details.

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 pg. 11 "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.: None
 - (ii) Changes in accounting policies other than (i) above: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatements: None
- (4) Total number of outstanding shares (common stock)
 - (i) Total number of outstanding shares at term end (including treasury stock)
As of December 31, 2018: 244,882,515 shares, As of March 31, 2018: 252,682,515 shares
 - (ii) Total treasury stock at term end
As of December 31, 2018: 1,067,510 shares, As of March 31, 2018: 567,420 shares
 - (iii) Average number of outstanding shares during the period
As of December 31, 2018: 247,343,718 shares, As of December 31, 2017: 256,492,521 shares

*Indication regarding the status of auditing:

These financial statements are not subject to auditing under the Financial Instruments and Exchange Act.

*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 pg. 6 "1. Business Results (3) Explanation of Consolidated Earnings Forecasts and Other Future Predictions."

(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 8, 2019.

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1. Business Results

(1) Analysis of Business Results

Before explanations concerning business results, we sincerely apologize to our stakeholders for the trouble caused by construction defects confirmed in certain properties (apartments) constructed by Leopalace21.

We are marshaling our corporate forces to conduct investigations and repairs, and will make every effort to restore trust as soon as possible. We will continue investigating the root causes of the defects, and organize a structure to prevent recurrence and ensure thorough quality control.

(Million yen)

	Net sales	Operating profit	Recurring profit	Net income attributable to shareholders of the parent
Nine months ended December 31, 2018	376,366	6,502	6,246	-43,989
Nine months ended December 31, 2017	385,521	18,763	18,585	12,863
Difference	-9,154	-12,261	-12,339	-56,853

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

New housing starts of leased units during the period decreased 4.3% year-on-year, due to the saturation in demand for inheritance tax reduction strategies as well as the environmental change in apartment loans. 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, Leopalace21 (the "Company") aims to achieve targets of its Medium-term Management Plan "Creative Evolution 2020" by creating corporate value and new social value, under the basic policy of "supporting continuous growth of core businesses in ways that further increase corporate value while constructing a base for growth areas". Also, in order to resolve the problem concerning construction defects as soon as possible, we are marshaling our corporate forces to conduct investigations and repairs.

However, company earnings deteriorated as a result of construction defects, and consolidated net sales for the subject nine months came to 376,366 million yen (down 2.4% year-on-year). Operating profit was 6,502 million yen (down 65.3% year-on-year) and recurring profit was 6,246 million yen (down 66.4% year-on-year). Net loss attributable to shareholders of the parent of 43,989 million yen (compared to a net income of 12,863 million yen in the same period of the previous year). This was due to extraordinary losses of 43,453 million yen recorded as a reserve for repairs and other incidental expenses related to construction defects, as well as 7,560 million yen recorded as an impairment loss for company-owned apartments. Company-owned apartments were sold as part of the financial strategy set in our Medium-term Management Plan.

(Actual figures by segment)

(Million yen)

	Net sales			Operating profit		
	Nine months ended December 31, 2017	Nine months ended December 31, 2018	Difference	Nine months ended December 31, 2017	Nine months ended December 31, 2018	Difference
Leasing Business	324,990	323,351	-1,639	22,758	14,313	-8,445
Development Business	46,590	38,252	-8,338	888	-2,619	-3,508
Elderly Care Business	9,547	10,436	889	-1,125	-707	418
Hotels, Resort & Other Business	4,392	4,325	-66	-572	-1,045	-472
Adjustments	—	—	—	-3,184	-3,438	-253
Total	385,521	376,366	-9,154	18,763	6,502	-12,261

(i) Leasing Business

In the Leasing Business, we provide value-added services such as “my DIY,” which enable tenants to decorate their rooms, and smart apartments which enable remote control of electrical appliances and door locks. We also offer security systems in alliance with large security companies and the industry’s first electronic leasing contract. In addition, to achieve stable occupancy rates, we are strengthening sales towards corporate customers and increasing support for foreign tenants. In the ASEAN region, we develop and manage serviced apartments and offices.

Since new tenant recruitments on properties subject to top-priority investigations are suspended until investigations and repairs are completed, the occupancy rate at the end of the subject quarter dropped to 85.26% (down 4.18 points from the end of the same period of the previous year) and the average occupancy rate for the period was 89.42% (down 0.59 points year-on-year). The number of units under management at the end of the subject quarter was 573 thousand (increasing 2 thousand from the end of the previous fiscal year).

As a result, net sales amounted to 323,351 million yen (down 0.5% year-on-year) and operating profit was 14,313 million yen (down 37.1% year-on-year).

(ii) Development Business

In the Development Business, we focused on supplying apartments in the three metropolitan areas where solid leasing demand is anticipated supported by an increase in population, while providing high quality and forefront strategic products. In addition, we expanded construction variations to propose ideal land use, and have begun reviewing suppliers and product prices to improve profitability.

Also, subsidiary Life Living Co., Ltd. develops condominiums and apartments and subsidiary Morizou Co., Ltd. provides luxury custom-built homes made with Kiso-hinoki.

As a result of orders becoming sluggish due to intensified competition in the metropolitan areas and changes in the environment of apartment loans, orders received during the subject nine months amounted to 53,089 million yen (down 4.4% year-on-year) and orders received outstanding stood at 71,195 million yen (up 3.5% from the end of the same period of the previous year).

As a result, net sales came to 38,252 million yen (down 17.9% year-on-year) and operating loss was 2,619 million yen (compared to an operating profit of 888 million yen in the same period of the previous year).

(iii) Elderly Care Business

The profitability of the Elderly Care Business, a strategic growth business, improved due to increases in the occupancy rate of existing facilities, and is steadily transitioning to becoming black in the final year of the medium-term management plan.

Net sales were 10,436 million yen (up 9.3% year-on-year), and operating loss was 707 million yen (improvement of 418 million yen year-on-year).

(iv) Hotels, Resort & Other Business

Net sales of the resort facilities in Guam, hotels in Japan, and other businesses including the finance business were 4,325 million yen (down 1.5% year-on-year) and operating loss was 1,045 million yen (a loss increase of 472 compared to the same period of the previous year).

(2) Analysis of Consolidated Financial Position

(Assets, Liabilities, and Net Assets)

(Million yen)

	Assets	Liabilities	Net assets
As of December 31, 2018	304,313	196,873	107,439
As of March 31, 2018	337,134	177,696	159,438
Difference	-32,821	19,177	-51,998

Total assets at the end of the subject quarter decreased 32,821 million yen from the end of the previous fiscal year to 304,313 million yen. This was mainly attributable to a decrease of 17,284 million yen in cash and cash equivalents due to payments of trade payables and dividends, 14,290 million in land due to impairment losses, 3,253 million yen in leased assets (net), 2,147 million yen in construction in progress, and 1,665 million yen in trade receivables, despite an increase of 4,086 million yen in payment for construction in progress and 3,401 million yen in others (net) in non-current assets.

Total liabilities increased 19,177 million yen from the end of the previous fiscal year to 196,873 million yen. This was mainly due to a recording of 42,010 million yen in reserve for losses related to repairs, despite a decrease of 10,739 million yen in accounts payable -other, 8,451 million yen in short and long-term advances received, and 4,010 million yen in accounts payable for completed projects.

Net assets decreased 51,998 million yen from the end of the previous fiscal year to 107,439 million yen. This was mainly attributable to a recording of 43,989 million yen in net loss attributable to shareholders of the parent and dividend payments of 3,025 million yen, along with share buybacks of 5,012 million yen. The ratio of shareholders’ equity to assets dropped 12.0 points from the end of the previous fiscal year to 35.2%.

(3) Explanation of Consolidated Earnings Forecasts and Other Future Predictions

Concerning consolidated earnings forecasts, there has been no change from those announced on February 7, 2019, titled "Notice Concerning Revision of Earnings and Dividend Forecasts."

Rent revenue, etc., is expected to decrease, since new tenant recruitments on properties subject to top-priority investigations are suspended until investigations and repairs are completed. These suspensions result in vacancies which were not expected at the start of the fiscal year. Since the resumption schedule for new tenant recruitments is fluctuating and the impact on revenue and earnings cannot be reasonably estimated at the current time, the Company discloses earnings forecasts as range estimates.

(Concerning dividends)

To increase shareholders' value, the Company will not only distribute profit earned from business measures in the form of dividends, but will maximize mid- to long-term corporate value and increase EPS (earnings per share) through investments in matters such as real estate, overseas businesses, mergers and acquisitions, IT, and research and development.

Payment of term-end dividends was yet to be determined as of October 29, 2018. However, we regret to inform that we have decided not to pay term-end dividends.

(Note) Earnings forecasts are judged by the Company based on information currently available to the Company as of the publication of this statement, and actual results may differ from these forecasts due to a variety of factors.

2. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Million yen)

	December 31, 2018	March 31, 2018
<Assets>		
Current assets		
Cash and cash equivalents	89,259	106,543
Trade receivables	5,960	7,626
Accounts receivable for completed projects	2,033	1,957
Operating loans	287	389
Real estate for sale	1,021	952
Real estate for sale in progress	6,658	2,571
Payment for construction in progress	1,044	458
Prepaid expenses	4,107	3,544
Others	6,046	6,268
Allowance for doubtful accounts	-143	-145
Total current assets	116,276	130,167
Non-current assets		
Property, plant, and equipment		
Buildings and structures (net)	41,477	42,705
Machinery, equipment, and vehicles (net)	11,595	12,547
Land	49,347	63,638
Leased assets (net)	12,774	16,028
Construction in progress	3,061	5,208
Others (net)	6,617	3,215
Total property, plant, and equipment	124,874	143,344
Intangible fixed assets		
Goodwill	2,465	2,886
Others	7,657	8,102
Total intangible fixed assets	10,122	10,988
Investments and other assets		
Investment securities	17,212	17,999
Bad debts	1,305	1,264
Long-term prepaid expenses	3,324	3,831
Deferred tax assets	28,078	26,639
Others	4,858	4,483
Allowance for doubtful accounts	-2,094	-2,023
Total investments and other assets	52,684	52,194
Total non-current assets	187,681	206,527
Deferred assets	355	440
Total assets	304,313	337,134

(Million yen)

	December 31, 2018	March 31, 2018
<Liabilities>		
Current liabilities		
Electronically recorded obligations -operating	905	1,451
Accounts payable	3,545	4,245
Accounts payable for completed projects	3,821	7,832
Short-term borrowings	3,585	2,964
Bonds due within one year	3,966	3,966
Lease obligations	5,476	5,960
Accounts payable -other	11,598	22,337
Accrued income taxes	587	942
Advances received	34,181	39,964
Customer advances for projects in progress	5,175	4,592
Provision for bonuses	4,707	-
Reserve for warranty obligations on completed projects	343	389
Reserve for fulfillment of guarantees	1,084	1,158
Reserve for loss related to repairs	42,010	-
Others	4,060	4,407
Total current liabilities	125,050	100,212
Non-current liabilities		
Bonds	9,636	12,069
Long-term debt	19,006	16,643
Lease obligations	9,453	12,226
Long-term advances received	13,185	15,853
Lease/guarantee deposits received	6,686	6,989
Provision for Directors' bonuses	17	10
Reserve for apartment vacancy loss	3,044	3,044
Liability for retirement benefit	7,862	7,338
Others	2,931	3,308
Total non-current liabilities	71,823	77,483
Total liabilities	196,873	177,696
<Net assets>		
Shareholders' equity		
Common stock	75,282	75,282
Capital surplus	45,235	45,235
Retained earnings	-13,963	37,839
Treasury stock	-655	-430
Total shareholders' equity	105,898	157,926
Accumulated other comprehensive income		
Net unrealized gains on "other securities"	353	586
Foreign currency translation adjustments	960	872
Remeasurements of defined benefit plans	-218	-341
Total accumulated other comprehensive income	1,095	1,117
Share subscription rights	375	284
Non-controlling interests	69	109
Total net assets	107,439	159,438
Total liabilities and net assets	304,313	337,134

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

(Million yen)

	Nine months ended December 31, 2018 (Apr 2018–Dec 2018)	Nine months ended December 31, 2017 (Apr 2017–Dec 2017)
Net sales	376,366	385,521
Cost of sales	315,646	313,393
Gross profit	60,720	72,127
Selling, general and administrative expense	54,217	53,363
Operating profit	6,502	18,763
Non-operating income		
Interest income	69	87
Dividend income	164	153
Valuation gains of investment securities	141	148
Foreign exchange gains	119	143
Other	164	121
Total non-operating income	659	653
Non-operating expenses		
Interest expenses	570	580
Bond issuance fee	145	160
Other	199	89
Total non-operating expenses	915	831
Recurring profit	6,246	18,585
Extraordinary income		
Gain on sales of property, plant and equipment	236	934
Total extraordinary income	236	934
Extraordinary losses		
Loss on sale of property, plant and equipment	0	0
Loss on retirement of property, plant and equipment	76	82
Impairment loss	7,560	7,417
Loss on cancellations	-	66
Provision of reserve for loss related to repairs	42,010	-
Loss related to repairs	1,443	-
Total extraordinary losses	51,091	7,566
Income (loss) before taxes and other adjustments	-44,608	11,954
Income taxes	-586	-922
Net income (loss)	-44,021	12,877
Net income (loss) attributable to non-controlling interests	-31	13
Net income (loss) attributable to shareholders of the parent	-43,989	12,863

Consolidated Statements of Comprehensive Income

(Million yen)

	Nine months ended December 31, 2018 (Apr 2018–Dec 2018)	Nine months ended December 31, 2017 (Apr 2017–Dec 2017)
Net income (loss)	-44,021	12,877
Other comprehensive income		
Net unrealized gains on “other securities”	-233	477
Foreign currency translation adjustments	89	-1,504
Remeasurements of defined benefit plans	123	339
Share of other comprehensive income of entities using equity method	-2	1
Total other comprehensive income	-22	-686
Comprehensive income	-44,044	12,190
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	-44,012	12,177
Comprehensive income attributable to non-controlling interests	-32	13

(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)

The Group repurchased 8,300,000 shares based on a resolution at the meeting of Board of Directors on May 11, 2018. As a result, treasury stock increased 5,012 million yen during the six months ended September 30, 2018.

Also, the Group implemented retirement of treasury stock of 7,800,000 shares on October 15, 2018, based on a resolution at the meeting of Board of Directors on September 27, 2018. As a result, retained earnings and treasury stock each decreased by 4,787 million yen during the subject quarter.

As a result, retained earnings decreased 4,787 million yen and treasury stock decreased 225 million yen during the subject nine months, and retained earnings and treasury stock amounted to -13,963 million yen and 655 million yen respectively at the end of the subject quarter.

(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 subject nine months. However, a legally designated effective tax rate will be applied if such tax expenses are found to be unreasonable after calculation based on the relevant estimated effective tax rate.

(Additional information)

(Application of "Partial Amendments to 'Accounting Standard for Tax Effect Accounting', etc.")

The Company has applied "Partial Amendments to 'Accounting Standard for Tax Effect Accounting', etc." (ASBJ Statement No. 28, February 16, 2018) as of the beginning of the first quarter. Deferred tax assets are recorded under "Investments and other assets" and deferred tax liabilities are recorded under "Non-current liabilities."

(Matters relating to the settlement date of consolidated subsidiaries)

The former settlement date of Morizou Co., Ltd. was the end of February, and the financial statements as of the said settlement date has been used, with adjustments made regarding important transactions which took place between the end of February and the consolidated settlement date. However, the settlement date has been changed to March 31 as of the subject first quarter.

Due to this change, the nine months between March 1, 2018 and December 31, 2018 has been consolidated and adjusted through the consolidated statements of operations for the subject consolidated period.

(Accounting standards for significant reserves)

Reserve for loss related to repairs

An amount of loss estimated based on ratio of defects, etc. is recorded to prepare for the occurrence of repairs related to construction defects of properties (apartments) constructed by the Company.

(Segment Information)**Nine months ended December 31, 2018 (April 1, 2018 through December 31, 2018)**

(Million yen)

	Reportable segments					Adjustments (Note 1)	Consolidated Total (Note 2)
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort & Other Business	Total		
Net sales							
Sales to customers	323,351	38,252	10,436	4,325	376,366	-	376,366
Inter-segment sales and transfers	161	0	-	2,780	2,943	-2,943	-
Total	323,513	38,253	10,436	7,106	379,309	-2,943	376,366
Segment profit (or loss)	14,313	-2,619	-707	-1,045	9,941	-3,438	6,502

(Note) 1. Adjustments in segment profit (loss) of -3,438 million yen include inter-segment eliminations of -120 million yen and corporate expenses not part of reportable segments of -3,317 million yen. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

2. Segment profit (loss) is adjusted to the operating profit on the Consolidated Statements of Operations

Nine months ended December 31, 2017 (April 1, 2017 through December 31, 2017)

(Million yen)

	Reportable segments					Adjustments (Note 1)	Consolidated Total (Note 2)
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort & Other Business	Total		
Net sales							
Sales to customers	324,990	46,590	9,547	4,392	385,521	-	385,521
Inter-segment sales and transfers	56	65	-	2,691	2,814	-2,814	-
Total	325,047	46,656	9,547	7,083	388,335	-2,814	385,521
Segment profit (or loss)	22,758	888	-1,125	-572	21,948	-3,184	18,763

(Note) 1. Adjustments in segment profit (loss) of -3,184 million yen include inter-segment eliminations of -190 million yen and corporate expenses not part of reportable segments of -2,993 million yen. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

2. Segment profit (loss) is adjusted to the operating profit on the Consolidated Statements of Operations