

# **Explanatory Session for the Results of the First Half Ended September 2010**

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**November 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 First Half Ended September 2010**

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# 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	1H	Full-year	1Q	2Q	1H	Full-year Forecast
Total no. of leases signed during period (1,000 leases)	362	374	384	83	90	173	391	71	86	157	447
Of which, by realtor-brokers (1,000 leases)	14	15	27	5	7	12	33	4	7	10	39
Total no. of leases terminated during period (1,000 leases)	319	330	361	96	86	182	370	87	77	164	345
Occupancy rate	92.8%	92.4%	88.5%	83.1%	81.9%	82.5%	82.3%	79.9%	79.0%	79.5%	80.9%
Of which, corporate tenants (Occupied units/Managed units)	-	-	37.3%	33.7%	33.3%	33.5%	33.1%	31.8%	32.7%	—	—
Of which, personnel dispatch & outsourcing lessee tenants	-	-	5.2%	2.8%	2.6%	2.7%	2.7%	2.7%	3.1%	—	—
Units under management (Units)	388,500	442,025	506,742	519,743	528,785	—	551,773	559,241	562,923	—	572,586

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.

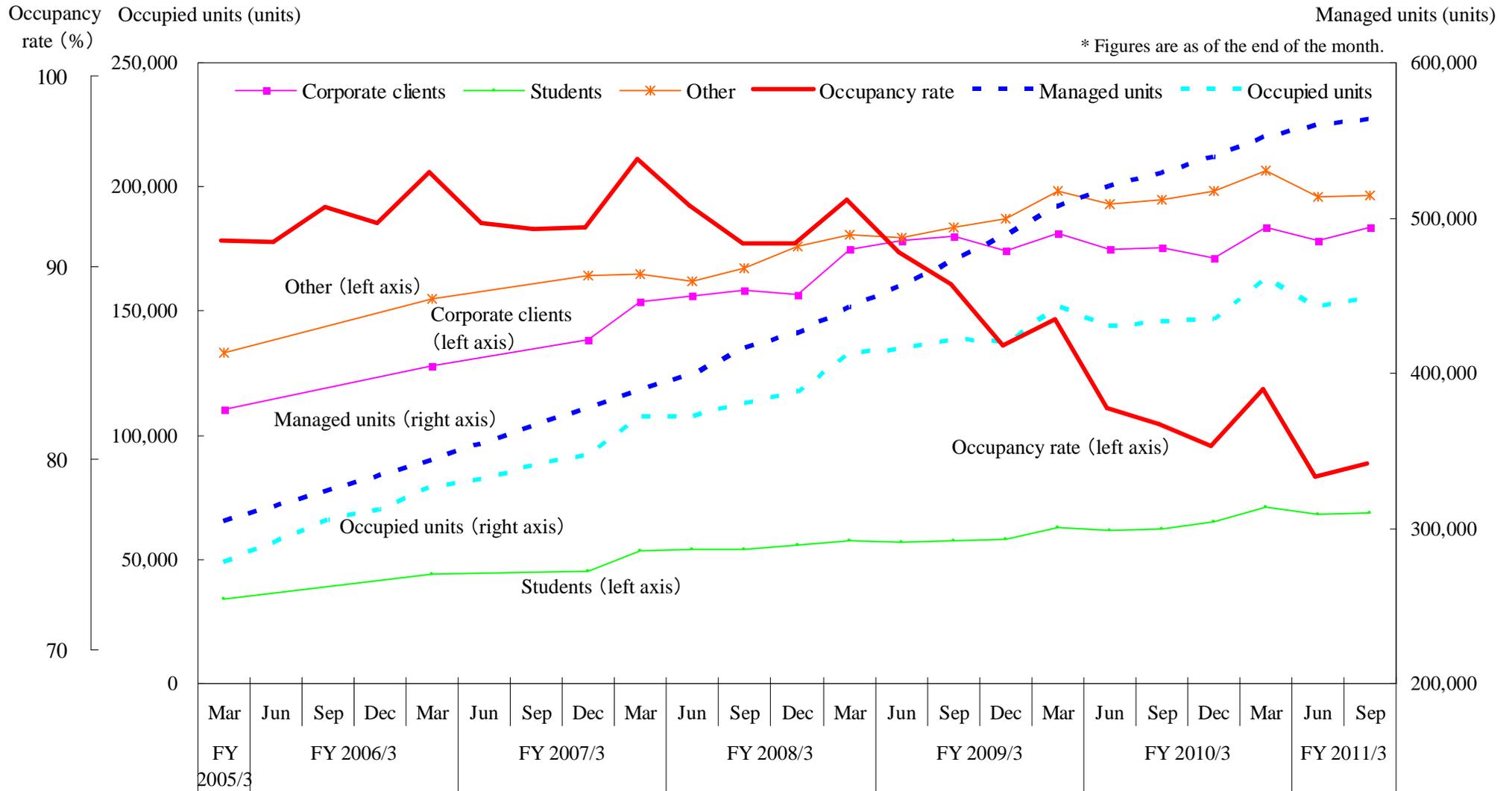
## Contributing Factors

In addition to traditional seasonal factors, persistently tight employment conditions continue, but corporate demand (making up roughly 50% of our occupied units) has hit the bottom at last, showing signs of recovery.

## Measures

- ① Narrowing down of new units built, according to the new area strategy (speeding up decreasing of apartment construction offices, 75 as of the end of September, decrease of 37 offices compared to the end of March 2010)
- 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 Optimizing rent prices through the operation of the Leasing ALM system
- ⑤ As a new measure of Business Structure Improvement, introduction of new service policies and cost reducing policies

# 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. During the subject first half, through market-out strategies implemented by the new area strategy of the Medium-term Management Plan, the occupied units of the three groups have begun to increase.

# 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								
		Full-year	1Q	2Q	Compared to 10/3	Full-year		1Q (June 2010)		2Q (Sep 2010)		Compared to Mar 2010		Plan		
By building age	Beyond 3 years	153	163	155	-10	Managed units	Occupancy rate	Managed units	Occupancy rate	Managed units	Occupancy rate	Managed units	Occupancy rate	Planned new units (Sep-Mar)	New units share	Orders received outstanding as of Sep 2010
	Less than 3 years	164	154	162	10											
Total		317	317	317	-0.5											
By area	Hokkaido	9	9	9	0	14,327	82%	14,441	78%	14,541	79%	214	-3%	100	1%	819
	Tohoku	8	9	8	0	33,796	85%	34,121	81%	34,353	81%	557	-4%	400	2%	603
	North Kanto	37	37	36	-1	42,497	79%	43,154	74%	43,281	75%	784	-4%	50	0%	1,327
	Tokyo Metropolitan	29	32	41	12	152,629	89%	155,962	84%	157,293	84%	4,664	-5%	9,000	50%	12,462
	Hokuriku	10	10	10	0	16,150	83%	16,188	81%	16,219	81%	69	-2%	400	2%	213
	Koshinetsu	24	24	23	-1	24,002	82%	24,503	78%	24,568	79%	566	-3%	50	0%	761
	Chubu	105	104	99	-6	91,416	75%	92,187	71%	92,788	72%	1,372	-3%	1,800	10%	3,076
	Kinki	49	47	47	-2	77,922	84%	78,927	79%	79,510	81%	1,588	-3%	3,700	21%	4,767
	Chugoku	14	14	12	-2	37,289	86%	37,467	82%	37,566	83%	277	-3%	400	2%	976
	Shikoku	13	12	11	-2	14,384	79%	14,412	76%	14,444	75%	60	-4%	100	1%	322
	Kyushu	18	18	20	2	42,869	84%	43,334	81%	43,721	82%	852	-2%	600	3%	2,336
	Okinawa	1	1	1	0	4,492	90%	4,545	89%	4,639	88%	147	-2%	1,300	7%	890
Total		317	317	317	-0.5	551,773	84%	559,241	79%	562,923	80%	11,150	-4%	17,900	100%	28,552

## 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

Half: ¥6.3 billion / 2 = ¥3.1 billion

The breakdown for the reversal of ¥51 million in the subject half is a reversal of ¥4,119 million from the previous period and a transfer of ¥4,067 million from the subject period.

# 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	1H	Full-year	1Q	2Q	1H	Full-year Forecast
Total orders received	3,624	4,630	3,378	632	636	1,268	2,183	255	220	475	942
Total orders cancelled	218	415	683	184	115	299	506	86	71	157	282
Cancellation rate	6.0%	9.0%	20.2%	29.3%	18.1%	23.6%	23.2%	33.7%	32.3%	33.1%	30.0%
Net orders received	3,406	4,215	2,691	448	521	969	1,677	169	149	318	659
Orders received outstanding	2,486	3,426	2,528	2,638	2,291	—	1,836	1,788	1,479	—	1,298

## Contributing Factors

Orders received in the Apartment Construction Subcontracting segment during FY 2011/3 1H 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: ¥53.4 billion due to the decrease in the number of orders, and ¥11.4 billion due to the decrease in average value per order.

(Unit: Billion yen)

Decline due to decrease in number of orders	-53.4	① × ②
Decline due to lowering of unit price	-11.4	③ × ④



	FY 2010/3 1H	FY 2011/3 1H	Difference	% Change
Total order value	¥96.9 billion	¥31.8 billion	- ¥65.0 billion	-67.1%
No. of orders	1,354	④ 606	② - 748	-55.2%
Average value per order	① ¥71.5 million	¥52.5 million	③ - ¥18.9 million	-26.5%

## **Outline of First Half Results**

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# Highlights of 1H Results (Consolidated)



(Unit: Million yen)	Results				Full-year Forecasts of FY 2011/3			
	FY 2011/3 1H	FY 2010/3 1H	Change	% Change	Revised forecast	Previous forecast	Change	Major factors (Billion yen)
Net sales	248,315	310,391	(62,076)	-20.0%	504,000	564,700	(60,700)	Subcontracting (60.1) Leasing +0.9
Gross profit	16,303	32,727	(16,424)	-50.2%	49,700	64,760	(15,060)	Subcontracting (20.3) Leasing +5.2
(%)	6.6%	10.5%	-3.9p		9.9%	11.5%	-1.6p	
SG&A	28,897	39,600	(10,703)	-27.0%	59,700	59,460	240	Subcontracting (2.6) Leasing +3.0
Operating income (loss)	(12,594)	(6,872)	(5,722)	—	(10,000)	5,300	(15,300)	Subcontracting (17.7) Leasing +2.2
(%)	-5.1%	-2.2%	-2.9p		-2.0%	0.9%	-2.9p	
Recurring income (loss)	(19,273)	(11,850)	(7,423)	—	(18,000)	3,400	(21,400)	Operating loss (15.3) Foreign 5.4 exchange loss incurred
(%)	-7.8%	-3.8%	-4.0p		-3.6%	0.6%	-4.2p	
Net income (loss)	(17,555)	(12,239)	(5,316)	—	(16,300)	3,000	(19,300)	Recurring loss (21.4) Extraordinary loss +1.8

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



(Unit: Million yen)		FY 2011/3 1H	FY 2010/3 1H	Change	% Change	FY 2011/3 1H Depreciation expenses	FY 2010/3 1H Depreciation expenses
Leopalace21	Net sales	245,271	307,949	(62,678)	-20.4%	2,465	2,298
	Recurring income (loss)	(18,038)	(10,341)	(7,697)	—		
Leopalace Guam	Net sales	3,176	3,427	(251)	-7.3%	724	760
	Recurring income (loss)	(4,444)	(3,543)	(901)	—		
	Foreign exchange gain (loss)	(4,474)	(3,713)	(761)	—		
Others & Exclusion	Net sales	(132)	(985)	853	—	20	14
	Recurring income (loss)	3,209	2,033	1,176	57.8%		
Consolidated total	Net sales	248,315	310,391	(62,076)	-20.0%	3,209	3,072
	Recurring income (loss)	(19,273)	(11,851)	(7,423)	—		
	Foreign exchange gain (loss)	(5,410)	(4,258)	(1,152)	—		

# Outline of Balance Sheet (Consolidated)



(Unit: Million yen)		FY 2011/3 2Q	FY 2010/3	Change
Assets	Current assets	95,527	146,416	(50,889)
	Cash & cash equivalents	36,548	72,431	(35,883)
	Trade/account receivables for completed projects	7,722	12,916	(5,194)
	Operating loans	4,830	5,482	(652)
	Real estate for sale	1,491	3,955	(2,464)
	Payout for construction in progress	693	1,184	(491)
	Fixed assets	234,616	250,006	(15,390)
	Buildings & structures	63,446	63,437	9
	Land	95,432	96,293	(861)
	Construction in progress	428	3,367	(2,939)
Total assets		330,226	396,511	(66,285)
Liabilities	Current liabilities	172,197	208,410	(36,213)
	Short-term borrowings	44,330	30,000	14,330
	Long-term liabilities	101,093	117,121	(16,028)
	Long-term borrowings	11,224	22,761	(11,537)
	Provision for apartment vacancy loss	31,675	31,728	(53)
Total liabilities		273,290	325,532	(52,242)
Net assets	Common stock	55,640	55,640	0
	Capital surplus	33,745	33,894	(149)
	Retained earnings	(23,218)	(5,663)	(17,555)
	Total net assets		56,935	70,979
Shareholders' equity ratio		17.2%	17.9%	-0.7%

# Outline of Cash Flow (Consolidated)



(Unit: Million yen)	FY 2011/3 2Q	FY 2010/3 2Q	Change
Cash flows from operating activities	(39,376)	(35,095)	(4,280)
Net income (loss) before taxes & adjustments	(17,452)	(12,096)	(5,356)
Depreciation expenses	3,209	3,072	137
Increase (decrease) in provision for apartment vacancy loss	(52)	4,473	(4,525)
Foreign exchange loss (gain)	5,409	4,258	1,151
Decrease (increase) in accounts receivable	7,060	2,601	4,458
Decrease (increase) in real estate for sale	2,463	10,542	(8,078)
Decrease (increase) in work in process	490	1,758	(1,267)
Decrease (increase) in long-term prepaid expenses	9,669	3,419	6,250
Increase (decrease) in accounts payable	(25,068)	(19,847)	(5,221)
Income taxes paid	(1,502)	(14,081)	12,579
Cash flows from investing activities	1,749	(5,421)	7,171
Payout for purchase & proceeds from sale of property, plant and equipment	358	(3,117)	3,476
Payout for purchase & proceeds from sale of investment activities	970	(4)	974
Cash flows from financial activities	2,016	39,350	(37,333)
Proceeds from & repayment of short-term debt	15,470	22,799	(7,329)
Proceeds from & repayment of long-term debt	(12,677)	13,025	(25,703)
Net increase (decrease) in cash & cash equivalents	(36,023)	(830)	(35,193)
Cash & cash equivalents at end of period	36,008	77,545	(41,537)

# Profit/Loss for Major Segments (Consolidated)



(Unit: Million yen)	FY 2011/3 1H		FY 2010/3 1H		Change	% Change	FY 2011/3 Full-year Forecast	
Construction Division	*Effect in switching to “% of completion method”: Net sales -¥0.7 billion; Gross profit -¥1.0 billion.							
Net sales	67,733		120,635		(52,902)	-43.9%	120,000	
Gross profit	23,093	34.1%	32,820	27.2%	(9,727)	-29.6%	40,800	34.0%
Operating income (loss)	9,276	13.7%	16,414	13.6%	(7,138)	-43.5%	16,200	13.5%
Leasing Division								
Net sales	170,215		170,918		(703)	-0.4%	364,700	
Gross profit	(6,882)	-4.0%	1,033	0.6%	(7,915)	-766.2%	9,400	2.6%
Operating income (loss)	(19,568)	-11.5%	(17,846)	-10.4%	(1,722)	—	(20,400)	-5.6%
Hotel Resort Division								
Net sales	4,461		5,097		(636)	-12.5%	8,500	
Gross profit	940	21.1%	1,205	23.6%	(265)	-22.0%	1,200	14.1%
Operating income (loss)	(556)	-12.5%	(481)	-9.4%	(75)	—	(1,300)	-15.3%
Other Division (including Real estate)								
Net sales	7,119		15,625		(8,506)	-54.4%	13,100	
Gross profit	343	4.8%	(496)	-3.2%	839	—	500	3.8%
Operating income (loss)	(549)	-7.7%	(3,042)	-19.5%	2,493	—	(1,300)	-9.9%

\*Values are before eliminations between segments.

\*Segments have been changed since the FY ending March 2010. Please see page 14 for results of segment operations.

# Full-Year Forecasts for Apartment Construction Subcontracting Business Costs



(Unit: 100 million yen)  (Excludes % of completion basis)	FY 2009/3		FY 2010/3				FY 2011/3					
	Full-year		1H		Full-year		1H		YoY		Full-year Forecast	
	Actual	Share	Actual	Share	Actual	Share	Actual	Share	Actual	Growth	Plan	Share
Construction sales	3,590	100%	1,143	100%	2,304	100%	683	100%	(460)	—	1,226	100%
Cost of sales	2,495	69.5%	833	72.8%	1,684	73.1%	457	66.9%	(376)	-6.0p	816	66.5%
Direct expenses	2,263	63.0%	729	63.8%	1,467	63.7%	419	61.3%	(310)	-2.5p	760	62.0%
Construction GP	1,326	37.0%	414	36.2%	837	36.3%	264	38.7%	(149)	+2.5p	466	38.0%
Indirect expenses	232	6.5%	103	9.0%	217	9.4%	37	5.6%	(65)	-3.5p	56	4.6%
Gross profit	1,094	30.5%	310	27.2%	620	26.9%	226	33.1%	(84)	+6.0p	410	33.5%

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. Indirect expenses of ¥3.7 billion (5.6% of net sales) in the subject 1H will converge to the full-year forecast figure of ¥5.6 billion (4.6%), due to the thorough control of costs.

2. Breakdown of indirect expenses:

(Unit: 100 million yen)	FY 2009/3		FY 2010/3 1H		FY 2010/3		FY 2011/3 1H	
Indirect expenses	232	6.5%	103	9.0%	217	9.4%	37	5.6%
(of which, labor expenses)	178	4.9%	86	7.5%	184	8.0%	28	4.2%

# Results of Other Business Operations (Cumulative)



(Unit: Million yen)		FY 2011/3 1H	FY 2010/3 1H	Change	% Change	FY 2011/3 Full-year Forecast
Real Estate Business (New segment)	Net sales	2,811	11,270	(8,459)	-75.1%	4,300
	Gross profit (loss)	322	7	315	4500%	300
	Operating income (loss)	195	(788)	983	—	200
Silver Business (Other Business)	Net sales	3,768	4,020	(252)	-6.3%	7,700
	Gross profit (loss)	(494)	(789)	295	—	(900)
	Operating income (loss)	(850)	(1,304)	454	—	(1,600)
Domestic Hotel Business (Hotel Resort Business)	Net sales	1,047	1,188	(141)	-11.9%	2,000
	Gross profit (loss)	486	624	(138)	-22.1%	900
	Operating income (loss)	(128)	(46)	(82)	—	(300)
Broadband Business (Leasing Business)	Net sales	7,468	7,312	156	2.1%	15,200
	Gross profit (loss)	1,930	1,308	622	47.6%	5,900
	Operating income (loss)	1,543	975	568	58.3%	5,100

Leopalace Resort	(Unit: 1,000 US dollars)	Jan-Jun 2010	Jan-Jun 2009	Change	% Change	Forecasts for Jan-Dec 2010
	Net sales	34,762	35,853	(1,091)	-3.0%	71,740
	Operating income	187	1,567	(1,380)	-88.1%	2,416
	Depreciation expenses	7,926	7,945	(19)	-0.2%	15,840
	Operating rate (Leopalace Resort)	56.3%	53.0%	3.3%	-	56.3%
	Operating rate (Westin)	70.3%	52.6%	17.7%	-	64.1%

## Second Half Forecasts

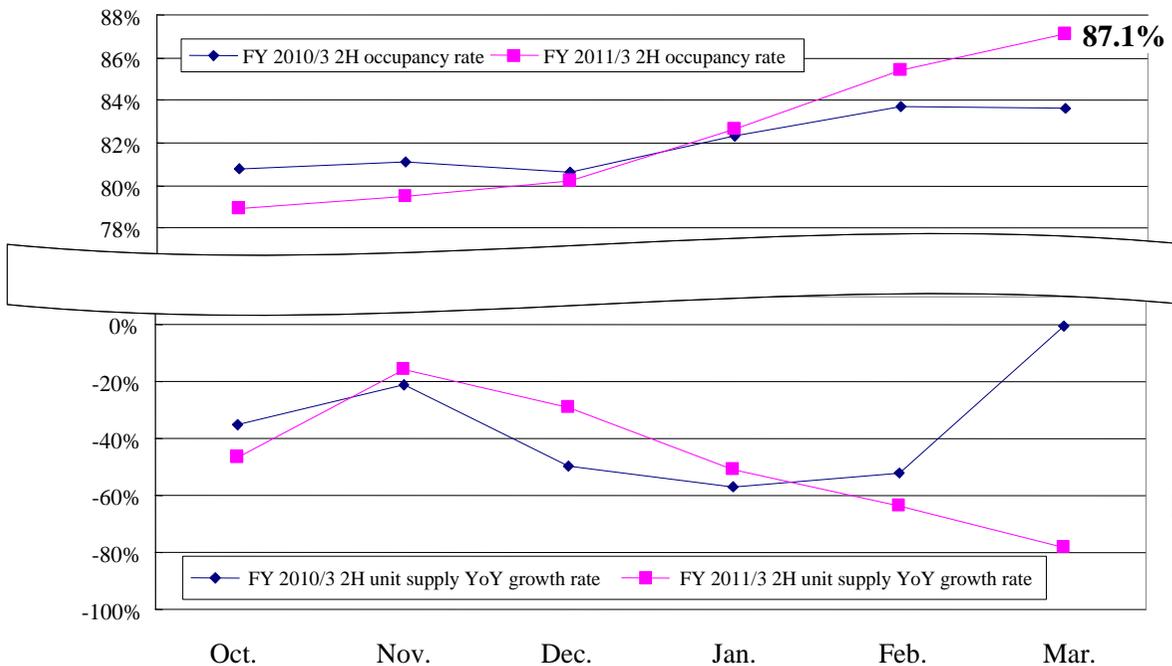
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 **Leopalace21**

During the second half, we will set numerical values for the Leasing Business based on limiting the supply of new apartment units, and implement the specific strategies outlined in the Medium-term Management Plan.

**2H Occupancy Rates and New Unit Supply Figures**  
(FY 2010/3 actual and FY2011/3 estimate)



- Strategies in the Medium-term Management Plan to Improve the Occupancy Rate
- ① Set appropriate rents for each location
  - ② Focus on Leopalace Partners
  - ③ Strengthen corporate sales
  - ④ Develop business for foreign exchange students
  - ⑤ Implement additional new measures (General maintenance service revenue, cost reductions)
  - ⑥ Curb lease cancellations

⇒ We plan to implement measures to significantly reduce the supply of new apartment units in FY 2011/3 by 13,000 units (58%) from the same period of the previous fiscal year, which should raise the occupancy rate to 87.1% by the end of March 2011.

2H Indicators	1	2H apartment unit supply	2H supply of 9,000 new units (down 13,000 units, or 58% YoY)
	2	Occupancy rate	Annual average occupancy rate of 80.9% (down 2.8 percentage points from initial plan)
	3	Other income	Additional revenue from general maintenance service sales
	4	Cost reductions	New cost reductions through revision of broadband costs

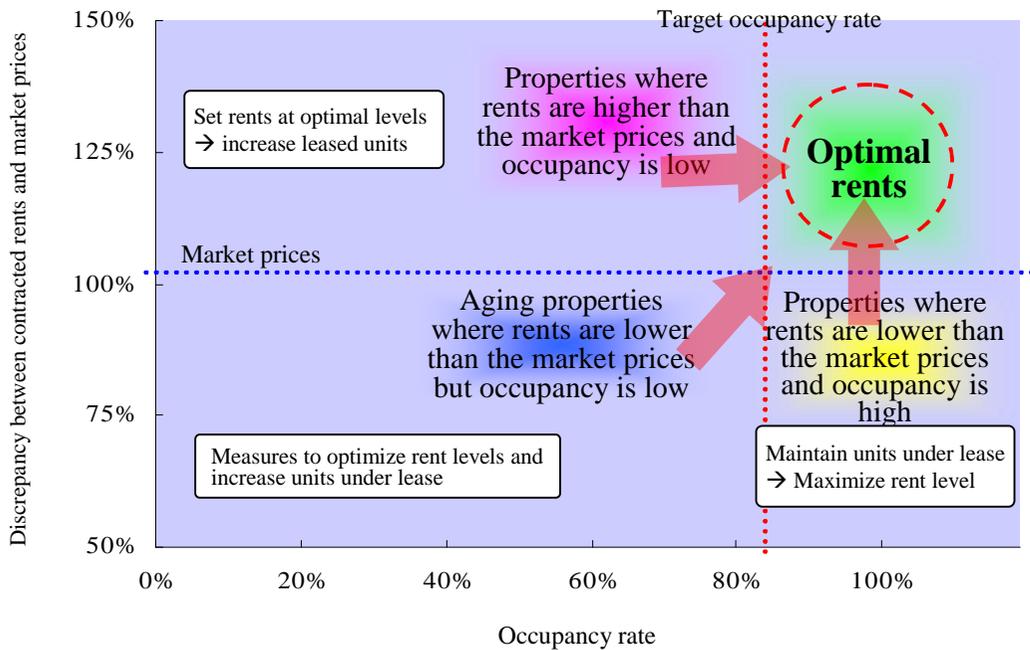
# Leasing Strategies

## 1. Optimal Pricing Strategies for Individual Properties

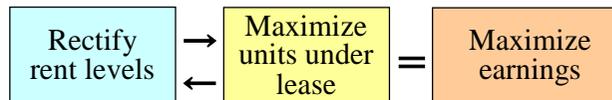
### ■ “Leasing ALM System” Will Support the New Area Strategy

Our “Leasing ALM System” will be the optimal operating system for backing up our New Area Strategy. The Leasing ALM system enables us to manage individual properties from a long-term perspective, based on a multi-faceted analysis, to optimize the operation of each building under management. With the Leasing ALM system on line (May 2010), we will be able to quickly and accurately track market trends by analyzing the occupancy rates of each individual property under management, and this will help us to optimize rents due on master lease agreements. This will help us to improve earnings in the Leasing Business.

**Map Comparing Contracted Rents with the Market Prices (Example)**

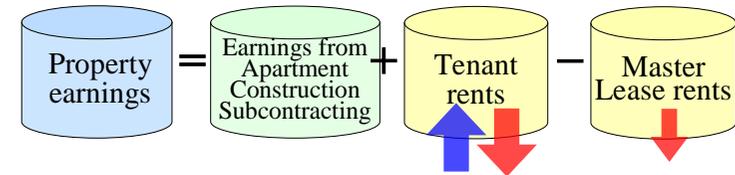


**Establish optimal rent level by property...**  
**Maximize earnings by optimizing rent levels for each property, based on local conditions**



**Our Leasing ALM system will enable us to determine optimal rent levels**

By property...  
 Maximize total earnings through long-term earnings management



**Strategically raise or lower rents, as appropriate**

- Set initial rent levels from a long-term perspective
- Reduce rents due on master lease agreements by lowering construction unit costs
- Revise rent levels
- Expand strategic revision of rent levels based on market trends

**Careful monitoring of optimal rent level position**



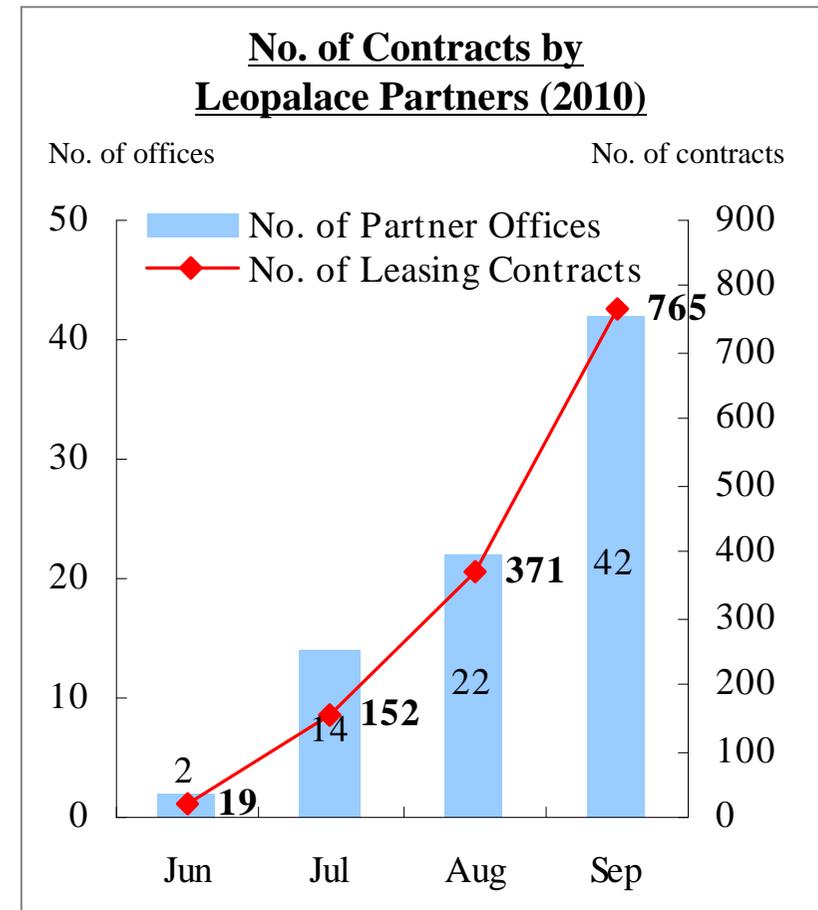
**Maximize Leasing Business earnings**

# Leasing Strategies

## 2. Leopalace Partners

### Speed up introduction of Leopalace Partners offices

Through Leopalace Partners, we will be able to increase and stabilize occupancy rates by increasing avenues for tenant recruitment, as well as shifting fixed costs to variable costs and reduce SG&A expenses through the closing down of directly managed offices. In order to strengthen the new area strategy in our Medium-term Management Plan, we will not alter our front-loaded introduction plan of Partner offices during this fiscal year, and carry out an expansion plan in the next term.

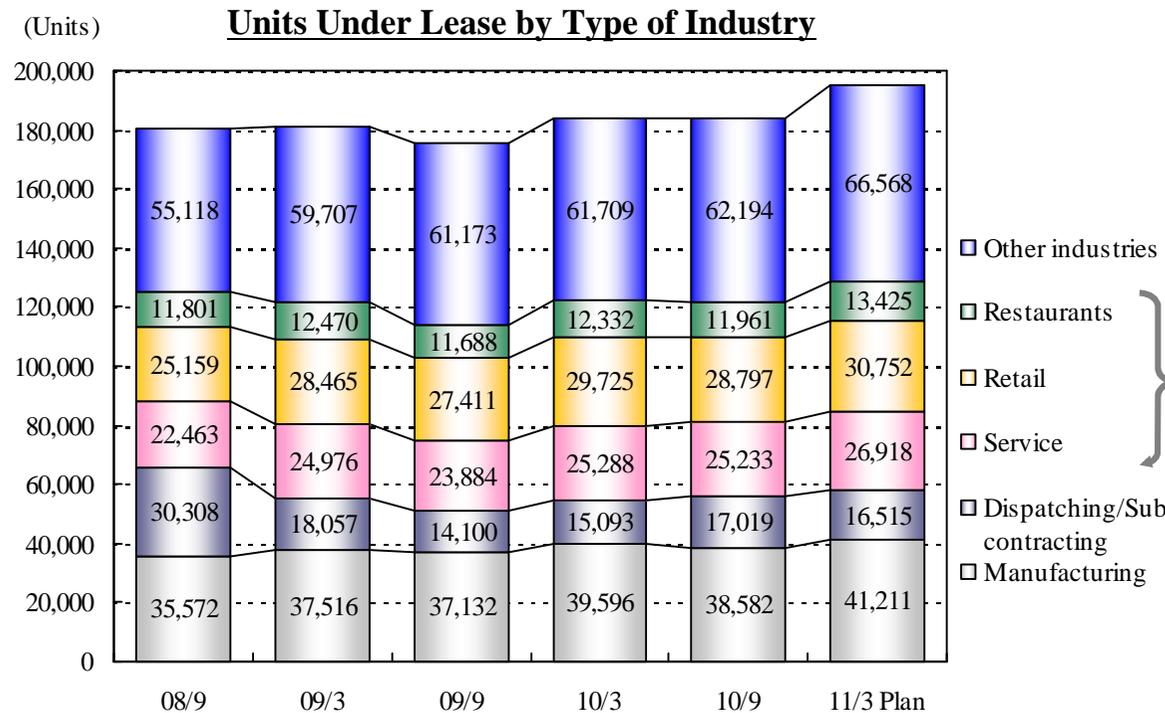


# Leasing Strategies

## 3. Corporate Sales

### Corporate Sales

- (1) Reinforce risk management by analyzing needs of growth industries and by diversification of corporate clients
- (2) Reinforce our company housing services program by effectively utilizing our “Leopalace Leasing” subsidiary



◆ Units leased by corporate clients had been declining, but have now been increasing since September 2009.

Occupied units of corporate clients have increased from 180 thousand units as of the Lehman Shock (08/9) to 184 thousand as of September 2010.

**Carried out studies of demand trends specifically for corporate clients**

Industries and businesses expected to grow in the future:  
Service industry, Retailing, Restaurants, Manufacturing

**Reinforce marketing approaches to future growth industries**

(Risk hedge)  
Ratio of corporate clients = 40% of the overall total  
(Maintain the relative proportions of individual and corporate clients)

**Strengthen linkage with “Leopalace Leasing,” a provider of company housing services**

Offering company housing services...  
Increased convenience; will help attract corporate clients  
Attract clients from the family-type housing market

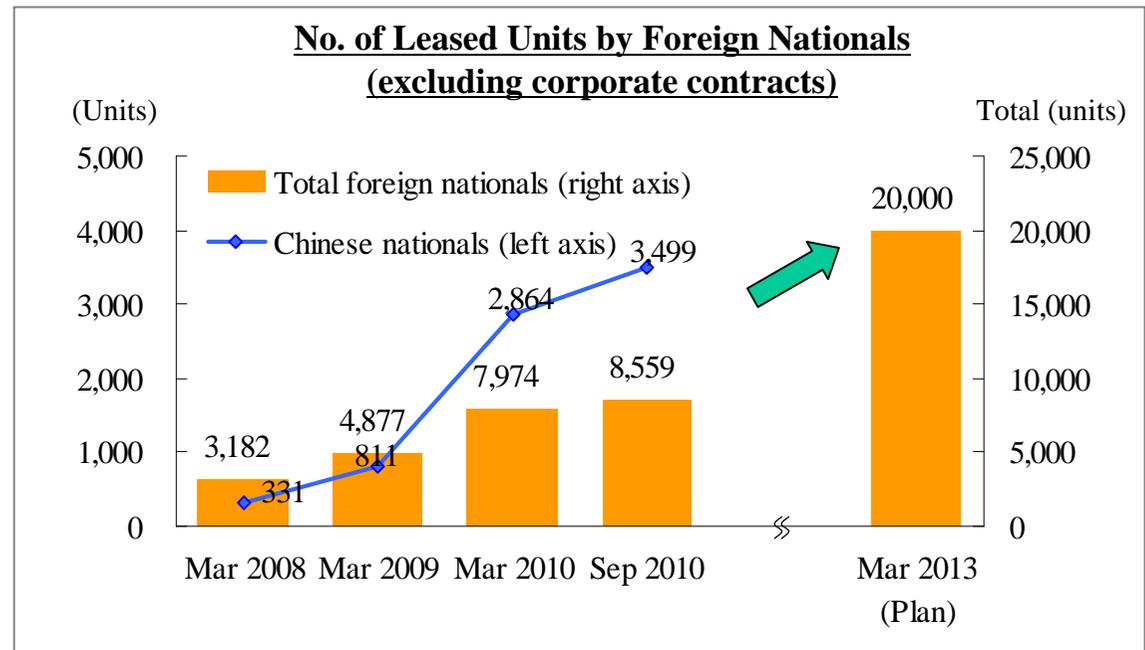
**Reinforce marketing efforts through cooperation between Head Office Corporate Sales Division and company housing service provider**

# Leasing Strategies

## 4. Business for Foreign Students (China)

- (1) Open two offices in China (Guangzhou and Dalian) in October, totaling four offices (Total of eight offices overseas)
- (2) Foreign students are able to make lease contracts before coming to Japan through our “LAM School” system

### China Offices



### LAM School System (Leopalace Alliance Members) is:

- a system for foreign students planning to study in Japan, which enable them to search for apartments and make lease contracts through the internet from their own country.
- compatible in English, Chinese, and Korean, supported by our staff.
- used by 149 colleges (157 campuses) as of August 2010.

# Apartment Construction Strategies

## 1. Built-for-Sale Product Lineup

### Expand Orders of Built-for-Sale Buildings

Beginning with the current term Leopalace has begun to aggressively market its built-for-sale products, which are not subject to a master lease agreement with apartment owners. As of the end of September we had received orders for 250 built-for-sale products (32% of overall orders), with a cumulative value of ¥8.2 billion.

At a time when our own occupancy rates have not yet recovered, we will continue to expand sales of built-for-sale products, which do not represent an additional new supply burden for the Leasing Business.

(Unit: 100 million yen)	FY 2011/3		
	1Q	2Q	1H
Total orders received	255	220	475
Of which, the value of orders built for sale	29	53	82
%	11.5%	24.1%	17.3%
Total number of buildings contracted	409	382	791
Of which, the number of buildings built for sale	103	147	250
%	25.2%	38.5%	31.6%
Net orders received	169	149	318
Orders received outstanding	1,788	1,479	—



Leopalace21's first rental house product "Lavo Villent"



Medium-rise apartment "COURTLY"



Low-rise apartment "SELDEAR"

\* Artist's conception. Actual appearance may vary.

# Apartment Construction Strategies

## 2. Re-Starting Construction of Silver Facilities

We have once again started taking orders for construction of Silver facilities, this time using a build-for-sale business model with no master lease agreement. We make construction subcontracting agreements with landowners, and then introduce professional nursing care companies to manage the facilities.

### Landowners

- Who want to contribute to society by providing nursing care and welfare facilities
- Who would like to earn stable returns, and make effective use of their property while reducing inheritance taxes
- Who are interested in starting a nursing care facility, and are looking for a reliable partner



- Take advantage of the construction know-how gained from our experience with apartment subcontracting
- Take advantage of our performance and experience gained from managing 58 different nursing care facilities



\* Artist's conception. Actual appearance may vary.

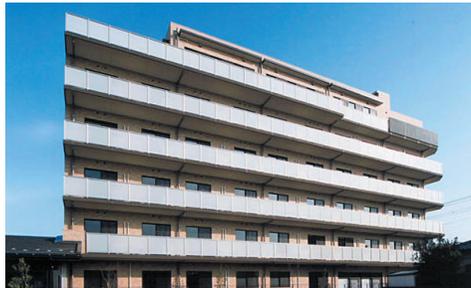
### Nursing Care Providers

- Over 11,000 companies exist nationwide
- Many would like to expand, but are held back because of the time it takes to find land suitable for construction of Silver facilities.
- Even when appropriate land is found, negotiations with landowners are difficult

### Examples of facilities constructed by Leopalace21 (These are all in the Azumien series)



Small-scale fee-based nursing home



Large-scale fee-based nursing home



Group Home



Day Service / Short Stay facility

# Additional Business Structure Improvement Measures in the Medium-term Management Plan

The Medium-term Management Plan includes ¥26.5 billion in cost reductions centered on SG&A expenses (as shown below). For the second half of the subject fiscal year we included additional measures for business structure improvement, comprising:

- ① Cost reductions from **new maintenance contracts for broadband operations in the Leasing Business**
- ② Cost reductions from **measures to lower utility costs in monthly contracts, and revision of lease management costs**
- ③ Launch of new services through **revisions to the Total Support System (TSS) framework**

Leopalace21 will make a concerted effort as a company to implement these three business structure improvement measures, in order to fundamentally improve earnings.

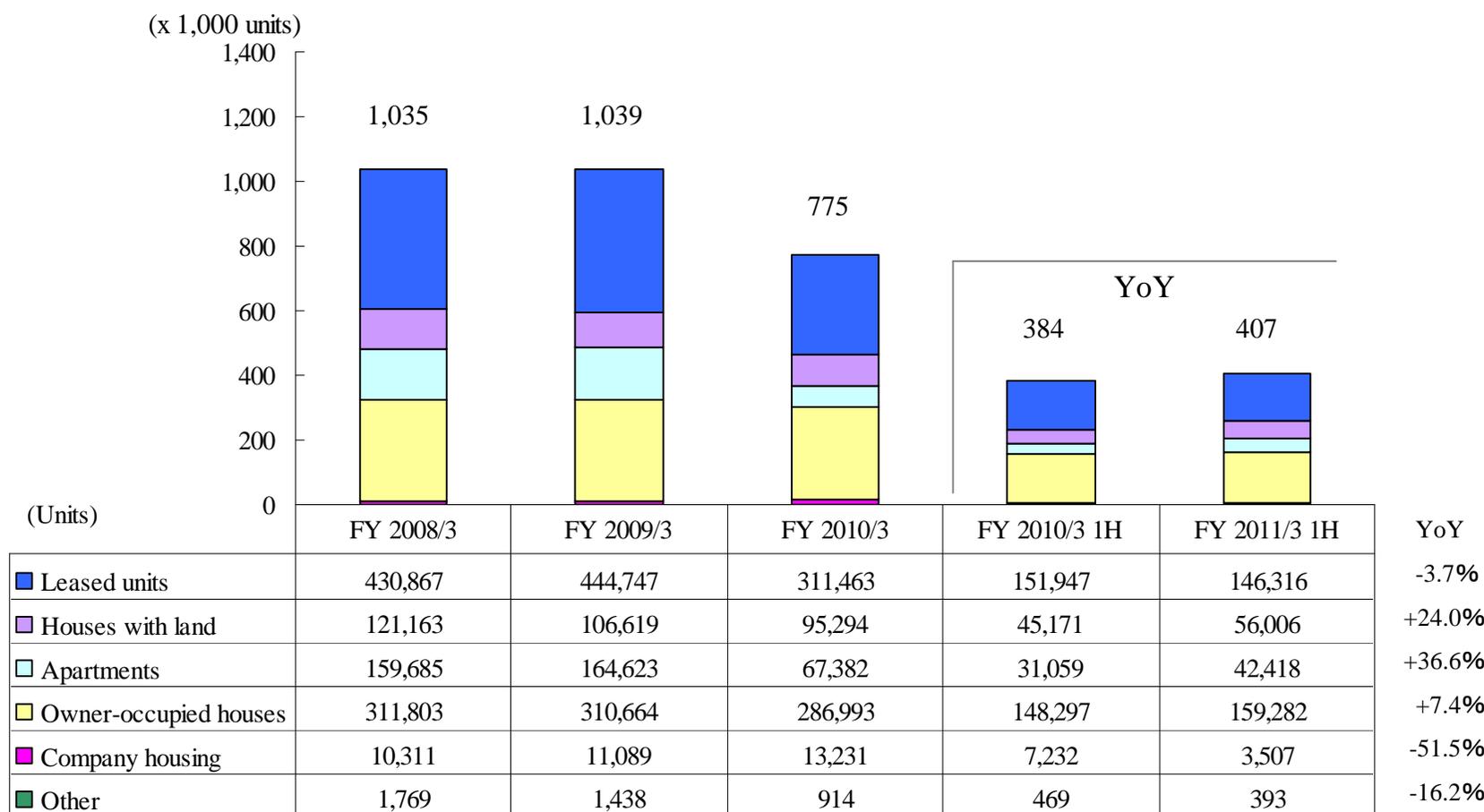
Additional Measures	Reduce leasing costs	① Cost reductions from new maintenance contracts for broadband operations in the Leasing Business (Planned reduction: ¥1,500 per unit per month, from 533,000 units with broadband services)
		② Cost reductions from revisions to standard management operations, and utility costs (562,000 units under management at the end of September, of which 101,000 units are monthly leases (including utility costs))
	Improve leasing services	③ Launch of new services through revisions to the Total Support System (TSS) framework (Planned revenue from general maintenance services for household appliances and electronics: ¥2,000 per unit per month, from 562,000 units under management.)
Existing Cost Reduction Measures in the Medium-term Management Plan	Lower construction costs	Reduce the cost rate in the Apartment Construction Subcontracting Business 9.4 percentage points over the three years of the Medium-term Management Plan (From 73.1% in FY 2010/3, to 63.7% in FY 2013/3)
	Set appropriate master lease rents	Adjust master lease rents based on market prices for units that have had a fixed lease rate for 10 years (total of 39,300 units)
	Reduce sales costs	Reduce SG&A expenses in the Leasing Business ¥9.2 billion (4.1 percentage points from the SG&A ratio) over the three years of the Medium-term Management Plan (From ¥37.2 billion (10.8%) in FY 2010/3, to ¥28.0 billion (6.6%) in FY 2013/3)
	Cut SG&A expenses	Reduce SG&A expenses by ¥26.5 billion (3.2 percentage points from the SG&A ratio) over the three years of the Medium-term Management Plan (From ¥79.3 billion (12.8%) in FY 2010/3, to ¥52.7 billion (9.6%) in FY 2013/3)

# Appendix

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 **Leopalace21**

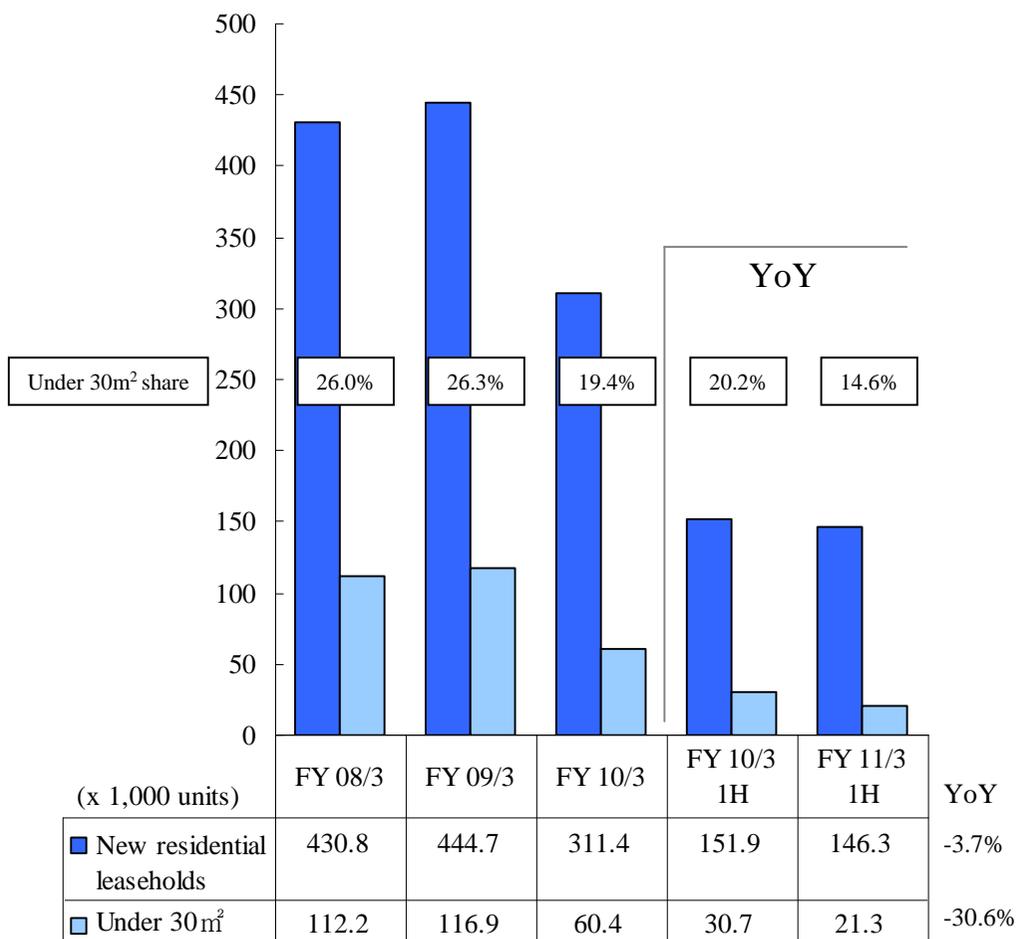
# New Housing Starts (No. of use breakdown)



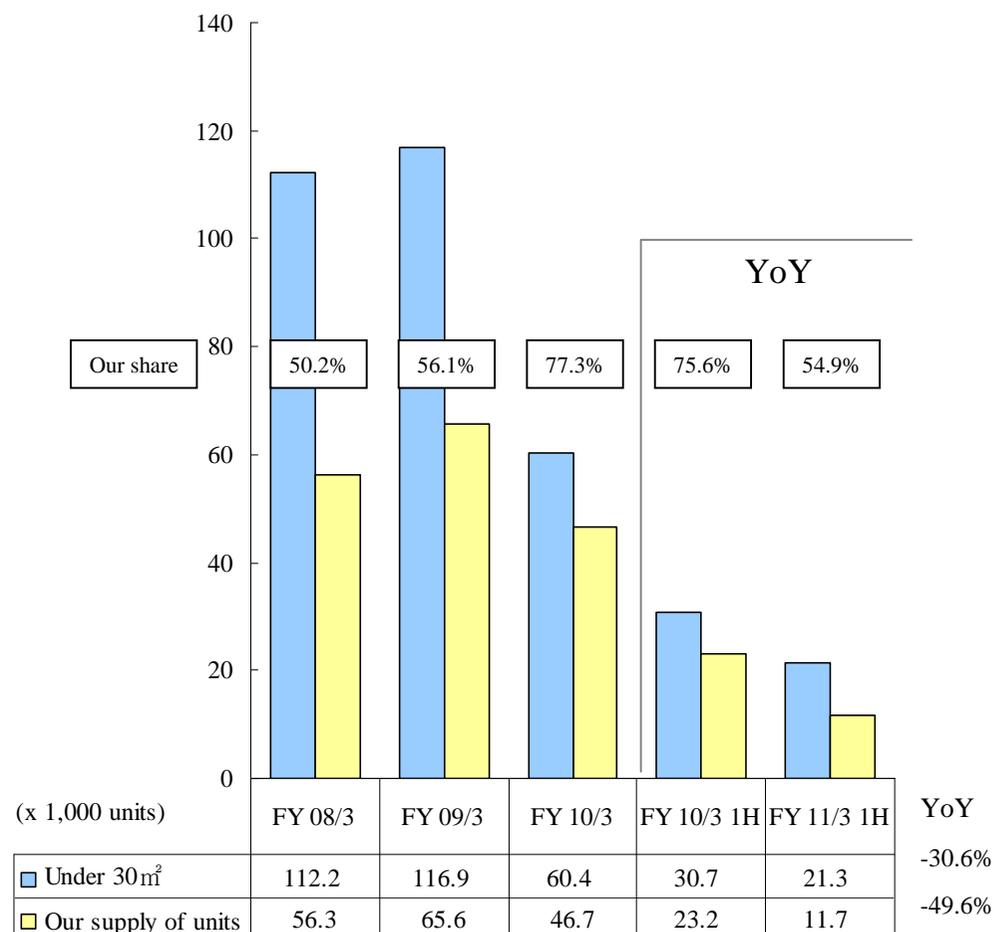
(Based on housing start statistics, Ministry of Land, Infrastructure & Transport)

# New Housing Starts (Units under 30 square meters)

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

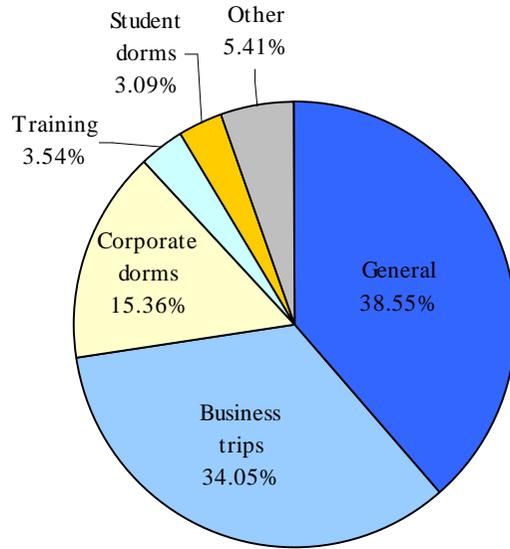


**Trend in No. of New Residential Leaseholds under 30 square meters and Our Market Share**



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

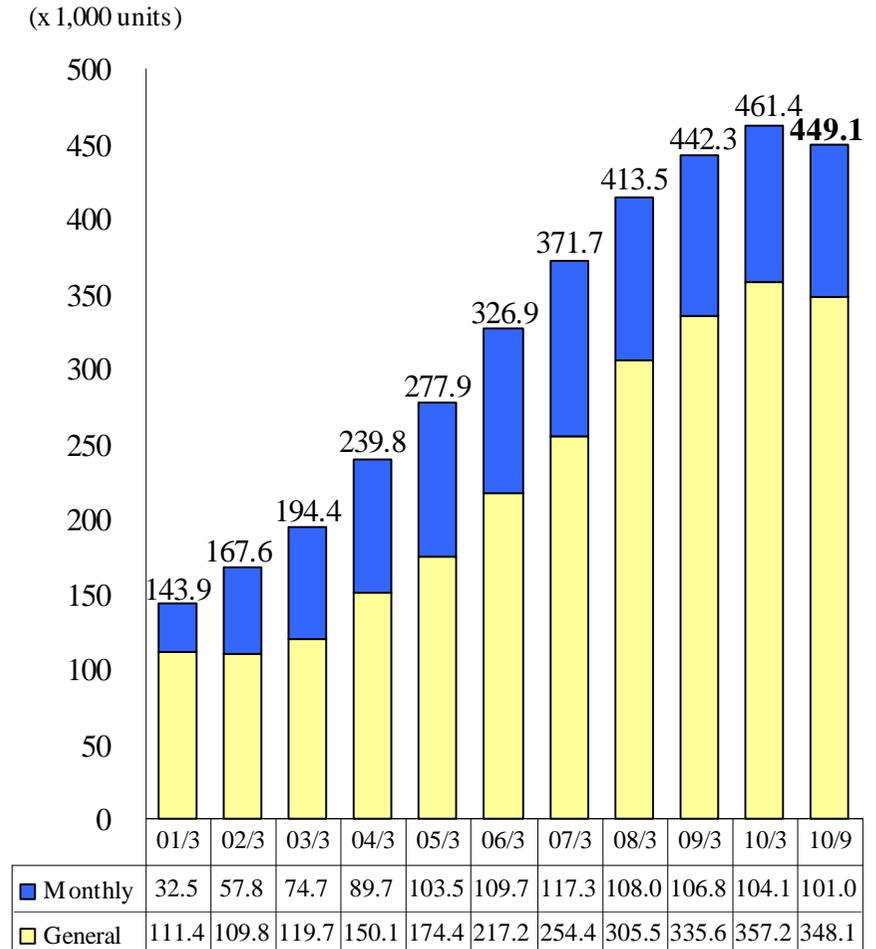
**Breakdown of Users of Month-to-Month Leases  
(as of September 2010)**



Breakdown of "Other":

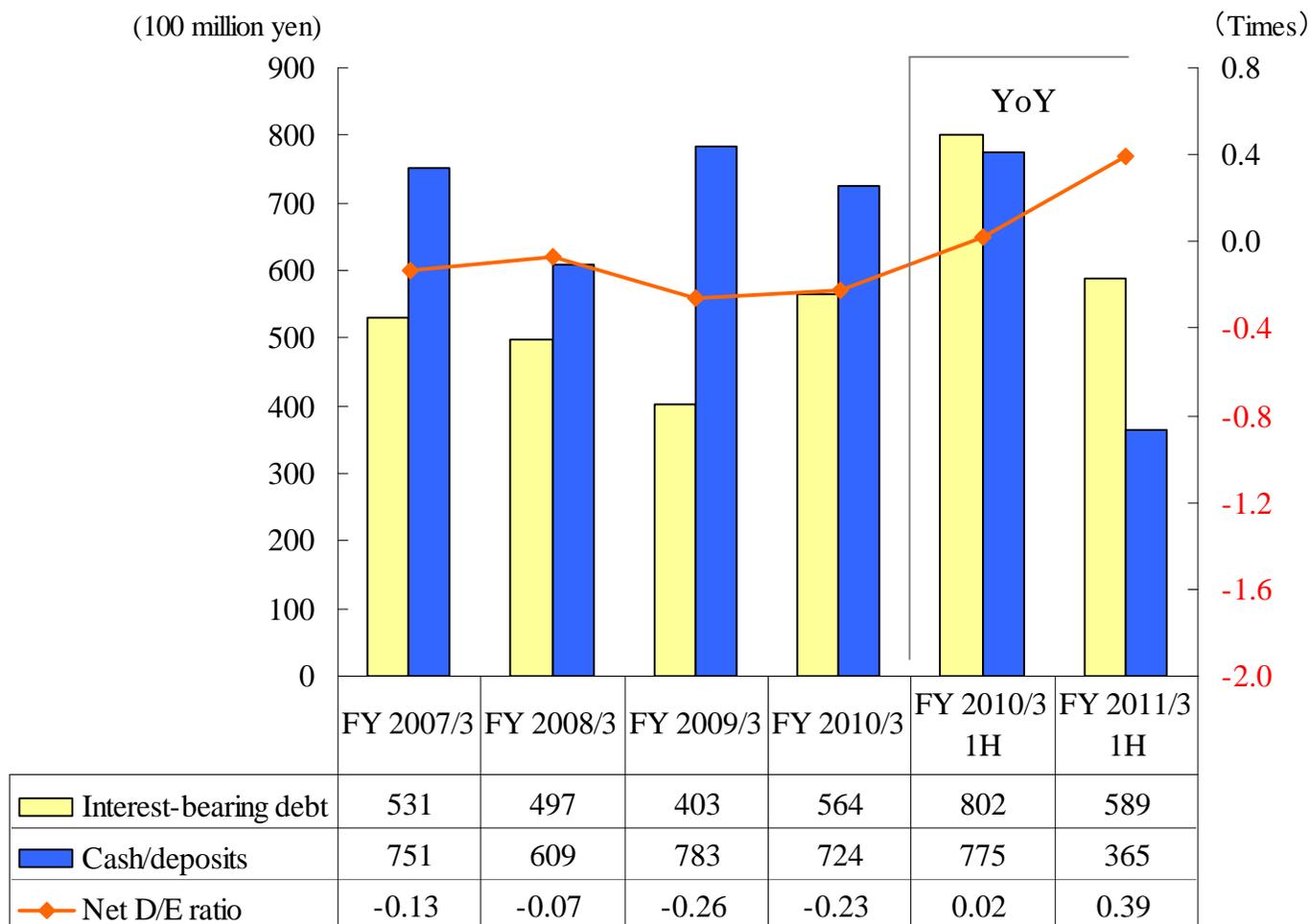
Temporary stay between moves	1.15%
Job assignment away from home	0.73%
Temporary use (for space)	0.65%
Temporary stay during home renovations	0.65%
Daily use for long commute	0.36%
Taking care of business bachelors	0.26%
Study	0.25%
Taking care of hospitalized relations	0.25%
Tourism	0.19%
Other	0.92%

**No. of Tenants by Contract Type**



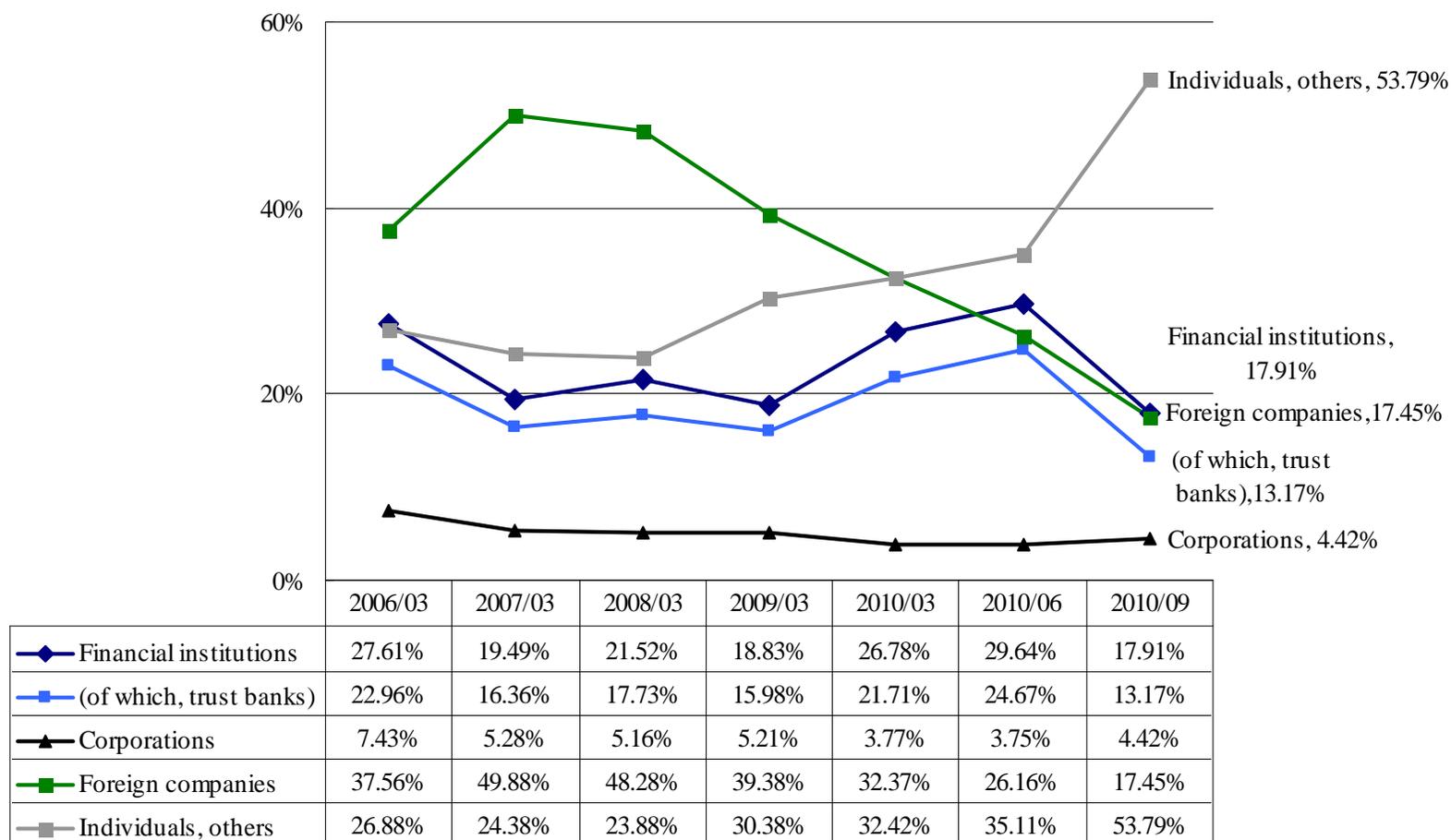
(Based on company data, as of September 30, 2010)

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



$$\text{Net D/E ratio} = (\text{Interest-bearing debt} - \text{Cash}) / \text{Shareholders' equity}$$

# Trend in Shareholders



\*Based on number of shares