Consolidated Financial Statements (Japanese Accounting Standard)

February 6, 2015

(For the nine months ended December 31, 2014)

Name of Company Listed: **Leopalace21 Corporation**
Stock Listing: Tokyo Stock Exchange
Code Number: 8848
Location of Head Office: Tokyo
(URL: http://eg.leopalace21.com)
Representative: Position: President and CEO Name: Eisei Miyama
Name of Contact Person: Position: Executive Officer Name: Bunya Miyao
Telephone: +81-3-5350-0216
Scheduled Date of Filing of Quarterly Report: February 13, 2015
Scheduled Date of Commencement of Dividend Payments: –
Supplemental Explanatory Material Prepared: Yes
Results Briefing Held: None

1. Results for the Nine Months Ended December 31, 2014 (April 1, 2014 through December 31, 2014)

(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 income		Recurring income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2014	**350,756**	**2.1**	**9,513**	**8.7**	**8,637**	**20.3**	**7,856**	**22.7**
Nine months ended December 31, 2013	343,465	4.1	8,750	74.0	7,178	22.8	6,402	26.9

Note: Comprehensive income: As of December 31, 2014: 9,442 million yen (-9.0%); As of December 31, 2013: 10,376 million yen (276.7%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended December 31, 2014	**29.89**	–
Nine months ended December 31, 2013	29.77	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of December 31, 2014	**285,905**	**116,011**	**40.6**	**441.25**
As of March 31, 2014	287,459	104,860	36.5	398.78

Reference: Shareholders' equity: As of December 31, 2014: 115,993 million yen; As of March 31, 2014: 104,829 million yen

2. Dividend Status

	Dividend per share				
(Base date)	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	End of FY	Annual
	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2014	–	0.00	–	0.00	0.00
FY ending March 31, 2015	–	0.00	–		
FY ending March 31, 2015 (Estimated)				0.00	0.00

Note: Restatement of most recent dividend forecast (Y/N): None

3. Estimation of Business Results for the Fiscal Year Ending March 31, 2015 (April 1, 2014 through March 31, 2015)

(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 income		Recurring income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY ending March 31, 2015	493,500	4.8	14,500	6.0	13,000	12.3	12,000	(21.2)	45.65

Note: Restatement of most recent consolidated business results forecasts (Y/N): None

4. Other

(1) Changes in major subsidiaries during the period (Change in specific subsidiaries as a result of a change in the scope of consolidation): None

(2) Use of accounting procedures specific to the preparation of quarterly financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates, restatements

(i) Changes in accounting policies accompanying revision of accounting standards, etc.: Yes

(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, 2014: 267,443,915 shares, As of March 31, 2014: 267,443,915 shares

(ii) Total treasury stock at term end

As of December 31, 2014: 4,569,430 shares, As of March 31, 2014: 4,569,210 shares

(iii) Average number of outstanding shares during the period

For the nine months ended December 31, 2014: 262,874,609 shares

For the nine months ended December 31, 2013: 215,034,863 shares

Indication regarding the status of quarterly review procedures:

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

Note on the proper use of the business forecasts contained in this report, and other disclaimers:

(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.

(Method for the acquisition of supplemental explanatory material)

Supplemental Explanatory Material on quarterly financial statements is scheduled to be posted on the Company’s homepage on February 6, 2015.

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1. Qualitative Information on Financial Results for the Nine Months Ended December 31, 2014

(1) Qualitative Information on Consolidated Business Results

(Million yen)

	Net sales	Operating income	Recurring income	Net income
Nine months ended December 31, 2014	350,756	9,513	8,637	7,856
Nine months ended December 31, 2013	343,465	8,750	7,178	6,402
change	7,290	762	1,459	1,454

During the first nine months of the consolidated fiscal year under review, although weakness can be seen in individual consumption due to the increase in consumption tax, a continuing recovery in the Japanese economy was evidenced primarily by the improvement in corporate earnings, employment, and income.

In the rental housing industry, new housing starts of leased units followed a decreasing trend compared to the previous year, due to negative effects of the rush demand from consumption tax increase. To achieve stable occupancy rates against the increasing number of vacant houses in the market, housing supply in selected areas and high-quality housing and services are required.

Under these conditions, the Leopalace21 Group aims to build solid management strength focusing on the core businesses, made up of leasing and construction, based on the Medium-term Management Plan “EXPANDING VALUE” announced in May 2014. In addition, the Group aims to establish new businesses that will contribute to future growth.

As a result, consolidated net sales for the first nine months of the fiscal year under review came to ¥350,756 million (up 2.1% year-on-year). Consolidated operating income was ¥9,513 million (up 8.7%), consolidated recurring income was ¥8,637 million (up 20.3%) and consolidated net income was ¥7,856 million (up 22.7%).

The Group’s Construction business has many building construction contracts stipulating completion in the fourth quarter, which is when demand for rental apartments is highest. In the Leasing business, the number of apartments under management is increasing as apartments are completed so seasonal fluctuations put a preponderance of earnings into the fourth quarter.

(Actual figures by segment)

(Million yen)

	Net sales			Operating income (loss)		
	Nine months ended December 31, 2013	Nine months ended December 31, 2014	change	Nine months ended December 31, 2013	Nine months ended December 31, 2014	change
Leasing Business	288,568	296,353	7,785	11,277	15,146	3,868
Construction Business	40,758	37,694	(3,063)	608	(1,855)	(2,463)
Elderly Care Business	7,631	7,978	347	(446)	(380)	66
Hotels & Resort Business	5,478	6,546	1,068	(625)	(690)	(64)
Others	1,028	2,182	1,153	193	280	87
Adjustments	–	–	–	(2,256)	(2,987)	(731)
Total	343,465	350,756	7,290	8,750	9,513	762

(i) Leasing Business

The occupancy rate at the end of the third quarter of the consolidated fiscal year under review was 85.69% (up 1.57 points from the same period last year) and the average occupancy rate for the period was 85.96% (up 2.07 points from the same period last year).

In the Leasing business, to establish stable profits led by occupancy improvement, the Group implemented measures such as tenant recruitment utilizing direct leasing offices, franchises, and local real estate brokers, as well as expanding tenant services including “Room Customize” and security system installations. In addition, the Group further strengthened sales against corporate and foreign clients as well as reduced costs by reviewing routine property management tasks.

The number of units under management at the end of the third quarter of the consolidated fiscal year under review was 552,000 (increasing 4,000 from the end of last fiscal year), and the number of direct offices was 188 (increasing 4). The number of franchise offices was 143 (decreasing 21).

As a result of the above, net sales amounted to ¥296,353 million (up 2.7% year-on-year), and operating income was ¥15,146 million (up 34.3% year-on-year).

(ii) Construction Business

Orders received during the first nine months of the consolidated fiscal year under review were ¥66,756 million (up 4.3% from the same period last year) and the orders received outstanding at the end of the third quarter stood at ¥64,962 million (up 14.0% from the end of the same period last year).

In the Construction business, the Group aimed to improve profitability by focusing apartment supply in the three metropolitan areas where solid leasing demand is anticipated, as well as installing “non-sound floors” which improve sound insulation and developing products targeting females and young tenants. The Group also expanded construction variations to meet various land usage needs and has begun restructuring construction methods. However, the influence of worker shortage and cost increase in construction materials cannot be avoided.

As a result, net sales came to ¥37,694 million (down 7.5% year-on-year), and operating loss was ¥1,855 million (compared to an operating income of ¥68 million in the same period of the last fiscal year).

(iii) Elderly Care Business

Net sales were ¥7,978 million (up 4.6% year-on-year), and operating loss was ¥380 million (improving ¥66 million year-on-year). In the Elderly Care business, which was positioned as a growth strategy area in the Medium-term Management Plan, the Group will open new facilities in collaboration with the Construction business.

(iv) Hotels & Resort Business

Net sales of resort facilities in Guam and hotels in Japan were ¥6,546 million (up 19.5% year-on-year), and the operating loss was ¥690 million (an increase of ¥64 million in loss year-on-year).

(v) Other Businesses

In other businesses such as the small-claims and short-term insurance business, the solar power generation business, and the finance business, net sales were ¥2,182 million (up 112.2% year-on-year), and the operating income was ¥280 million (up 45.2% year-on-year).

(2) Qualitative Information on Consolidated Financial Position

(Million yen)

	Total assets	Total liabilities	Net assets
As of December 31, 2014	285,905	169,894	116,011
As of March 31, 2014	287,459	182,598	104,860
change	(1,553)	(12,704)	11,150

Total assets at the end of the third quarter of the fiscal year under review decreased ¥1,553 million from the end of the previous fiscal year, to ¥285,905 million. This was mainly attributable to an increase of ¥8,999 million in machinery, equipment, and vehicles related to the solar power generation business, and ¥1,938 million in leased assets, as well as a decrease of ¥8,561 million in cash and cash equivalents, ¥2,266 million in prepaid expenses, ¥886 million in other current assets (deposit etc.), and ¥818 million in construction in progress.

Total liabilities decreased ¥12,704 million from the end of the previous fiscal year, to ¥169,894 million. This primarily reflected an increase of ¥3,475 million in customer advances for projects in progress and ¥5,534 in interest-bearing debt, as well as a decrease of ¥3,135 million in accounts payable for completed projects, ¥12,369 million in long and short term advances received, ¥2,918 million in reserve for apartment vacancy loss, and ¥1,193 in retirement benefit liabilities.

Net assets were up ¥11,150 million from the end of the previous fiscal year, to ¥116,011 million, chiefly due to a decrease of ¥1,513 million in negative foreign currency translation adjustments balance and an increase of ¥9,565 million in retained earnings from net income and application of accounting policies related to retirement benefits.

The ratio of shareholders' equity to assets rose 4.1 points from the end of the previous fiscal year, to 40.6%.

(3) Qualitative Information on Consolidated Results Forecast

Consolidated results forecasts announced in the consolidated financial statements published on May 9, 2014 remain unchanged.

The results forecasts are the estimates of the Company based on information available at the time of announcement of this document. Actual results may differ materially from these forecasts due to various factors.

2. Matters Relating to Summary Information (notes)

(1) Changes in Significant Subsidiaries during the Cumulative 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 under review.

(3) Changes in Accounting Policy, Changes in Accounting Estimates, Restatements

(Changes in Accounting Policies)

(Application of accounting policies related to retirement benefits)

The Company has applied section 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and section 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012) since the end of the subject third quarter. Calculation methods of retirement benefit obligations and service costs have been revised, and the attribution method for projected retirement benefits has been changed from the service period basis to the projected benefit method. Also, the method of determining discount rates has been changed from a method utilizing the discount rate based on an approximation of average remaining years of service of employees to a method utilizing multiple discount rates corresponding to each payment possibility period of retirement benefits.

In accordance to the transitional measures stated in section 37 of the "Accounting Standard for Retirement Benefits," the effected amount due to changes in the calculation method of retirement benefit obligations and service costs are included in retained earnings as of the end of the subject third quarter.

As a result, liability for retirement benefit has decreased ¥1,708 million and retained earnings has increased by the same amount as of the end of the subject third quarter. Effect on operating income, recurring income, and income before taxes and minority interests is insignificant.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Million yen)

	December 31, 2014	March 31, 2014
<Assets>		
Current assets		
Cash and cash equivalents	66,205	74,767
Trade receivables	4,898	5,490
Accounts receivable for completed projects	1,379	1,651
Operating loans	1,220	1,429
Marketable securities	582	350
Real estate for sale/property inventories	37	–
Payment for construction in progress	1,359	501
Raw materials and supplies	513	464
Prepaid expenses	4,413	6,679
Deferred tax assets	4,147	4,147
Other accounts receivable	1,914	1,584
Other	4,593	5,479
Allowance for doubtful accounts	(189)	(221)
Total	**91,075**	**102,324**
Fixed assets		
Property, plant and equipment		
Buildings and structures (Net)	56,476	57,073
Machinery, equipment, and vehicles (Net)	12,950	3,950
Land	82,206	81,800
Leased assets (Net)	7,106	5,167
Construction in progress	2,894	3,712
Other (Net)	782	797
Total	**162,416**	**152,503**
Intangible assets	6,894	6,601
Investments and other assets		
Investment securities	7,023	7,257
Long-term loans	549	562
Bad debt	1,312	1,420
Long-term prepaid expenses	3,186	3,719
Deferred tax assets	12,503	12,152
Others	2,927	3,037
Allowance for doubtful accounts	(2,117)	(2,153)
Total	**25,385**	**25,996**
Total fixed assets	**194,696**	**185,100**
Deferred assets	**132**	34
Total assets	**285,905**	287,459

(Million yen)

	December 31, 2014	March 31, 2014
<Liabilities>		
Current liabilities		
Accounts payable	2,565	2,685
Accounts payable for completed projects	8,993	12,128
Short-term borrowings	24,625	2,940
Bonds due within one year	1,460	560
Lease obligations	2,119	1,575
Unpaid expenses	13,126	16,001
Accrued expenses	178	2
Accrued income taxes	553	998
Advances received	38,016	45,051
Customer advances for projects in progress	8,717	5,242
Reserve for employees' bonuses	2,093	–
Reserve for warranty obligations on completed projects	365	231
Reserve for fulfillment of guarantees	578	582
Other	3,926	4,560
Total	**107,321**	**92,560**
Long-term liabilities		
Bonds	4,240	920
Long-term debt	4,508	27,077
Lease obligations	5,807	4,154
Long-term advances received	22,294	27,628
Lease/guarantee deposits received	8,165	8,492
Deferred tax liabilities	135	135
Reserve for apartment vacancy loss	6,434	9,352
Retirement benefit liabilities	8,856	10,050
Other	2,129	2,226
Total	**62,572**	**90,037**
Total liabilities	**169,894**	182,598
<Net assets>		
Shareholders' equity		
Common stock	75,282	75,282
Capital surplus	51,501	51,501
Retained earnings	(6,223)	(15,788)
Treasury stock	(3,660)	(3,660)
Total	**116,899**	**107,334**
Accumulated other comprehensive income (loss)		
Net unrealized gains on "other securities"	404	427
Foreign currency translation adjustments	(603)	(2,116)
Remeasurements of defined benefit plans	(706)	(815)
Total	**(906)**	**(2,504)**
Share subscription rights	18	18
Minority Interests	–	13
Total net assets	**116,011**	104,860
Total liabilities and net assets	**285,905**	287,459

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

Consolidated Statements of Operations

(Million yen)

	Nine months ended December 31, 2014 (Apr. 2014–Dec. 2014)	Nine months ended December 31, 2013 (Apr. 2013–Dec. 2013)
Net sales	**350,756**	**343,465**
Cost of sales	**296,837**	**294,030**
Gross profit	**53,918**	**49,434**
Selling, general and administrative expenses	**44,405**	**40,684**
Operating income	**9,513**	**8,750**
Non-operating income		
Interest income	28	31
Dividend income	75	56
Property tax refund	90	–
Other	234	177
Total	**427**	**265**
Non-operating expenses		
Interest expenses	862	1,174
Commission fee	340	433
Other	100	231
Total	**1,303**	**1,838**
Recurring profit	**8,637**	**7,178**
Extraordinary income		
Gain on sales of property, plant and equipment	6	0
Total	6	**0**
Extraordinary losses		
Loss on sales of property, plant and equipment	0	–
Loss on disposal of property, plant and equipment	230	6
Impairment loss	163	132
Total	**394**	**139**
Income before taxes and minority interests	**8,249**	**7,038**
Income taxes	**405**	**636**
Income before minority interests	**7,843**	**6,402**
Minority stockholders loss	**(13)**	–
Net income	**7,856**	**6,402**

Consolidated Statements of Comprehensive Income

(Million yen)

	Nine months ended December 31, 2014 (Apr. 2014–Dec. 2014)	Nine months ended December 31, 2013 (Apr. 2013–Dec. 2013)
Income before minority interests	7,843	6,402
Other comprehensive income (loss)		
Net unrealized gains on “other securities”	(22)	(138)
Translation adjustments	1,511	4,111
Remeasurements of defined benefit plans	108	–
Share of other comprehensive income of associates	1	0
Total	**1,598**	**3,973**
Comprehensive income	9,442	10,376
(Breakdown)		
Comprehensive income attributable to shareholders of the parent entity	9,455	10,376
Comprehensive income attributable to minority interests	(13)	–

(3) Notes Regarding Consolidated Financial Statements

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

There are no relevant items.

(Note Regarding Significant Changes in Shareholders' Equity)

There are no relevant items.

(Segment Information)

i Nine Months Ended December 31, 2013 (April 1, 2013 through December 31, 2013)

1. Sales and Profit, as well as Losses by Reportable Segment

(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	288,568	40,758	7,631	5,478	342,436	1,028	343,465	–	343,465
(2) Inter-segment sales and transfers	360	4,057	–	1,882	6,299	77	6,377	(6,377)	–
Total	288,929	44,815	7,631	7,360	348,735	1,106	349,842	(6,377)	343,465
Segment earnings (or loss)	11,277	608	(446)	(625)	10,813	193	11,007	(2,256)	8,750

Notes: 1. The "Others" classification is 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.

2. The segment earnings (or loss) adjustment of (¥2,256) million includes (¥338) million in inter-segment eliminations and (¥1,917) million in corporate expenses not allocated to reportable segments. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

3. Segment earnings (or loss) are adjusted to the operating loss figure on the Consolidated Statements of Operations.

ii Nine Months Ended December 31, 2014 (April 1, 2014 through December 31, 2014)

1. Sales and Profit, as well as Losses by Reportable Segment

(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	296,353	37,694	7,978	6,546	348,573	2,182	350,756	–	350,756
(2) Inter-segment sales and transfers	460	9,159	–	2,083	11,702	98	11,800	(11,800)	–
Total	296,814	46,853	7,978	8,629	360,276	2,280	362,557	(11,800)	350,756
Segment earnings (or loss)	15,146	(1,855)	(380)	(690)	12,220	280	12,501	(2,987)	9,513

Notes: 1. The "Others" classification is 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.

2. The segment earnings (or loss) adjustment of (¥2,987) million includes (¥932) million in inter-segment eliminations and (¥2,054) million in corporate expenses not allocated to reportable segments. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

3. Segment earnings (or loss) are adjusted to the operating income figure on the Consolidated Statements of Operation.

(Business Combination, etc.)

i Business Combination through Acquisitions

1. Outline of the business combination

(1) Name of the acquired company and its business activities

Name of the acquired company:	WING MATE CO., LTD.
Business activities:	Travel business

(2) Major reasons for the business combination

WING MATE CO., LTD. is a travel agency that provides services of overseas business trip arrangements and business travel management for corporations. It does business with more than 1,300 corporations, including government and municipal offices. On the other hand, in the Leasing business section of Leopalace21, more than 50% of the tenants are corporate tenants and services related to rental housing is provided to approximately 45,000 corporations in Japan.

By adding WING MATE CO., LTD. as a group company, Leopalace21 has started overseas business trip arrangements and business travel management as one of our new services. In addition, Leopalace21 aims to obtain the opportunity of providing rental houses to the corporate customers of WING MATE CO., LTD.

(3) Effective date of the business combination

October 31, 2014

(4) Legal structure of the business combination

Stock acquisition

(5) Name of the company subsequent to the business combination

No change

(6) Percentage of voting rights acquired by Leopalace21

100%

(7) Primary basis for determining the acquirer

Due to the fact that Leopalace21 has acquired WING MATE CO., LTD. through stock acquisition with cash considerations.

2. Period of business performances of the acquired company to be included in the Consolidated Statements of Operations in the subject cumulative quarter

Since the deemed acquisition date is set as December 31, 2014, the business performances of the acquired company is not included in the Consolidated Statement of Operation of the subject cumulative third quarter period.

3. Acquisition cost of the acquired company and its details

Consideration for the acquisition	The market value of the common stock of WING MATE CO., LTD. on the business combination date	¥65 million
Direct costs required for acquisition	Advisory costs, etc.	16
Acquisition cost		81

4. Amount, source, method and period of goodwill amortization

(1) Amount of goodwill

¥3 million

Since the allotment of the acquisition cost is not complete, a provisional accounting process has been conducted based on available and rational information.

(2) Source of goodwill

Due to the acquisition cost exceeding the market value of net assets on acquisition date.

(3) Method and period of goodwill amortization

One-time amortization