Consolidated Financial Statements (Japanese Accounting Standard)

August 7, 2015

(For the three months ended June 30, 2015)

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: Executive Officer Name: Bunya Miyao Telephone: +81-3-5350-0216
Scheduled Date of Filing of Securities Report (Japanese only): August 11, 2015
Scheduled Date of Commencement of Dividend Payments: –
Supplemental Explanatory Material Prepared: Yes
Results Briefing Held: No

1. Results for the Three Months Ended June 30, 2015 (April 1, 2015 through June 30, 2015)

(1) Consolidated financial results (Amounts less than one million yen are omitted)

(The percentage figures indicate rate of gain or loss compared with the same period last year)

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2015	124,524	7.7	4,221	76.3	3,918	80.1	3,303	61.3
Three months ended June 30, 2014	115,626	0.7	2,394	19.1	2,175	41.1	2,048	49.4

(Note) Comprehensive income As of June 30, 2015: 3,198 million yen (183.9%); As of June 30, 2014: 1,126 million yen (-70.7%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended June 30, 2015	12.57	—
Three months ended June 30, 2014	7.79	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of June 30, 2015	306,609	129,672	42.3	493.22
As of March 31, 2015	308,274	126,473	41.0	481.05

(Reference) Shareholders' equity As of June 30, 2015: 129,653 million yen; As of March 31, 2015: 126,455 million yen

2. Dividend Status

	Dividend per share				
	End of Q1	End of Q2	End of Q3	End of Q4	Annual
	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2015	—	0.00	—	0.00	0.00
FY ending March 31, 2016	—				
FY ending March 31, 2016 (Estimate)		0.00	—	—	—

(Note) Restatement of most recent dividend forecast: None
Dividend for the end of FY ending March 31, 2016 is yet to be determined.

3. Estimation of Business Results for the Fiscal Year Ending March 31, 2016 (April 1, 2015 through March 31, 2016)

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

	Net Sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2015	253,000	8.6	8,000	31.4	7,300	31.6	6,100	20.4	23.20
FY ending March 31, 2016	525,000	8.7	19,500	32.1	18,000	34.1	16,000	10.3	60.87

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

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 (changes in important items concerning 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: None
   (iii) Changes in accounting estimates: None
   (iv) Restatements: None
   (Note) Refer to P.6 "2. Matters Relating to Summary Information (Notes) (3) Changes in Accounting Policy, Changes in Accounting Estimates, and Restatements" for details.

(3) Total number of outstanding shares (common stock)
   (i) Total number of outstanding shares at term end (including treasury stock)
      As of June 30, 2015: 267,443,915 shares, As of March 31, 2015: 267,443,915 shares
   (ii) Total treasury stock at term end
      As of June 30, 2015: 4,569,430 shares, As of March 31, 2015: 4,569,430 shares
   (iii) Average number of outstanding shares during the period
      As of June 30, 2015: 262,874,485 shares, As of June 30, 2014: 262,874,705 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, see P.5 "1. Business Results (3) Explanation Concerning Business Forecasts and Other Forward-looking Statements."

(Method for the acquisition of supplemental explanatory material)
Supplemental Explanatory Material on quarterly financial statements is scheduled to be posted on the Company's web site on August 7, 2015.

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1. Business Results
(1) Analysis of Business Results

(Million yen)

	Net sales	Operating profit	Recurring profit	Net income attributable to shareholders of the parent
Three months ended June 30, 2015	124,524	4,221	3,918	3,303
Three months ended June 30, 2014	115,626	2,394	2,175	2,048
Difference	8,898	1,826	1,742	1,225

During the subject three months, the domestic economy showed gradual progression, such as signs of recovery in individual consumption, due to an improvement in corporate earnings, employment, and income.

In the rental housing industry, negative effects of the rush demand from the increase in consumption tax began to fade, and as apartment construction continues to be an ideal inheritance tax-reduction strategy, new housing starts of leased units trended at a steady pace. On the other hand, as the number of vacant houses increases due to oversupply, achieving stable occupancy rates requires constructing apartments in areas with high demand, as well as providing high-quality housing and services are required.

Under these conditions, the Leopalace21 Group (the "Group") aims to achieve targets of the Medium-term Management Plan "EXPANDING VALUE," which is in its second year, 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, net sales for the first quarter were ¥124,524 million (up 7.7% year-on-year). Operating profit was ¥4,221 million (up 76.3% year-on-year), recurring profit was ¥3,918 million (up 80.1% year-on-year), and net income attributable to shareholders of the parent was ¥3,303 million (up 61.3% year-on-year).

The Group's Construction Business has many building construction contracts stipulating completion in the fourth quarter, which is when demand for apartments is highest. In the Leasing Business, the number of apartments under management will increase 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 profit		
	Three months ended June 30, 2015	Three months ended June 30, 2014	Difference	Three months ended June 30, 2015	Three months ended June 30, 2014	Difference
Leasing Business	102,008	98,530	3,478	5,544	4,090	1,454
Construction Business	15,423	11,457	3,966	(463)	(882)	418
Elderly Care Business	2,677	2,599	78	(277)	(132)	(145)
Hotels & Resort Business	3,159	2,386	773	96	196	(99)
Others	1,254	652	602	286	158	128
Adjustments	—	—	—	(965)	(1,036)	70
Total	124,524	115,626	8,898	4,221	2,394	1,826

(i) Leasing Business

The occupancy rate at the end of the first quarter was 87.59% (up 1.63 points from the end of the same quarter last year) and the average occupancy rate for the period was 87.70% (up 1.70 points year-on-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 customers as well as reduced costs by reviewing routine property management tasks.

The number of units under management at the end of the first quarter was 557,000 (increasing 2,000 from the end of the last fiscal year), the number of direct offices was 187 (decreasing 1 from the end of the last fiscal year), and the number of franchise offices was 135 (decreasing 6 from the end of the last fiscal year).

As a result of the above, net sales amounted to ¥102,008 million (up 3.5% year-on-year), and operating profit was ¥5,544 million (up 35.6% year-on-year).

(ii) Construction Business

Orders received during the first quarter were ¥20,758 million (up 10.6% year-on-year) and the orders received outstanding stood at ¥66,862 million (up 43.0% from the end of the same quarter 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 providing earthquake-resistant products with better sound insulation. In addition, the Group expanded construction variations such as elderly care facilities, stores, and built-to-order houses to meet various land usage needs, and has begun restructuring its project systems.

As a result, net sales came to ¥15,423 million (up 34.6% year-on-year), and operating loss was ¥463 million (down 47.5% year-on-year).

(iii) Elderly Care Business

Net sales were ¥2,677 million (up 3.0% year-on-year), and operating loss was ¥277 million (up 110.5% year-on-year). In the Elderly Care Business, which was positioned as 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 the resort facilities in Guam and hotels in Japan were ¥3,159 million (up 32.4% year-on-year), and operating profit was ¥96 million (down 50.6% 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 ¥1,254 million (up 92.3% year-on-year), and operating profit was ¥286 million (up 81.1% 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 June 30, 2015	306,609	176,936	129,672
As of March 31, 2015	308,274	181,801	126,473
Difference	(1,665)	(4,864)	3,198

Total assets at the end of the first quarter decreased ¥1,665 million from the end of the previous fiscal year, to ¥306,609 million. This was mainly attributable to a decrease of ¥808 million in cash and cash equivalents, ¥779 million in trade receivables, and ¥758 million in buildings and structures, despite an increase of ¥1,704 million in machinery, equipment, and vehicles related to solar power generation business.

Total liabilities decreased ¥4,864 million from the end of the previous fiscal year, to ¥176,936 million. This primarily reflected a decrease of ¥4,311 million in accounts payable for complete projects, ¥4,846 million in unpaid expenses, and ¥4,584 million in long and short term advances received, despite an increase of ¥7,825 million in long-term debt.

Net assets increased ¥3,198 million from the end of the previous fiscal year, to ¥129,672 million, chiefly due to a recording of ¥3,303 million in net income attributable to shareholders of the parent. The ratio of shareholders' equity to assets rose 1.3 points from the end of the previous fiscal year, to 42.3%.

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

Business forecasts announced in the consolidated financial statements published on May 11, 2015 remain unchanged.

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

2. Matters Relating to Summary Information (Notes)

(1) Changes in Significant Subsidiaries During the First Quarter under Review

Not applicable

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

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

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

(Changes in accounting policies)

(Application of accounting policies related to business combinations)

Starting in the first quarter of the consolidated fiscal year, the Accounting Standard for Business Combinations (ASBJ Statement No. 21 on September 13, 2013; hereinafter referred to as the “Business Combinations Accounting Standard”), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22 on September 13, 2013; hereinafter referred to as the “Consolidated Accounting Standard”), the Accounting Standard for Business Divestiture (ASBJ Statement No. 7 on September 13, 2013; hereinafter referred to as the “Business Divestiture Accounting Standard”), and other standards, Leopalace21 Corporation (the “Company”) changed accounting methods to those recording differences from fluctuations in equity that the Company holds in subsidiaries, for which the Company continues to control as capital surplus, and recording acquisition-related expenses as expenses for a consolidated fiscal year when the relevant expenses incur. The Company also changed accounting methods to those reflecting a review of the distribution amount of acquisition costs following the finalization of preliminary accounting processing for business combinations that are carried out after the beginning of the first quarter of the consolidated fiscal year to quarterly consolidated financial statements for the consolidated quarterly accounting period to which the business combination belongs. Moreover, the Company changed the presentation, such as quarterly net income, and the presentation of minority interests to non-controlling interests. To reflect changes in the relevant presentation, the Company reclassified quarterly consolidated financial statements for the first quarter of the previous consolidated fiscal year and consolidated financial statements for the previous consolidated fiscal year.

The Company applies the Business Combinations Accounting Standard and other standards in compliance with the transitional handling as set forth in Paragraph 58-2 (4) of the Business Combinations Accounting Standard, Paragraph 44-5 (4) of the Consolidated Accounting Standard and Paragraph 57-4 (4) of the Business Divestiture Accounting Standard, and it applied these standards from the beginning of the first quarter of the consolidated fiscal year and will continue to apply them in the future.

There is no impact on profits and losses from the changes described above.

3. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Million yen)

	June 30, 2015	March 31, 2015
<Assets>		
Current assets		
Cash and cash equivalents	74,412	75,221
Trade receivables	5,475	6,254
Accounts receivable for completed projects	1,689	1,714
Operating loans	1,069	1,135
Securities	701	831
Real estate for sale	21	21
Payment for construction in progress	889	647
Raw materials and supplies	612	609
Prepaid expenses	3,384	3,656
Deferred tax assets	4,469	4,447
Other accounts receivable	2,843	3,013
Others	4,031	4,907
Allowance for doubtful accounts	(227)	(199)
Total current assets	**99,372**	**102,263**
Non-current assets		
Property, plant, and equipment		
Buildings and structures	59,140	59,899
Machinery, equipment, and vehicles	16,819	15,115
Land	83,429	83,289
Leased assets	8,898	7,880
Construction in progress	387	992
Others	2,131	2,253
Total property, plant, and equipment	**170,807**	**169,430**
Intangible fixed assets		
Goodwill	1,656	1,684
Others	7,101	7,210
Total intangible fixed assets	**8,758**	**8,894**
Investments and other assets		
Investment securities	6,953	6,832
Long-term loans	535	540
Bad debts	1,307	1,297
Long-term prepaid expenses	3,432	3,416
Deferred tax assets	14,705	14,654
Others	2,791	2,905
Allowance for doubtful accounts	(2,170)	(2,085)
Total investments and other assets	**27,555**	**27,561**
Total non-current assets	**207,121**	**205,887**
Deferred assets	**114**	**123**
Total assets	**306,609**	**308,274**

(Million yen)

	June 30, 2015	March 31, 2015
<Liabilities>		
Current liabilities		
Accounts payable	2,717	2,803
Accounts payable for completed projects	9,737	14,049
Short-term borrowings	23,596	23,065
Bonds due within one year	1,460	1,460
Lease obligations	2,660	2,355
Accounts payable-other	13,620	18,466
Accrued expenses	156	13
Accrued income taxes	699	944
Advances received	37,748	40,781
Customer advances for projects in progress	6,676	6,930
Reversal of allowance for employees' bonuses	1,312	—
Reserve for warranty obligations on completed projects	438	404
Reserve for fulfillment of guarantees	690	700
Others	3,887	4,546
Total current liabilities	**105,402**	**116,521**
Non-current liabilities		
Bonds	3,510	3,960
Long-term debt	15,021	7,196
Lease obligations	7,287	6,450
Long-term advances received	20,647	22,198
Lease/guarantee deposits received	7,838	8,019
Deferred tax liabilities	253	253
Reserve for apartment vacancy loss	4,913	5,280
Liability for retirement benefit	9,538	9,351
Others	2,524	2,569
Total non-current liabilities	**71,534**	**65,279**
Total liabilities	**176,936**	**181,801**
<Net assets>		
Shareholders' equity		
Common stock	75,282	75,282
Capital surplus	45,235	51,501
Retained earnings	9,997	427
Treasury stock	(3,660)	(3,660)
Total shareholders' equity	**126,854**	**123,550**
Accumulated other comprehensive income		
Net unrealized gains on "other securities"	362	379
Foreign currency translation adjustments	3,402	3,545
Remeasurements of defined benefit plans	(965)	(1,021)
Total accumulated other comprehensive income	**2,799**	**2,904**
Share subscription rights	18	18
Non-controlling interests	0	0
Total net assets	**129,672**	**126,473**
Total liabilities and net assets	**306,609**	**308,274**

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

Consolidated Statements of Operations

(Million yen)

	Three months ended June 30, 2015 (Apr. 2015–Jun. 2015)	Three months ended June 30, 2014 (Apr. 2014–Jun. 2014)
Net sales	**124,524**	**115,626**
Cost of sales	**103,965**	**98,574**
Gross profit	**20,558**	**17,051**
Selling, general, and administrative expenses	**16,337**	**14,657**
Operating profit	**4,221**	**2,394**
Non-operating profit		
Interest income	7	8
Dividend income	51	62
Refund of fixed asset tax	—	99
Others	37	41
Total non-operating profit	**97**	**211**
Non-operating expenses		
Interest expenses	284	289
Commission fee	75	111
Others	41	29
Total non-operating expenses	**401**	**430**
Recurring profit	**3,918**	**2,175**
Extraordinary profit		
Gain on sales of property, plant and equipment	3	—
Total extraordinary profit	**3**	—
Extraordinary losses		
Loss on disposal of property, plant and equipment	8	29
Loss on evaluation of investment securities	19	—
Impairment loss	101	70
Total extraordinary losses	**129**	**100**
Income before taxes and other adjustments	**3,791**	**2,075**
Income taxes	**487**	**31**
Net income	**3,304**	**2,043**
Net income attributable to non-controlling interests	**0**	**(4)**
Net income attributable to shareholders of the parent	**3,303**	**2,048**

Consolidated Statements of Comprehensive Income

(Million yen)

	Three months ended June 30, 2015 (Apr. 2015–Jun. 2015)	Three months ended June 30, 2014 (Apr. 2014–Jun. 2014)
Net income	**3,304**	**2,043**
Other comprehensive income		
Net unrealized gains on “other securities”	(17)	(9)
Translation adjustments	(142)	(947)
Remeasurements of defined benefit plans	55	40
Share of other comprehensive income of associates	(0)	(0)
Total other comprehensive income	**(105)**	**(916)**
Comprehensive income	**3,198**	**1,126**
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	3,198	1,131
Comprehensive income attributable to non-controlling interests	0	(4)

(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)

At the Annual Meeting of Shareholders held on June 26, 2015, the Company resolved that, in accordance with the provisions set forth in Paragraph 1 of Article 448 of the Companies Act, the amount of legal capital surplus was reduced and the same amount as the reduced amount was transferred to the other capital surplus, and, in accordance with provisions set forth in Article 452 of the Companies Act, after the relevant transfer, all the other capital surplus was appropriated to offset a loss in retained earnings brought forward.

As a result, in the first quarter of the consolidated fiscal year, the capital surplus declined ¥6,266 million and retained earnings increased by the same amount.

(Segment Information)

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

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Segment Total				
Net sales									
(1) Sales to customers	102,008	15,423	2,677	3,159	123,269	1,254	124,524	—	124,524
(2) Inter-segment sales and transfers	191	1,752	—	942	2,885	38	2,924	(2,924)	—
Total	102,200	17,176	2,677	4,101	126,155	1,293	127,448	(2,924)	124,524
Segment earnings (or loss)	5,544	(463)	(277)	96	4,900	286	5,186	(965)	4,221

Three months ended June 30, 2014 (April 1, 2014 through June 30, 2014)

(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	98,530	11,457	2,599	2,386	114,973	652	115,626	—	115,626
(2) Inter-segment sales and transfers	123	3,155	—	707	3,986	31	4,018	(4,018)	—
Total	98,653	14,613	2,599	3,093	118,960	683	119,644	(4,018)	115,626
Segment earnings (or loss)	4,090	(882)	(132)	196	3,272	158	3,430	(1,036)	2,394

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

Note 2: Breakdown of adjustments is as follows.

Segment earnings (or loss) (Million yen)

	Three months ended June 30, 2015	Three months ended June 30, 2014
Inter-segment eliminations	(185)	(307)
Corporate expenses*	(779)	(728)
Total	(965)	(1,036)

*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