Consolidated Financial Statements (Japanese Accounting Standard)

August 4, 2017

(For the three months ended June 30, 2017)

Name of Company Listed: **Leopalace21 Corporation** Stock Listing: Tokyo Stock Exchange
Code Number: 8848 URL: http://eg.leopalace21.com/ Location of Head Office: Tokyo
Representative: Position: President and CEO Name: Eisei Miyama
Name of Contact Person: Position: Director Name: Bunya Miyao Telephone: +81-3-5350-0216
Scheduled Date of Filing of Securities Report (Japanese only): August 8, 2017
Supplemental Explanatory Material Prepared: Yes Results Briefing Held: No

1. Results for the Three Months ended June 30, 2017 (April 1, 2017 through June 30, 2017)

(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, 2017	128,450	1.9	6,957	23.2	6,917	32.9	5,559	25.5
Three months ended June 30, 2016	125,998	1.0	5,646	27.6	5,203	26.2	4,429	28.9

(Note) Comprehensive income in the three months ended June 30, 2017: 4,167 million yen (+185.1%);
three months ended June 30, 2016: 1,461 million yen (-56.1%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended June 30, 2017	21.19	21.18
Three months ended June 30, 2016	16.85	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2017	327,095	157,795	48.2%
As of March 31, 2017	337,828	158,870	47.0%

(Reference) Shareholders' equity as of June 30, 2017: 157,621 million yen; as of March 31, 2017: 158,713 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, 2017	–	10.00	–	12.00	22.00
FY ending March 31, 2018	–				
FY ending March 31, 2018 (Estimate)		10.00	–	12.00	22.00

(Note) Restatement of most recent dividend forecast: None

3. Estimation of Consolidated Business Results for the Fiscal Year ending March 31, 2018 (April 1, 2017 through March 31, 2018)

(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, 2017	258,000	1.1	9,700	(14.4)	9,500	(11.6)	7,500	(22.6)	28.58
FY ending March 31, 2018	540,000	3.7	23,500	2.6	22,500	0.6	14,200	(30.4)	54.11

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.9 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

(3) Total number of outstanding shares (common stock)
- (i) Total number of outstanding shares at term end (including treasury stock)
  As of June 30, 2017: 263,443,915 shares, As of March 31, 2017: 267,443,915 shares
- (ii) Total treasury stock at term end
  As of June 30, 2017: 3,745,620 shares, As of March 31, 2017: 4,569,920 shares
- (iii) Average number of outstanding shares during the period
  As of June 30, 2017: 262,423,268 shares, As of June 30, 2017: 262,874,395 shares

*Indication regarding the status of auditing:
These financial statements are not subject to auditing under the Financial Instruments and Exchange Act. The review of these financial statements in accordance with the Financial Instruments and Exchange Act are not completed at the time of disclosure.

*Explanation on the proper use of the business forecasts, and other special notices:
(Note on the business forecasts and other forward-looking statements)
The business forecasts and other forward-looking statements contained in this report are based on information currently available to the Company and on certain assumptions that Leopalace21 has judged to be reasonable. Readers should be aware that a variety of factors might cause actual results to differ significantly from these forecasts.
For assumptions of business forecasts and notes on the proper use of these forecasts, please refer to P.5 "1. Business Results (3) Explanation Concerning Business Forecasts and Other Forward-looking Statements."

(Method for the acquisition of supplemental explanatory material)
Supplemental Explanatory Material on quarterly financial statements is scheduled to be posted on the Company's web site on August 4, 2017.

【Table of Contents】

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, 2017	128,450	6,957	6,917	5,559
Three months ended June 30, 2016	125,998	5,646	5,203	4,429
Difference	2,452	1,310	1,713	1,129

During the subject three months, the domestic economy showed gradual progression supported by improvements in employment and income, despite the standstill in individual consumption.

Apartment construction remains a popular strategy to reduce inheritance tax, and new housing starts of leased units has trended strongly. On the other hand, as the number of vacant houses continues to increase and recovery in nationwide demand becomes difficult, achieving stable occupancy rates requires constructing apartments in areas with high demand, in addition to providing high-quality products and services that meet tenants' needs.

Under these conditions, the Leopalace21 Group (the "Group") announced the Medium-term Management Plan "Creative Evolution 2020", aiming to create corporate and new social value with the basic policy of "Supporting continuous growth of core businesses in ways that further increase corporate value while constructing a base for growth areas".

As a result, consolidated net sales for the subject first quarter came to 128,450 million yen (up 1.9% year-on-year). Operating profit was 6,957 million yen (up 23.2% year-on-year), recurring profit was 6,917 million yen (up 32.9% year-on-year), and net income attributable to shareholders of the parent was 5,559 million yen (up 25.5% year-on-year).

Results by reportable segment are as follows.
Effective as of the first quarter under review, the methods of reportable segment categorization was changed. The figures in the table below are presented for comparison with the same period of a year ago, after they are reclassified according to the revised methods of reportable segment categorization and common expense allocation.

(Actual figures by segment) (Million yen)

	Net sales			Operating profit		
	Three months ended June 30, 2016	Three months ended June 30, 2017	Difference	Three months ended June 30, 2016	Three months ended June 30, 2017	Difference
Leasing Business	105,808	109,145	3,337	6,671	8,206	1,535
Development Business	14,339	14,476	136	(130)	84	214
Elderly Care Business	2,770	3,084	313	(483)	(471)	12
Hotels, Resort, & Other Business	3,080	1,745	(1,335)	502	197	(305)
Adjustments	—	—	—	(912)	(1,058)	(146)
Total	125,998	128,450	2,452	5,646	6,957	1,310

(i) Leasing Business

In the Leasing Business, to establish stable occupancy, the Group providing wealth of value-added life to their tenants such as "my DIY" (formerly known as "Room Customize") which enable tenants to arrange their rooms, providing an internet services "LEONET" website for tenants, and security system installations alliance with large security companies as well as further strengthening sales for corporate customers and increase foreign tenants by refining customer support. In addition, the Group develops and manages service apartments and service offices in ASEAN countries.

The occupancy rate at the end of the first quarter was 90.55% (up 1.95 points from the end of the same quarter last year) and the average occupancy rate for the period was 90.45% (up 1.74 points year-on-year).

The number of units under management at the end of the first quarter was 570 thousand (increasing 2 thousand from the end of the previous fiscal year), the number of direct offices was 189 (no change), and the number of franchise offices was 117 (decreasing 2 from the end of the previous fiscal year).

As a result, net sales amounted to 109,145 million yen (up 3.2% year-on-year), and operating profit was 8,206 million yen (up 23.0% year-on-year).

(ii) Development Business

In the Development Business, the Group focused on supplying apartments in the three metropolitan areas where solid leasing demand is anticipated supported by an increase in population, as well as providing high quality and forefront strategic products. In addition, the Group implemented a new brand attempting to strengthen product competitiveness and refresh the image of tenants, expanded construction variations based on “ideal land use”, and has begun reconsidering suppliers and its product prices to improve profitability.

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

Orders received during the subject first quarter amounted to 19,215 million yen (down 14.4% year-on-year) and the orders received outstanding stood at 69,744 million yen (down 4.0% from the end of the same quarter last year).

As a result, net sales came to 14,476 million yen (up 0.9% year-on-year), and operating profit was 84 million yen (improvement of 214 million yen year-on-year).

(iii) Elderly Care Business

Net sales were 3,084 million yen (up 11.3% year-on-year) and operating loss was 471 million yen (improvement of 12 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 1,745 million yen (down 43.3% year-on-year) and operating profit was 197 million yen (down 60.8% year-on-year).

(2) Analysis of Consolidated Financial Position

Position of Assets, Liabilities, and Net assets

(Million yen)

	Assets	Liabilities	Net assets
As of June 30, 2017	327,095	169,300	157,795
As of March 31, 2017	337,828	178,958	158,870
Difference	(10,733)	(9,658)	(1,075)

Total assets at the end of the first quarter decreased 10,733 million yen from the end of the previous fiscal year to 327,095 million yen. This was mainly attributable to an increase of 6,516 million yen in deferred tax assets and 1,434 million yen in leased assets (net), despite a decrease of 10,609 million yen in cash and cash equivalents and 7,152 million yen in land.

Total liabilities decreased 9,658 million yen from the end of the previous fiscal year to 169,300 million yen. This primarily reflected an increase of 1,725 million yen in lease obligations, despite a decrease of 4,614 million yen in accounts payable for completed projects, 3,770 million yen in long and short term advances received, and 2,011 million yen in accrued income taxes.

Net assets decreased 1,075 million yen from the end of the previous fiscal year to 157,795 million yen, chiefly due to a recording of 5,559 million yen in net income attributable to shareholders of the parent, a payment of dividends of 3,154 million yen and a decrease in retained earnings of 663 million yen caused by the retirement of treasury stock of 3,068 million yen, a decrease of 1,682 million yen in foreign currency translation adjustments, and 964 million yen in treasury stock caused by the share repurchases and the retirement of treasury stock. The ratio of shareholders’ equity to assets rose 1.2 points from the end of the previous fiscal year to 48.2%.

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

Business forecasts announced in the consolidated financial statements published on May 15, 2017 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. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Million yen)

	June 30, 2017	March 31, 2017
<Assets>		
Current assets		
Cash and cash equivalents	93,822	104,432
Trade receivables	5,926	6,547
Accounts receivable for completed projects	1,733	2,355
Operating loans	582	675
Real estate for sale	1,141	421
Real estate for sale in progress	2,306	1,849
Payment for construction in progress	825	518
Prepaid expenses	2,985	2,827
Deferred tax assets	15,006	8,636
Others	5,574	5,707
Allowance for doubtful accounts	(170)	(186)
Total current assets	**129,734**	**133,786**
Non-current assets		
Property, plant, and equipment		
Buildings and structures (net)	40,947	41,827
Machinery, equipment, and vehicles (net)	13,759	14,206
Land	73,235	80,388
Leased assets (net)	15,086	13,652
Construction in progress	4,191	3,911
Others (net)	1,446	1,281
Total property, plant, and equipment	**148,666**	**155,267**
Intangible fixed assets		
Goodwill	3,052	3,181
Others	8,107	8,461
Total intangible fixed assets	**11,159**	**11,642**
Investments and other assets		
Investment securities	12,555	12,453
Bad debts	1,266	1,246
Long-term prepaid expenses	3,991	3,820
Deferred tax assets	17,633	17,486
Others	3,750	3,645
Allowance for doubtful accounts	(2,187)	(2,073)
Total investments and other assets	**37,009**	**36,579**
Total non-current assets	**196,836**	**203,489**
Deferred assets	**524**	**552**
Total assets	**327,095**	**337,828**

(Million yen)

	June 30, 2017	March 31, 2017
<Liabilities>		
Current liabilities		
Accounts payable	2,833	2,826
Accounts payable for completed projects	7,571	12,186
Short-term borrowings	1,240	1,263
Bonds due within one year	3,966	3,966
Lease obligations	5,284	4,647
Accounts payable-other	16,979	19,066
Accrued income taxes	532	2,544
Advances received	37,144	40,003
Customer advances for projects in progress	5,952	5,381
Reserve of allowance for employees' bonuses	1,759	—
Reserve for warranty obligations on completed projects	383	412
Reserve for fulfillment of guarantees	1,066	1,082
Others	3,846	4,144
Total current liabilities	**88,526**	**97,524**
Non-current liabilities		
Bonds	15,585	16,035
Long-term debt	12,954	13,267
Lease obligations	11,864	10,739
Long-term advances received	15,702	16,614
Lease/guarantee deposits received	7,087	7,152
Deferred tax liabilities	148	148
Reserve for directors' compensation	5	—
Reserve for apartment vacancy loss	2,919	3,183
Liability for retirement benefit	11,549	11,295
Others	2,956	2,997
Total non-current liabilities	80,774	81,433
Total liabilities	**169,300**	**178,958**
<Net assets>		
Shareholders' equity		
Common stock	75,282	75,282
Capital surplus	45,235	45,235
Retained earnings	39,259	39,923
Treasury stock	(2,696)	(3,660)
Total shareholders' equity	**157,080**	**156,779**
Accumulated other comprehensive income		
Net unrealized gains on "other securities"	615	574
Foreign currency translation adjustments	345	2,027
Remeasurements of defined benefit plans	(419)	(668)
Total accumulated other comprehensive income	**541**	**1,933**
Share subscription rights	156	136
Non-controlling interests	17	20
Total net assets	**157,795**	**158,870**
Total liabilities and net assets	**327,095**	**337,828**

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

Consolidated Statements of Operations

(Million yen)

	Three months ended June 30, 2017 (Apr. 2017–Jun. 2017)	Three months ended June 30, 2016 (Apr. 2016–Jun. 2016)
Net sales	**128,450**	**125,998**
Cost of sales	**103,615**	**103,296**
Gross profit	**24,835**	**22,702**
Selling, general, and administrative expenses	**17,878**	**17,055**
Operating profit	**6,957**	**5,646**
Non-operating income		
Interest income	25	8
Dividend income	70	41
Valuation gains of investment securities	78	64
Other	51	19
Total non-operating income	**226**	**133**
Non-operating expenses		
Interest expenses	188	180
Foreign exchange losses	7	274
Bond issuance costs	54	31
Other	17	90
Total non-operating expenses	**267**	**576**
Recurring profit	**6,917**	**5,203**
Extraordinary income		
Gain on sales of property, plant and equipment	7	158
Total extraordinary income	**7**	**158**
Extraordinary losses		
Loss on sale of property, plant and equipment	0	10
Loss on retirement of property, plant and equipment	7	46
Impairment loss	7,417	—
Loss on cancellations	69	—
Total extraordinary losses	**7,494**	**56**
Income before taxes and other adjustments	**(570)**	**5,304**
Total income taxes	**(6,130)**	**883**
Net income	**5,559**	**4,421**
Net income (loss) attributable to non-controlling interests	**0**	**(8)**
Net income attributable to shareholders of the parent	**5,559**	**4,429**

Consolidated Statements of Comprehensive Income

(Million yen)

	Three months ended June 30, 2017 (Apr. 2017–Jun. 2017)	Three months ended June 30, 2016 (Apr. 2016–Jun. 2016)
Net income	**5,559**	**4,421**
Other comprehensive income		
Net unrealized gains on “other securities”	40	(137)
Translation adjustments	(1,684)	(2,911)
Remeasurements of defined benefit plans	249	90
Share of other comprehensive income of associates	2	(1)
Total other comprehensive income	**(1,392)**	**(2,959)**
Comprehensive income	**4,167**	**1,461**
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	4,167	1,470
Comprehensive income attributable to non-controlling interests	0	(8)

(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 3,175,700 shares based on a resolution at the meeting of Board of Directors on May 15, 2017, which resulted in an increase of treasury stock by 2,104 million yen during the subject first quarter.

Also, the Group implemented retirement of treasury stock of 4,000,000 shares on June 15, 2017, based on a resolution at the meeting of Board of Directors on May 15, 2017, which resulted in a decrease in retained earnings and treasury stock by 3,068 million yen each during the subject first quarter.

As a result, retained earnings and treasury stock decreased 3,068 million yen and 964 million yen respectively during the subject first quarter, and retained earnings and treasury stock amounted to 39,259 million yen and 2,696 million yen respectively at the end of the subject first 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 first quarter. However, a legally designated effective tax rate will be applied if such tax expenses are found to be very unreasonable after calculation based on the relevant estimated effective tax rate.

(Segment Information)

I. Information Regarding Sales, Profits, and Losses by Reportable Segment

Three months ended June 30, 2016 (April 1, 2016 through June 30, 2016)

(Million yen)

	Reportable Segment					Adjustments (Note 1)	Consolidated Total (Note 2)
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort, & Other Business	Segment Total		
Net sales							
(1) Sales to customers	105,808	14,339	2,770	3,080	125,998	—	125,998
(2) Inter-segment sales and transfers	8	139	—	949	1,097	(1,097)	—
Total	105,816	14,479	2,770	4,029	127,095	(1,097)	125,998
Segment earnings (or loss)	6,671	(130)	(483)	502	6,559	(912)	5,646

Three months ended June 30, 2017 (April 1, 2017 through June 30, 2017)

(Million yen)

	Reportable Segment					Adjustments (Note 1)	Consolidated Total (Note 2)
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort, & Other Business	Segment Total		
Net sales							
(1) Sales to customers	109,145	14,476	3,084	1,745	128,450	—	128,450
(2) Inter-segment sales and transfers	12	64	—	976	1,054	(1,054)	—
Total	109,157	14,540	3,084	2,722	129,504	(1,054)	128,450
Segment earnings (or loss)	8,206	84	(471)	197	8,016	(1,058)	6,957

Note 1: Breakdown of adjustments is as follows.

Segment earnings (or loss)

(Million yen)

	Three months ended June 30, 2017	Three months ended June 30, 2016
Inter-segment eliminations	(67)	(3)
Corporate expenses*	(990)	(909)
Total	(1,058)	(912)

*Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

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

II. Changes Regarding Reportable Segments

(Change in Reportable Segments and common expense allocation)

Effective as of the first quarter under review, reportable segments were changed from four segments comprising the Leasing Business, Construction Business, Elderly Care Business and Hotels & Resort Business, to four segments categorized as the Leasing Business, Development Business, Elderly Care Business and Hotels, Resort and Other Businesses, respectively. The change was made to disclose the Group's business management and actual business results in a more appropriate fashion according to the new mid-term management plan.

In addition, effective as of the first quarter under review, the method of common expense allocation was changed to make sure that each segment's business results are measured more correctly.

Segment information covering the three months ended June 30, 2016 presented herein was prepared according to the revised methods of reportable segment categorization and common expense allocation.