

Consolidated Financial Statements (Japanese Accounting Standard)

February 9, 2018

(For the nine months ended December 31, 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): February 13, 2018
 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, 2017 (April 1, 2017 through December 31, 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	%
Nine months ended December 31, 2017	385,521	1.3	18,763	18.7	18,585	20.2	12,863	0.1
Nine months ended December 31, 2016	380,634	1.0	15,802	-0.8	15,465	3.2	12,854	1.5

(Note) Comprehensive income in the nine months ended December 31, 2017: 12,190 million yen (118.8%);
 nine months ended December 31, 2016: 5,570 million yen (-56.2%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended December 31, 2017	50.15	50.10
Nine months ended December 31, 2016	48.90	48.88

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2017	320,839	157,574	49.0
As of March 31, 2017	337,828	158,870	47.0

(Reference) Shareholders' equity as of December 31, 2017: 157,214 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	—	10.00	—		
FY ending March 31, 2018 (Estimate)				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
FY ending March 31, 2018	540,000	3.7	23,500	2.6	22,500	0.6	14,200	-30.4	55.36

(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.10 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 December 31, 2017: 252,682,515 shares, As of March 31, 2017: 267,443,915 shares
 - (ii) Total treasury stock at term end
As of December 31, 2017: 570,420 shares, As of March 31, 2017: 4,569,920 shares
 - (iii) Average number of outstanding shares during the period
As of December 31, 2017: 256,492,521 shares, As of December 31, 2016: 262,874,301 shares

*Indication regarding the status of auditing:

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

*Explanation on the proper use of the business forecasts, and other special notices:

(Note on the business forecasts and other forward-looking statements)

The business forecasts and other forward-looking statements contained in this report are based on information currently available to the Company and on certain assumptions that Leopalace21 has judged to be reasonable. Readers should be aware that a variety of factors might cause actual results to differ significantly from these forecasts.

For assumptions of business forecasts and notes on the proper use of these forecasts, please refer to 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 February 9, 2018.

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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
Nine months ended December 31, 2017	385,521	18,763	18,585	12,863
Nine months ended December 31, 2016	380,634	15,802	15,465	12,854
Difference	4,887	2,961	3,120	8

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

Due to the decrease in demand for measures to reduce inheritance tax, followed by a change in the apartment loan environment, new housing starts of leased units has decreased year-on-year for seven consecutive months since June, decreasing 2.4% year-on-year. 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 nine months came to 385,521 million yen (up 1.3% year-on-year). Operating profit was 18,763 million yen (up 18.7% year-on-year), recurring profit was 18,585 million yen (up 20.2% year-on-year), and net income attributable to shareholders of the parent was 12,863 million yen (up 0.1% year-on-year).

Results by reportable segment are as follows.

Effective as of the first quarter, 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		
	Nine months ended December 31, 2016	Nine months ended December 31, 2017	Difference	Nine months ended December 31, 2016	Nine months ended December 31, 2017	Difference
Leasing Business	314,020	324,990	10,970	17,854	22,758	4,903
Development Business	52,222	46,590	(5,631)	2,115	888	(1,226)
Elderly Care Business	8,594	9,547	952	(1,253)	(1,125)	127
Hotels, Resort, & Other Business	5,796	4,392	(1,404)	(102)	(572)	(470)
Adjustments	—	—	—	(2,811)	(3,184)	(372)
Total	380,634	385,521	4,887	15,802	18,763	2,961

(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 in 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 third quarter was 89.44% (up 2.47 points from the end of the same quarter last year) and the average occupancy rate for the period was 90.01% (up 2.01 points year-on-year).

The number of units under management at the end of the third quarter was 569 thousand (increasing 0 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 324,990 million yen (up 3.5% year-on-year), and operating profit was 22,758 million yen (up 27.5% 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, expanded construction variations based on "ideal land use", and has begun reconsidering suppliers and 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 nine months amounted to 55,546 million yen (down 16.7% year-on-year) and orders received outstanding stood at 68,779 million yen (down 8.1% from the end of the same quarter last year).

As a result, net sales came to 46,590 million yen (down 10.8% year-on-year), and operating profit was 888 million yen (down 58.0% year-on-year).

(iii) Elderly Care Business

Net sales were 9,547 million yen (up 11.1% year-on-year) and operating loss was 1,125 million yen (improvement of 127 million yen year-on-year).

(iv) Hotels, Resort, & Other Business

Net sales of the resort facilities in Guam, hotels in Japan, and other businesses including the finance business were 4,392 million yen (down 24.2% year-on-year) and operating loss was 572 million yen (loss increase of 470 million yen compared to last year).

(2) Analysis of Consolidated Financial Position

Position of Assets, Liabilities, and Net Assets

(Million yen)

	Assets	Liabilities	Net assets
As of December 31, 2017	320,839	163,264	157,574
As of March 31, 2017	337,828	178,958	158,870
Difference	(16,989)	(15,693)	(1,295)

Total assets at the end of the third quarter decreased 16,989 million yen from the end of the previous fiscal year to 320,839 million yen. This was mainly attributable to a decrease of 8,350 million yen in cash and cash equivalents and 16,619 million yen in land, despite an increase of 2,820 million yen in leased assets (net), 2,806 million yen in real estate for sale, 1,649 million yen in real estate for sale in progress, and 1,557 million yen in deferred tax assets.

Total liabilities decreased 15,693 million yen from the end of the previous fiscal year to 163,264 million yen. This primarily reflected a decrease of 6,365 million yen in long and short term advances received, 6,085 million yen in accounts payable for completed projects, 2,433 million yen in borrowings and bonds, and 2,127 million yen in accrued income taxes, despite an increase of 3,202 million yen in lease obligations.

Net assets decreased 1,295 million yen from the end of the previous fiscal year to 157,574 million yen, chiefly due to a recording of 12,863 million yen in net income attributable to shareholders of the parent, a payment of dividends of 5,675 million yen, and share repurchases of 8,000 million yen. The ratio of shareholders' equity to assets rose 2.0 points from the end of the previous fiscal year to 49.0%.

(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)

	December 31, 2017	March 31, 2017
<Assets>		
Current assets		
Cash and cash equivalents	96,081	104,432
Trade receivables	6,067	6,547
Accounts receivable for completed projects	2,254	2,355
Operating loans	450	675
Real estate for sale	3,228	421
Real estate for sale in progress	3,499	1,849
Payment for construction in progress	958	518
Prepaid expenses	3,710	2,827
Deferred tax assets	10,405	8,636
Others	5,137	5,707
Allowance for doubtful accounts	(165)	(186)
Total current assets	131,627	133,786
Non-current assets		
Property, plant, and equipment		
Buildings and structures (net)	41,484	41,827
Machinery, equipment, and vehicles (net)	12,892	14,206
Land	63,769	80,388
Leased assets (net)	16,472	13,652
Construction in progress	4,588	3,911
Others (net)	2,176	1,281
Total property, plant, and equipment	141,383	155,267
Intangible fixed assets		
Goodwill	2,985	3,181
Others	7,459	8,461
Total intangible fixed assets	10,444	11,642
Investments and other assets		
Investment securities	12,796	12,453
Bad debts	1,301	1,246
Long-term prepaid expenses	3,847	3,820
Deferred tax assets	17,275	17,486
Others	3,803	3,645
Allowance for doubtful accounts	(2,107)	(2,073)
Total investments and other assets	36,916	36,579
Total non-current assets	188,744	203,489
Deferred assets	468	552
Total assets	320,839	337,828

(Million yen)

	December 31, 2017	March 31, 2017
<Liabilities>		
Current liabilities		
Accounts payable	3,632	2,826
Accounts payable for completed projects	6,101	12,186
Short-term borrowings	1,749	1,263
Bonds due within one year	3,966	3,966
Lease obligations	5,932	4,647
Accounts payable-other	12,306	19,066
Accrued income taxes	416	2,544
Advances received	35,319	40,003
Customer advances for projects in progress	5,768	5,381
Reserve of allowance for employees' bonuses	4,527	—
Reserve for warranty obligations on completed projects	363	412
Reserve for fulfillment of guarantees	1,047	1,082
Others	4,246	4,144
Total current liabilities	85,377	97,524
Non-current liabilities		
Bonds	13,602	16,035
Long-term debt	12,543	13,267
Lease obligations	12,656	10,739
Long-term advances received	14,933	16,614
Lease/guarantee deposits received	7,041	7,152
Deferred tax liabilities	148	148
Reserve for directors' compensation	16	—
Reserve for apartment vacancy loss	1,952	3,183
Liability for retirement benefit	12,045	11,295
Others	2,946	2,997
Total non-current liabilities	77,886	81,433
Total liabilities	163,264	178,958
<Net assets>		
Shareholders' equity		
Common stock	75,282	75,282
Capital surplus	45,235	45,235
Retained earnings	35,882	39,923
Treasury stock	(432)	(3,660)
Total shareholders' equity	155,967	156,779
Accumulated other comprehensive income		
Net unrealized gains on "other securities"	1,052	574
Foreign currency translation adjustments	524	2,027
Remeasurements of defined benefit plans	(329)	(668)
Total accumulated other comprehensive income	1,247	1,933
Share subscription rights	247	136
Non-controlling interests	112	20
Total net assets	157,574	158,870
Total liabilities and net assets	320,839	337,828

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

Consolidated Statements of Operations

(Million yen)

	Nine months ended December 31, 2017 (Apr. 2017–Dec. 2017)	Nine months ended December 31, 2016 (Apr. 2016–Dec. 2016)
Net sales	385,521	380,634
Cost of sales	313,393	313,377
Gross profit	72,127	67,256
Selling, general, and administrative expenses	53,363	51,454
Operating profit	18,763	15,802
Non-operating income		
Interest income	87	32
Dividend income	153	110
Valuation gains of investment securities	143	111
Foreign exchange gains	148	174
Other	121	93
Total non-operating income	653	522
Non-operating expenses		
Interest expenses	580	543
Bond issuance costs	160	91
Other	89	224
Total non-operating expenses	831	858
Recurring profit	18,585	15,465
Extraordinary income		
Gain on sales of property, plant and equipment	934	398
Total extraordinary income	934	398
Extraordinary losses		
Loss on sale of property, plant and equipment	0	89
Loss on retirement of property, plant and equipment	82	89
Impairment loss	7,417	167
Loss on cancellations	66	-
Total extraordinary losses	7,566	346
Income before taxes and other adjustments	11,954	15,517
Total income taxes	(922)	2,660
Net income	12,877	12,856
Net income (loss) attributable to non-controlling interests	13	1
Net income attributable to shareholders of the parent	12,863	12,854

Consolidated Statements of Comprehensive Income

(Million yen)

	Nine months ended December 31, 2017 (Apr. 2017–Dec. 2017)	Nine months ended December 31, 2016 (Apr. 2016–Dec. 2016)
Net income	12,877	12,856
Other comprehensive income		
Net unrealized gains on “other securities”	477	197
Translation adjustments	(1,504)	(7,752)
Remeasurements of defined benefit plans	339	272
Share of other comprehensive income of associates	1	(2)
Total other comprehensive income	(686)	(7,285)
Comprehensive income	12,190	5,570
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	12,177	5,569
Comprehensive income attributable to non-controlling interests	13	1

(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 10,761,400 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 7,999 million yen during the subject nine months.

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 three months.

Moreover, the Group implemented retirement of treasury stock of 10,761,400 shares on October 31, 2017, based on a resolution at the meeting of Board of Directors on September 28, 2017, which resulted in a decrease in retained earnings and treasury stock by 8,159 million yen each during the subject nine months.

As a result, retained earnings decreased 11,228 million yen and treasury stock decreased 3,228 million yen during the subject nine months, and retained earnings and treasury stock amounted to 35,882 million yen and 432 million yen respectively at the end of the subject third quarter.

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

Tax expenses are calculated by multiplying net income before income taxes by a reasonably estimated effective tax rate, after applying the tax effect accounting to net income before income taxes for the consolidated fiscal year that includes the subject nine months. However, a legally designated effective tax rate will be applied if such tax expenses are found to be very unreasonable after calculation based on the relevant estimated effective tax rate.

(Segment Information)

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

Nine months ended December 31, 2016 (April 1, 2016 through December 31, 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	314,020	52,222	8,594	5,796	380,634	—	380,634
(2) Inter-segment sales and transfers	24	457	—	2,422	2,903	(2,903)	—
Total	314,044	52,679	8,594	8,218	383,537	(2,903)	380,634
Segment earnings (or loss)	17,854	2,115	(1,253)	(102)	18,614	(2,811)	15,802

Nine months ended December 31, 2017 (April 1, 2017 through December 31, 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	324,990	46,590	9,547	4,392	385,521	—	385,521
(2) Inter-segment sales and transfers	56	65	—	2,691	2,814	(2,814)	—
Total	325,047	46,656	9,547	7,083	388,335	(2,814)	385,521
Segment earnings (or loss)	22,758	888	(1,125)	(572)	21,948	(3,184)	18,763

Note 1: Breakdown of adjustments is as follows.

Segment earnings (or loss)

(Million yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2016
Inter-segment eliminations	(190)	(186)
Corporate expenses*	(2,993)	(2,624)
Total	(3,184)	(2,811)

*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.

Segment information covering the nine months ended December 31, 2016 presented herein was prepared according to the revised methods of reportable segment categorization and common expense allocation.