

Consolidated Financial Statements (Japanese Accounting Standard)

November 9, 2018

(For the six months ended September 30, 2018)

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):	November 13, 2018
Scheduled Date of Commencement of Dividend Payments:	-
Supplemental Explanatory Material Prepared: Yes	Results Briefing Held: Yes

1. Results for the Six Months ended September 30, 2018 (April 1, 2018 through September 30, 2018)

(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	%
Six months ended September 30, 2018	255,479	-1.3	7,192	-48.6	7,159	-48.2	-5,819	—
Six months ended September 30, 2017	258,740	1.4	13,987	23.4	13,827	28.7	9,488	-2.1

(Note) Comprehensive income in the six months ended September 30, 2018: -7,075 million yen (-%);
six months ended September 30, 2017: 8,365 million yen (183.0%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2018	-23.36	-
Six months ended September 30, 2017	36.68	36.66

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2018	311,022	144,380	46.3
As of March 31, 2018	337,134	159,438	47.2

(Reference) Shareholders' equity as of September 30, 2018: 143,962 million yen; as of March 31, 2018: 159,044 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, 2018	—	10.00	—	12.00	22.00
FY ending March 31, 2019	—	0.00	—	—	—
FY ending March 31, 2019 (Estimate)	—	—	—	—	—

(Note) Restatement of most recent dividend forecast: None

As stated in its Articles of Incorporation, the Company sets its dividend record date as the end of the fiscal term. However, at the current time, the dividend as of the record date is yet to be determined.

3. Consolidated Earnings Forecasts for the Fiscal Year ending March 31, 2019 (April 1, 2018 through March 31, 2019)

(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, 2019	510,000	-3.9	7,500	-67.3	7,000	-68.7	-7,000	—	-28.10
	~516,000	~ -2.8	~10,500	~ -54.2	~10,000	~ -55.3	~ -5,000	—	~ -20.07

(Note) Restatement of most recent consolidated earnings forecasts: None

Consolidated earnings forecasts for the fiscal year ending March 31, 2019 is disclosed as range estimates. Please refer to pg. 6 "1. Business Results (3) Explanation of Consolidated Earnings Forecasts and Other Future Predictions" for details.

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 pg. 13 "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
- (4) Total number of outstanding shares (common stock)
 - (i) Total number of outstanding shares at term end (including treasury stock)
As of September 30, 2018: 252,682,515 shares, As of March 31, 2018: 252,682,515 shares
 - (ii) Total treasury stock at term end
As of September 30, 2018: 8,867,510 shares, As of March 31, 2018: 567,420 shares
 - (iii) Average number of outstanding shares during the period
As of September 30, 2018: 249,117,715 shares, As of September 30, 2017: 258,694,691 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 pg. 6 "1. Business Results (3) Explanation of Consolidated Earnings Forecasts and Other Future Predictions."

(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 November 9, 2018.

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1. Business Results

(1) Analysis of Business Results

Before explanations concerning business results, we sincerely apologize for the distress and trouble we have caused our stakeholders, due to the construction deficiencies resulting from inadequacies in our management system.

We will conduct investigations and repair works, and take effort to restore trust as soon as possible. We will continue further investigations concerning the cause of the deficiencies, and organize a structure to prevent recurrence and strive for thorough quality control.

(Million yen)

	Net sales	Operating profit	Recurring profit	Net income attributable to shareholders of the parent
Six months ended September 30, 2018	255,479	7,192	7,159	-5,819
Six months ended September 30, 2017	258,740	13,987	13,827	9,488
Difference	-3,261	-6,794	-6,668	-15,307

During the subject six months, the domestic economy showed gradual progression supported by improvements in corporate earnings, employment, and corporate earnings.

New housing starts of leased units during the period decreased 2.8% year-on-year, due to the saturation in demand for inheritance tax reduction strategies as well as the environmental change in apartment loans. 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, Leopalace21 (the "Company") aims to achieve targets of its Medium-term Management Plan "Creative Evolution 2020" by creating corporate value and new social value under 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 six months came to 255,479 million yen (down 1.3% year-on-year). Operating profit was 7,192 million yen (down 48.6% year-on-year) and recurring profit was 7,159 million yen (down 48.2% year-on-year). Factors such as an extraordinary loss of 7,145 million yen recorded as a reserve for losses related to parting wall deficiencies confirmed in certain apartments constructed by the Company resulted in net loss attributable to shareholders of the parent of 5,819 million yen (compared to a net income of 9,488 million yen in the same period of the previous year).

(Actual figures by segment)

(Million yen)

	Net sales			Operating profit		
	Six months ended September 30, 2017	Six months ended September 30, 2018	Difference	Six months ended September 30, 2017	Six months ended September 30, 2018	Difference
Leasing Business	217,439	219,025	1,585	16,058	12,180	-3,878
Development Business	32,024	26,748	-5,276	974	-1,301	-2,276
Elderly Care Business	6,293	6,869	576	-745	-504	241
Hotels, Resort & Other Business	2,982	2,835	-146	-168	-840	-671
Adjustments	—	—	—	-2,130	-2,340	-209
Total	258,740	255,479	-3,261	13,987	7,192	-6,794

(i) Leasing Business

In the Leasing Business, the Company provides added-value services such as "my DIY" which enable tenants to decorate their rooms, promotes smart apartments which enable remote control of electrical appliances and check whether doors are locked, as well as offers security systems in alliance with large security companies. Also, in order to achieve stable occupancy rates, the Company is strengthening sales against corporate customers and increasing support for foreign tenants. In the ASEAN region, the Company develops and manages serviced apartments and offices.

Since new tenant recruitments on properties subject to top-priority investigations were suspended until completion of investigations and repair works, the occupancy rate at the end of the subject quarter was 88.40% (down 1.81 points from the end of the same period of the previous year) and the average occupancy rate for the period was 90.99% (up 0.79 points year-on-year). The number of units under management at the end of the subject second quarter was 572 thousand (increasing 2 thousand from the end of the previous fiscal year).

As a result, net sales amounted to 219,025 million yen (up 0.7% year-on-year) and operating profit was 12,180 million yen (down 24.2% year-on-year).

(ii) Development Business

In the Development Business, the Company 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 Company 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. operates the development business of condominiums and apartments and subsidiary Morizou Co., Ltd., provides luxury custom-built homes made with Kiso-hinoki.

As a result of orders becoming sluggish due to intensified competition in the metropolitan areas and impact from media reports related to apartment loans, orders received during the subject six months amounted to 34,258 million yen (down 9.6% year-on-year) and orders received outstanding stood at 65,854 million yen (down 3.2% from the end of the same period of the previous year).

As a result, net sales came to 26,748 million yen (down 16.5% year-on-year) and operating loss was 1,301 million yen (compared to an operating profit of 974 million yen in the same period of the previous year).

(iii) Elderly Care Business

As a strategic growth business, the profitability of the Elderly Care Business improved due to increases in the occupancy rate of existing facilities, and is steadily transitioning to becoming black in the final year of the medium-term management plan.

Net sales were 6,869 million yen (up 9.2% year-on-year), and operating loss was 504 million yen (improvement of 241 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 2,835 million yen (down 4.9% year-on-year) and operating loss was 840 million yen (a loss increase of 671 compared to the same period of the previous year).

(2) Analysis of Consolidated Financial Position

(Assets, Liabilities, and Net Assets)

(Million yen)

	Assets	Liabilities	Net assets
As of September 30, 2018	311,022	166,642	144,380
As of March 31, 2018	337,134	177,696	159,438
Difference	-26,112	-11,053	-15,058

Total assets at the end of the subject quarter decreased 26,112 million yen from the end of the previous fiscal year to 311,022 million yen. This was mainly attributable to a decrease of 18,649 million yen in cash and cash equivalents due to payments of trade payables and dividends, 6,798 million in land due to impairment losses, 2,402 million yen in construction in progress, 2,191 million yen in leased assets (net), and 1,393 million yen in trade receivables, despite an increase of 2,374 million yen in deferred tax assets, 2,908 million yen in other non-current assets (net), and 2,144 million yen in payment for construction in progress.

Total liabilities decreased 11,053 million yen from the end of the previous fiscal year to 166,642 million yen. This was mainly attributable to a decrease of 7,666 million yen in accounts payable -other, 6,549 million yen in short and long-term advances received, and 2,982 million yen in accounts payable for completed projects, despite a recording of 6,724 million yen in reserve for losses related to repair works.

Net assets decreased 15,058 million yen from the end of the previous fiscal year to 144,380 million yen. This was mainly attributable to a decrease of 8,845 million yen in retained earnings due to a recording of 5,819 million yen in net loss attributable to shareholders of the parent and dividend payments of 3,025 million yen, along with a decrease of 1,287 million yen in foreign currency translation adjustments and share buybacks of 5,012 million yen. The ratio of shareholders' equity to assets dropped 0.9 points from the end of the previous fiscal year to 46.3%.

(Cash Flow)

(Million yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018	Difference
Cash flow from operating activities	8,003	-1,187	-9,191
Cash flow from investing activities	186	-6,700	-6,887
Cash flow from financing activities	-16,037	-10,380	5,656
Cash and cash equivalents at end of period	83,668	79,745	-3,922

Cash flow from operating activities was a net outflow of 1,187 million yen (compared to a net inflow of 8,003 million yen in the same period of the previous fiscal year). This was mainly due to 7,611 million yen of loss before taxes and minority interests, a decrease in accounts payable of 8,435 million yen, and a decrease in advances received of 6,548 million yen, despite depreciation and amortization of 6,437 million yen, impairment losses of 7,560 million yen, and provision of reserve for loss related to repair works of 6,724 million yen.

Cash flow from investing activities was a net outflow of 6,700 million yen (compared to a net inflow of 186 million yen in the same period of the previous fiscal year). This was mainly due to payment for purchase of property, plant and equipment of 5,575 million yen.

Cash flow from financing activities was a net outflow of 10,380 million yen (a decrease of 5,656 million yen in net outflow from the same period of the previous fiscal year). This was mainly due to repayment of interest-bearing debt of 2,335 million yen (after deduction of proceeds from debt), payment for purchases of treasury stock of 5,012 million yen, and payment of dividends of 3,025 million yen.

As a result, cash and cash equivalents at the end of the subject quarter under review stood at 79,745 million yen, a decrease of 3,922 million yen from the end of the same period of the previous fiscal year.

(3) Explanation of Consolidated Earnings Forecasts and Other Future Predictions

Concerning consolidated earnings forecasts, there has been no change from those announced on October 29, 2018, titled "Notice Concerning Revision of Earnings and Dividend Forecasts."

Revenue such as rent is expected to decrease, due to the suspension of new tenant recruitments on properties subject to top-priority investigations concerning parting wall deficiencies until completion of investigations and repair works, leading to vacancies which were not expected at the start of the fiscal year. Since the resumption schedule for new tenant recruitments is fluctuating and the impact on revenue and earnings cannot be reasonably estimated at the current time, the Company discloses earnings forecasts as range estimates.

(Concerning dividends)

To increase shareholders' value, the Company will not only distribute profit earned from business measures in the form of dividends, but will maximize mid- to long-term corporate value and increase EPS (earnings per share) through investments in matters such as real estate, overseas businesses, mergers and acquisitions, IT, and research and development.

The Company has previously planned an interim dividend of 10 yen per share. However, since impact on revenue and earnings from parting wall deficiencies cannot be reasonably estimated at the current time as mentioned above, we regret to revise dividend forecasts. Interim dividends will not be paid, and term-end dividends are yet to be determined.

(Note) Earnings forecasts are judged by the Company based on information currently available to the Company as of the publication of this statement, and actual results may differ from these forecasts due to a variety of factors.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Million yen)

	September 30, 2018	March 31, 2018
<Assets>		
Current assets		
Cash and cash equivalents	87,894	106,543
Trade receivables	6,233	7,626
Accounts receivable for completed projects	1,540	1,957
Operating loans	331	389
Real estate for sale	983	952
Real estate for sale in progress	4,715	2,571
Payment for construction in progress	503	458
Prepaid expenses	3,566	3,544
Others	5,457	6,268
Allowance for doubtful accounts	-153	-145
Total current assets	111,074	130,167
Non-current assets		
Property, plant, and equipment		
Buildings and structures (net)	43,341	42,705
Machinery, equipment, and vehicles (net)	11,935	12,547
Land	56,839	63,638
Leased assets (net)	13,837	16,028
Construction in progress	2,806	5,208
Others (net)	6,124	3,215
Total property, plant, and equipment	134,883	143,344
Intangible fixed assets		
Goodwill	2,604	2,886
Others	7,854	8,102
Total intangible fixed assets	10,458	10,988
Investments and other assets		
Investment securities	17,669	17,999
Bad debts	1,279	1,264
Long-term prepaid expenses	3,562	3,831
Deferred tax assets	29,014	26,639
Others	4,803	4,483
Allowance for doubtful accounts	-2,105	-2,023
Total investments and other assets	54,222	52,194
Total non-current assets	199,564	206,527
Deferred assets	383	440
Total assets	311,022	337,134

(Million yen)

	September 30, 2018	March 31, 2018
<Liabilities>		
Current liabilities		
Electronically recorded obligations -operating	894	1,451
Accounts payable	3,481	4,245
Accounts payable for completed projects	4,850	7,832
Short-term borrowings	5,834	2,964
Bonds due within one year	3,966	3,966
Lease obligations	5,660	5,960
Accounts payable -other	14,671	22,337
Accrued income taxes	1,037	942
Advances received	35,309	39,964
Customer advances for projects in progress	4,414	4,592
Provision for bonuses	3,151	-
Reserve for warranty obligations on completed projects	323	389
Reserve for fulfillment of guarantees	1,116	1,158
Reserve for loss related to repair works	6,724	-
Others	3,859	4,407
Total current liabilities	95,296	100,212
Non-current liabilities		
Bonds	10,086	12,069
Long-term debt	16,254	16,643
Lease obligations	10,506	12,226
Long-term advances received	13,959	15,853
Lease/guarantee deposits received	6,737	6,989
Provision for Directors' bonuses	15	10
Reserve for apartment vacancy loss	3,044	3,044
Liability for retirement benefit	7,676	7,338
Others	3,066	3,308
Total non-current liabilities	71,346	77,483
Total liabilities	166,642	177,696
<Net assets>		
Shareholders' equity		
Common stock	75,282	75,282
Capital surplus	45,235	45,235
Retained earnings	28,994	37,839
Treasury stock	-5,442	-430
Total shareholders' equity	144,069	157,926
Accumulated other comprehensive income		
Net unrealized gains on "other securities"	567	586
Foreign currency translation adjustments	-414	872
Remeasurements of defined benefit plans	-259	-341
Total accumulated other comprehensive income	-106	1,117
Share subscription rights	347	284
Non-controlling interests	71	109
Total net assets	144,380	159,438
Total liabilities and net assets	311,022	337,134

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

Consolidated Statements of Operations

(Million yen)

	Six months ended September 30, 2018 (Apr 2018–Sep 2018)	Six months ended September 30, 2017 (Apr 2017–Sep 2017)
Net sales	255,479	258,740
Cost of sales	210,891	209,315
Gross profit	44,588	49,424
Selling, general and administrative expense	37,395	35,437
Operating profit	7,192	13,987
Non-operating income		
Interest income	46	52
Dividend income	76	79
Valuation gains of investment securities	108	115
Foreign exchange gains	237	53
Other	89	90
Total non-operating income	559	391
Non-operating expenses		
Interest expenses	385	384
Bond issuance fee	98	108
Other	108	58
Total non-operating expenses	592	551
Recurring profit	7,159	13,827
Extraordinary income		
Gain on sales of property, plant and equipment	2	26
Total extraordinary income	2	26
Extraordinary losses		
Loss on sale of property, plant and equipment	-	0
Loss on retirement of property, plant and equipment	67	47
Impairment loss	7,560	7,417
Loss on cancellations	-	69
Provision of reserve for loss related to repair works	6,724	-
Loss related to repair works	421	-
Total extraordinary losses	14,773	7,535
Income (loss) before taxes and other adjustments	-7,611	6,319
Income taxes	-1,761	-3,174
Net income (loss)	-5,849	9,493
Net income (loss) attributable to non-controlling interests	-30	5
Net income (loss) attributable to shareholders of the parent	-5,819	9,488

Consolidated Statements of Comprehensive Income

(Million yen)

	Six months ended September 30, 2018 (Apr 2018–Sep 2018)	Six months ended September 30, 2017 (Apr 2017–Sep 2017)
Net income (loss)	-5,849	9,493
Other comprehensive income		
Net unrealized gains on “other securities”	-19	363
Foreign currency translation adjustments	-1,282	-1,787
Remeasurements of defined benefit plans	82	294
Share of other comprehensive income of entities using equity method	-4	0
Total other comprehensive income	-1,225	-1,127
Comprehensive income	-7,075	8,365
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	-7,044	8,360
Comprehensive income attributable to non-controlling interests	-30	5

(3) Consolidated Cash Flow

(Million yen)

	Six months ended September 30, 2018 (Apr 2018–Sep 2018)	Six months ended September 30, 2017 (Apr 2017–Sep 2017)
Cash flows from operating activities		
Income before taxes and minority interests	-7,611	6,319
Depreciation	6,437	5,551
Impairment loss	7,560	7,417
Loss related to repair works	421	-
Amortization of goodwill	280	257
Increase (decrease) in reserve for doubtful accounts	-38	-40
Increase (decrease) in reserve for apartment vacancy loss	-	-594
Increase (decrease) in reserve for loss related to repair works	6,724	-
Interest and dividend income	-123	-131
Interest expense	385	384
Foreign exchange loss (gain)	-237	-53
Equity in losses (earnings) of affiliated companies	-0	1
Loss (gain) on sale of property, plant and equipment	-2	-26
Loss (gain) on retirement of property, plant and equipment	67	47
Loss (gain) on evaluation of investment securities	-108	-115
Decrease (increase) in accounts receivable	2,073	1,563
Decrease (increase) in real estate for sale	-2,175	-3,547
Decrease (increase) in payment for construction in progress	-45	119
Decrease (increase) in long-term prepaid expenses	244	169
Increase (decrease) in accounts payable	-8,435	-4,795
Increase (decrease) in customer advances for projects in progress	-177	8
Increase (decrease) in advances received	-6,548	-4,542
Increase (decrease) in guarantee deposits received	-165	-150
Increase (decrease) in accrued consumption taxes	-727	273
Other	1,983	1,737
Total	-219	9,851
Interest and dividends received	301	273
Interest paid	-351	-368
Expenses related to repair works paid	-165	-
Income taxes paid	-752	-1,752
Net cash provided by (used in) operating activities	-1,187	8,003
Cash flows from investing activities		
Payment for purchase of property, plant and equipment	-5,575	-3,273
Proceeds from sale of property, plant and equipment	4	4,616
Payment for purchase of intangible assets	-619	-377
Payment for purchase of investment securities	-134	-132
Proceeds from sale of investment securities	14	17
Payment for loans	-1	-5
Proceeds from collection of loans	6	6
Other	-393	-664
Net cash provided by (used in) investing activities	-6,700	186

(Million yen)

	Six months ended September 30, 2018 (Apr 2018–Sep 2018)	Six months ended September 30, 2017 (Apr 2017–Sep 2017)
Cash flows from financing activities		
Proceeds from short-term borrowings	3,485	1,150
Repayment of short-term borrowings	-50	-1,152
Repayment of long-term debt	-924	-588
Payment for redemption of bonds	-1,983	-1,983
Repayment of finance lease obligations	-2,863	-2,306
Payment for purchases of treasury stock	-5,012	-8,000
Dividends paid	-3,025	-3,154
Dividends paid to non-controlling interests	-8	-3
Net cash provided by (used in) investing activities	-10,380	-16,037
Effect of exchange rate changes on cash and cash equivalents	-233	-251
Net increase (decrease) in cash and cash equivalents	-18,501	-8,098
Cash and cash equivalents at beginning of period	98,246	91,766
Cash and cash equivalents at end of period	79,745	83,668

(4) 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 8,300,000 shares based on a resolution at the meeting of Board of Directors on May 11, 2018. As a result, treasury stock increased 5,012 million yen during the subject six months, and treasury stock amounted to 5,442 million yen as of the end of the subject 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 and second quarter. However, a legally designated effective tax rate will be applied if such tax expenses are found to be unreasonable after calculation based on the relevant estimated effective tax rate.

(Additional information)

(Application of "Partial Amendments to 'Accounting Standard for Tax Effect Accounting', etc.")

The Company has applied "Partial Amendments to 'Accounting Standard for Tax Effect Accounting', etc." (ASBJ Statement No. 28, February 16, 2018) as of the beginning of the first quarter. Deferred tax assets are recorded under "Investments and other assets" and deferred tax liabilities are recorded under "Non-current liabilities."

(Matters relating to the settlement date of consolidated subsidiaries)

The former settlement date of Morizou Co., Ltd. was the end of February, and the financial statements as of the said settlement date has been used, with adjustments made regarding important transactions which took place between the end of February and the consolidated settlement date. However, the settlement date has been changed to March 31 as of the subject first quarter.

Due to this change, the seven months between March 1, 2018 and September 30, 2018 has been consolidated and adjusted through the consolidated statements of operations for the subject consolidated period.

(Accounting standards for significant reserves)

Reserve for loss related to repair works

An amount of loss estimated based on ratio of defects, etc. is recorded to prepare for the occurrence of repair works related to parting wall construction deficiencies of properties (apartments) constructed by the Company.

(Segment Information)**Six months ended September 30, 2018 (April 1, 2018 through September 30, 2018)**

(Million yen)

	Reportable segments					Adjustments (Note 1)	Consolidated Total (Note 2)
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort & Other Business	Total		
Net sales							
Sales to customers	219,025	26,748	6,869	2,835	255,479	-	255,479
Inter-segment sales and transfers	106	0	-	1,949	2,056	-2,056	-
Total	219,131	26,748	6,869	4,785	257,535	-2,056	255,479
Segment profit (or loss)	12,180	-1,301	-504	-840	9,533	-2,340	7,192

(Note) 1. Adjustments in segment profit (loss) of -2,340 million yen include inter-segment eliminations of -75 million yen and corporate expenses not part of reportable segments of -2,265 million yen. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

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

Six months ended September 30, 2017 (April 1, 2017 through September 30, 2017)

(Million yen)

	Reportable segments					Adjustments (Note 1)	Consolidated Total (Note 2)
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort & Other Business	Total		
Net sales							
Sales to customers	217,439	32,024	6,293	2,982	258,740	-	258,740
Inter-segment sales and transfers	35	65	-	1,841	1,941	-1,941	-
Total	217,474	32,089	6,293	4,823	260,682	-1,941	258,740
Segment profit (or loss)	16,058	974	-745	-168	16,118	-2,130	13,987

(Note) 1. Adjustments in segment profit (loss) of -2,130 million yen include inter-segment eliminations of -129 million yen and corporate expenses not part of reportable segments of -2,001 million yen. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

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