

Explanatory Session for the First Half Results of the Fiscal Year Ending March 2010

November 2009

Leopalace21 Corporation

This document and reference materials may contain forward-looking statements, so please understand that actual results may differ significantly from these forecasts due to various factors

Summary of Results for the First Half of the Fiscal Year Ending March 2010

1. Market Environment during the First Half

- (i) Business Sentiment: The national consumer price index (CPI) for September declined 2.2% year on year, continuing worries about deflation.
- (ii) Land Prices: The benchmark land price for July, announced in September, declined 4.4% on a nationwide average.
- (iii) Employment: The unemployment rate for September was 5.3%, an improvement of 0.2 of a percentage point from the previous month, but still high.
- (iv) Exchange Rates: The appreciation of the yen accelerated in September, briefly touching ¥90 to the U.S. dollar.

2. Overview of First Half Performance

- (i) Consolidated Performance: Leopalace21 announced its new Medium-Term Management Plan, “Change for NEXT” in May in anticipation of the economic slowdown. The economy declined further than expected in the plan, with recovery in the occupancy rate for the Leasing Business particularly slow. Foreign exchange losses were generated with the rapid appreciation of the yen in September.
- (ii) Core Businesses: The Apartment Construction Subcontracting Business fell short of its order target due to more stringent loan screening by financial institutions. The Leasing Business fell short of its occupancy rate target with the worsening employment situation.

3. Full Year Performance Forecast

- (i) Consolidated Performance: Revision to earnings forecasts announced on assumption of a second “bottoming out” for the economy.
- (ii) Core Businesses: The Apartment Construction Subcontracting Business expects an increase in its cost rate due to revisions to net sales. The Leasing Business expects to make an addition to its provision for apartment vacancy loss due to the revision to the occupancy rate.
- (iii) Non-Operating Expenses: Leopalace21 anticipates that the high value of the yen will continue during the second half, and will record the ¥4.3 billion foreign exchange loss incurred during the second quarter.

4. Revision to the Medium-Term Management Plan

- (i) Structural Changes: President will head the general sales division on the front line of sales. The executive officer for the Apartment Construction Subcontracting Business will no longer serve simultaneously as executive officer for the Leasing Business in order to focus on the single business. The number of executive officers for Leasing Business corporate sales will be increased to three from the current one. A project team will be created for a fundamental business restructuring.
- (ii) Announcement Plan: The new management plan will be announced as early as possible, some time around the end of the year.

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Overview of Core Businesses during the First Half Ended September 2009

Change for NEXT
Leopalace 21

Overview of Apartment Construction Subcontracting Business

(Unit: 100 Million Yen)	FY 2007/03	FY 2008/03	FY 2009/03					FY 2010/03			Full Year Forecast
	Full Year	Full Year	1Q	2Q	3Q	4Q	Full Year	1Q	2Q	1st Half	
Total orders received	3,624	4,630	1,032	901	717	726	3,378	632	636	1,268	2,623
Total orders cancelled	218	415	153	226	176	128	683	184	115	299	456
Cancellation rate	6.0%	9.0%	14.8%	25.1%	24.5%	17.6%	20.2%	29.3%	18.1%	23.6%	17.4%
Net orders received	3,406	4,215	879	675	541	595	2,691	448	521	968	2,167
Orders received outstanding	2,486	3,426	4,039	3,238	3,519	2,528	-	2,638	2,292	-	2,195

○ Revision of Order Target (Full Year ¥300 billion → ¥210 billion)

(i) Cancellation rate continues to rise from previous fiscal year.

Credit cost increase, continued strict loan screening due to tightening of BIS regulations.

(ii) More careful selection of locations for lease business properties in order to control increase in vacancies.

Overview of Leasing Business

(Units: x1,000; %)	FY 2007/03	FY 2008/03	FY 2009/03					FY 2010/03			Full Year Forecast
	Full Year	Full Year	1Q	2Q	3Q	4Q	Full-year	1Q	2Q	1st Half	
Total number of leases signed during period	362	374	81	86	87	130	384	83	90	173	469
Of which, by realtor-brokers	14	15	3	5	6	13	27	5	7	12	43
Total number of leases terminated during period	319	330	85	79	87	110	361	96	86	182	362
Occupancy rate	92.8%	92.4%	91.2%	89.5%	86.7%	86.8%	88.5%	83.1%	81.9%	82.5%	83.5%
Of which, corporate tenants	-	-	39.0%	38.5%	35.6%	36.0%	37.3%	33.7%	33.3%	33.5%	-
Of which, personnel dispatch/outsourcing lessee tenants	-	-	6.2%	6.5%	4.5%	3.5%	5.2%	2.8%	2.6%	2.7%	-

Notes

- Total number of leases signed is the combined total of leasing system contracts and monthly system use units.
- Total number of corporate leases includes those from subsidiary Leopalace Leasing.
- The occupancy rate is the average value for each period (full year or quarter). Figures for corporate tenants, and for personnel dispatch/outsourcing lease tenants are as of the end of the final month for the relevant period.

○ Revision of Occupancy Rate Target (Annual Average 85.1% → 83.5%)

(i) Sluggish corporate earnings due to long-term deflation remains a concern.

(ii) High unemployment delaying recovery in employment conditions.

Determination of the Provision for Apartment Vacancy Loss, and Forecast Amounts

(Units: 100 Million Yen; Units; %)		FY 2009/03	FY 2010/03							
		Full Year Effective Total	1Q Effective Total	2Q Effective Total	Full Year Estimate Amount	1st Half		2nd Half		
By Building Age	3 to 15 Years	39	52	58	77					
	Less than 3 Years	8	17	33	64	Units under Management	Occupancy Rate	New Units during 2nd Half	New Unit Share	Order Received Outstanding (No. of Units)
	Total	46	68	91	141					
By Area	Hokkaido Area	2	4	6	8	13,790	80%	800	4%	1,600
	Tohoku Area	8	11	14	18	32,747	83%	1,000	5%	1,350
	North Kanto Area	5	7	8	11	41,401	77%	1,100	5%	2,600
	Tokyo Metropolitan Area	3	4	6	7	145,654	87%	6,800	34%	15,000
	Hokuriku Area	5	9	13	17	15,830	79%	260	1%	500
	Koshinetsu Area	2	3	4	5	22,994	82%	1,100	5%	1,600
	Chubu Area	7	11	17	36	87,840	73%	2,900	14%	5,500
	Kinki Area	8	10	12	25	73,993	82%	3,000	15%	6,900
	Chugoku Area	2	3	3	4	35,960	85%	1,000	5%	1,900
	Shikoku Area	2	3	4	5	13,764	75%	500	2%	700
	Kyushu Area	2	3	4	5	40,711	84%	1,500	7%	3,500
	Okinawa Area	0	0	0	0	4,101	94%	300	1%	700
Total		46	68	91	141	528,785	82%	20,260	100%	41,850

Notes regarding determination of the provision for apartment vacancy loss and full year forecasts

- From the previous fiscal year (FY 2009/03), the provision has been allocated to provide against the downside risk from vacancy increases.

- Additions to the provision are governed by sudden loss of apartment demand, or the supply of new units.

(i) By area, regions with a high concentration of manufacturers, and certain regional areas.

(ii) By supply period, the areas where supply has increased within the past three years.

- In considering the vacancy risk for the second half, taking into account the number of new units supplied, while the risk is low in regions such as Tohoku and Hokuriku, the risk remains high in such areas as Chubu and Kinki, where there is a high concentration of manufacturers.

Outline of the First Half Results

Change for NEXT
Leopalace 21

Highlights of the First Half Results (Consolidated & Full Year Forecasts)

(Unit: Million Yen)	Consolidated				FY 2010/03 Full Year Results Forecast (Revised)		
	FY 2010/3 1st Half	FY 2009/3 1st Half	Change in amount	Percentage change	FY 2010/03	Revision amount	Main composition of revision amount
Net sales	310,390	355,352	(44,962)	-12.7%	639,400	(61,300)	Apartment Construction Subcontracting Business Down ¥50 billion Leasing Business Down ¥9 billion
Gross income	32,727	77,481	(44,754)	-57.8%	66,000	(38,700)	Apartment Construction Subcontracting Business Down ¥22 billion Leasing Business Down ¥17.8 billion
Gross margin (%)	10.5%	21.8%	-11.3%	-	10.3%	-4.6%	
Selling, general and administrative expenses	39,600	47,678	(8,078)	-16.9%	77,100	(5,800)	Apartment Construction Subcontracting Business Down ¥6.6 billion Leasing Business Down ¥0.8 billion
Operating income (loss)	(6,872)	29,803	(36,675)	-	(11,100)	(32,800)	Apartment Construction Subcontracting Business Down ¥15.4 billion Leasing Business Down ¥17 billion
Operating margin (%)	-2.2%	8.4%	-10.6%	-	-1.7%	-4.8%	
Recurring income (loss)	(11,850)	30,562	(42,412)	-	(17,100)	(37,000)	Operating loss Down ¥32.8 billion Foreign exchange loss Down ¥4.3 billion
Recurring margin (%)	-3.8%	8.6%	-12.4%	-	-2.7%	-5.5%	
Net income (loss)	(12,239)	12,280	(24,519)	-	(19,100)	(27,800)	

Highlights of the First Half Results for Parent & Major Subsidiaries

(Unit: Million Yen)		FY 2010/3 1st Half	FY 2009/3 1st Half	Change in amount	Percentage change	FY 2010/3 1st Half depreciation expenses	FY 2009/3 1st Half depreciation expenses
Leopalace21 Corporation	Net sales	307,949	352,364	(44,415)	-12.6%	2,298	1,604
	Recurring income (loss)	(10,341)	29,412	(39,753)	-		
LGC	Net sales	3,427	4,553	(1,126)	-24.7%	760	828
	Recurring income (loss)	(3,543)	2,096	(5,639)	-		
	Foreign exchange gain (loss)	(3,713)	1,487	(5,200)	-		
Others and Exclusion	Net sales	(985)	(1,565)	580	-37.1%	14	17
	Recurring income (loss)	2,033	(946)	2,979	-		
Consolidated total	Net sales	310,390	355,352	(44,962)	-12.7%	3,072	2,449
	Recurring income (loss)	(11,850)	30,562	(42,412)	-		
	Foreign exchange gain (loss)	(4,258)	1,436	(5,694)	-		

Outline of Balance Sheet (Consolidated)

(Unit: Million Yen)		FY 2010/3 1st Half	FY 2009/3 1st Half	Change in amount	FY 2009/3
Assets	Current assets	172,996	232,284	(59,288)	192,015
	Cash and cash equivalents	77,545	85,101	(7,556)	78,375
	Trade receivables and account receivables for completed projects	8,371	6,572	1,799	9,471
	Operating loans	7,438	12,019	(4,581)	10,043
	Real estate for sale in process	17,633	32,973	(15,340)	28,826
	Payment for construction in progress	13,166	15,705	(2,539)	14,925
	Property, plant and equipment	277,667	276,456	1,211	275,280
	Buildings and structures	67,728	73,959	(6,231)	66,529
	Land	116,411	116,900	(489)	114,914
	Construction in progress	3,303	1,243	2,060	2,884
	Total assets	450,763	508,745	(57,982)	467,300
Liabilities	Current liabilities	204,670	254,621	(49,951)	231,432
	Short-term borrowings	44,895	22,959	21,936	17,492
	Long-term liabilities	105,048	90,055	14,993	89,425
	Long-term debt	31,319	31,143	176	22,897
	Reserve for apartment vacancy loss	9,093	0	9,093	4,620
	Total liabilities	309,718	344,677	(34,959)	320,857
Net assets	Common stock	55,640	55,640	-	55,640
	Capital surplus	34,104	34,104	-	34,104
	Retained earnings	61,173	80,522	(19,349)	73,412
	Total net assets	141,045	164,068	(23,023)	146,442
Shareholder's equity ratio		31.3%	32.2%	-0.9%	31.3%

Outline of Cash Flow (Consolidated)

(Unit: Million Yen)	FY 2010/3 1st Half	FY 2009/3 1st Half	Change in amount	FY 2009/3
Cash flows from operating activities	(35,095)	36,378	(71,473)	62,843
Income (loss) before income taxes and minority interests	(12,096)	25,595	(37,691)	33,446
Depreciation	3,072	2,460	612	5,782
Increase (decrease) in reserve for apartment vacancy loss	4,473	-	4,473	4,620
Foreign exchange loss (gain)	4,258	(1,436)	5,694	1,876
Decrease (increase) in accounts receivable	2,601	10,693	(8,092)	35,868
Decrease (increase) in real estate for sale	10,542	1,291	9,251	4,941
Decrease (increase) in payment for construction in progress	1,758	(3,913)	5,671	(3,133)
Decrease (increase) in long-term prepaid expenses	3,419	(7,741)	11,160	(10,854)
Increase (decrease) in accounts payable	(19,847)	(1,470)	(18,377)	(26,860)
Income taxes paid	(14,081)	(14,332)	251	(22,884)
Cash flows from investing activities	(5,421)	(3,226)	(2,195)	(10,048)
Payment for purchase and proceeds from sale of property, plant and equipment	(3,118)	(2,430)	(688)	(5,147)
Payment for purchase and proceeds from sale of investment securities	(4)	(136)	132	(419)
Cash flows from financial activities	39,350	(8,547)	47,897	(33,885)
Proceeds from and repayment of short-term debt	22,799	2,800	19,999	0
Proceeds from and repayment of long-term debt	13,026	6,687	6,339	(4,226)
Refund of amount invested by minority interests	0	(4,970)	4,970	(4,970)
Dividends paid for shareholders	0	(7,968)	7,968	(12,750)
Net increase (decrease) in cash and cash equivalents	(830)	24,136	(24,966)	17,410
Cash and cash equivalents at end of period	77,545	85,101	(7,556)	78,375

Profit/Loss for Major Segments (Consolidated)

(Unit: Million Yen)	FY 2010/3 1st Half		FY 2009/3 1st Half		Change in amount	Percentage change	Forecasts for FY 2010/3	
Construction Division	* Effect in switching to “percent of completion method”: Net sales ¥6 billion; Gross income ¥1.6 billion.							
Net sales	120,635		174,426		(53,791)	-30.8%	250,071	
Gross income	32,820	27.2%	55,738	32.0%	(22,918)	-41.1%	63,690	25.5%
Operating income (loss)	16,414	13.6%	34,404	19.7%	(17,990)	-	33,039	13.2%
Leasing Division								
Net sales	170,918		170,393		525	0.3%	352,016	
Gross income	1,033	0.6%	25,509	15.0%	(24,476)	-96.0%	4,269	1.2%
Operating income (loss)	(17,846)	-10.4%	3,382	2.0%	(21,228)	-	(34,059)	-9.7%
Hotel Resort Division								
Net sales	5,097		6,694		(1,597)	-23.9%	10,204	
Gross income	1,205	23.6%	2,039	30.5%	(834)	-40.9%	2,063	20.2%
Operating income (loss)	(481)	-9.4%	215	3.2%	(696)	-	(1,078)	-10.6%
Other Division (Including Real Estate)								
Net sales	15,625		6,537		9,088	-	31,045	
Gross income (loss)	(496)	-3.2%	(3,220)	-49.3%	2,724	-	(218)	-0.7%
Operating income (loss)	(3,042)	-19.5%	(5,555)	-85.0%	2,513	-45.2%	(4,590)	-14.8%

*Values for each are before eliminations between segments.

*Segments have been changed since this FY ending March 2010. Please see page 15 for results of segment operations.

Full Year Forecasts for Apartment Construction Subcontracting Business Costs (Direct Costs and Indirect Expenses)

(Unit: 100 Million Yen) (Excludes percentage of completion basis)	FY 2008/03		FY 2009/03		FY 2010/3 1st half		FY 2010/03		FY 2010/03		Changes	
	Results	Percentage	Results	Percentage	1st Half	Percentage	Initial Plan	Percentage	Revised Forecast	Percentage	Compared to Plan	Compared to Plan
Net sales	3,275	100%	3,590	100%	1,144	100%	2,950	100%	2,450	100%	(500)	0.0%
Cost of sales	2,173	66.3%	2,495	69.5%	833	72.8%	2,109	71.5%	1,827	74.6%	(282)	3.1%
Direct construction costs	2,020	61.7%	2,263	63.0%	730	63.8%	1,873	63.5%	1,588	64.8%	(285)	1.3%
Indirect expenses	149	4.5%	226	6.3%	106	9.3%	236	8.0%	239	9.8%	3	1.8%
(Orders received outstanding)	(3,426)	-	(2,528)	-	(2,292)	-	(2,528)	-	(2,100)	-	(428)	-
Gross income	1,102	33.7%	1,094	30.5%	311	27.2%	841	28.5%	623	25.4%	(218)	-3.1%

Cost of sales for the Apartment Construction Subcontracting Business is divided roughly into direct construction costs (materials and outsource costs) and indirect expenses (labor and administrative costs).

For the subject fiscal year (FY 2010/03), the anticipated total cost of sales has risen a total of 3.1 percentage points as a result of the revision to the sales plan.

- (i) Direct construction costs are expected to rise 1.3 percentage points as a result of outsource expenses for family-type units and other new products added to the lineup.
- (ii) Indirect expenses are expected to rise 1.8 percentage points as a result of increased overhead for reassignment of personnel.

Current Progress in the Development of Other Businesses

Change for NEXT
Leopalace 21

Results of Other Business Operations

<Related Businesses> (Segment given in parenthesis underneath)

(Unit: Million Yen)		FY 2010/3 1st Half	FY 2009/3 1st Half	Change in amount	Percentage change	Forecasts for FY 2010/3
Real Estate Business (New segment)	Net sales	11,270	2,787	8,483	304.4%	21,123
	Gross income (loss)	7	(3,414)	3,421	-	(1)
	Operating income (loss)	(788)	(4,262)	3,474	-	(1,481)
Silver Business (Other Business)	Net sales	4,020	3,321	699	21.0%	9,078
	Gross income (loss)	(789)	(119)	(670)	-	(968)
	Operating income (loss)	(1,304)	(641)	(663)	-	(1,951)
Domestic Hotel Business (Hotel Resort Business)	Net sales	1,188	1,279	(91)	-7.1%	2,323
	Gross income (loss)	624	924	(300)	-32.5%	1,225
	Operating income (loss)	(46)	225	(271)	-	(77)
Broadband Business (Leasing Business)	Net sales	7,312	6,868	444	6.5%	14,891
	Gross income (loss)	1,308	704	604	85.8%	3,619
	Operating income (loss)	975	389	586	150.6%	2,922

<Leopalace Resort>

(Unit: 1,000 US Dollars)		FY 2009/12 1st Half (Jan.–Jun.)	FY 2008/12 1st Half (Jan.–Jun.)	Change in amount	Percentage change	FY Forecast (Jan.–Dec. 2009)
Leopalace Resort (Hotel Resort Business)	Net sales	35,853	43,411	(7,558)	-17.4%	81,355
	Operating income	1,567	5,578	(4,011)	-71.9%	4,823
	Depreciation expenses	7,945	7,889	56	-	16,158
	Occupancy rate (Leopalace Resort)	53.0%	60.5%	-7.5%	-	60.0%
	Occupancy rate (Westin)	52.6%	69.3%	-16.7%	-	70.1%

Results of Real Estate and Silver Business

<Real Estate Business>

	(Unit: Million Yen)		FY 2009/3	FY 2010/3 1st Quarter	FY 2010/3 1st Half	Forecast for FY 2010/3
	Real Estate Business	Purchase	Purchase contract amount	6,215	0	0
Sales		Sales contract amount	8,011	2,110	5,811	8,080
Revenue		Net sales	10,341	1,753	4,195	8,794
Total revenue of Real Estate Business		11,468	6,063	11,270	21,123	

<Silver Business>

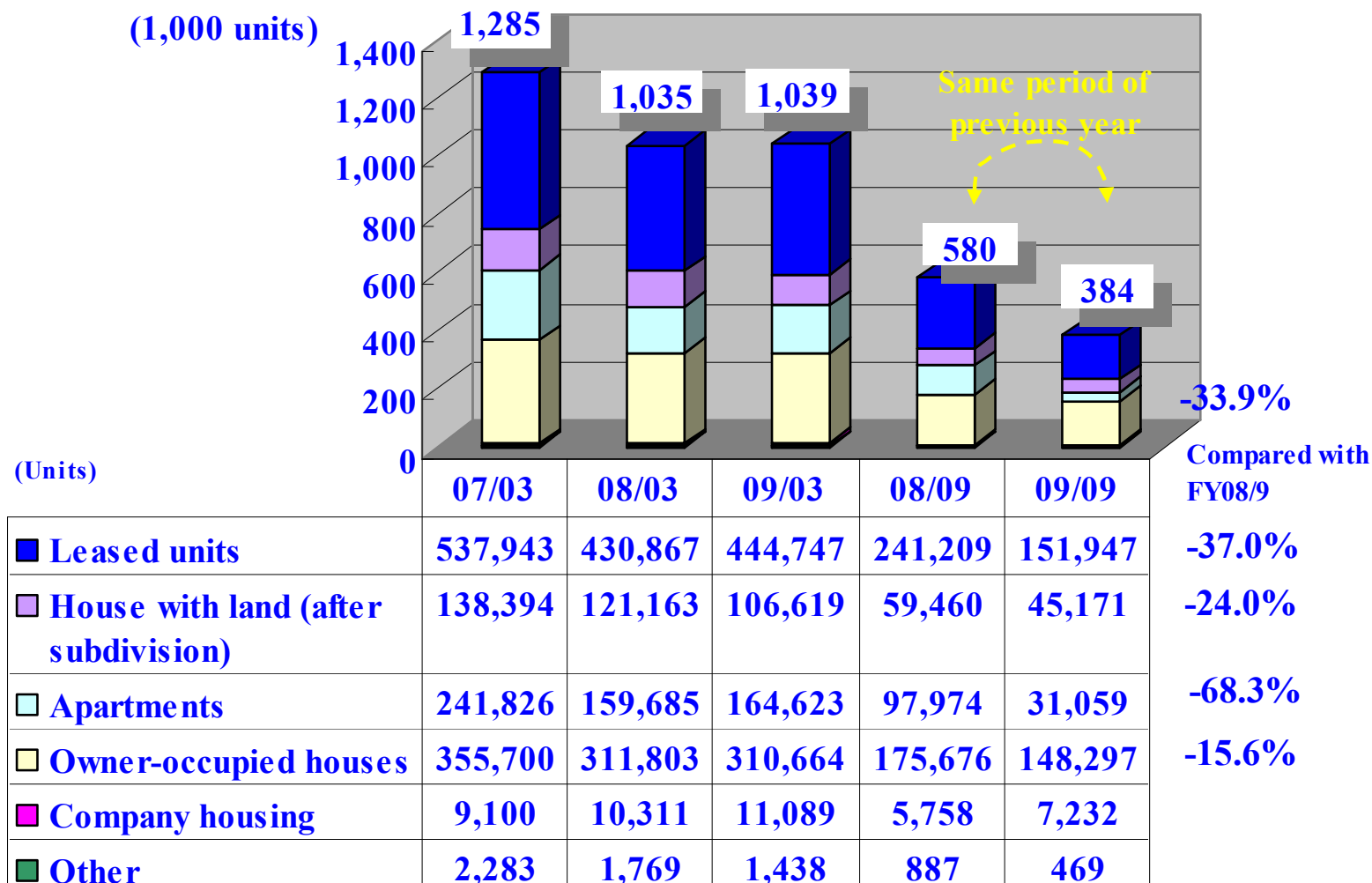
	(Unit: Million Yen)		FY 2009/3	FY 2010/3 1st Quarter	FY 2010/3 1st Half	Forecast for FY 2010/3
	Silver Business	Direct operation	Revenue	4,728	1,437	3,024
Total units at end of term			49	55	56	59
Under contracts		Contract amount	4,142	242	242	0
		Facilities ordered	12	1	1	0
		Revenue	3,225	481	995	3,072
Total revenue of Silver Business		7,953	1,919	4,020	9,078	

Appendix

Change for NEXT
 **Leopalace21**

New Housing Starts

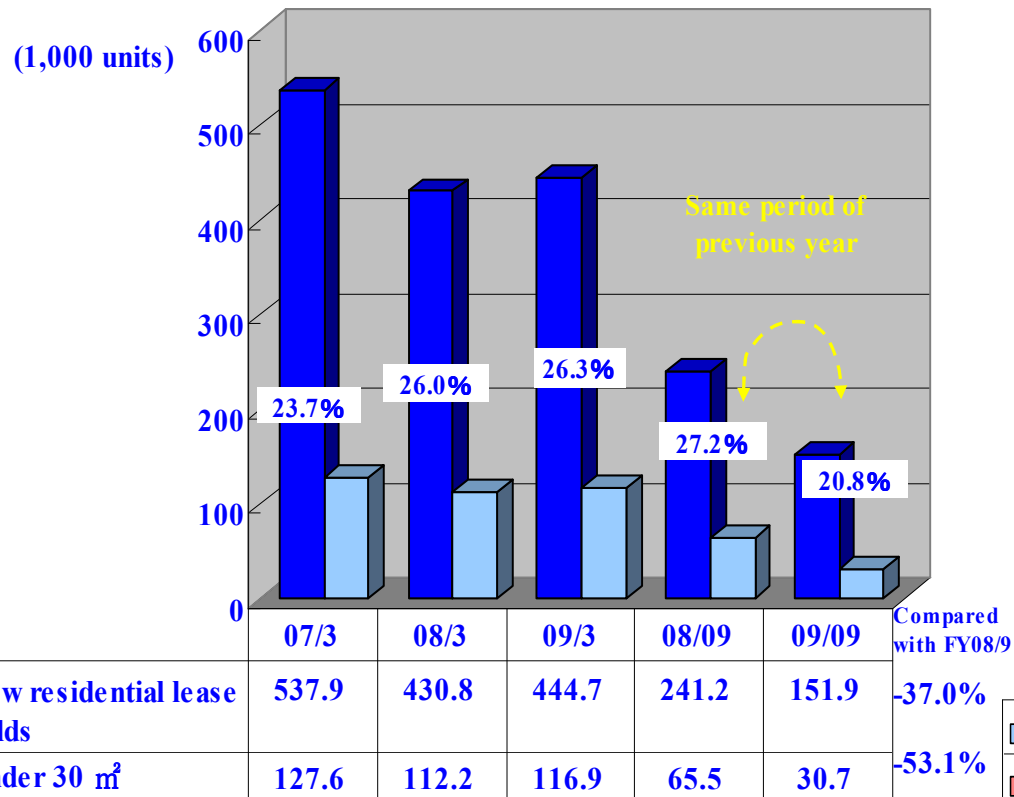
New Housing Starts (No. of use breakdown)



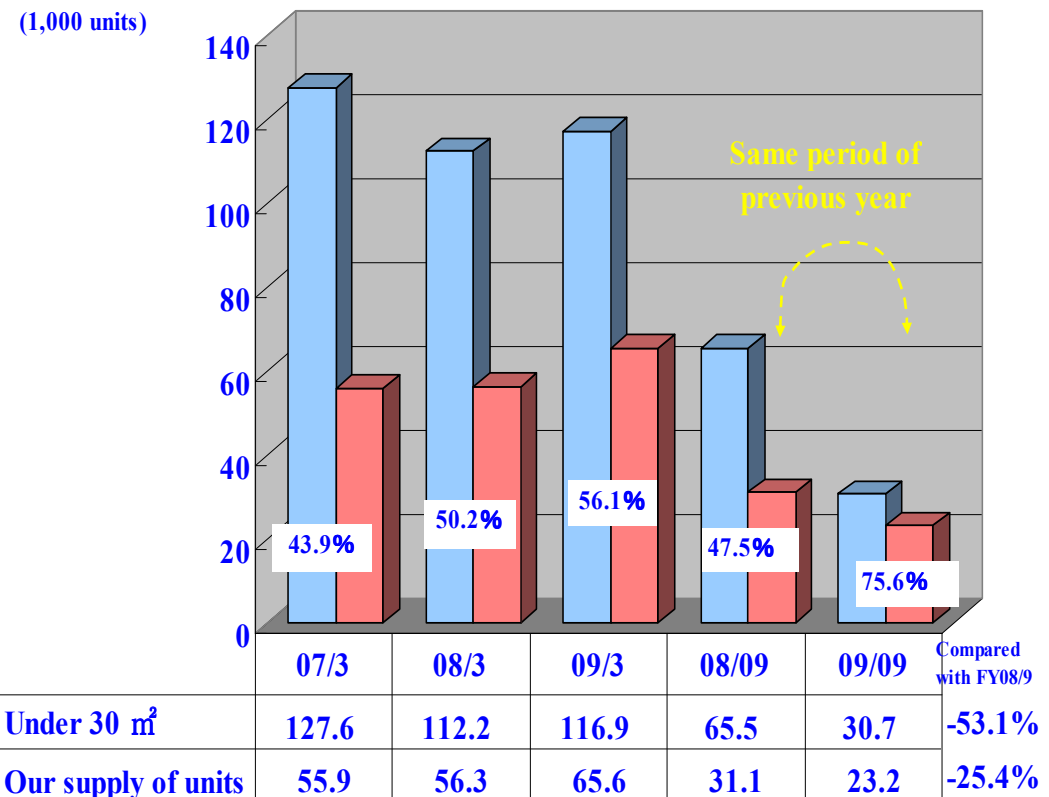
(Based on housing start statistics for the FY September 2009, Ministry of Land, Infrastructure & Transport)

New Housing Starts (Units under 30 square meters)

Trend in No. of New Residential Leaseholds Overall & Market Share for Units under 30 Square Meters



Trend in No. of New Residential Leaseholds under 30 Square Meters & Our Market Share

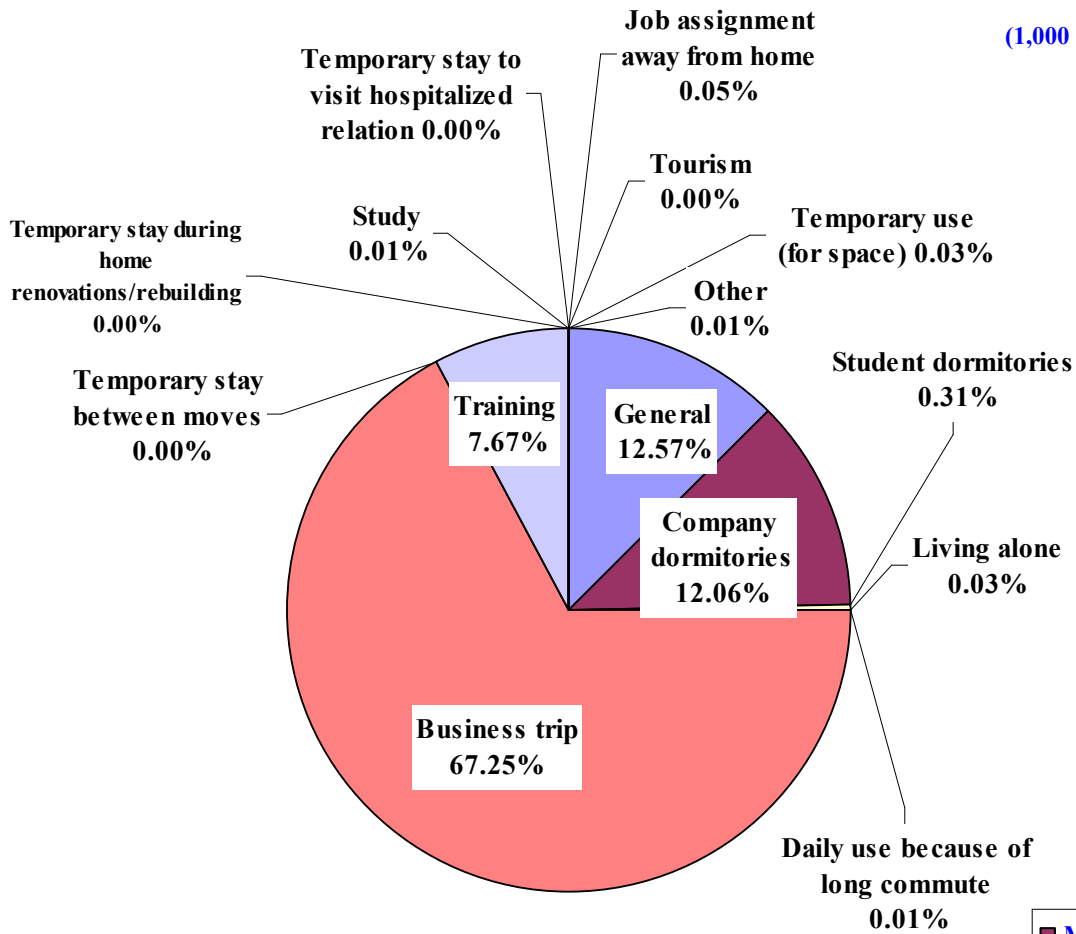


(Based on housing start statistics for the FY September 2009, Ministry of Land, Infrastructure & Transport)

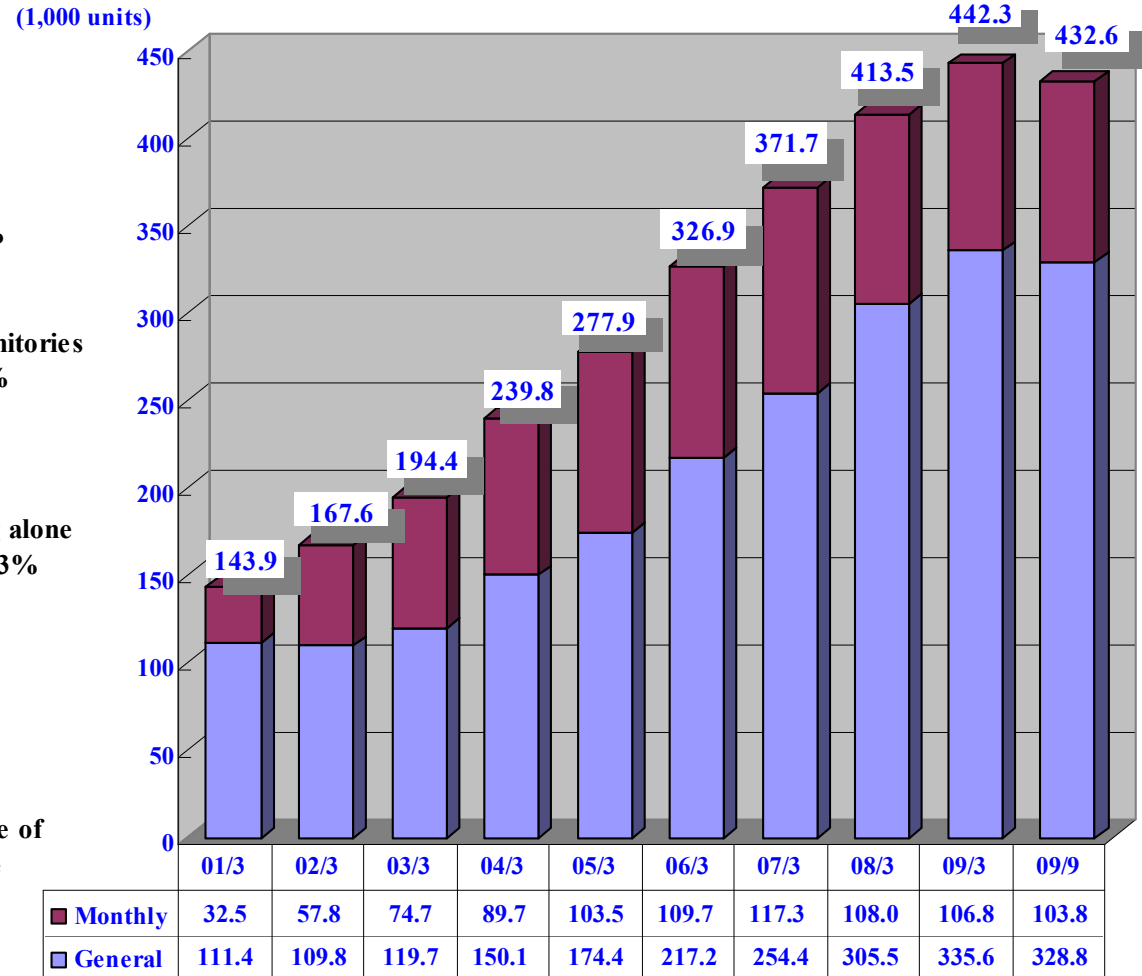
Note: Our supply units after FY 2006/3 represents actual units sold.

Usage Pattern for Leoplace21's One-Room Units and Contract Type

Breakdown of Users of Month-to-Month Leases (September 2009)



No. of Tenants by Contract Type



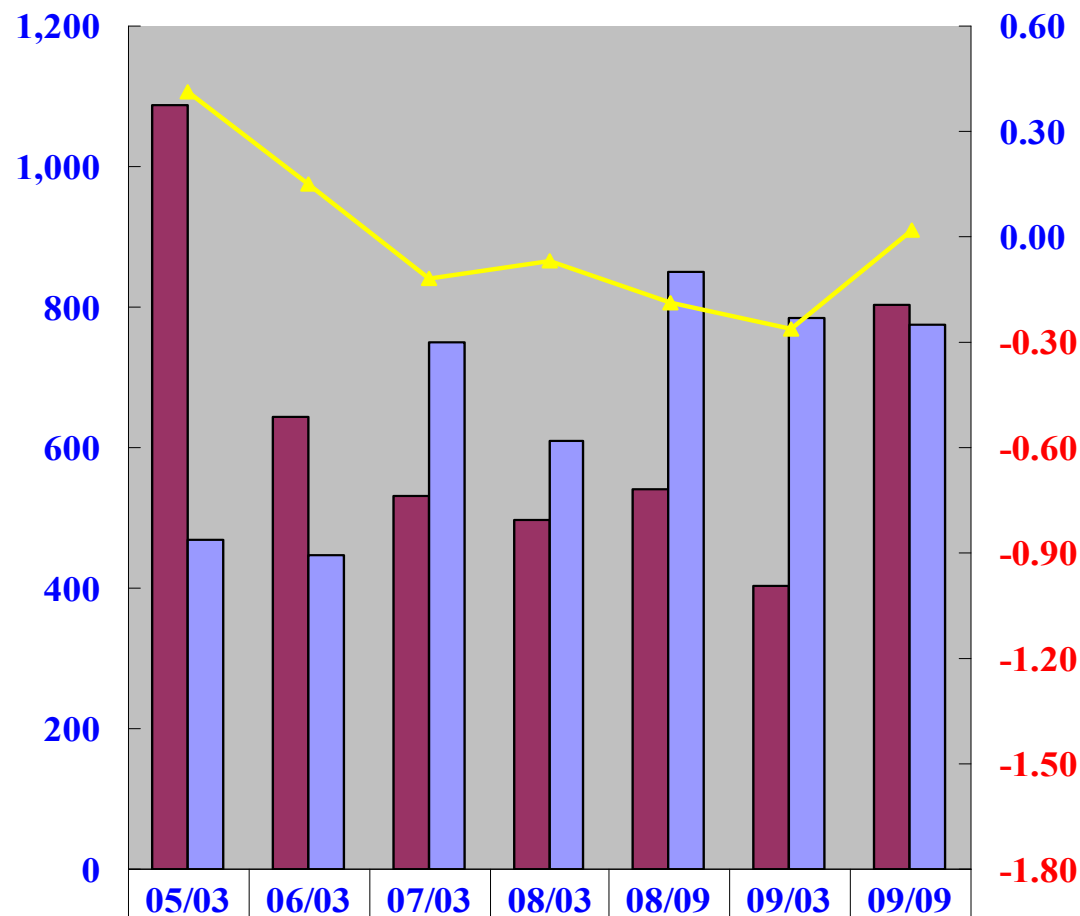
(Based on our company data, as of September 30, 2009)

Balance of Cash and Deposits and Interest-Bearing Debt

Cash and Deposits, Interest-Bearing Debt and Net D/E Ratio (Consolidated)

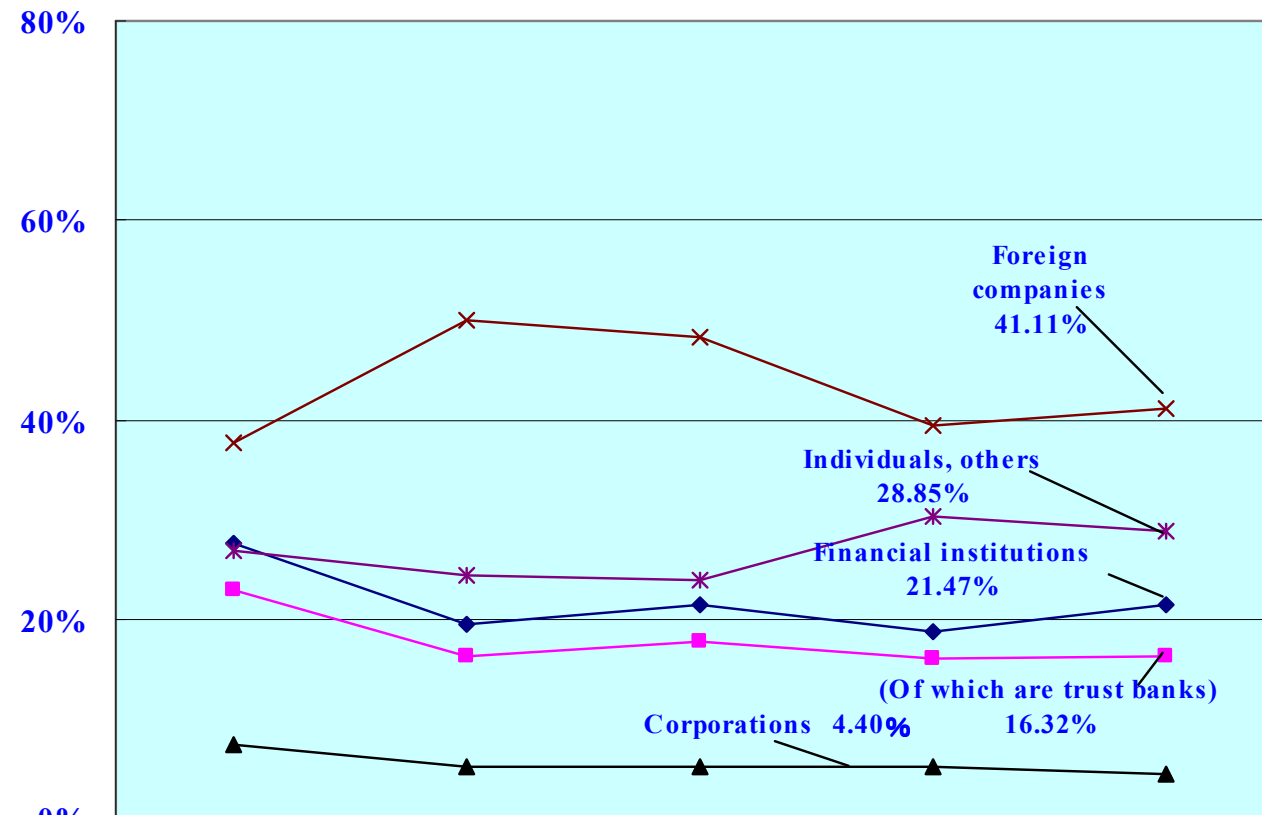
(100 Million Yen)

(Times)



Interest-bearing debt	1,087	645	531	497	541	403	802
Cash and deposits	468	446	751	609	851	784	775
Net debt/equity ratio	0.41	0.15	-0.12	-0.07	-0.19	-0.26	0.02

Trend in Shareholders



	06/03	07/03	08/03	09/03	09/09
◆ Financial institutions	27.61%	19.49%	21.52%	18.83%	21.47%
■ (Of which are trust banks)	22.96%	16.36%	17.73%	15.98%	16.32%
▲ Corporations	7.43%	5.28%	5.16%	5.21%	4.40%
✕ Foreign companies	37.56%	49.88%	48.28%	39.38%	41.11%
* Individuals, others	26.88%	24.38%	23.88%	30.38%	28.85%