

Consolidated Financial Statements (Japanese Accounting Standard)

November 7, 2014

(For the six months ended September 30, 2014)

Name of Company Listed: **Leopalace21 Corporation**
 Code Number: 8848
 (URL: <http://eg.leopalace21.com>)
 Representative: Position: President and CEO
 Name of Contact Person: Position: Executive Officer

Stock Listing: Tokyo Stock Exchange
 Location of Head Office: Tokyo

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Supplemental Explanatory Material Prepared: Yes

Results Briefing Held: Yes (for investment analysts and institutional investors)

Scheduled Date of Commencement of Dividend Payments: –

1. Results for the Fiscal Six months Ended September 30, 2014 (April 1, 2014 through September 30, 2014)

(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 income		Recurring income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2014	233,037	0.6	6,087	13.4	5,546	26.7	5,066	29.2
Six months ended September 30, 2013	231,673	5.3	5,369	183.0	4,375	–	3,921	–

Note: Comprehensive income: As of September 30, 2014: 3,622 million yen (-55.9%); As of September 30, 2013: 8,207 million yen (850.9%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2014	19.27	–
Six months ended September 30, 2013	18.53	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of September 30, 2014	274,536	110,190	40.1	419.11
As of March 31, 2014	287,459	104,860	36.5	398.78

Reference: Shareholders' equity: As of September 30, 2014: 110,172 million yen; As of March 31, 2014: 104,829 million yen

2. Dividend Status

(Base date)	Dividend per share				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	End of FY	Annual
	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2014	–	0.00	–	0.00	0.00
FY ending March 31, 2015	–	0.00			
FY ending March 31, 2015 (Estimated)			–	0.00	0.00

Note: Restatement of most recent dividend forecast (Y/N): None

3. Estimation of Business Results for the Fiscal Year Ending March 31, 2015 (April 1, 2014 through March 31, 2015)

(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 income		Recurring income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY ending March 31, 2015	493,500	4.8	14,500	6.0	13,000	12.3	12,000	(21.2)	45.65

Note: Restatement of most recent consolidated business results forecasts (Y/N): None

4. Other

- (1) Changes in major subsidiaries during the period (Change in specific subsidiaries as a result of a change in the scope of consolidation):
None
- (2) Use of accounting procedures specific to the preparation of quarterly financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates, restatements
 - (i) Changes in accounting policies accompanying revision of accounting standards, etc.: Yes
 - (ii) Changes in accounting policies other than (i) above: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatements: None
- (4) Total number of outstanding shares (Common stock)
 - (i) Total number of outstanding shares at term end (Includes treasury stock)
As of September 30, 2014: 267,443,915 shares, As of March 31, 2014: 267,443,915 shares
 - (ii) Total treasury stock at term end
As of September 30, 2014: 4,569,430 shares, As of March 31, 2014: 4,569,210 shares
 - (iii) Average number of outstanding shares during the period
For the six months ended September 30, 2014: 262,874,672 shares
For the six months ended September 30, 2013: 211,587,955 shares

Indication regarding the status of quarterly review procedures:

These financial statements are not subject to quarterly review procedures under the Financial Instruments and Exchange Act. The review of these financial statements in accordance with the Financial Instruments and Exchange Act completed at the time of disclosure.

Note on the proper use of the business forecasts contained in this report, and other disclaimers:

(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.

(Method for the acquisition of supplemental explanatory material)

Supplemental Explanatory Material on quarterly financial statements is scheduled to be posted on the Company's homepage on November 7, 2014.

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1. Qualitative Information on Financial Results for the Six Months Ended September 30, 2014

(1) Qualitative Information on Consolidated Business Results

(Million yen)

	Net sales	Operating income	Recurring income	Net income
Six months ended September 30, 2014	233,037	6,087	5,546	5,066
Six months ended September 30, 2013	231,673	5,369	4,375	3,921
change	1,364	718	1,170	1,144

During the first half of the consolidated fiscal year under review, although moderate weakness remains due to the rush demand with the consumption tax increase, the continuing recovery in the Japanese economy was evidenced primarily by the improvement of employment and income.

In the rental housing industry, although new housing starts were steady, the three months between July and September decreased year-on-year. To achieve stable occupancy rates against the increasing number of vacant houses in the market, housing supply in selected areas and high-quality housing and services are required.

Under these conditions, the Leopalace Group aims to build solid management strength focusing on the core businesses, made up of leasing and construction, based on the Medium-term Management Plan "EXPANDING VALUE" announced in May 2014. In addition, the Group aims to establish new businesses that will contribute to future growth.

As a result, consolidated net sales for the first half of the fiscal year under review came to ¥233,037 million (up 0.6% year-on-year). Consolidated operating income was ¥6,087 million (up 13.4%), consolidated recurring income was ¥5,546 million (up 26.7%) and consolidated net income was ¥5,066 million (up 29.2%).

The Group's construction business has many building construction contracts stipulating completion in the fourth quarter, which is when demand for rental apartments is highest. In the Leasing business, the number of apartments under management is increasing as apartments are completed so seasonal fluctuations put a preponderance of earnings into the fourth quarter.

(Actual figures by segment)

(Million yen)

	Net sales			Operating income (loss)		
	Six months ended September 30, 2013	Six months ended September 30, 2014	change	Six months ended September 30, 2013	Six months ended September 30, 2014	change
Leasing Business	191,876	197,432	5,556	6,201	9,561	3,360
Construction Business	30,415	24,650	(5,764)	970	(1,374)	(2,345)
Elderly Care Business	5,050	5,275	225	(320)	(237)	83
Hotels & Resort Business	3,640	4,258	618	(320)	(130)	190
Others	690	1,418	728	150	262	111
Adjustments	-	-	-	(1,312)	(1,994)	(682)
Total	231,673	233,037	1,364	5,369	6,087	718

(i) Leasing Business

The occupancy rate at the end of the first half of the consolidated fiscal year under review was 86.33% (up 2.05 points from the same quarter last year) and the average occupancy rate for the period was 85.96% (up 2.24 points from the same quarter last year).

In the leasing business, to establish stable profits led by occupancy improvement, the Group implemented measures such as tenant recruitment utilizing direct leasing offices, franchises, and local real estate brokers, as well as expanding tenant services including "Room Customize" and security system installations. In addition, the Group further strengthened sales against corporate and foreign clients as well as reduced costs by reviewing routine property management tasks.

The number of units under management at the end of the first half of the consolidated fiscal year under review was 551,000 (increasing 2,000 from the end of last fiscal year), and the number of direct offices was 187 (increasing 3). The number of franchise offices was 149 (decreasing 15).

As a result of the above, net sales amounted to ¥197,432 million (up 2.9% year-on-year), and operating income was ¥9,561 million (up 54.2% year-on-year).

(ii) Construction Business

Orders received during the first half of the consolidated fiscal year under review were ¥44,025 million (down 6.0% from the same quarter of the previous fiscal year) and the orders received outstanding at the end the first half of the consolidated fiscal year under review stood at ¥57,369 million (up 8.6% from the end of the same quarter of the previous fiscal year).

In the construction business, the Group continued to focus on receiving orders for apartments in areas where solid demand was anticipated, especially in the three metropolitan areas, prioritizing increasing profitability in the leasing business. Meanwhile, the Company promoted installation of solar power systems and construction of buildings other than apartment buildings, including elderly care facilities and stores. The Company also strove to enhance product capabilities, for example by installing a non-sound system to enhance noise insulation significantly in the standard specifications.

As a result, net sales came to ¥24,650 million (down 19.0% year-on-year), and operating loss was ¥1,374 million (compared to an operating income of ¥970 million in the same quarter of the previous fiscal year).

(iii) Elderly Care Business

Net sales were ¥5,275 million (up 4.5% year-on-year), and operating loss was ¥237 million (improving ¥83 million). In the elderly care business, which was positioned as a growth strategy area in the medium-term management plan, the Group will open new facilities in the collaboration with construction business.

(iv) Hotels & Resort Business

Net sales in resort facilities in Guam and hotels in Japan were ¥4,258 million (up 17.0% year-on-year), and the operating loss was ¥130 million (improving 190 million year-on-year).

(v) Other Businesses

In other businesses, such as the small-claims and short-term insurance business, the solar power generation business, and the finance business, net sales were ¥1,418 million (up 105.6% year-on-year), and the operating income was ¥262 million (up 74.3% year-on-year).

(2) Explanation on Consolidated Financial Position

(i) Position of Assets, Liabilities, and Net assets

(Million yen)

	Total assets	Total liabilities	Net assets
As of September 30, 2014	274,536	164,345	110,190
As of March 31, 2014	287,459	182,598	104,860
change	(12,922)	(18,252)	(5,330)

Total assets at the end of the first half of the fiscal year under review decreased ¥12,922 million from the end of the previous fiscal year, to ¥274,536 million. This was mainly attributable to an increase of ¥6,835 million in machinery, equipment, and vehicles related to solar power generation business. In addition, a decrease of ¥1,259 million in cash and cash equivalents, ¥1,138 million in trade receivables, ¥1,835 million in prepaid expenses, ¥2,041 million in buildings and structures, and ¥1,257 million in construction in progress lead to this result.

Total liabilities decreased ¥18,252 million from the end of the previous fiscal year, to ¥164,345 million. This primarily reflected a decrease of ¥4,752 million in accounts payable for completed projects, ¥2,978 million in unpaid expenses, ¥9,483 million in long and short term advances received and ¥1,539 million in reserve for apartment vacancy loss.

Net assets were up ¥5,330 million from the end of the previous fiscal year, to ¥110,190 million, chiefly due to an increase of ¥1,535 million in negative foreign currency translation adjustments balance, and at the same time an increase of ¥6,774 million in retained earnings, which was caused by net income and application of accounting policies related to retirement benefits. The ratio of shareholders' equity to assets rose 3.6 points from the end of the previous fiscal year, to 40.1%.

(ii) Cash Flow Position

Cash flow from operating activities was a net outflow of ¥3,675 million (a decline of ¥2,675 million in net outflow from the same period of the previous fiscal year). This was mainly due to income before taxes and minority interests of ¥5,273 million, depreciation of ¥3,461 million, a decrease of ¥2,533 million in long-term prepaid expenses, and a decrease of ¥2,168 million in accounts receivable, as well as a decrease of ¥9,449 million in advances received and a decrease of ¥7,042 million in accounts payable.

Cash flow from investing activities was a net outflow of ¥7,671 million (an increase of ¥6,465 million in net outflow from the same period of the previous fiscal year). This was primarily due to payments of ¥755 million for the purchase of property, plant and equipment.

Cash flow from financing activities was a net outflow of ¥1,138 million (a decline of ¥2,250 million in net outflow from the same period of the previous fiscal year). This was chiefly due to the proceeds from debt of ¥5,711 million and repayment of interest-bearing debt of ¥6,849 million.

As a result, cash and cash equivalents at the end of the first half of the consolidated fiscal year under review stood at ¥61,640 million, an increase of ¥16,057 million from the end of the first half of the previous fiscal year.

(3) Qualitative Information on Consolidated Results Forecast

Consolidated results forecasts announced in the consolidated financial statements published on May 9, 2014 remain unchanged.

The results forecasts are the estimates of the Company based on information available at the time of announcement of this document. Actual results may differ materially from these forecasts due to various factors.

2. Matters Relating to Summary Information (notes)

(1) Changes in Significant Subsidiaries During the Cumulative First Half Under Review

Not applicable

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

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

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

(Changes in Accounting Policies)

(Application of accounting policies related to retirement benefits)

The Company has applied section 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and section 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012) since the end of the subject first quarter. Calculation methods of retirement benefit obligations and service costs have been revised, and the attribution method for projected retirement benefits has been changed from the service period basis to the projected benefit method. Also, the method of determining discount rates has been changed from a method utilizing the discount rate based on an approximation of average remaining years of service of employees to a method utilizing multiple discount rates corresponding to each payment possibility period of retirement benefits.

In accordance to the transitional measures stated in section 37 of the "Accounting Standard for Retirement Benefits," the effected amount due to changes in the calculation method of retirement benefit obligations and service costs are included in retained earnings as of the end of the subject first half.

As a result, liability for retirement benefit has decreased ¥1,708 million and retained earnings has increased by the same amount as of the end of the subject first half. Effect on operating income, recurring income, and income before taxes and minority interests is insignificant.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Million yen)

	September 30, 2014	March 31, 2014
<Assets>		
Current assets		
Cash and cash equivalents	62,257	74,767
Trade receivables	4,351	5,490
Accounts receivable for completed projects	966	1,651
Operating loans	1,283	1,429
Marketable securities	673	350
Payment for construction in progress	560	501
Raw materials and supplies	492	464
Prepaid expenses	4,844	6,679
Deferred tax assets	4,147	4,147
Other accounts receivable	1,591	1,584
Other	4,657	5,479
Allowance for doubtful accounts	(190)	(221)
Total	85,637	102,324
Fixed assets		
Property, plant and equipment		
Buildings and structures (Net)	55,032	57,073
Machinery, equipment, and vehicles (Net)	10,786	3,950
Land	81,338	81,800
Leased assets (Net)	6,333	5,167
Construction in progress	2,455	3,712
Other (Net)	807	797
Total	156,752	152,503
Intangible assets	6,783	6,601
Investments and other assets		
Investment securities	7,043	7,257
Long-term loans	549	562
Bad debt	1,380	1,420
Long-term prepaid expenses	3,230	3,719
Deferred tax assets	12,353	12,152
Others	2,901	3,037
Allowance for doubtful accounts	(2,123)	(2,153)
Total	25,335	25,996
Total fixed assets	188,871	185,100
Deferred assets	27	34
Total assets	274,536	287,459

(Million yen)

	September 30, 2014	March 31, 2014
<Liabilities>		
Current liabilities		
Accounts payable	2,573	2,685
Accounts payable for completed projects	7,376	12,128
Short-term borrowings	28,445	2,940
Bonds due within one year	560	560
Lease obligations	1,894	1,575
Unpaid expenses	13,022	16,001
Accrued expenses	7	2
Accrued income taxes	674	998
Advances received	39,668	45,051
Customer advances for projects in progress	5,943	5,242
Reserve for employees' bonuses	1,394	–
Reserve for warranty obligations on completed projects	326	231
Reserve for fulfillment of guarantees	602	582
Other	3,735	4,560
Total	106,225	92,560
Long-term liabilities		
Bonds	640	920
Long-term debt	1,738	27,077
Lease obligations	5,161	4,154
Long-term advances received	23,527	27,628
Lease/guarantee deposits received	8,277	8,492
Deferred tax liabilities	135	135
Reserve for apartment vacancy loss	7,813	9,352
Retirement benefit liabilities	8,697	10,050
Other	2,129	2,226
Total	58,120	90,037
Total liabilities	164,345	182,598
<Net assets>		
Shareholders' equity		
Common stock	75,282	75,282
Capital surplus	51,501	51,501
Retained earnings	(9,014)	(15,788)
Treasury stock	(3,660)	(3,660)
Total	114,108	107,334
Accumulated other comprehensive income (loss)		
Net unrealized gains on "other securities"	457	427
Foreign currency translation adjustments	(3,652)	(2,116)
Remeasurements of defined benefit plans	(741)	(815)
Total	(3,936)	(2,504)
Share subscription rights	18	18
Minority Interests	0	13
Total net assets	110,190	104,860
Total liabilities and net assets	274,536	287,459

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

(Million yen)

	Six months ended September 30, 2014 (Apr. 2014–Jun. 2014)	Six months ended September 30, 2013 (Apr. 2013–Jun. 2013)
Net sales	233,037	231,673
Cost of sales	197,536	199,343
Gross profit	35,501	32,329
Selling, general and administrative expenses	29,413	26,959
Operating income	6,087	5,369
Non-operating income		
Interest income	20	22
Dividend income	70	51
Property tax refund	89	–
Other	148	111
Total	329	185
Non-operating expenses		
Interest expenses	585	775
Commission fee	222	315
Other	62	88
Total	870	1,179
Recurring profit	5,546	4,375
Extraordinary income		
Gain on sales of property, plant and equipment	6	0
Total	6	0
Extraordinary losses		
Loss on sales of property, plant and equipment	0	–
Loss on disposal of property, plant and equipment	199	6
Impairment loss	79	87
Total	278	94
Income before taxes and minority interests	5,273	4,281
Income taxes	217	360
Income before minority interests	5,055	3,921
Minority stockholders loss	(10)	–
Net income	5,066	3,921

Consolidated Statements of Comprehensive Income (loss)

(Million yen)

	Six months ended September 30, 2014 (Apr. 2014–Jun. 2014)	Six months ended September 30, 2013 (Apr. 2013–Jun. 2013)
Income before minority interests	5,055	3,921
Other comprehensive income (loss)		
Net unrealized gains on “other securities”	29	(140)
Translation adjustments	(1,538)	4,426
Remeasurements of defined benefit plans	74	–
Share of other comprehensive income of associates	0	0
Total	(1,433)	4,286
Comprehensive income	3,622	8,207
(Breakdown)		
Comprehensive income attributable to shareholders of the parent entity	3,634	8,207
Comprehensive income attributable to minority interests	(12)	–

(3) Consolidated Cash Flow

(Million yen)

	Six months ended September 30, 2014 (Apr. 2014–Jun. 2014)	Six months ended September 30, 2013 (Apr. 2013–Jun. 2013)
Cash flows from operating activities		
Income before taxes and minority interests	5,273	4,281
Depreciation	3,461	2,798
Increase (decrease) in reserve for doubtful accounts	(54)	(367)
Increase (decrease) in reserve for apartment vacancy loss	(1,539)	(2,318)
Interest expense	585	775
Foreign exchange loss (gain)	(41)	(6)
Equity in losses (earnings) of affiliated companies	3	(0)
Loss (gain) on sale of property, plant and equipment	(5)	(0)
Write-offs of property, plant and equipment	199	6
Impairment loss	79	87
Decrease (increase) in accounts receivable	2,168	1,856
Decrease (increase) in work in process	(59)	(128)
Decrease (increase) in long-term prepaid expenses	2,533	6,014
Increase (decrease) in accounts payable	(7,042)	(9,028)
Increase (decrease) in customer advances for projects in progress	698	753
Increase (decrease) in advances received	(9,449)	(11,182)
Increase (decrease) in guarantee deposits received	(253)	(283)
Increase (decrease) in accrued consumption taxes	154	(697)
Other	805	2,172
Total	(2,482)	(5,265)
Interest and dividends received	84	68
Interest paid	(590)	(784)
Income taxes paid	(687)	(369)
Net cash used in operating activities	(3,675)	(6,350)
Cash flows from investing activities		
Purchase of property, plant and equipment	(7,505)	(547)
Proceeds from sale of property, plant and equipment	230	0
Payment for purchase of intangible assets	(340)	(476)
Payment for purchase of investment securities	–	(106)
Proceeds from sale of investment securities	63	7
Payment for loans	(4)	(6)
Proceeds from collection of loans	19	20
Payments for time deposits	–	(100)
Other	(134)	1
Net cash provided by (used in) investing activities	(7,671)	(1,205)
Cash flows from financing activities		
Proceeds from short-term debt	3,900	–
Repayment of short-term debt	–	(1,874)
Proceeds from long-term debt	1,811	–
Repayment of long-term debt	(5,831)	(720)
Payment for redemption of bonds	(280)	(280)
Repayment of finance lease obligations	(738)	(544)
Proceeds from disposal of treasury stock	–	30
Payment for purchase of treasury stock	(0)	–
Net cash provided by (used in) investing activities	(1,138)	(3,388)

	Six months ended September 30, 2014 (Apr. 2014–Jun. 2014)	Six months ended September 30, 2013 (Apr. 2013–Jun. 2013)
Effect of exchange rate changes on cash and cash equivalents	(24)	146
Net increase (decrease) in cash and cash equivalents	(12,509)	(10,798)
Cash and cash equivalents at beginning of period	74,150	56,381
Cash and cash equivalents at end of period	61,640	45,583

(4) Notes Regarding Consolidated Financial Statements
 (Notes Regarding the Premise of the Company as a Going Concern)
 There are no relevant items.

(Note Regarding Significant Changes in Shareholders' Equity)
 There are no relevant items.

(Segment Information)

i Six months Ended September 30, 2013 (April 1, 2013 through September 30, 2013)

1. Sales and Profit, as well as Losses by Reportable Segment

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Segment Total				
Net sales									
(1) Sales to customers	191,876	30,415	5,050	3,640	230,982	690	231,673	–	231,673
(2) Inter-segment sales and transfers	237	76	–	1,189	1,504	50	1,554	(1,554)	–
Total	192,114	30,492	5,050	4,829	232,486	740	233,227	(1,554)	231,673
Segment earnings (or loss)	6,201	970	(320)	(320)	6,531	150	6,681	(1,312)	5,369

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

2. The segment earnings (or loss) adjustment of (¥1,312) million includes (¥16) million in inter-segment eliminations, and (¥1,328) million in corporate expenses not allocated to reportable segments. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

3. Segment earnings (or loss) are adjusted to the operating loss figure on the Consolidated Statements of Operations.

ii Six months Ended September 30, 2014 (April 1, 2014 through September 30, 2014)

1. Sales and Profit, as well as Losses by Reportable Segment

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Segment Total				
Net sales									
(1) Sales to customers	197,432	24,650	5,275	4,258	231,618	1,418	233,037	–	233,037
(2) Inter-segment sales and transfers	280	6,364	–	1,400	8,046	65	8,111	(8,111)	–
Total	197,713	31,015	5,275	5,659	239,664	1,484	241,148	(8,111)	233,037
Segment earnings (or loss)	9,561	(1,374)	(237)	(130)	7,819	262	8,082	(1,994)	6,087

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

2. The segment earnings (or loss) adjustment of (¥1,994) million includes (¥590) million in inter-segment eliminations, and (¥1,403) million in corporate expenses not allocated to reportable segments. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

3. Segment earnings (or loss) are adjusted to the operating income figure on the Consolidated Statements of Operation.