Consolidated Financial Statements (Japanese Accounting Standards)

February 7, 2014

(For the nine months ended December 31, 2013)

Name of Company Listed: **Leopalace21 Corporation** Stock Listing: Tokyo Stock Exchange
Code Number: 8848 Location of Head Office: Tokyo
(URL: http://eg.leopalace21.com)
Representative: Position: President and CEO Name: Eisei Miyama
Contact Person: Position: Executive Officer Name: Bunya Miyao
Telephone: +81-3-5350-0216
Scheduled Date of Filing of Quarterly Report: February 13, 2014 Scheduled Date of Commencement of Dividend Payments: –
Supplemental Explanatory Material Prepared: Yes
Results Briefing Held: None (for investment analysts and institutional investors)

1. Results for the Nine Months Ended December 31, 2013 (April 1, 2013 through December 31, 2013)

(1) Consolidated financial results

(Amounts less than one million yen are omitted)
(Percentages represent changes from the same period last year)

	Net sales		Operating income		Recurring income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2013	**343,465**	**4.1**	**8,750**	**74.0**	**7,178**	**22.8**	**6,402**	**26.9**
Nine months ended December 31, 2012	329,834	(0.8)	5,029	302.8	5,843	–	5,045	–

Note: Comprehensive income: Nine months ended December 31, 2013: 10,376 million yen 276.7%;
Nine months ended December 31, 2012: 2,754 million yen –%

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended December 31, 2013	**29.77**	**–**
Nine months ended December 31, 2012	29.10	29.09

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of December 31, 2013	**275,515**	**90,874**	**33.0**	**354.32**
As of March 31, 2013	261,649	58,151	22.2	274.80

Note: Shareholders' equity: As of December 31, 2013: 90,839 million yen; As of March 31, 2013: 58,133 million yen

2. Dividend Status

	Dividend per share				
(Base date)	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, 2013	–	0.00	–	0.00	0.00
FY ending March 31, 2014	–	0.00	–	–	–
FY ending March 31, 2014 (Forecast)	–	–	–	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, 2014 (April 1, 2013 through March 31, 2014)

(Amounts less than one million yen are omitted)
(Percentages represent changes compared with the previous full-year and six-month period results, respectively)

	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, 2014	467,400	2.9	14,100	90.2	12,200	10.0	11,000	(17.5)	51.15

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 that causes 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.: 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 (Includes treasury stock)
    As of December 31, 2013: 260,943,915 shares
    As of March 31, 2013: 217,443,915 shares
  (ii) Total treasury stock at term end
    As of December 31, 2013: 4,569,120 shares
    As of March 31, 2013: 5,900,320 shares
  (iii) Average number of outstanding shares during the period
    For the nine months ended December 31, 2013: 215,034,863 shares
    For the nine months ended December 31, 2012: 173,384,776 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 is 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.

Concerning assumptions of business forecasts and note on the proper use of these forecasts, see page 5. “1.Qualitative Information on Financial Results for the Nine Months Ended December 31, 2013 (3) Qualitative information on consolidated results 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 February 7, 2014.

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1. Qualitative Information on Financial Results for the Nine Months Ended December 31, 2013

(1) Analysis of business results

(Million yen)

	Net sales	Operating income	Recurring income	Net income
Nine months ended December 31, 2013	343,465	8,750	7,178	6,402
Nine months ended December 31, 2012	329,834	5,029	5,843	5,045
Change	13,631	3,721	1,334	1,357

During the cumulative third quarter of the consolidated fiscal year under review, the continuing recovery in the Japanese economy, although moderate, was evidenced primarily by the yen's progressive weakening and the appreciation of stock prices, reflecting the government's economic and monetary policies, as well as signs of a recovery in consumer spending and employment situation.

In the housing rental industry, due to last minute surge in demand before increase in taxation, new housing starts continued to see year-on-year increases, and the number of vacant houses has also been increasing steadily. To achieve stable occupancy rates against the backdrop of this oversupply in the market, housing supply in selected areas and high-quality housing and services are required.

Under these conditions, the Leopalace Group positions the fiscal year under review, the second year of the new medium-term management plan, as a year to reach a new growth stage. Based on the foundations built in the previous fiscal year, the Group sought to maximize profits by making its properties under management more competitive and enhancing tenant services.

As a result, the Group achieved increases both in sales and profit in the cumulative third quarter under review, posting net sales of ¥343,465 million (up 4.1% year-on-year), operating income of ¥8,750 million (up 74.0% year-on-year), recurring income of ¥7,178 million (up 22.8% year-on-year), and net income of ¥6,402 million (up 26.9% year-on-year).

The Group's construction business has many building construction contracts stipulating completion in the fourth quarter, which is when demand for rental apartments is busiest. 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.

Business performance by segment is as follows:

(Million yen)

	Net sales			Operating Income (loss)		
	Nine months ended December 31, 2012	Nine months ended December 31, 2013	change	Nine months ended December 31, 2012	Nine months ended December 31, 2013	change
Leasing Business	286,266	288,568	2,301	8,276	11,277	3,000
Construction Business	30,741	40,758	10,016	(617)	608	1,225
Hotels & Resort Business	4,839	5,478	639	(682)	(625)	57
Elderly Care Business	7,116	7,631	514	(477)	(446)	31
Others	869	1,028	158	145	193	47
Adjustments	–	–	–	(1,615)	(2,256)	(640)
Total	329,834	343,465	13,631	5,029	8,750	3,721

(i) Leasing Business

The occupancy rate at the end of the third quarter of the consolidated fiscal year under review was 84.12% (up 1.83 point from the same period last year), and the average occupancy rate for the period was 83.89% (up 1.38 points from the same period last year).

In the leasing business, the Company strove to achieve stable occupancy rates and encouraged long-term tenancies by promoting corporate sales in all industries, keeping tenants from leaving its properties through active proposals of relocation, providing a variety of apartments in the "Room-Customize" service, and increasing apartment buildings with security systems installed. The Company continued to adjust rents paid based on market rents and to cut costs by reviewing routine property management tasks.

The number of units under management at the end of the third quarter under review was 547,000 (increasing 1,000 from the end of last fiscal year), and the number of direct offices was 184 (increasing 2). The number of franchise offices was 167 (decreasing 25).

As a result, net sales amounted to ¥288,568 million (up 0.8% year-on-year), and operating income was ¥11,277 million (up 36.3% year-on-year).

(ii) Construction Business

Orders received during the cumulative third quarter of the consolidated fiscal year under review were ¥64,032 million (up 28.9% year-on-year), and orders received outstanding at the end of the third quarter under review stood at ¥56,974 million (up 5.7% year-on-year).

In the construction business, the Company 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 ¥40,758 million (up 32.6% year-on-year), and operating income was ¥608 million (compared to an operating loss of ¥617 million in the same period of last fiscal year).

(iii) Hotels & Resort Business

Net sales in resort facilities in Guam and hotels in Japan were ¥5,478 million (up 13.2% year-on-year), and operating loss was ¥625 million (improving ¥57 million year-on-year).

(iv) Elderly Care Business

Net sales were ¥7,631 million (up 7.2% year-on-year), and operating loss was ¥446 million (improving ¥31 million year-on-year).

(v) Other Businesses

In other businesses such as the small-claims and short-term insurance business, the finance business, and the solar power generation business, net sales were ¥1,028 million (up 18.3% year-on-year), and the operating income was ¥193 million (up 32.8% year-on-year).

(2) Analysis of consolidated financial position

(Million yen)

	Total Assets	Total Liabilities	Net Assets
As of December 31, 2013	275,515	184,641	90,874
As of March 31, 2013	261,649	203,498	58,151
Change	13,865	(18,857)	32,723

Total assets at the end of the third quarter of the consolidated fiscal year under review increased ¥13,865 million from the end of the previous fiscal year, to ¥275,515 million. This was mainly attributable to decreases of ¥4,479 million in prepaid expenses and ¥4,015 million in long-term prepaid expenses, and increases of ¥16,226 million in cash and cash equivalents, ¥2,632 million in leased assets and ¥2,490 million in construction in progress.

Total liabilities decreased ¥18,857 million from the end of the previous fiscal year, to ¥184,641 million. This primarily reflected an increase of ¥399 million in customer advances for projects in progress and ¥2,791 million in leased obligations, and decrease of ¥7,564 million in accounts payable for completed projects, ¥12,626 million in short and long-term advances received, and ¥3,955 million in reserve for apartment vacancy loss.

As a result, net assets were up ¥32,723 million from the end of the previous fiscal year, to ¥90,874 million, chiefly due to an increase of ¥21,602 million in common stock and capital surplus through public offering, a decrease of ¥4,112 million in negative foreign currency translation adjustments balance and an increase of ¥642 million in retained earnings due to the posting of net income. The ratio of shareholders' equity to assets rose 10.8 points from the end the previous fiscal year, to 33.0%.

(3) Qualitative information on consolidated results forecasts

Consolidated results forecasts announced in the consolidated financial statements published on May 10, 2013 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 third quarter 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 third quarter under review.

3. Consolidated Financial Statements
(1) Consolidated balance sheets

(Million yen)

	December 31, 2013	March 31, 2013
<Assets>		
Current assets		
Cash and cash equivalents	72,908	56,681
Trade receivables	4,443	4,360
Accounts receivable for completed projects	1,131	2,231
Operating loans	1,590	1,879
Marketable securities	267	504
Payment for construction in progress	1,107	339
Raw materials and supplies	471	457
Prepaid expenses	8,292	12,772
Deferred tax assets	4,273	4,273
Other accounts receivable	797	1,017
Other	5,402	6,722
Allowance for doubtful accounts	(248)	(346)
Total	**100,437**	**90,896**
Fixed assets		
Property, plant and equipment		
Buildings and structures (Net)	55,702	54,740
Land	81,759	80,780
Leased assets (Net)	4,431	1,798
Construction in progress	2,666	175
Other (Net)	2,721	1,502
Total	**147,281**	**138,997**
Intangible assets	6,741	6,613
Investments and other assets		
Investment securities	7,272	7,176
Long-term loans	566	570
Bad debt	1,459	1,900
Long-term prepaid expenses	4,111	8,127
Deferred tax assets	6,663	6,586
Other	3,156	3,339
Allowance for doubtful accounts	(2,212)	(2,606)
Total	**21,016**	**25,094**
Total fixed assets	**175,039**	**170,705**
Deferred assets	**37**	**48**
Total assets	**275,515**	**261,649**

(Million yen)

	December 31, 2013	March 31, 2013
<Liabilities>		
Current liabilities		
Accounts payable	2,582	2,670
Accounts payable for completed projects	6,742	14,307
Short-term borrowings	12,940	14,814
Bonds due within one year	560	560
Lease obligations	1,426	1,097
Unpaid expenses	12,751	13,252
Accrued expenses	271	12
Accrued income taxes	793	394
Advances received	41,979	49,036
Customer advances for projects in progress	7,716	3,807
Reserve for employees' bonuses	1,948	—
Reserve for warranty obligations on completed projects	142	71
Reserve for fulfillment of guarantees	441	457
Other	3,937	4,662
Total	**94,233**	**105,144**
Long-term liabilities		
Bonds	1,200	1,480
Long-term borrowings	29,300	30,020
Lease obligations	3,517	1,054
Long-term advances received	26,788	32,357
Lease/guarantee deposits received	8,603	8,984
Retirement benefit reserves	9,114	8,634
Reserve for apartment vacancy loss	9,995	13,950
Other	1,888	1,872
Total	**90,407**	**98,353**
Total liabilities	**184,641**	**203,498**
<Net assets>		
Shareholders' equity		
Common stock	73,668	62,867
Capital surplus	49,887	39,424
Retained earnings	(24,616)	(31,018)
Treasury stock	(3,660)	(4,726)
Total	**95,279**	**66,546**
Accumulated other comprehensive income (loss)		
Net unrealized gains on "other securities"	509	648
Translation adjustments	(4,949)	(9,061)
Total	**(4,439)**	**(8,413)**
Share subscription rights	**18**	**18**
Minority interests	**16**	—
Total net assets	**90,874**	**58,151**
Total liabilities and net assets	**275,515**	**261,649**

(2) Consolidated statements of operations and consolidated statements of comprehensive income

Consolidated statements of operations

(Million yen)

	Nine months ended December 31, 2013 (Apr. 2013–Dec. 2013)	Nine months ended December 31, 2012 (Apr. 2012–Dec. 2012)
Net sales	**343,465**	**329,834**
Cost of sales	**294,030**	**288,699**
Gross profit	**49,434**	**41,134**
Selling, general and administrative expenses	**40,684**	**36,105**
Operating income	**8,750**	**5,029**
Non-operating income		
Interest income	31	34
Dividend income	56	34
Gain on sales of investment securities	—	5
Foreign exchange income	45	2,246
Consumption tax refund	—	108
Other	132	151
Total	**265**	**2,580**
Non-operating expenses		
Interest expenses	1,174	1,075
Commission fee	433	439
Other	231	252
Total	**1,838**	**1,766**
Recurring profit	**7,178**	**5,843**
Extraordinary income		
Gain on sales of property, plant and equipment	0	—
Reversal of reserve for disaster loss	—	3
Gain on liquidation of subsidiaries	—	70
Total	**0**	**73**
Extraordinary losses		
Loss on disposal of property, plant and equipment	6	28
Impairment loss	132	641
Total	**139**	**669**
Loss before taxes and minority interests	**7,038**	**5,246**
Income taxes	**636**	**201**
Net income	**6,402**	**5,045**

Consolidated statements of comprehensive income (loss)

(Million yen)

	Nine months ended December 31, 2013 (Apr. 2013–Dec. 2013)	Nine months ended December 31, 2012 (Apr. 2012–Dec. 2012)
Net income	6,402	5,045
Other comprehensive income (loss)		
Net unrealized gains on "other securities"	(138)	(40)
Translation adjustments	4,111	(2,250)
Share of other comprehensive income of associates	0	—
Total	**3,973**	**(2,290)**
Comprehensive income	10,376	2,754
(Breakdown)		
Comprehensive income attributable to shareholders of the parent entity	10,376	2,754

(3) Notes regarding consolidated financial statements for the nine months ended December 31, 2013

(Notes Regarding the Premise of the Company as a Going Concern)

There are no relevant items.

(Note Regarding Significant Changes in Shareholders' Equity)

As of the end of the nine months ended December 31, 2013, both the Company's capital and capital reserve increased ¥10,801 million, to ¥73,668 million and ¥48,692 million, respectively, as a result of a capital increase via a public offering (payment date: December 11, 2013) conducted during the period under review.

(Segment Information)

i Nine Months Ended December 31, 2012 (April 1, 2012 through December 31, 2012)

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	Hotels & Resort Business	Elderly Care Business	Segment Total				
Net sales									
(1) Sales to customers	286,266	30,741	4,839	7,116	328,964	869	329,834	–	329,834
(2) Inter-segment sales and transfers	285	–	1,402	–	1,687	57	1,744	(1,744)	–
Total	286,552	30,741	6,241	7,116	330,651	927	331,578	(1,744)	329,834
Segment earnings (or loss)	8,276	(617)	(682)	(477)	6,499	145	6,644	(1,615)	5,029

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, residential sales businesses, and financing businesses.

2. The segment earnings (or loss) adjustment of (¥1,615) million includes ¥45 million in inter-segment eliminations, and (¥1,661) 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 operations.

ii Nine Months Ended December 31, 2013 (April 1, 2013 through December 31, 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	Hotels & Resort Business	Elderly Care Business	Segment Total				
Net sales									
(1) Sales to customers	288,568	40,758	5,478	7,631	342,436	1,028	343,465	–	343,465
(2) Inter-segment sales and transfers	360	4,057	1,882	–	6,299	77	6,377	(6,377)	–
Total	288,929	44,815	7,360	7,631	348,735	1,106	349,842	(6,377)	343,465
Segment earnings (or loss)	11,277	608	(625)	(446)	10,813	193	11,007	(2,256)	8,750

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, financing businesses and solar power generation business.

2. The segment earnings (or loss) adjustment of (¥2,256) million includes (¥338) million in inter-segment eliminations, and (¥1,917) 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