Consolidated Financial Statements (Japanese Accounting Standard)

May 15, 2017

(For the year ended March 31, 2017)

Name of Company Listed: **Leopalace21 Corporation** Stock Listing: Tokyo Stock Exchange
Code Number: 8848 URL: http://eg.leopalace21.com/ Location of Head Office: Tokyo
Representative: Position: President and CEO Name: Eisei Miyama
Name of Contact Person: Position: Director Name: Bunya Miyao Telephone: +81-3-5350-0216
Scheduled Date of the Ordinary Shareholders' Meeting: June 29, 2017
Scheduled Date of Filing of Securities Report (Japanese only): June 29, 2017
Scheduled Date of Commencement of Dividend Payments: June 30, 2017
Supplemental Explanatory Material Prepared: Yes Results Briefing Held: Yes

1. Results for the Fiscal Year ended March 31, 2017 (April 1, 2016 through March 31, 2017)

(1) Consolidated financial results (Amounts less than one million yen are omitted)

(The percentage figures indicate rate of gain or loss compared with the same period last year)

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended March 31, 2017	520,488	1.8	22,898	8.6	22,355	12.3	20,401	3.9
FY ended March 31, 2016	511,513	—	21,085	—	19,909	—	19,631	—

(Note) Comprehensive income as of March 31, 2017: 19,153 million yen ((3.8%)); as of March 31, 2016: 19,915 million yen (-%)

	Net income per share	Diluted net income per share	Return on equity	Recurring income / Total capital	Operating profit / Net sales
	Yen	Yen	%	%	%
FY ended March 31, 2017	77.61	77.56	13.4	6.7	4.4
FY ended March 31, 2016	74.68	—	14.6	6.3	4.1

(Reference) Equity in earnings of affiliates in FY ended March 31, 2017: (6) million yen, FY ended March 31, 2016: (9) million yen.
(Note) Rate of gain or loss compared to the previous year are omitted, since figures are retrospectively adjusted due to changes in accounting

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of March 31, 2017	337,828	158,870	47.0	603.76
As of March 31, 2016	327,609	144,865	44.2	550.94

(Reference) Shareholders' equity as of March 31, 2017: 158,713 million yen; as of March 31, 2016: 144,827 million yen
(Note) Figures as of March 31, 2016 are retrospectively adjusted due to changes in accounting policies.

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Million yen	Million yen	Million yen	Million yen
FY ended March 31, 2017	27,504	(8,953)	(14,048)	91,466
FY ended March 31, 2016	22,104	(11,087)	1,374	86,826

2. Dividend Status

	Dividend per share					Total cash dividends (annual)	Dividend payout ratio (consolidated)	Dividend on equity ratio (consolidated)
	End of Q1	End of Q2	End of Q3	End of FY	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY ended March 31, 2016	—	0.00	—	10.00	10.00	2,628	13.4	1.9
FY ended March 31, 2017	—	10.00	—	12.00	22.00	5,783	28.3	3.8
FY ending March 31, 2018 (Estimate)	0	10.00	0	12.00	22.00		40.7	

3. Estimation of Consolidated Business Results for the Fiscal Year ending March 31, 2018 (April 1, 2017 through March 31, 2018)

(The percentage figures for full year indicate rate of gain or loss compared with the previous FY, while those for the interim period indicate rate of gain or loss compared with the same term in the previous FY)

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2017	258,000	1.1	9,700	(14.4)	9,500	(11.6)	7,500	(22.6)	28.53
FY ending March 31, 2018	540,000	3.7	23,500	2.6	22,500	0.6	14,200	(30.4)	54.02

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) 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.: Yes
- (ii) Changes in accounting policies other than (i) above: Yes
- (iii) Changes in accounting estimates: None
- (iv) Restatements: None

(Note) For details, please refer to pg.14 "3. Consolidated Financial Statements (5) Notes Regarding Consolidated Financial Statements (Changes in Accounting Policies)"

(3) Total number of outstanding shares (common stock)
- (i) Total number of outstanding shares at term end (including treasury stock)
  As of March 31, 2017: 267,443,915 shares, As of March 31, 2016: 267,443,915 shares
- (ii) Total treasury stock at term end
  As of March 31, 2017: 4,569,920 shares, As of March 31, 2016: 4,569,520 shares
- (iii) Average number of outstanding shares during the period
  As of March 31, 2017: 262,874,243 shares, As of March 31, 2016: 262,874,470 shares

(Reference) Summary of Non-Consolidated Financial Statements

1. Results of the Fiscal Year Ended March 31, 2017 (April 1, 2016 through March 31, 2017)

(1) Non-consolidated financial results (The percentage figures indicate rate of gain or loss compared with the previous FY)

	Net sales		Operating profit		Recurring income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended March 31, 2017	499,218	0.8	21,704	6.2	21,717	9.5	20,486	5.5
FY ended March 31, 2016	495,146	2.2	20,444	31.1	19,825	36.3	19,422	26.7

	Net income per share	Diluted net income per share
	Yen	Yen
FY ended March 31, 2017	77.93	77.89
FY ended March 31, 2016	73.88	—

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of March 31, 2017	306,739	152,219	49.6	578.54
As of March 31, 2016	294,962	136,732	46.3	520.07

(Reference) Shareholders' equity as of March 31, 2017: 152,082 million yen; as of March 31, 2016: 136,714 million yen

2. Estimation of Non-consolidated Business Results for the Fiscal Year Ending March 31, 2018 (April 1, 2017 through March 31, 2018)

(The percentage figures for full year represent the change compared with the previous FY, while those for the interim period represent the change compared with the same term in the previous FY)

	Net sales		Recurring profit		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2017	248,000	0.7	9,000	(11.6)	7,000	(21.3)	26.63
FY ending March 31, 2018	510,000	2.2	21,500	(1.0)	14,000	(31.7)	53.26

*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. 5 "1. Business Results (1) Analysis of Business Results (Outlook for the next fiscal year).

(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 May 15, 2017.

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1. Business Results

(1) Analysis of Business Results

The accounting policy concerning revenue recognition has been changed from the previous quarter, and previous figures have been retrospectively adjusted. Please refer to P.17 "(5) Notes Regarding Consolidated Financial Statements (Changes in Accounting Policies)" for details.

(Million yen)

	Net sales	Operating profit	Recurring profit	Net income attributable to shareholders of the parent
FY ended March 31, 2017	520,488	22,898	22,355	20,401
FY ended March 31, 2016	511,513	21,085	19,909	19,631
Difference	8,974	1,812	2,445	769

During the subject consolidated fiscal year, the domestic economy showed gradual progression supported by improvements in corporate earnings, employment, and corporate earnings.

New housing starts of leased units has increased for two consecutive years (up 11.4% year-on-year), due to the prolonged period of low interest rates and strong demand for apartment construction as a strategy to reduce inheritance taxes. On the other hand, as the number of vacant houses continues to increase and recovery in nationwide demand becomes difficult, achieving stable occupancy rates requires constructing apartments in areas with high demand, in addition to providing high-quality products and services that meet tenants' needs.

Under these conditions, the Leopalace21 Group (the "Group") aims to achieve targets of the Medium-term Management Plan "EXPANDING VALUE," by building a solid management structure focusing on the core businesses, made up of Leasing and Construction. In addition, the Group aims to establish new businesses that will contribute to future growth.

As a result, consolidated net sales for the fiscal year under review came to 520,488 million yen (up 1.8% year-on-year). Operating profit was 22,898 million yen (up 8.6% year-on-year), recurring profit was 22,355 million yen (up 12.3% year-on-year), and net income attributable to shareholders of the parent was 20,401 million yen (up 3.9% year-on-year).

On a non-consolidated basis, net sales were 499,218 million yen (up 0.8% year-on-year), operating profit was 21,704 million yen (up 6.2%), recurring income was 21,717 million yen (up 9.5%), and net income was 20,486 million yen (up 5.5%).

(Actual figures by segment) (Million yen)

	Net sales			Operating profit		
	FY ended March 31, 2016	FY ended March 31, 2017	Difference	FY ended March 31, 2016	FY ended March 31, 2017	Difference
Leasing Business	410,641	416,594	5,952	22,848	22,459	(389)
Construction Business	74,160	74,566	406	3,340	5,051	1,711
Elderly Care Business	10,798	11,536	738	(1,354)	(1,650)	(296)
Hotels & Resort Business	11,427	7,244	(4,183)	(697)	(768)	(70)
Others	4,485	10,546	6,060	337	1,432	1,095
Adjustments	—	—	—	(3,388)	(3,626)	(238)
Total	511,513	520,488	8,974	21,085	22,898	1,812

(i) Leasing Business

In the Leasing Business, to establish stable occupancy, the Group providing wealth of value-added life to their tenants such as "my DIY" (formerly known as "Room Customize") which enable tenants to arrange their rooms, providing an internet services "LEONET" website for tenants, and security system installations alliance with large security companies as well as further strengthening sales for corporate customers and increase foreign tenants by refining customer support.

The occupancy rate at the end of the fiscal year was 91.66% (up 1.13 points from the end of the previous fiscal year) and the average occupancy rate for the period was 88.53% (up 0.58 points year-on-year).

The number of units under management at the end of the fiscal year was 568,000 (increasing 6,000 from the end of the previous fiscal year), the number of direct offices was 189 (no change), and the number of franchise offices was 119 (decreasing 11 from the end of the previous fiscal year).

As a result, net sales amounted to 416,594 million yen (up 1.4% year-on-year), and operating profit was 22,459 million yen (down 1.7% year-on-year).

(ii) Construction Business

Orders received during the subject year were 87,139 million yen (up 0.8% year-on-year) and the orders received outstanding stood at 67,257 million yen (up 1.4% from the end of the previous fiscal year).

In the Construction Business, the Group focused on supplying apartments in metropolitan areas where solid leasing demand is anticipated supported by an increase in population, as well as providing high quality and forefront strategic products. In addition, the Group implemented a new brand attempting to strengthen product competitiveness and refresh the image of tenants, expanded construction variations based on "ideal land use", and has begun reconsidering suppliers and its product prices to improve profitability.

Also, subsidiary Morizou Co., Ltd., provides luxury custom-built homes made with Kiso-hinoki.

As a result, net sales came to 74,566 million yen (up 0.5% year-on-year), and operating profit was 5,051 million yen (up 51.2% year-on-year).

(iii) Elderly Care Business

Net sales were 11,536 million yen (up 6.8% year-on-year), and operating loss was 1,650 million yen (increasing loss of 296 million yen year-on-year).

(iv) Hotels & Resort Business

Net sales of the resort facilities in Guam and hotels in Japan were 7,244 million yen (up 36.6% year-on-year), and operating loss was 768 million yen (increasing loss of 70 million yen year-on-year). Westin Resort Guam was sold in April 2016.

(v) Other Businesses

In Other Businesses such as the real estate business, the solar power generation business, and the small-claims and short-term insurance business, net sales were 10,546 million yen (up 135.1% year-on-year), and operating profit was 1,432 million yen (up 324.6% year-on-year).

(Outlook for the next fiscal year)

As for the consolidated business results of the fiscal year ending March 2018, we expect sales of 540,000 million yen (up 3.7% year-on-year), operating profit of 23,500 million yen (up 2.6%), recurring profit of 22,500 million yen (up 0.6%), and net income attributable to shareholders of the parent of 14,200 million yen (down 30.4%). This forward-looking statement has planned based on the information which is available on the date of release, but please understand that actual results may differ significantly from these forecasts due to various factors.

(2) Analysis of Consolidated Financial Position

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

(Million yen)

	Assets	Liabilities	Net assets
As of March 31, 2017	337,828	178,958	158,870
As of March 31, 2016	327,609	182,743	144,865
Difference	10,219	(3,785)	14,004

Total assets at the end of the fiscal year increased 10,219 million yen from the end of the previous fiscal year to 337,828 million yen. This was mainly attributable to an increase of 16,389 million yen in cash and cash equivalents, 4,234 million yen in leased assets (net), 4,223 million yen in investment securities, 3,011 million yen in deferred tax assets, and, despite a decrease of 16,152 million yen in buildings and structures (net) and 3,852 million yen in land.

Total liabilities decreased 3,785 million yen from the end of the previous fiscal year to 178,958 million yen. This primarily reflected a decrease of 5,579 million yen in borrowings and bonds, 3,099 million yen in long and short term advances received, despite an increase in lease obligations of 4,673 million yen and 1,070 million yen in liability for retirement benefit.

Net assets increased 14,004 million yen from the end of the previous fiscal year to 158,870 million yen, due to a recording of 20,401 million yen in net income attributable to shareholders of the parent despite a payment of dividends of 5,257 million yen and a decrease in foreign currency translation adjustments of 1,624 million yen. The ratio of shareholders' equity to assets rose 2.8 points from the end of the previous fiscal year to 47.0%.

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(ii) Cash flow position

Cash flow from operating activities was a net inflow of 27,504 million yen (an increase of 5,399 million yen in net inflow from the previous fiscal year). This was mainly due to 21,622 million yen of income before taxes and minority interests, and 9,336 million yen of depreciation, despite a decrease in advances received of 3,141 million yen and income taxes paid of 3,839 million yen.

Cash flow from investing activities was a net outflow of 8,653 million yen (a decrease of 2,433 million yen in net outflow from the previous fiscal year). This was primarily due to payment for deposit of fixed deposits of 11,878, payment for purchase of shares in subsidiaries of 5,402 million yen, payments for the purchase of property, plant and equipment of 4,318 million yen, despite 16,744 million yen of proceeds from sale of property, plant and equipment.

Cash flow from financing activities was a net outflow of 14,048 million yen (net inflow of 1,374 million yen in the previous fiscal year). This was chiefly due to payment of dividend of 5,257 million yen, repayment of debt and redemption of bonds of 5,578 million yen (after deduction of proceeds from debt), and a repayment of finance lease obligations of 3,212 million yen.

As a result, cash and cash equivalents at the end of the consolidated fiscal year under review stood at 91,766 million yen, an increase of 4,940 million yen from the end of the previous fiscal year.

(Reference) Trends in cash flow indicators

	FY ended March 31, 2013	FY ended March 31, 2014	FY ended March 31, 2015	FY ended March 31, 2016	FY ended March 31, 2017
Equity ratio (%)	21.5	35.9	40.4	44.2	47.0
Market price based equity ratio (%)	32.2	45.2	53.5	54.6	44.7
Ratio of cash flow to interest-bearing debt (year)	8.1	2.4	2.8	2.3	1.8
Interest coverage ratio (ratio)	4.7	9.8	13.8	23.6	39.8

Equity ratio: Shareholders' equity/assets

Market price based equity ratio: Market capitalization/assets

Ratio of cash flow to interest-bearing debt: Interest-bearing debt/cash flow

Interest coverage ratio: Cash flow/interest paid

(Note 1) Ratios are calculated based on consolidated financial data.

(Note 2) Market capitalization is calculated as closing price at the end of the fiscal year x shares outstanding at the end of the fiscal year (excluding treasury stock).

(Note 3) Cash flow is cash flow from operations from the Consolidated Statements of Cash Flow. Interest-bearing debt is all of the debt noted on the Consolidated Balance Sheets on which interest is being paid.

(3) Fundamental Policy on the Distribution of Earnings and Dividends for the Fiscal Year under Review and Next Fiscal Year

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. Concerning the dividend payout ratio, the Company will set a medium-term goal of 30% (in respect to consolidated net income), in addition to maintaining a stable dividend.

For the subject fiscal year, the Company plans to pay a year-end dividend of 12 yen. A mid-term dividend was 10 yen, meaning a total of 22 yen and 28.3% of dividend payout ratio.

For the next fiscal year, the Company plans a mid-term dividend of 10 yen, a year-end dividend of 12 yen, with a total of 22 yen.

2. Basic Approach to Selection of Accounting Standards

The Group prepares consolidated financial statements according to the Japanese accounting standards in consideration of comparability in terms of the period of consolidated financial statements and comparability among companies. As for the application of the International Financial Reporting Standards (IFRS), we will take the appropriate actions in light of the change in the ratio of foreign shareholders and movements of other companies in the same industry in Japan, among other factors.

3. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Million yen)

	March 31, 2017	March 31, 2016
<Assets>		
Current assets		
Cash and cash equivalents	104,432	88,043
Trade receivables	6,547	6,779
Accounts receivable for completed projects	2,355	1,992
Operating loans	675	885
Securities	121	880
Real estate for sale	421	21
Real estate for sale in progress	1,849	-
Payment for construction in progress	518	785
Raw materials and supplies	526	588
Prepaid expenses	2,827	2,847
Deferred tax assets	8,636	6,377
Other accounts receivable	831	1,630
Others	4,228	4,283
Allowance for doubtful accounts	(186)	(212)
Total current assets	**133,786**	**114,904**
Non-current assets		
Property, plant, and equipment		
Buildings and structures	102,680	130,653
Accumulated depreciation	(60,852)	(72,673)
Net	41,827	57,979
Machinery, equipment, and vehicles	21,741	23,369
Accumulated depreciation	(7,535)	(7,264)
Net	14,206	16,105
Land	80,388	84,241
Leased assets	24,795	17,663
Accumulated depreciation	(11,143)	(8,246)
Net	13,652	9,417
Construction in progress	3,911	2,444
Others	9,770	11,850
Accumulated depreciation	(8,489)	(10,001)
Net	1,281	1,848
Total property, plant, and equipment	**155,267**	**172,036**
Intangible fixed assets		
Goodwill	3,181	1,530
Others	8,461	7,804
Total intangible fixed assets	**11,642**	**9,334**
Investments and other assets		
Investment securities	12,453	8,230
Long-term loans	516	544
Bad debts	1,246	1,256
Long-term prepaid expenses	3,820	3,686
Deferred tax assets	17,486	16,734
Others	3,129	2,232
Allowance for doubtful accounts	(2,073)	(2,023)
Total investments and other assets	**36,579**	**30,661**

Total non-current assets	**203,489**	**212,033**
Deferred assets		
Allowance for doubtful accounts	552	671
Total deferred assets	**552**	**671**
Total assets	**337,828**	**327,609**

(Million yen)

	March 31, 2017	March 31, 2016
<Liabilities>		
Current liabilities		
Accounts payable	2,826	2,606
Accounts payable for completed projects	12,186	12,193
Short-term borrowings	—	265
Long-term debt due within one year	1,263	1,412
Bonds due within one year	3,966	4,326
Lease obligations	4,647	3,054
Accounts payable-other	19,066	19,229
Accrued expenses	1	5
Accrued income taxes	2,544	2,919
Advances received	40,003	40,766
Customer advances for projects in progress	5,381	5,026
Reserve for warranty obligations on completed projects	412	447
Reserve for fulfillment of guarantees	1,082	860
Asset retirement obligations	43	34
Others	4,099	4,301
Total current liabilities	**97,524**	**97,449**
Non-current liabilities		
Bonds	16,035	20,001
Long-term debt	13,267	14,106
Lease obligations	10,739	7,659
Long-term advances received	16,614	18,950
Lease/guarantee deposits received	7,152	7,516
Deferred tax liabilities	148	208
Reserve for apartment vacancy loss	3,183	3,802
Liability for retirement benefit	11,295	10,224
Asset retirement obligations	77	69
Others	2,920	2,754
Total non-current liabilities	**81,433**	**85,294**
Total liabilities	**178,958**	**182,743**
<Net assets>		
Shareholders' equity		
Common stock	75,282	75,282
Capital surplus	45,235	45,235
Retained earnings	39,923	24,779
Treasury stock	(3,660)	(3,660)
Total shareholders' equity	**156,779**	**141,636**
Accumulated other comprehensive income		
Net unrealized gains on "other securities"	574	435
Foreign currency translation adjustments	2,027	3,651
Remeasurements of defined benefit plans	(668)	(895)
Total accumulated other comprehensive income	**1,933**	**3,190**
Share subscription rights	136	18
Non-controlling interests	20	20
Total net assets	**158,870**	**144,865**
Total liabilities and net assets	**337,828**	**327,609**

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

Consolidated Statements of Operations

(Million yen)

	FY ended March 31, 2017 (Apr. 2016–Mar. 2017)	FY ended March 31, 2016 (Apr. 2015–Mar. 2016)
Net sales		
Sales from Leasing Business	416,594	410,641
Sales from Construction Business	74,566	74,160
Sales from Other Business	29,327	26,712
Total net sales	**520,488**	**511,513**
Cost of sales		
Cost of Leasing Business	349,112	344,246
Cost of Construction Business	52,800	54,236
Cost of Other Business	25,907	24,122
Total cost of sales	**427,820**	**422,604**
Gross profit	**92,668**	**88,909**
Selling, general, and administrative expenses		
Advertising expenses	3,816	3,786
Sales commission expense	2,278	2,688
Transfer to reserve for bad debt	39	59
Directors' compensation	742	474
Salary and bonuses	32,469	31,436
Retirement benefit cost	1,818	1,182
Rent expense	2,724	2,709
Depreciation and amortization	1,649	1,981
Taxes and public charges	4,972	4,521
Other	19,259	18,984
Total selling, general, and administrative expenses	**69,769**	**67,823**
Operating profit	**22,898**	**21,085**
Non-operating income		
Interest income	80	43
Dividend income	118	77
Valuation gains of investment securities	166	77
Foreign exchange gain	36	—
Gain from amortization of deposits payable	21	102
Compensation income	—	61
Other	149	153
Total non-operating income	**572**	**517**
Non-operating expenses		
Interest expenses	734	944
Commission fee	46	171
Bond issuance fee	241	165
Foreign exchange losses	—	267
Equity in losses of affiliated companies	6	9
Other	87	135
Total non-operating expenses	**1,115**	**1,693**
Recurring profit	**22,355**	**19,909**

(Million yen)

	FY ended March 31, 2017 (Apr. 2016–Mar. 2017)	FY ended March 31, 2016 (Apr. 2015–Mar. 2016)
Extraordinary income		
Gain on sales of property, plant and equipment	408	26
Total extraordinary income	**408**	**26**
Extraordinary losses		
Loss on sale of property, plant and equipment	314	1
Loss on retirement of property, plant and equipment	149	147
Loss on evaluation of investment securities	—	19
Impairment loss	589	616
Disaster loss	88	—
Total extraordinary losses	**1,142**	**785**
Income before taxes and other adjustments	**21,622**	**19,150**
Income taxes—current	3,245	2,999
Income taxes – refund	(3)	(19)
Income taxes – deferred	(2,031)	(3,458)
Total income taxes	**1,210**	**(478)**
Income before minority interests	**20,411**	**19,628**
Minority stockholders' loss	**10**	**(2)**
Net income	**20,401**	**19,631**

Consolidated Statements of Comprehensive Income

(Million yen)

	FY ended March 31, 2017 (Apr. 2016–Mar. 2017)	FY ended March 31, 2016 (Apr. 2015–Mar. 2016)
Net income	**20,411**	**19,628**
Other comprehensive income		
Net unrealized gains on “other securities”	139	55
Translation adjustments	(1,624)	107
Remeasurements of defined benefit plans	226	125
Share of other comprehensive income of associates	0	(1)
Total other comprehensive income	**(1,257)**	**286**
Comprehensive income	**19,153**	**19,915**
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	19,143	19,917
Comprehensive income attributable to non-controlling interests	10	(2)

(3) Consolidated Statements of Changes in Net Assets

Fiscal year ended March 31, 2016 (April 2015–March 2016)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at the previous year-end	75,282	51,501	(1,117)	(3,660)	122,005
Change in the fiscal year					
Deficit disposition		(6,266)	6,266		—
Net income			19,631		19,631
Acquisition of treasury stock				(0)	(0)
Disposal of treasury stock					—
Changes in items other than shareholders' equity (net)					
Total change in the fiscal year	—	(6,266)	25,897	(0)	19,631
Balance at the current year-end	75,282	45,235	24,779	(3,660)	141,636

	Accumulated other comprehensive income				Share subscription rights	Minority interests	Total net assets
	Net unrealized gains on "other securities"	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total			
Balance at the previous year-end	379	3,545	(1,021)	2,904	18	0	124,928
Change in the fiscal year							
Deficit disposition							—
Net income							19,631
Acquisition of treasury stock							(0)
Changes in items other than shareholders' equity (net)	55	105	125	286	—	20	306
Total change in the fiscal year	55	105	125	286	—	20	19,937
Balance at the current year-end	435	3,651	(895)	3,190	18	20	144,865

Fiscal year ended March 31, 2017 (April 2016–March 2017)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at the previous year-end	75,282	45,235	24,779	(3,660)	141,636
Change in the fiscal year					
Deficit disposition			(5,257)		(5,257)
Net income			20,401		20,401
Acquisition of treasury stock				(0)	(0)
Changes in items other than shareholders' equity (net)					
Total change in the fiscal year	—	—	15,143	(0)	15,143
Balance at the current year-end	75,282	45,235	39,923	(3,660)	156,779

	Accumulated other comprehensive income				Share subscription rights	Minority interests	Total net assets
	Net unrealized gains on "other securities"	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total			
Balance at the previous year-end	435	3,651	(895)	3,190	18	20	144,865
Change in the fiscal year							
Deficit disposition							(5,257)
Net income							20,401
Acquisition of treasury stock							(0)
Changes in items other than shareholders' equity (net)	139	(1,624)	226	(1,257)	118	(0)	(1,138)
Total change in the fiscal year	139	(1,624)	226	(1,257)	118	(0)	14,004
Balance at the current year-end	574	2,027	(668)	1,933	136	20	158,870

(4) Consolidated Statements of Cash Flows

(Million yen)

	FY ended March 31, 2017 (Apr. 2016–Mar. 2017)	FY ended March 31, 2016 (Apr. 2015–Mar. 2016)
Cash flows from operating activities		
Income before taxes and minority interests	21,622	19,150
Depreciation	9,336	9,614
Amortization of goodwill	428	154
Increase (decrease) in reserve for doubtful accounts	201	180
Increase (decrease) in reserve for apartment vacancy loss	(619)	(1,477)
Interest and dividend income	(199)	(121)
Interest expense	734	944
Foreign exchange loss (gain)	(36)	267
Equity in losses (earnings) of affiliated companies	6	9
Loss (gain) from evaluation of investment securities	(166)	(58)
Loss (gain) on sale of property, plant and equipment	(94)	(24)
Write-offs of property, plant and equipment	149	147
Impairment loss	589	616
Disaster loss	88	—
Decrease (increase) in accounts receivable	633	32
Decrease (increase) in real estate for sale in progress	(139)	—
Decrease (increase) in work in process	272	(138)
Decrease (increase) in long-term prepaid expenses	324	643
Increase (decrease) in accounts payable	(883)	(2,701)
Increase (decrease) in customer advances for projects in progress	296	(1,903)
Increase (decrease) in advances received	(3,141)	(5,477)
Increase (decrease) in guarantee deposits received	(407)	(448)
Increase (decrease) in accrued consumption taxes	(6)	911
Other	2,770	3,961
Subtotal	**31,760**	**24,284**
Interest and dividends received	273	89
Interest paid	(690)	(937)
Income taxes paid	(3,839)	(1,331)
Net cash provided by operating activities	**27,504**	**22,104**
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,318)	(9,053)
Proceeds from sale of property, plant and equipment	16,744	666
Payment for purchase of intangible assets	(959)	(754)
Payment for purchase of investment securities	(2,761)	(1,515)
Proceeds from sale of investment securities	14	93
Payment for purchase of shares in subsidiaries	(5,402)	—
Payment for loans	(22)	(58)
Proceeds from collection of loans	22	21
Payment for deposit of fixed deposits	(12,178)	(1,100)
Proceeds from withdrawal of fixed deposits	1,200	600
Other	(1,292)	12
Net cash provided by (used in) investing activities	**(8,953)**	**(11,087)**

(Million yen)

	FY ended March 31, 2017 (Apr. 2016–Mar. 2017)	FY ended March 31, 2016 (Apr. 2015–Mar. 2016)
Cash flows from financing activities		
Proceeds from short-term debt	200	399
Repayment of short-term debt	(265)	(176)
Proceeds from long-term debt	235	8,544
Repayment of long-term debt	(1,423)	(23,244)
Repayment of finance lease obligations	(3,212)	(2,397)
Proceeds from payment from non-controlling shareholders	—	23
Proceeds from issuance of bonds	—	21,220
Payment for redemption of bonds	(4,326)	(2,993)
Payment for purchase of treasury stock	(0)	(0)
Payment of dividends	(5,257)	—
Payment of dividends to non-controlling shareholders	—	(0)
Net cash provided by (used in) financing activities	**(14,048)**	**1,374**
Effect of exchange rate changes on cash and cash equivalents	137	(70)
Net increase (decrease) in cash and cash equivalents	4,940	12,321
Cash and cash equivalents at beginning of period	**86,826**	**74,504**
Cash and cash equivalents at end of period	**91,766**	**86,826**

(5) Notes Regarding Consolidated Financial Statements

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

There are no relevant items.

(Significant Items Fundamental to the Preparation of Consolidated Financial Statements)

・ Matters relating to the scope of consolidation

Leopalace21 Singapore Pte. Ltd. was established in the consolidated fiscal year under review, and has been included in the scope of consolidation. Life Living Co., Ltd. whose shares were acquired in the consolidated fiscal year under review, has also been included in the scope of consolidation.

Moreover, Leopalace21 (Shanghai) Property Management Co., Ltd. has been excluded from the scope of consolidation as a result of completion of liquidation.

・ Matters relating to the settlement date of consolidated subsidiaries

The settlement date of Leopalace21 Singapore Pte. Ltd. is December 31. In preparing the consolidated financial statements, the financial statements as of December 31 have been used. However, adjustments necessary for preparing the consolidated financial statements have been made to the important transactions that took place between December 31 and the consolidated settlement date.

The disclosure of matters other than the above is omitted, as there are no significant changes from the statement in the most recent annual securities report (submitted on June 29, 2017).

(Changes in Accounting Policies)

(Change in revenue recognition standard)

Plaza Guarantee Co., Ltd., a subsidiary of Leopalace21 Corporation, had previously recognized revenue from guarantee fees as a bulk amount at the time of concluding contracts. From this fiscal year, by referencing Accounting Practice Committee Research Report No. 13 “Research Report on Revenue Recognition in Japan (interim report)” from the Japanese Institute of Certified Public Accountants, the Group has decided to recognize revenue over a reasonably determined period.

The Group has determined that this change is appropriate in reflecting the economic actualities of the business, and that it is possible since a certain period of time has passed from the start of the guarantee business, and the average guarantee period can be reasonably determined. This change in accounting policy has been retrospectively applied to the consolidated financial statements for the previous fiscal year.

As a result, an increase of 718 million yen of deferred tax asset and 2,064 million yen of advanced received, despite a decrease of 1,345 million yen of retained earnings as compared with the figures prior to the retrospective application in the consolidated balance sheet of the previous year. Net sales, operating profit, recurring profit, and net income before income taxes and minority interests for the previous year each increased by 88 million yen, and net income attributable to shareholders of the parent increased by 199 million yen. Net income before income taxes and minority interests and others in cash flows from operating activities increased by 88 and 1 million yen, respectively, and increase (decrease) in advances received decreased by 90 million yen. Net assets at the beginning of the previous fiscal year reflected the cumulative effects, which resulted in a decrease of 1,545 million yen in retained earnings.

(Application of the Practical Solution on Accounting on a Change in Depreciation Method Due to Tax Reform 2016)

Following the revision of the Corporation Tax Act, the “Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016” (ASBJ PITF No. 32, June 17, 2016) was adopted effective from the fiscal year under review. The depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 was also changed from the declining balance method to the straight line method. As a result, operating profit, recurring profit, and net income before income taxes and minority interests during the subject fiscal year each increased by 9 million yen.

(Changes in method of presentation)

“Bond issuance cost,” which was included in “other” under “non-operating expenses” for the previous fiscal year, exceeds ten hundredths (10/100) of the total amount of non-operating expenses. It has therefore been decided to present the “bond issuance cost” separately. To reflect this change in the presentation method, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, 300 million yen shown under “other,” “non-operating expenses” in the consolidated statements of operations for the previous fiscal year is reclassified as 165 million yen under “bond issuance cost” and 135 million yen under “other.”

(Business Combination, etc.)

i Business Combination through Acquisitions

1. Outline of the business combination

(1) Name of the acquired company and its business activities

Name of the acquired company: Life Living Co., Ltd.

Business activities: Real estate business (planning, architect, development, and sales of investment income properties)

(2) Major reasons for the business combination

To strengthen its core Leasing and Construction businesses, and expand into new business fields by leveraging Life Living Co., Ltd.'s excellent development records in the Tokyo metropolitan, Nagoya, and Fukuoka areas, as well as its unique product lineup, which includes four-story reinforced concrete condominiums and three-story wooden apartments.

(3) Effective date of the business combination

July 1, 2016

(4) Legal structure of the business combination

Stock acquisition

(5) Name of the company subsequent to the business combination

Life Living Co., Ltd. has changed in its business name from SBI Life Living Co., Ltd.

(6) Percentage of voting rights acquired by Leopalace21

100%

(7) Primary basis for determining the acquirer

Due to the fact that Leopalace21 has acquired Life Living Co., Ltd. through stock acquisition with cash considerations.

2. Period of business performances of the acquired company to be included in the Consolidated Statements of Operations in the subject cumulative quarter

From July 1, 2016 to March 31, 2017

3. Acquisition cost of the acquired company and its details

Consideration for the acquisition	Cash	57 million yen
Acquisition cost		57 million yen

4. Main contents of acquisition-related cost

Advisory cost etc.: 92 million yen

5. Amount, source, method and period of goodwill amortization

(1) Amount of goodwill

2,079 million yen

(2) Source of goodwill

Calculated based primarily on a reasonable estimation of future excess earning power expected from the expansion of Life Living Co., Ltd.'s investment-type condominium development business.

(3) Method and period of goodwill amortization

Straight-line method (six years)

6. Amount, source, method and period of goodwill amortization

Current assets	2,771 million yen
Fixed assets	1,130 million yen
Total assets	3,901 million yen
Current liabilities	232 million yen
Long-term liabilities	48 million yen
Total liabilities	281 million yen

7. Estimated amount of impact on the consolidated statements of operations for the consolidated fiscal year under review based on the assumption that the business combination was completed on the first day of the consolidated fiscal year under review, as well as the calculation method thereof

Net sales	574 million yen
Operating profit (loss)	(83) million yen
Recurring profit (loss)	(82) million yen
Net income attributable to shareholders of the parent (loss)	(85) million yen

(Calculation method for the estimated amount)
The estimated amount of impact is the difference between net sales and profit/loss information calculated based on the assumption that the business combination was completed on the first day of the consolidated fiscal year under review and the net sales and profit/loss information presented in the consolidated statements of operations of the acquired company. In addition, the amortized amount has been calculated based on the assumption that the goodwill recognized when the business combination was completed had been generated on the first day of the consolidated fiscal year under review.

(Segment Information)

Fiscal Year ended March 31, 2016 (April 1, 2015 through March 31, 2016)

(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	410,641	74,160	10,798	11,427	507,028	4,485	511,513	—	511,513
(2) Inter-segment sales and transfers	944	2,614	—	3,640	7,199	149	7,349	(7,349)	—
total	411,586	76,774	10,798	15,068	514,228	4,635	518,863	(7,349)	511,513
Segment earnings (or loss)	22,848	3,340	(1,354)	(697)	24,136	337	24,474	(3,388)	21,085
Segment assets	100,048	16,755	2,657	55,246	174,707	23,076	197,784	129,825	327,609
Other items									
Depreciation	3,740	205	49	2,013	6,009	2,059	8,069	1,544	9,614
Increase in property, plant and equipment, and intangible assets	6,245	91	271	1,850	8,459	3,917	12,376	1,599	13,976

Fiscal Year ended March 31, 2017 (April 1, 2016 through March 31, 2017)

(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	416,594	74,566	11,536	7,244	509,942	10,546	520,488	-	520,488
(2) Inter-segment sales and transfers	951	610	-	3,058	4,620	173	4,793	(4,793)	-
total	417,545	75,176	11,536	10,302	514,562	10,720	525,282	(4,793)	520,488
Segment earnings (or loss)	22,459	5,051	(1,650)	(768)	25,091	1,432	26,524	(3,626)	22,898
Segment assets	101,312	15,808	2,918	53,436	173,475	26,835	200,310	137,517	337,828
Other items									
Depreciation	4,608	179	81	1,374	6,244	1,885	8,129	1,207	9,336
Increase in property, plant and equipment, and intangible assets	9,078	84	123	1,934	11,221	952	12,173	1,568	13,741

Note 1: "Others" classification consists of the business segment not included in reportable segments, and comprises such businesses as, real estate business, solar power generation business and financing businesses, and the small-claims and short-term insurance business.

Note 2: Breakdown of adjustments is as follows.

Segment earnings (or loss) (Million yen)

	FY ended March 31, 2017	FY ended March 31, 2016
Inter-segment eliminations	(277)	(320)
Corporate expenses*	(3,349)	(3,067)
Total	(3,626)	(3,388)

*Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

Segment assets (Million yen)

	FY ended March 31, 2017	FY ended March 31, 2016
Surplus operating funds, Long-term investment capital, and Assets which do not belong to reportable segments	137,517	129,825

Increase in property, plant and equipment, and intangible assets (Million yen)

	FY ended March 31, 2017	FY ended March 31, 2016
Capital investments which do not belong to reportable segments	1,568	1,599

Note 3: Segment profit (loss) is adjusted to the operating profit on the Consolidated Statements of Operations