

# Annual Report 2016

For the fiscal year ended March 31, 2016



## GLOBAL VISION for EXPANDING VALUE

# CORPORATE PHILOSOPHY

## “Creating New Value”

1. We keep a close eye on modern-day needs, and strive to create new value in our own unique way, through flexible thinking and dynamic, inclusive teamwork.
2. We are only happy if our customers are happy. We are constantly working to improve our products, services, and technologies and to grow as a company.
3. We provide new value throughout society as a leading company within the industry, to help create a more comfortable and affluent society.

## PROFILE

Leopalace21 has established a unique business model fusing two core businesses, the Construction Business, which involves constructing apartments aimed mainly at single-person households, and the Leasing Business, which involves renting units of apartments we manage after they are built.

Through efforts to strengthen the profitability of the Leasing Business, Leopalace21 is moving forward with the establishment of a “stock-based business model,” which generates stable profits from renting apartments it manages. At the same time, our portfolio extends to the Elderly Care Business, Hotels & Resort Business, and Other Businesses.

In our International Business, we are expanding globally with a focus on Asia.

In these ways, Leopalace21 is a one-stop provider in Japan and overseas of a wide range of real estate services.



**Hotels & Resort  
Business**

**International  
Business**

**Elderly Care  
Business**

**Leasing  
Business**

**Expanding globally with a focus on Asia  
by harnessing the real estate know-how  
we developed in Japan**

**Construction  
Business**

**Other Businesses**  
(Solar Power Generation,  
Small-amount,  
Short-term Insurance)

## EDITORIAL POLICY

We publish an integrated report that combines an annual report with corporate social responsibility (CSR) reporting. The purpose of this report is to enable management to communicate its message to all our stakeholders. We seek to present our management strategy, priority measures, an overview of business conditions, etc. as well as inform readers about our CSR activities.

This report covers the fiscal year from April 1, 2015 through March 31, 2016 (fiscal year 2015). The scope is Leopalace21 Corporation and its consolidated subsidiaries in Japan and overseas. Our aim is to publish to the extent possible the latest information available as of the publication date. With the aim of promoting deeper read-

er comprehension, the report includes macro-economic data relating to our businesses, and the “Data Compilation” section enables readers to understand trends to date. We take care to explain what we present in ways that are readily understandable so that the report serves as an effective communication tool that reaches our many stakeholders.

In this report, the main focuses are on what we are doing to create value in the medium- and long-term and our initiatives to reinforce the effectiveness of our corporate governance. It is our hope this report will help our stakeholders obtain a greater understanding of the Company.

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### Leopalace21: Who We Are

President Eisei Miyama’s message to stakeholders contains core information for this integrated report, along with our framework for creating value and results, and the transition of our business model over time.

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### Business Model and Competitiveness

This section is on our business model, our greater point of differentiation, and it explains advantages we think will enable us to prevail over rivals.

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## REFERENCE GUIDELINES

- ISO26000
- Global Reporting Initiative’s (GRI) fourth-generation (G4) of sustainability reporting guidelines

### Forward-looking Statements

Statements made in this annual report with respect to plans, strategies and future performance that are not historical facts are forward-looking statements involving risks and uncertainties. Leopalace21 cautions that a number of factors could cause actual results to differ materially from such statements due to a number of factors including, but not limited to, general economic conditions in Leopalace21’s markets; demand for, and competitive pricing pressure on, Leopalace21’s products and services in the marketplace; Leopalace21’s ability to continue to win acceptance for its products and services in these highly competitive markets; and movements of currency exchange rates.

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# LEOPALACE21 VALUE CREATION

Taking into account social issues relating to housing, Leopalace21 delivers value that addresses social issues by harnessing our competitive advantages as a total solutions provider on matters involving real estate.

## Business Environment

- A growing elderly cohort and low fertility rate
- Increasing concentration of population in large cities
- Diversifying lifestyles
- Globalization of people, goods, and currencies
- Greater responsibility to care for the environment
- Establishment of corporate governance code

## Housing-related Social Issues and Needs

- Housing responsive to diversifying lifestyles and family makeup
- Housing arrangements that enable people living alone, seniors, and foreigners to form connections with local communities
- Effective use of land
- Housing that promotes safe, secure living styles
- Housing with built-in environmental features

# EXPANDING

Elderly Care Business

Hotels & Resort Business

International Business

Other Businesses  
(Solar Power Generation,  
Small-amount,  
Short-term Insurance)

## Five Basic CSR Action Policies

- Providing high-quality services and supporting affluent living
- Contributing to local communities
- Creating pleasant work environments and developing diverse human resources

Corporate  
Philosophy

Corporate Code  
of Ethics

## Leasing Business

# VALUE

## Leopalace21's Competitive Advantages

### Deliver value to stakeholders

- Provide living spaces where tenants can live in safety and comfort and customize them to their own tastes
- Propose land-use ideas in concert with the needs of property owners
- Provide nursing-care facilities where seniors can enjoy their remaining years in safety and comfort
- Supply overseas resorts with facilities
- Provide total support for overseas assignments

## Construction Business

- Creating an environmentally friendly society
- Engaging in sound, constructive communication with stakeholders

**Corporate Governance**

**Compliance**

# TEN-YEAR CONSOLIDATED FINANCIAL HIGHLIGHTS

For the years ended March 31				
	'07/3 FY2006	'08/3 FY2007	'09/3 FY2008	'10/3 FY2009
Net sales	¥ 631,608	¥ 672,973	¥ 733,235	¥ 620,376
Leasing Business	277,163	302,731	334,560	342,316
Construction Business	316,117	327,540	359,154	237,062
Elderly Care Business	5,345	11,173	7,952	8,812
Hotels & Resort Business	7,140	6,071	5,610	6,734
Other Businesses	25,842	25,456	25,956	25,451
Cost of sales	474,713	511,053	589,833	570,749
Selling, general and administrative expenses	80,887	90,516	93,244	79,354
Operating income (loss)	76,007	71,402	50,156	(29,727)
Leasing Business	7,031	3,036	(1,538)	(47,875)
Construction Business	74,614	73,267	70,112	29,744
Elderly Care Business	308	1,261	(1,538)	(1,994)
Hotels & Resort Business	(2,628)	(1,116)	(805)	(1,324)
Other Businesses Adjustments	(3,318)	(5,046)	(16,072)	(8,278)
EBITDA (Operating income + depreciation)	80,566	76,565	55,939	(23,432)
Net income (loss)	37,358	342	9,951	(79,075)
<b>At year-end:</b>				
Total assets	¥ 454,819	¥ 493,956	¥ 467,300	¥ 396,511
Net assets	185,784	170,155	146,442	70,979
Interest-bearing debt	53,159	49,710	44,188	61,318
<b>Cash flow:</b>				
Cash flow from operating	¥ 63,308	¥ 11,745	¥ 62,843	¥ (12,990)
Cash flow from investing	(15,930)	148	(10,048)	(8,889)
Cash flow from financing	(17,018)	(26,779)	(33,885)	15,281
<b>Amounts per share: (Yen)</b>				
Net assets	¥ 1,054.99	¥ 1,036.43	¥ 967.40	¥ 466.76
Net income (loss)	234.68	2.15	63.54	(521.91)
Cash dividend	50.00	80.00	30.00	—
<b>Ratio:</b>				
Units under management	388,500	442,025	506,742	551,773
Average annual occupancy rate (%)	92.84	92.36	88.51	82.25
Orders received (Millions of yen)	362,493	463,044	337,883	250,247
Equity ratio (%)	37.0	33.4	31.3	17.9
Return on equity (ROE)(%)	24.8	0.2	6.4	(72.8)
Return on assets (ROA) (%)	8.6	0.1	2.1	(18.3)
Payout ratio (%)	21.3	3,720.9	47.2	—
Debt/equity ratio (%)	0.3	0.3	0.3	0.9
Number of employees	7,409	8,678	9,926	8,582

(Notes) 1. U.S. dollar amounts are translated from yen at the rate of ¥112.68 = U.S. \$1, the approximate rate prevailing at March 31, 2016.

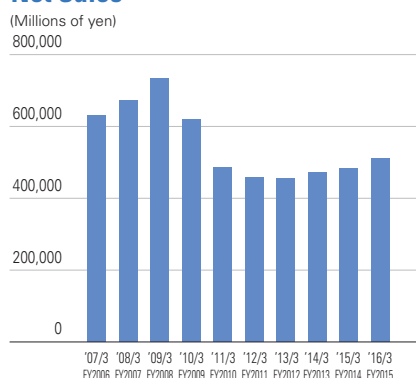
2. Return on equity (ROE) = Net income/average net assets during the fiscal year x 100

3. Return on assets (ROA) = Net income/average total assets during the fiscal year x 100

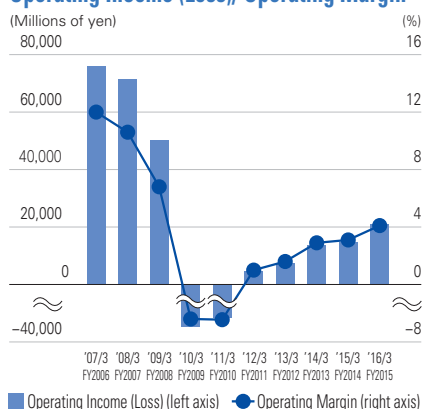
4. Debt/equity ratio = Interest-bearing debt/(net assets - non-controlling interests)

5. In this report, net income attributable to shareholders of the parent is stated as "net income."

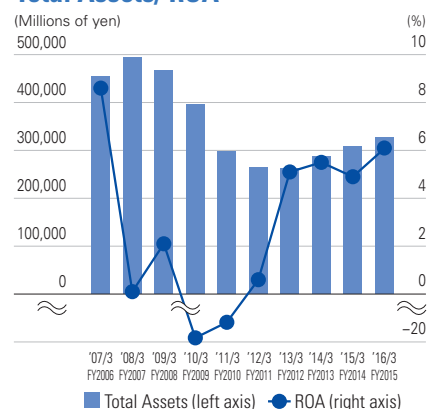
## Net Sales



## Operating Income (Loss)/ Operating Margin



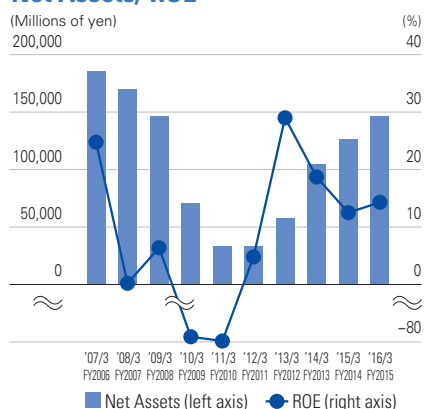
## Total Assets/ ROA



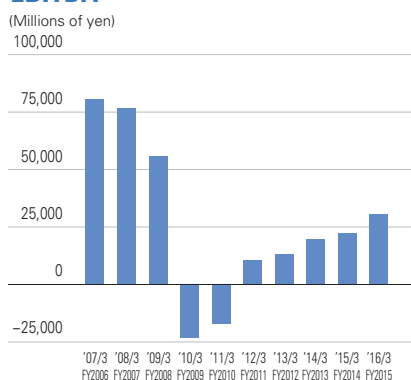


(Millions of yen)							(Thousands of U.S. dollars)	
	'11/3 FY2010	'12/3 FY2011	'13/3 FY2012	'14/3 FY2013	'15/3 FY2014	'16/3 FY2015	'16/3 FY2015	
	¥ 484,390	¥ 459,436	¥ 454,222	¥ 471,089	¥ 483,188	¥ 511,424	\$ 4,538,736	
	356,606	380,307	383,574	388,768	399,316	410,552	3,643,527	
	107,821	62,913	53,369	63,135	61,312	74,160	658,147	
	7,785	8,845	9,482	10,171	10,608	10,798	95,835	
	6,491	6,228	6,657	7,571	8,951	11,427	101,417	
	5,686	1,142	1,137	1,442	2,999	4,485	39,808	
	448,392	403,572	396,508	401,510	407,433	422,604	3,750,484	
	59,605	51,278	50,299	55,906	60,992	67,823	601,912	
	(23,607)	4,585	7,413	13,673	14,763	20,996	186,340	
	(30,094)	5,248	8,687	15,567	20,532	22,760	201,995	
	11,971	4,309	2,747	2,954	210	3,339	29,632	
	(1,509)	(855)	(742)	(610)	(606)	(1,354)	(12,017)	
	(1,974)	(1,663)	(1,005)	(1,118)	(1,289)	(697)	(6,192)	
	(1,999)	(2,453)	(2,272)	(3,119)	(4,084)	(3,051)	(27,078)	
	(17,155)	10,632	13,097	19,666	22,499	30,611	271,665	
	(40,889)	1,588	13,335	15,229	14,507	19,432	172,453	
	¥ 298,274	¥ 264,783	¥ 261,649	¥ 287,459	¥ 308,274	¥ 326,890	\$ 2,901,054	
	33,040	33,831	58,151	104,860	126,473	146,211	1,297,583	
	43,858	51,654	49,026	37,227	44,487	50,824	451,047	
	¥ (28,337)	¥ (3,174)	¥ 6,069	¥ 15,584	¥ 15,715	¥ 22,104	\$ 196,171	
	13,143	(3,537)	(6)	(6,929)	(17,550)	(11,087)	(98,396)	
	(15,890)	7,245	9,148	8,848	1,747	1,374	12,201	
	¥ 195.91	¥ 199.73	¥ 274.80	¥ 398.78	¥ 481.05	¥ 556.06	\$ 4.93	
	(261.03)	9.40	74.50	67.17	55.19	73.92	0.66	
	—	—	—	—	—	10.00	0.09	
	571,656	556,207	546,204	548,912	554,948	561,961	—	
	80.09	81.16	82.94	84.58	86.57	87.95	—	
	80,338	50,019	73,006	81,139	87,395	86,439	\$ 767,125	
	11.1	12.8	22.2	36.5	41.0	44.7	—	
	(78.7)	4.8	29.0	18.7	12.5	14.3	—	
	(11.8)	0.6	5.1	5.5	4.9	6.1	—	
	—	—	—	—	—	13.5	—	
	1.3	1.5	0.8	0.4	0.4	0.3	—	
	7,114	6,165	6,277	6,758	7,339	7,846	—	

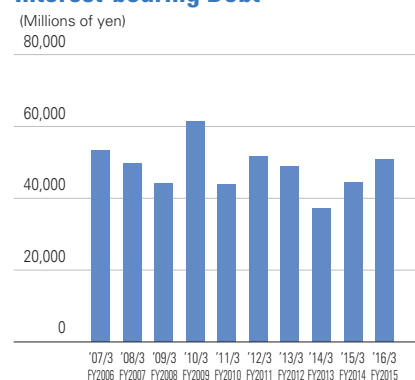
### Net Assets/ ROE



### EBITDA

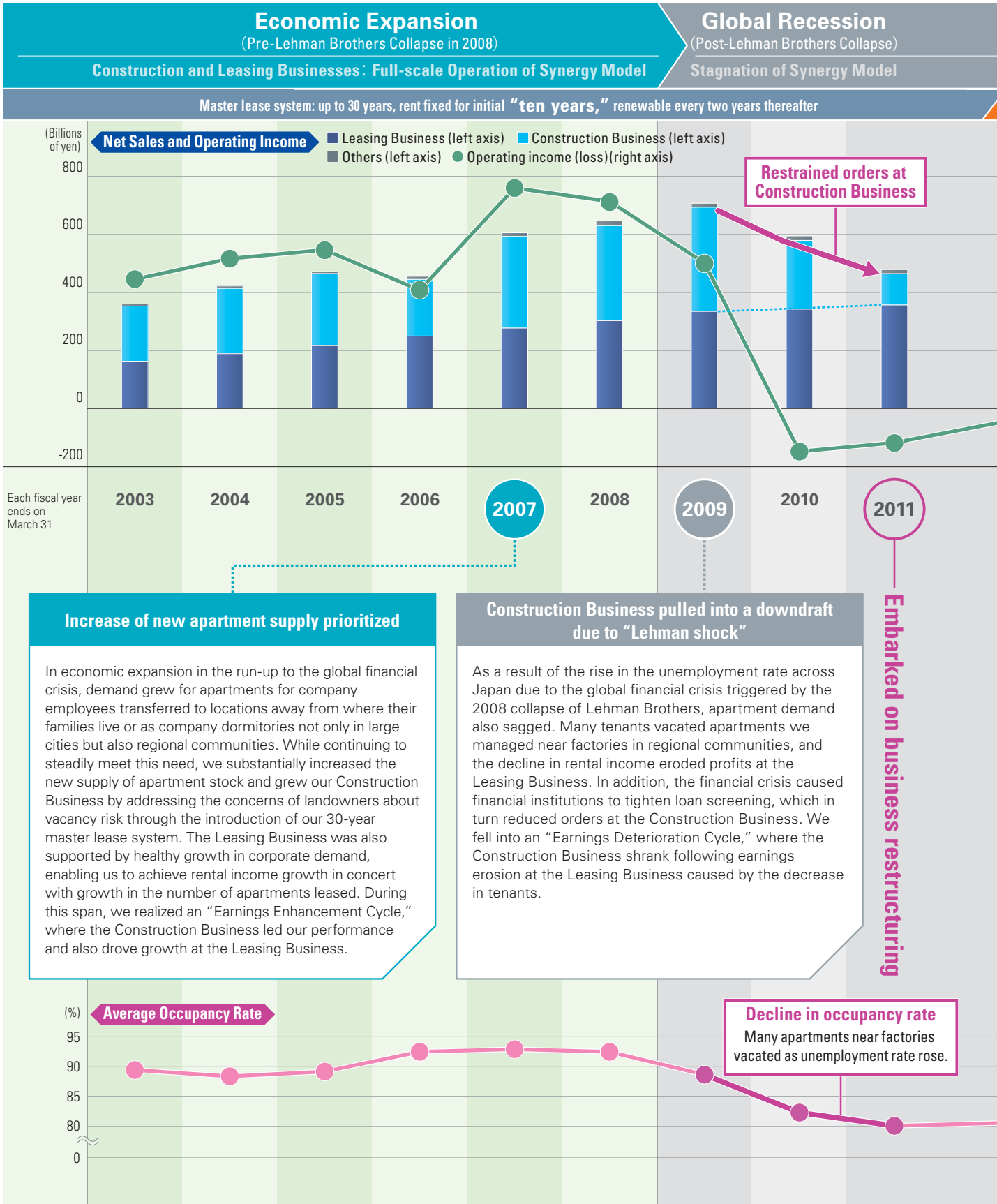


### Interest-bearing Debt



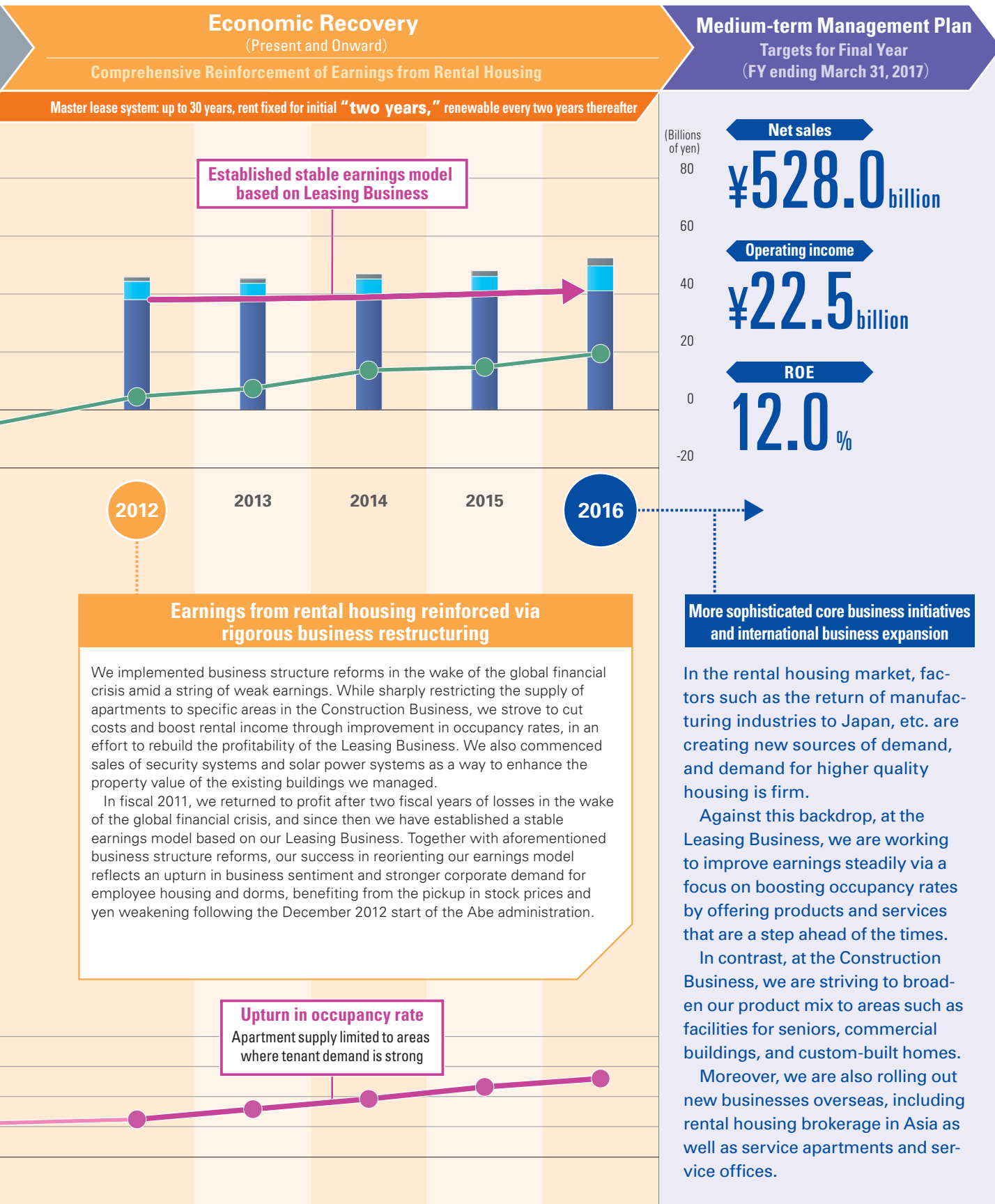
# BUSINESS MODEL TRANSITION

## Macro-Environment and Business Performance Trends



In the period of economic growth, our Construction Business drove our growth, sharply expanding new apartment supply. Following the financial crisis triggered by the 2008 collapse of Lehman Brothers, however, we recorded operating losses as orders at the Construction Business declined.

Our aim amid the current economic recovery and beyond is to thrive by shifting to a stable earnings model that achieves a balanced earnings mix from the Leasing Business and Construction Business while expanding our international businesses.



# TO OUR STAKEHOLDERS

GLOBAL VISION

GLOBAL VISION

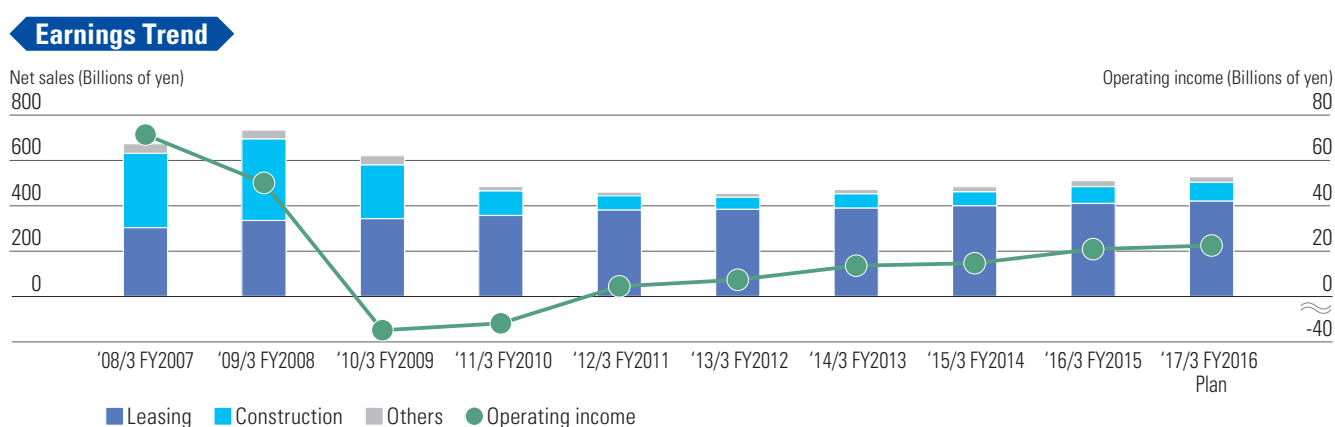


*We are expanding globally, drawing on the foundation of trust and experience we built in Japan as housing professionals. Through our provision of offices and residences in Japan and overseas that enables people to lead healthy lives, we are working to increase our corporate value.*

## Sixth Successive Year of Operating Income Growth in Fiscal 2015

In fiscal 2015 (fiscal year ended March 31, 2016), we recorded higher profits than the year-earlier period on earnings growth driven by improving occupancy rates at the core Leasing Business. The Construction Business did not reach its order plan or its sales forecast as a result of fiercer competition in urban centers, but thanks to the earnings contribution of the Leasing Business, the Company reported overall net sales of 511.4 billion yen

and operating income of 20.9 billion yen for a sixth successive year of profit growth. The 2008 Lehman Brothers collapse caused enormous damage, but we overcame the difficulties that emerged and attendant impacts have faded entirely. As a result, we believe we have progressed in our restructuring aimed at building a structure that can respond to multiple risk factors that could plausibly affect us in the future.



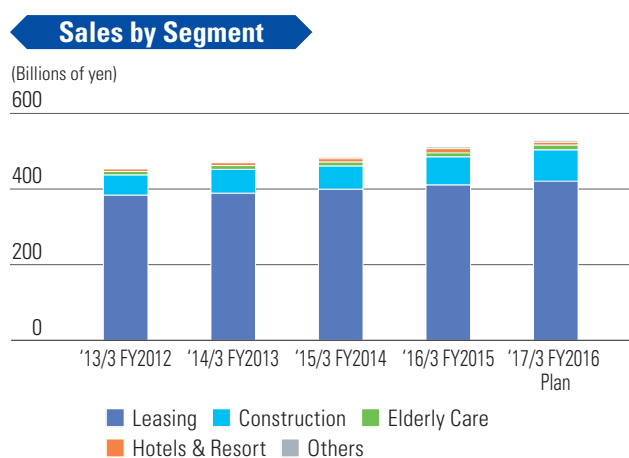
## Steady Progress in Year Two of our Medium-term Management Plan

The occupancy rate, the most important indicator for the Leasing Business, continued to rise in year two of the Medium-term Management Plan, broadly in line with the plan. The success of measures aimed at boosting property value and growth in supplementary income enabled the Company to exceed year-two targets. This outperformance reflected greater interest in hiring at companies compared with when the current Medium-term Management Plan was devised, and this in turn has translated into growing corporate demand for apartments.

At the Construction Business, fiercer competition in urban centers threw our order plan off track but our costs of sales improved steadily on the use of industrial methods for building apartments and revisions to order placements for building materials. This improvement in costs of sales is an important step forward for profit growth, and we expect the sales force at the Construction Business to be strengthened by the growing dynamism

of young employees from fiscal 2016 onward.

For fiscal 2016, the plan's final year, we aim to attain plan targets while retaining our current policies at the Leasing Business and Construction Business.



## Stronger Efforts to Sign Up Student Tenants to Complement Corporate Demand

With regards to initiatives for fiscal 2016, I'd like to start with the Leasing Business.

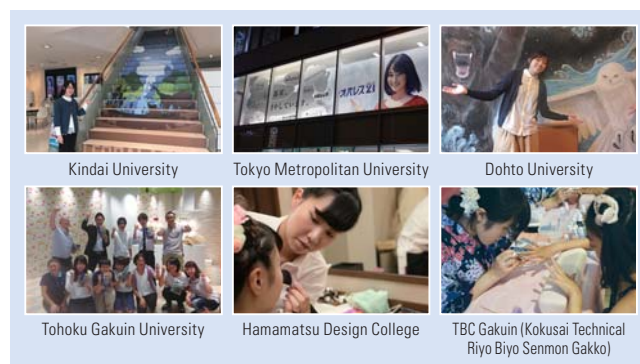
The most important factor in securing steady profits at the Leasing Business is maintaining and improving occupancy rates, and we will again take the steps necessary to secure tenants in fiscal 2016.

Given this, we will continue with our focus on locking in corporate demand. We recognize corporate demand varies considerably by housing type and the number of units companies need to be ready for a single transaction. Even so, we aim to differentiate ourselves and capture demand through our ability to market proposals to corporate clients, drawing on the know-how we have built and our scale advantage as the manager of one of the largest rental housing portfolios in Japan. We will also strengthen our marketing to public-sector organizations with large workforces such as the Ministry of Defense and Ministry of Finance.

We are also forging ahead with securing student tenants, which often reside in housing for a fixed period. We created a sales team dedicated to marketing to educational institutions to form relationships with them while also coming up with proposals that meet the needs of

students going to those universities and vocational schools with the aim of securing tenants.

Moreover, our Group companies are working together to broaden and improve the range of services we offer tenants. The tastes of individual tenants differ with regards to room design and specifications, but once they find a room they like, tenants tend to sign up for long-term leases. We will improve our menu of services by staying in touch with the latest trends in tenant preferences, and aim to add more tenants.



Stronger efforts to secure student tenants via ties with educational institutions

## Aiming to Expand Construction Orders via Sales Channel Diversification

At the Construction Business, in contrast, we aim to expand orders and profits in fiscal 2016 by leveraging three elements: improving cost of sales, opening up and harnessing new sales channels, and bolstering and extending our marketing capabilities.

First, to improve costs of sales, we will further push forward industrial methods we have introduced to date and make greater use of apartment designs and construction methods that do not require on-site work amid a sharp upturn in labor costs. Moreover, we will work to

reduce costs via revisions to order placements.

A new sales channel we are working to develop is the promotion of business matching contracts via partnerships with three kinds of professional service providers, namely financial institutions, tax accountants and judicial scriveners. All three closely interact with property owners—the client base of our Construction Business—on matters such as taxes and bequeathing assets to heirs, and we believe we can harness the information they glean from their client relationships as a new, untapped sales channel to secure orders.

Moreover, as a result of growing emphasis we are putting on the Leasing Business, we have been bolstering its sales force, which had grown understaffed. In fiscal 2016, we feel the crop of young sales people we brought in via recent stepped-up hiring of new college graduates have gone through various training programs and are ready to become a marketing force that can complement an increase in experienced veterans on our sales force, which reflects a decline in turnover on factors such as an improved work environment in the past few years. We think this strong mix of youthful energy and veteran know-how will boost our sales and marketing capabilities and contribute to order expansion.



## Aiming to Earn Profits on Elderly Care Soon via Core Business Synergies

I have so far discussed our core Leasing Business and Construction Business. In recognition of the promising linkages between these core businesses and the Elderly Care Business and the Hotels & Resort Business, we are expanding in a different direction from our competitors to harvest such synergies.

First, at the Elderly Care Business, we have worked with the Construction Business to leverage our strength in building construction to increase the number of new facilities we operate in the expectation that we could secure profits on economies of scale once we achieved sufficient scale in facility ownership. Taking a close look at the profitability of each facility, we intend to implement measures to boost earnings at individual facilities.

At the Hotels & Resort Business, we plan to elevate our earnings power by proceeding with even greater selectivity and focus. In contrast, one aim of our hotels business is hosting stakeholders of our Leasing Business and Construction Business, so we are studying whether to sell facilities where there is not much use by

stakeholders. In fiscal 2015, we sold one such domestic hotel. With use of our Guam resort hotel facilities by the U.S. military as lodging for personnel for various exercises expected to be 10,000 rooms annually, we expect to invest in improving and enhancing facilities we believe are necessary going forward.



## Stepped-up Measures to Expand our International Businesses

Amid a domestic housing market that lacks growth prospects, we see ample opportunities for our international businesses to contribute to profits and see it as a growth enterprise. Under our global vision of "Expanding Asia" for creating new value based on the foundation of trust and experience we built in Japan, we are stepping up the opening of new branches overseas. We have fifteen branches overseas at present and plan to add more.



Serviced office in Manila in the Philippines

Meanwhile, a serviced apartment for Japanese residents in Thailand, acquired in October 2015, is one example of our expansion overseas. Already at full occupancy, it is off to a very smooth start. In addition, preparations to start operations of a serviced apartment in Cambodia with a planned 2017 opening are moving forward. We are also developing serviced offices for Japanese companies in Manila in the Philippines and Yangon in Myanmar.

The needs in each nation are different, so our international businesses need to carefully examine each market as they expand. As we expect these businesses to drive growth, we intend to reinvest 50% of consolidated net income into real estate, mostly properties domiciled overseas but with a modest allocation to Japan.

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## Nomination and Compensation Committee to Bolster Corporate Governance



We are forging ahead with our growth strategy to attain the targets in our Medium-term Management Plan, as I mentioned earlier. In recognition of the importance we assign to corporate governance, we are taking steps to strengthen it.

Starting with the establishment of the Compliance Committee in 2006, we have reformed our governance over time with a series of moves, adopting the executive board system, setting up the CSR Committee and the Risk Management Committee, establishing the Auditing Council, and inviting outside directors to join the Board of Directors. As the next step in this reform effort, the Board of Directors decided in November 2015 to form

the Nomination and Compensation Committee.

The Committee is aimed at facilitating a structure that reinforces the functions of the Board of Directors so as to advance in a swift and precise manner concerning measures necessary to increase corporate value. We believe the Committee is vital to building a forward-leaning governance structure.

Outside directors are to comprise a majority on the Nomination and Compensation Committee. We think this structure will translate into stronger overall earnings by actively supporting measures for increasing corporate value and energizing our management team through nomination and compensation recommendations.

Moreover, a key task for the Nomination and Compensation Committee is the issue of who will succeed me as the next president and CEO. A process for top management succession means the Company must put into place a system to develop candidates to move into senior roles in the years ahead. Going back many years, the bulk of our leaders have been professionals with strong-willed personalities who have insisted on doing things their way. For that to change, I believe we need to develop executives with experience as the head of multiple businesses, with many contacts in the corporate sales function that is crucial to our core Leasing Business, and with the know-how to interact with people from companies outside the apartment construction and leasing industry.

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## Promoting Diversity with a Focus on Enabling Women to Thrive

As a way to strengthen the role of outside directors, we added another slot for an outside director on the Board of Directors in 2015 so there are now two seats for outside directors. Yoshiko Sasao, who joined the Board as an outside director in 2015 as the first women to serve in this role at the Company, is knowledgeable about and has valuable experience in the field of elderly care, a business we are developing.

Since Ms. Sasao joined, she has advised us concerning the Elderly Care Business and offered us various recommendations on how we can promote diversity. Our

goals in promoting greater prominence for female employees are to increase the number of female managers to about 150 by end-March 2021 from 54 at present, and to increase the cumulative years in service of our female employees to over 80% of that of our male employees from the current level of 60.5%. Ms. Sasao has attended “diversity forums” aimed at raising awareness about the importance of diversity across the Company as one initiative to help achieve these goals, so she has been an active contributor to the Company beyond her role on the Board of Directors.



## Dividend Payments Restored in Fiscal 2015 for First Time since Fiscal 2008

There has been a substantial change in our approach to returning profits to shareholders. We have refrained from paying dividends since Lehman Brothers collapsed to rebuild our management foundation but in fiscal 2015 we paid dividends for the first time in seven years going back to fiscal 2008. We think paying dividends is a minimum obligation we owe to shareholders who retained our shares over this span as well as to shareholders who later became supporters those years, and so we feel we have at last begun to fulfill our mission as a for-profit company.

As for our future approach to returning profits to

shareholders, we are working to reinforce earnings growth and our balance sheet so we can pay a steady dividend based on a 30% target payout ratio. That said, a 30% payout ratio is merely our current target rather than a ceiling, and we intend to retain the discretion to respond flexibly to evolving conditions. Meanwhile, we believe we need to invest now to support growth to drive corporate value expansion over the medium- and long-term, so we think repurchasing shares to hold as treasury stock is unlikely to become a focal point of our approach anytime soon.

## CSR as a Management Foundation Reflects our “Creating New Value” Philosophy

With the aim of increasing corporate value over the medium- and long-term, we are strengthening corporate governance and promoting diversity initiatives as a way to support our growth strategy, as I mentioned earlier. Meanwhile, we recognize communities and civil society are urgently calling on us to conduct ourselves as a force for good in addressing social issues.

We have grown over the years as a company with a trailblazing business model in the rental housing sector, namely apartments. We regard corporate social responsibility (CSR) as a management foundation in keeping with our corporate philosophy of “creating new value” as an expression of Leopalace21’s founding DNA. The five themes informing our Basic CSR Action Policy all ultimately go back to our corporate philosophy, and we see these themes as pillars not only of our Medium-term Management Plan but also as pillars supporting sustained growth over the long run. With this in mind, our CSR Committee meets regularly to confirm the results of our activities and dares to question whether we are following the proper pathway in pursuit of our aspirations.

As Japanese society continues to grow older in the years ahead, what people expect from housing amid social trends attendant with the nation’s aging will almost certainly go beyond current expectations. As housing professionals, Leopalace21 will continue with a variety of initiatives to provide housing that enables people to live in good health.



With respect to our stakeholders, I would like in closing to humbly request your continued support and encouragement.

June 2016

Eisei Miyama  
President and CEO

# BUSINESS ENVIRONMENT AND COMPETITIVENESS

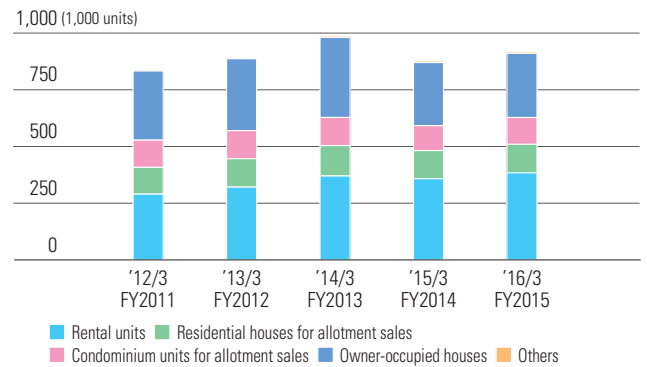
## Business Environment 1

### Upturn in Rental Housing Starts for the First Time in Two Years



New housing starts dropped sharply from fiscal 2008 to fiscal 2009 due to the economic slump following the Lehman Brothers collapse, but they subsequently moved into a gradual recovery as a result of policy support for housing investment. In fiscal 2014, however, owner-occupied housing starts dropped sharply to the lowest level in 50 years against elevated demand levels in the months ahead of the April 2014 consumption tax rate hike, and rental housing starts also declined for the first time in three years. Rental housing starts grew again in fiscal 2015 as the impact of the consumption tax hike faded, with the number of units rising 7.1% year on year to 383,678.

**Number of New Housing Starts** (Number of Housing Units by Use)



\* Source: New housing starts statistics for the fiscal year ended March 2016, the Ministry of Land, Infrastructure, Transport, and Tourism

## Competitive Advantage 1

One of Japan's largest rental housing management companies

Apartment Rooms  
under Management

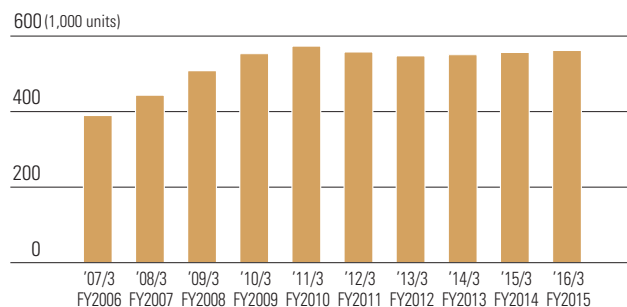
**561,961** rooms

(as of March 31, 2016)



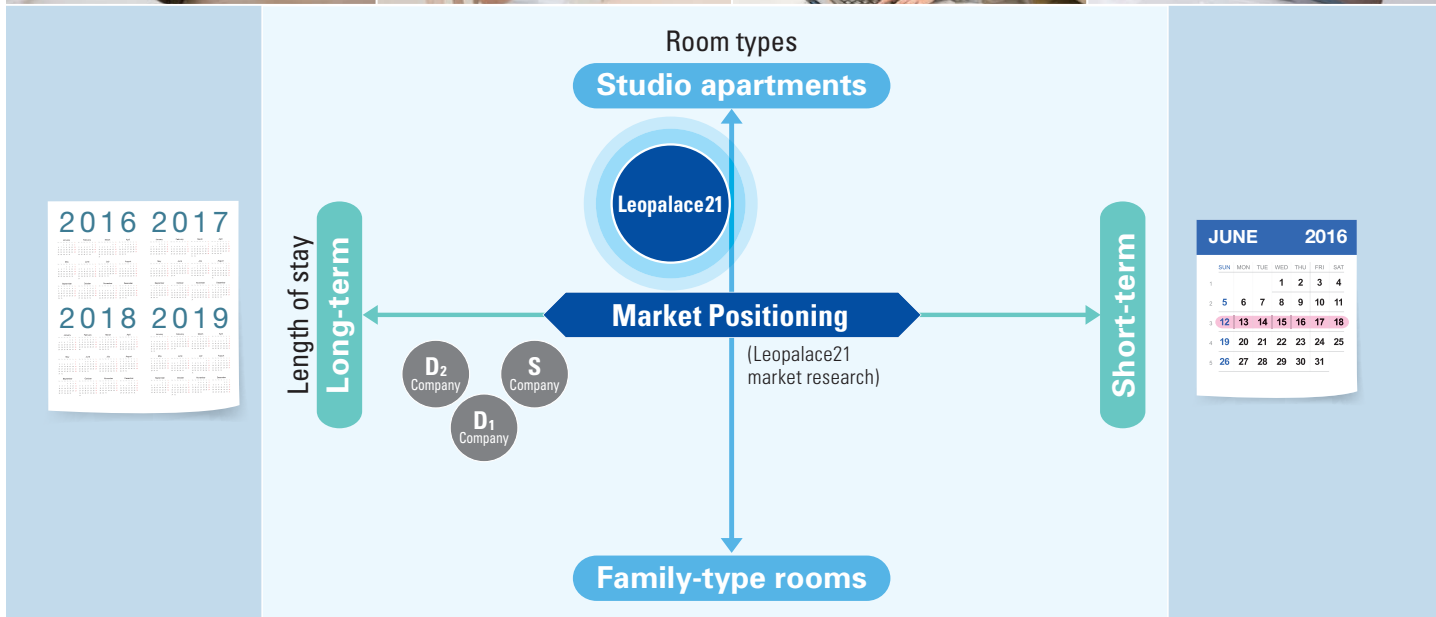
In the lease management business, many believe “the company that controls the battle for tenants rules the industry,” and therefore competition is intense. Our rental housing business centers on studio (one-room type) apartments for people living alone that come with furniture and electrical appliances as standard features. Our ability to respond to the needs of clients, such as students and company employees living alone, has enabled us to keep growing. We also address needs for short-term stays, such as business trips, and about half of our leases are for company housing and dormitories for unmarried employees. With over 560,000 apartment rooms under management, Leopalace21 is one of Japan's largest lease management companies.

## Apartment Rooms under Management



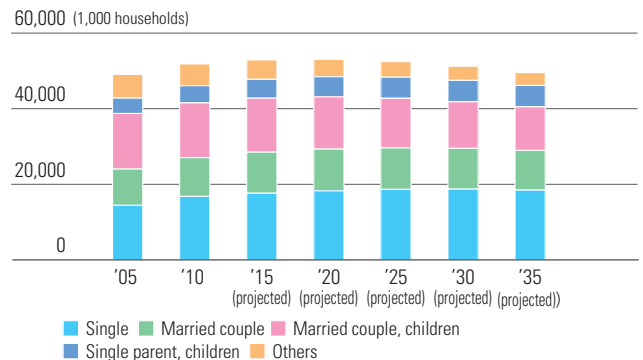
## Business Environment 2

# Uptrend in Single-person Households to Continue



The number of Japanese households is expected to decline gradually but the number of single-person households is projected to keep growing for a while, according to population-related projections for Japan. The single-person household cohort is likely to continue growing beyond 2025, when the total number of households is expected to start declining, and remain in an uptrend through 2030. As a result, forecasts call for 18.45 million households in 2035, up 1.67 million from 16.78 million in 2010, and for the number of single-person households as a percentage of all households to be 37.2% in 2035, up 4.8 points from the 32.4% of 2010.

### Trend in Number of Households



\* Source: 2010 Population Census, the Ministry of Internal Affairs and Communications; Household Projection for Japan (January 2013), National Institute of Population and Social Security Research

Ratio of Corporate Leases

**54.5%**

Rooms with Corporate Leases

**277,261** rooms

(as of March 31, 2016)

**Competitive Advantage 2**

**Leveraging Our Strength in Single-person Households**

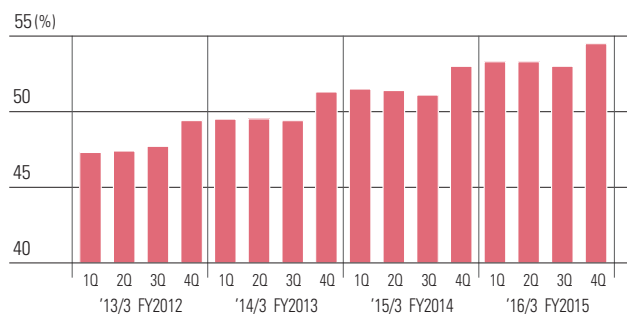


**Some of the Amenities and Fixtures Provided in Leoplace21 Apartments**



Since a little over a decade after its founding, the Company has focused on urban-type apartments, especially housing for people living alone with better quality than conventional rooms. Given this, our core pillars of apartment construction and leasing management have over the past thirty years accumulated know-how in design, specifications, and management sought by single-person households and put this know-how to full use. The needs of large companies for high-quality housing as dormitories for single employees and company housing for people living alone matches up well with our skills and capabilities. As a result, the ratio of corporate leases to our total portfolio has risen to 54.5% as of March 31, 2016.

**Corporate Leases as a Ratio of Our Total Portfolio**



## Business Environment 3

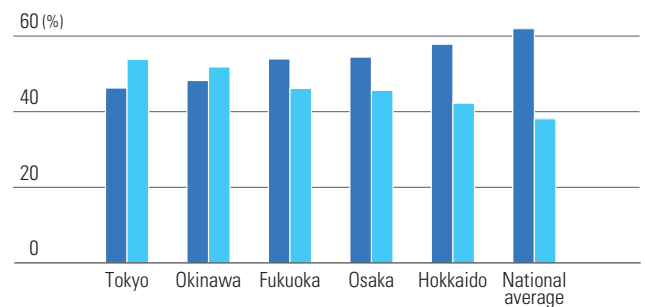
# Higher Tenancy Rates in Large Cities

TOKYO



Conducted in 2013, the latest survey on total housing units and homeownership shows the homeownership rate was 61.7% and the tenancy rate was 35.5%. Homeownership rates have remained at around 60% since the survey started in 1973. This trend varies by region with low homeownership rates and high tenancy rates in major metropolitan areas. Of the prefectures with the lowest homeownership rates, Tokyo is first, Fukuoka Prefecture is third, Osaka is fourth, Aichi Prefecture is seventh, and Kanagawa Prefecture is eighth. Given this, it is safe to say that tenant demand for rental housing is largely concentrated in metropolitan areas.

### Homeownership and Tenancy Rates of Households



■ Homeownership rates of households ■ Tenancy rates of households  
\* Source: 2013 House and Land Survey, Statistics Bureau, Ministry of Internal Affairs and Communications

**Competitive Advantage 3**

**Focused on Three Major Metro Areas where Client Demand Is Strong**

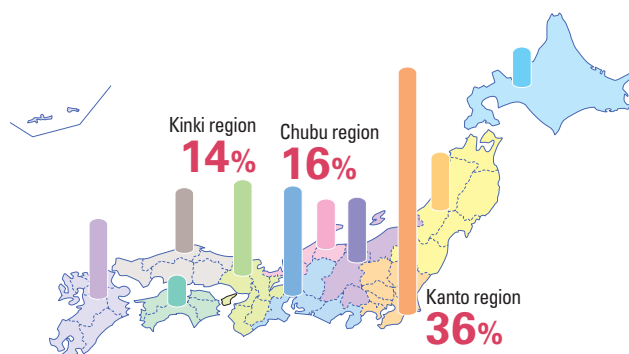
**Nationwide Portfolio Breakdown by Region Ratio in Three Major Metro Areas**

About **70%**

(as of March 31, 2016)



Harnessing our know-how in housing for people living alone, Leoplace21's regional strategy is based on the watchword "selectivity and focus." The expansion of our operations is focused on the three major metro areas where demand for housing for people living alone is high and net population inflows are expected to continue. Of our total managed property portfolio, 36% is in the Kanto region, 16% is in the Chubu region, and 14% is in the Kinki region, and these three regions combined account for about 70% of our portfolio. The decision to focus our managed properties business in these three metro areas will enable us to keep occupancy rates stable and high.



## Business Environment 4

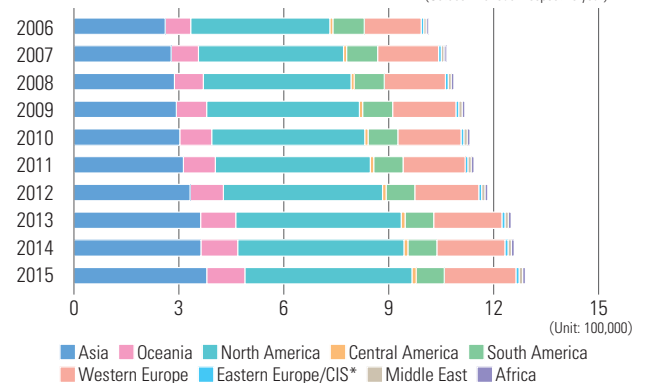
# Steady Growth in Japanese Nationals Living in Asia



Unlike Japan, with its flagging birthrate and shrinking population, the populations and economies of Southeast Asian nations continue to grow, attracting an increasing number of Japanese companies. In addition to nations like Thailand, Malaysia, and Singapore that have been active destinations for Japanese firms for years, companies have recently moved into up-and-coming markets such as Vietnam, Cambodia, and Myanmar. As a result, the number of Japanese nationals living in Asia, especially Southeast Asia, has been increasing steadily. The number of Japanese nationals in Asia on long-term stays or who have become permanent residents increased 1.58% year on year to about 380,000, according to the most recent annual report on Japanese living abroad issued by the Ministry of Foreign Affairs (MOFA).

### Trends in Japanese Nationals Living Overseas by Region

(October 1 of each respective year)



Source: Annual reports of statistics on Japanese nationals overseas, Trends in Japanese nationals living overseas by region, MOFA  
 \*The original members of the Commonwealth of Independent States (CIS), formed when the former Soviet Union dissolved in 1991, were Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Azerbaijan and Georgia joined the group in 1993, while Turkmenistan withdrew in 2005 and is now an associate member.



## Competitive Advantage 4 Building up a Solid Presence in Asia

**15** Branches/  
Subsidiaries in Asia  
(as of March 31, 2016)



Despite a fresh inflow of Japanese companies entering Asian nations such as Vietnam, Cambodia, and Myanmar, there has not been corresponding progress in infrastructure such as offices and housing to enable Japanese nationals sent to those nations to carry out operations longer term. Leoplace21 has actively set up overseas branches and subsidiaries in Asia so we can provide services such as housing and office space brokerage that satisfy our clients. We intend to suitably expand our footprint in Asia, which stood at 15 locations as of March 2016, to build up a strong presence in Asia in the years to come.

### Leoplace21's Overseas Branches and Subsidiaries

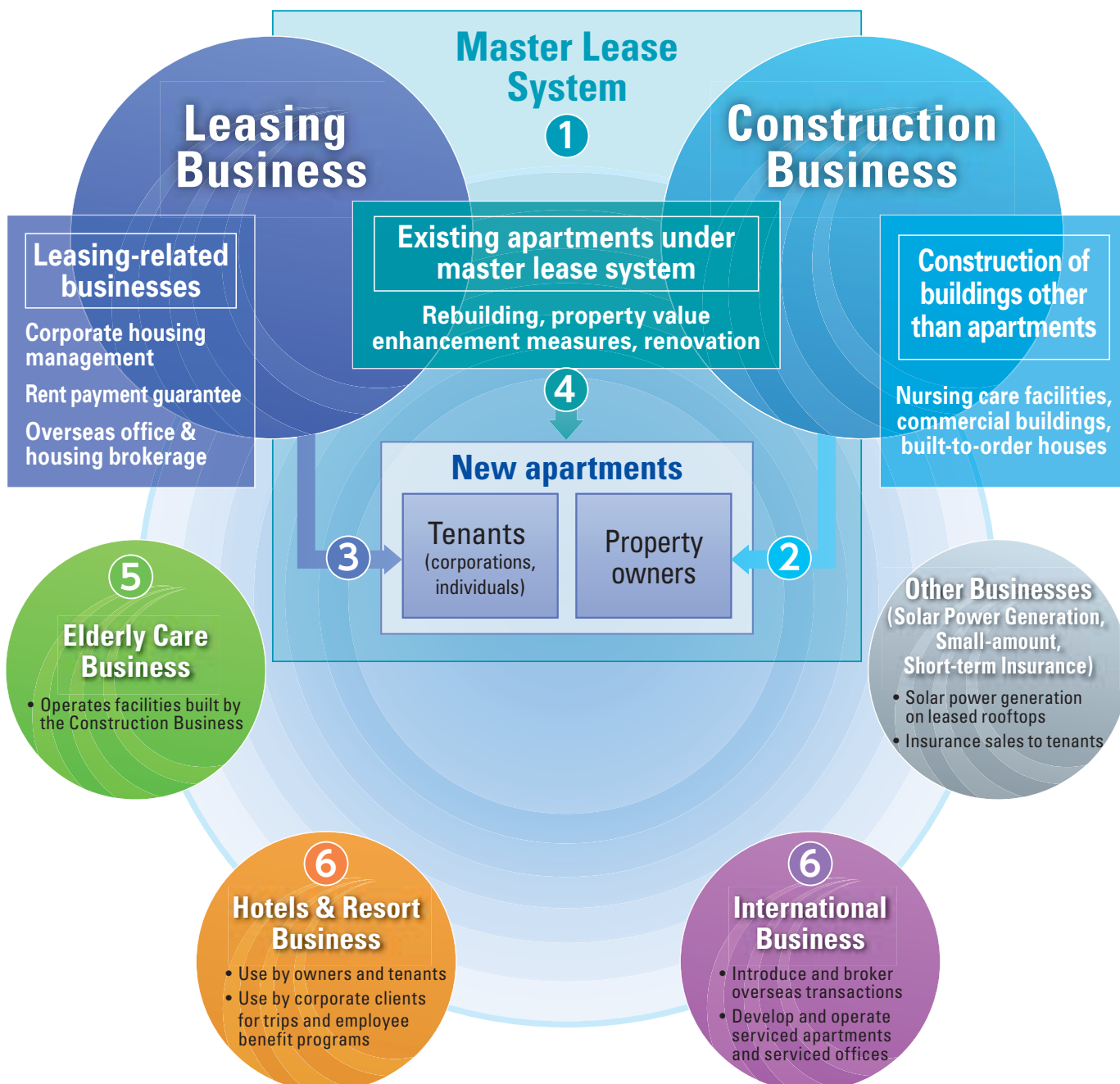
China	Beijing, Shanghai, Dalian, Guangzhou
Korea	Busan, Seoul*
Taiwan	Taipei
Thailand	Bangkok, Sriracha
Vietnam	Ho Chi Minh, Ha Noi
Cambodia	Phnom Penh
Myanmar	Yangon
Philippines	Manila
Indonesia	Jakarta

\*The Seoul Gangnam and Seoul Jongno centers were merged in April 2015.

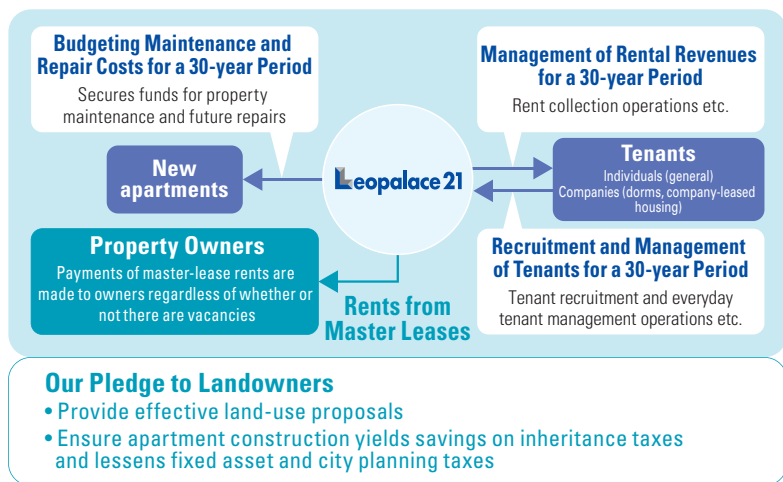
# OUR BUSINESS MODEL

## A Distinctive Business Model Based on Our 30-year Master Lease System

Leopalace21 has time and again bolstered its presence as an industry leader in leasing management for apartments since the 1985 full-scale launch of Leopalace21 urban apartments. Our greatest strength is our superior business model, which we have honed via knowledge that has been amassed across the Group over the years. With the Leasing Business and Construction Business serving as our foundation, we seek to unearth synergies between these two core businesses and the Elderly Care Business and the Hotels & Resort Business, and we are directing resources to our International Business. In these ways, we seek to further reinforce our strengths.



## 1 Developed Industry-First “Master Lease System”



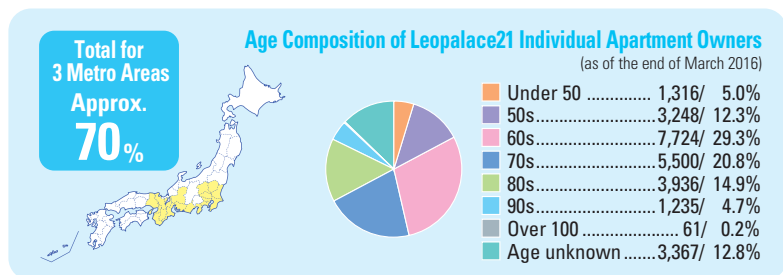
Of the property owners in the Leopalace21 system, many are individuals and regard apartment management as a way to manage their assets. While major real estate developers aim for high-risk, high-return projects, individuals dislike the risk of losing out on rent revenues due to vacancies and view low-risk, middle-return investments as ideal.

With this in mind, the Company developed the 30-year master lease system, an industry first. It reduces risk for owners by offering them a total support package for apartments and condo properties from construction to management for up to 30 years.

This system helps ensure stable income for owners

while reducing their burden. In addition to disbursing fixed rent payments to owners over a prescribed period whether or not there are vacancies, we also collect rent from tenants and provide management, maintenance, and repair services. The master lease system can result in losses for us if vacancies are sharply higher than we expect but our system enables us to reduce such risks and avoid losses with relentless creative thinking. Our efforts include supplying properties that match the needs of customers and communities, enhancing the appeal of buildings across many dimensions such as interiors, exteriors, and fixtures, as well as working to diversify contract forms.

## 2 Restrict New Supplies to Specific Areas



Sub-total for individual owners	26,387
Sub-total for corporate owners	1,362
Grant total for all owners	27,749

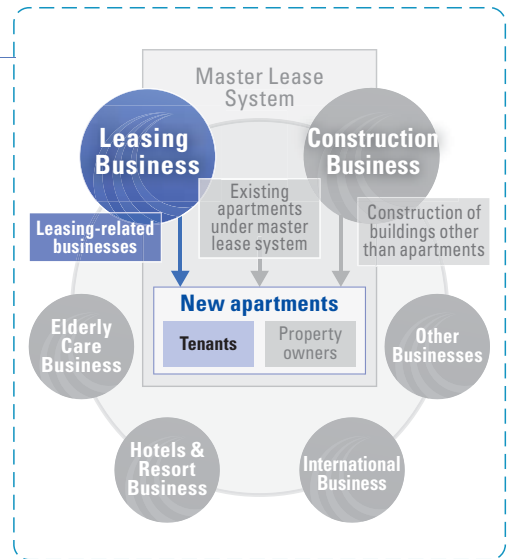
To succeed in business, it is essential to apply selectivity and focus to resource allocation so as to maximize gains from the resources that a company has. Since the full launch of Leopalace21 urban apartments in 1985, we have restricted our focus to areas in large urban centers, where demand is greatest for apartments for people living alone, a key demographic for our business model. This strategy of selectively concentrating new supply in these areas



enables us to maximize our potential.

Many of the apartment owners in our system are older, with about 70% over age 60 and about 40% over age 70. Many of them are thus part of a demographic that will bequeath assets in the not-so-distant future.

### 3 Channel Strategy Aimed at Attracting Tenants

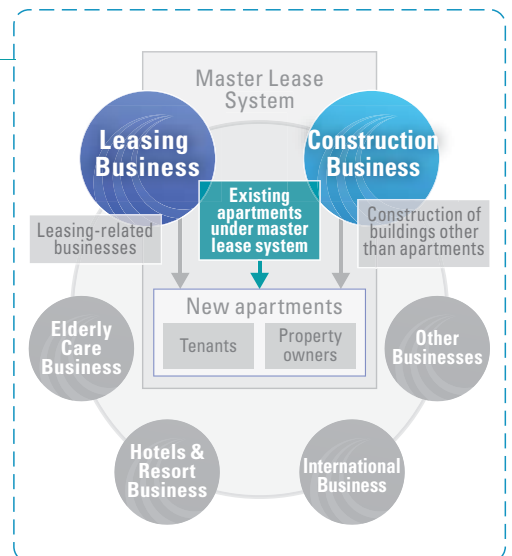
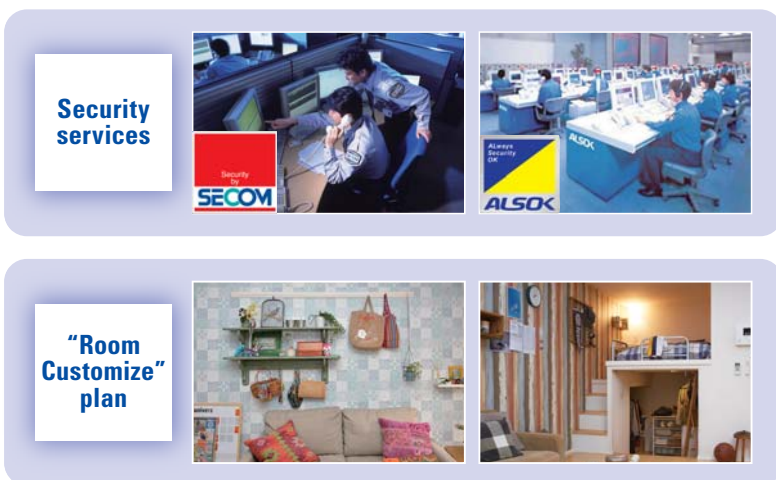


The Leasing Business can also be seen as a matching business that brings together apartment owners who need tenants and prospective tenants who seek rental housing. To ensure smooth progress in matching them up, we are not only developing new channels, but are also coming up with creative ways to use existing ones.

Specifically, we harness our network of directly run offices and Leopalace Partners franchisees to convince

potential tenants to become actual ones while expanding our channels online. Moreover, our comprehensive channel strategy has initiatives targeting all untapped tenant segments, unearthing demand in the individual market via seminars for those actively looking for rental housing, etc., offering proposals to corporate clients for dormitories for singles, etc., and developing student demand through seminars at universities and vocational schools.

### 4 Measures to Enhance Existing Property Values



Japanese housing policy is moving in a direction that emphasizes greater supply of high-quality housing for long-term occupancy, and boosting housing values is also an important issue for the rental housing market.

As a result, we are moving ahead with measures to enhance product development and boost the value of existing properties by focusing on features of particular importance to would-be tenants—comfortable living environments, eco-consciousness and disaster preparedness,

and safety and security. Among measures we think help raise the value of existing properties are operational tie-ups we have with major security companies in security systems aimed at ensuring tenant safety and security, the installation of solar power systems that contribute to environmental conservation, and our "Room Customize" plans, which improve the appeal of older properties. We thus use a variety of measures to ensure the properties we manage are preferred by tenants.

## 5 Synergies between our Elderly Care Business and Construction Business



The projected rise in the senior segment of the Japanese population means the potential market for our Elderly Care Business is growing, and we see it as a standalone growth business. Beyond this, however, we recognize the potential for this business to generate synergies with our core Construction Business.

The Elderly Care Business runs a network of nursing care facilities under the “Azumi En” brand in the greater Tokyo metropolitan area and the Kanto region as well as the Chubu region, a catchment area that mirrors that of our core Construction Business. As a result, even in cases where we cannot market a single-person household apartment to a landowner, we may be able to propose a plan for a senior care facility. This synergy is thus indispensable



as a plank in our effort to be a one-stop provider of land-use solutions.

We anticipate potential demand for facilities for employee welfare and benefit programs and expect to make such proposals to clients that we have institutional contracts with, and envision a host of ways to capture synergies with our Construction Business.

## 6 Core Business Synergies with International Business, Hotels & Resort Business



In our International Business, we are expanding our leasing operations overseas based on the real estate know-how we developed in Japan. At the same time, with respect to clients of our core businesses in particular, we launched “World Business Support (WBS)” to provide support services for their overseas business trips and assignments as well as introducing clients to office and residential space overseas. The wide-ranging WBS menu of services includes arranging plane tickets for overseas business trips and assignments, securing visas, and introducing clients to office and residential space overseas. We also collaborate with initiatives between the Japanese and Vietnamese governments to promote the Technical Intern

Training Program (TITP) for foreigners to help alleviate the shortage of skilled labor in Japan, which is becoming a social issue.

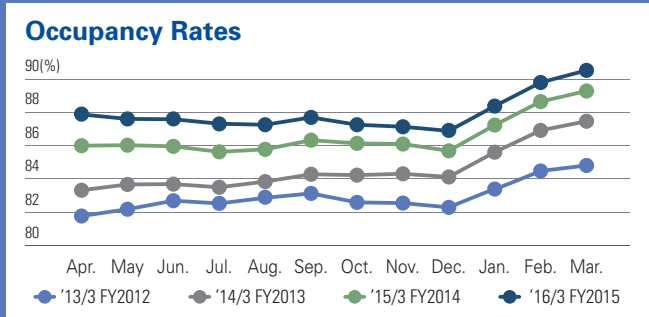
We envision the Hotels & Resort Business as providing venues to offer services and hospitality to clients of our Leasing Business and Construction Business.

We encourage clients of our core businesses to use our domestic Leopalace Hotels for business trips and training events. We market use of our Guam resorts to tenants and property owners as an overseas tourist destination and to corporate clients as a facility for their employee benefit programs.

We hope use of these businesses will encourage our clients to form long-term relationships with us.

# OUR STRATEGY FOR IMPROVING OCCUPANCY RATES

At the Leasing Business, earnings growth accompanies rising occupancy rates. We are focusing on the execution of four measures to improve occupancy rates.



Strategy 1: Maximize Owner-Tenant Matching Capabilities

Strategy 2: Further Bolster Corporate Sales

Strategy 3: Expand Services for Tenants

Strategy 4: Initiatives Aimed at Enhancing Property Values

## Strategy 1: Maximize Owner-Tenant Matching Capabilities

### Maximize Owner-Tenant Matching Capabilities via Offline-Online Fusion



#### Nationwide Coverage via Directly Run and Partner Offices

We market our leasing services through 189 directly run sales offices (182 domestic and seven overseas), 130 offices run by Leopalace Partners franchisees, and about 28,000 cooperative local agents with a focus on placing tenants into rental housing. Combining these three categories, our brick-and-mortar network provides us with nationwide coverage. At our brick-and-mortar sales offices, we identify the specific needs of clients who are looking for rental housing and work to improve tenant satisfaction.

#### Information on Rentals Nationwide Always Available at our Website

In the past few years, more and more prospective tenants, especially students and young adults, use their smartphones to access rental property information when they want it. In response, we are strengthening our use of virtual channels to send out information to complement initiatives implemented via offline channels, centering on our network of brick-and-mortar offices. At our dedicated website, we ensure the latest information on rental properties across Japan is available whenever prospective tenants seek it.

## Strategy 2: Further Bolster Corporate Sales

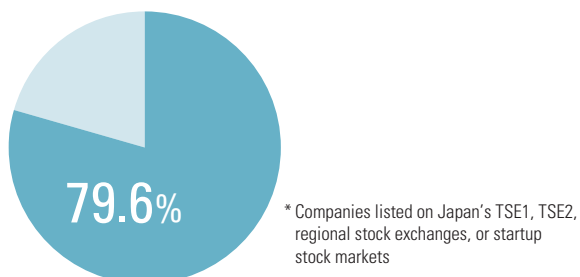
### We Lease Apartments to About 80% of Listed Companies in Japan

At the Leasing Business, about half of the rooms are leased for use by corporate clients. Industries we cater to range from manufacturing to personnel dispatch and business outsourcing, services, retail, and others. About 80% of listed companies across Japan use properties we manage. We think the breadth of corporate usage of our apartments is a testament to their positive evaluation of them and the services we provide.

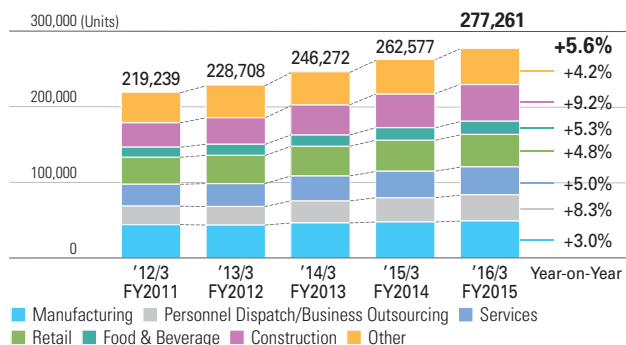
### Fine-tune Our Marketing to Respond to Each Sector

Given the extensive breadth of our corporate clients and industries, we have set up marketing teams for each key industry. With expert teams for each industry, we are able to develop a well-rounded understanding of client attributes and fine-tune our marketing for them, proposing leasing plans that best meet their needs in terms of contract type, length, and number of rooms.

Ratio of Listed Companies Using Our Services (as of March 31, 2016)



Corporate-Leased Housing Contracts by Industry



## Customer's Voice



### ENEOS WING Corporation

Launched in 2013 as a wholly owned subsidiary of J&S Fleet Holdings, a holding company jointly formed by JX Nippon Oil & Energy Corp. and Suzuyo Shoji Co., LTD., ENEOS WING runs a growing service station network that stands at about 400 stations at present. Its businesses range from petroleum products, auto parts, and insurance sales to auto leasing and vehicle maintenance and regulatory inspection services.

We went to Leopalace21 for its furnished apartments with furniture and home appliances because they make the transition easier for new hires as well as employee relocations and transfers. We have service stations and sales offices nationwide. Many of our employees are recent high-school graduates who left home for the first time when they joined us and are anxious about their first experience living alone. For such cases, we find furnished apartments with furniture and home appliances to be very helpful.

Moreover, there are benefits not only for employees living in these apartments but also for us in management. In particular, a major benefit is that Leopalace21 greatly reduces our monetary and labor burdens associated with concluding lease contracts and employee-housing related management matters.

We have been impressed by the responsiveness of Leopalace21 salespeople. In many cases in the rental housing industry, the job is done once a company signs a contract for rental housing, but Leopalace21 salespeople are good at satisfying clients. They always look after us and go the extra mile to find out what our needs are beyond corporate housing operations. We think there will be a lot of value for us in continuing to use their services.



### Mr. Hideo Sone

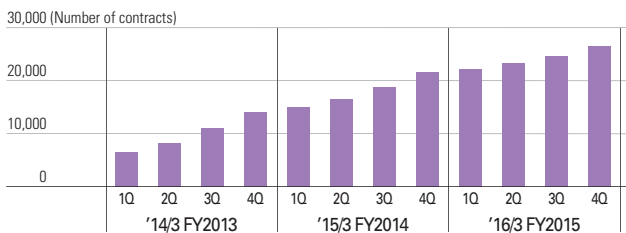
General Manager,  
Human Resources  
Department,  
Management  
Headquarters  
ENEOS WING Corp.

## Strategy 3: Expand Services for Tenants

### Client-oriented Service “Room Customize” Plan Lifts Contracts beyond 20,000



#### Cumulative “Room Customize” Contracts



To improve occupancy rates, it is important to keep the vacant period of rooms as short as possible, so we promote long-term occupancy. Our “Room Customize” plan enables tenants to customize and form attachments to their apartments, an option that is not available for most rental housing. With the ultimate aim of promoting long-term tenancy, the option enables tenants to change wall paper and make other changes to suit their preferences. The customization plan has been well received since its launch in 2012, with the cumulative number of leases increasing to 26,542 at present.

### Various Services via Alliances with Corporate Partners



A flexible lesson package at fitness studios via an alliance with LessonPass, Inc., a subsidiary of GREE, Inc.

We offer a wide range of services to tenants via alliances with large corporations who are also our clients. Among these are a flexible, fixed-fee lesson package at fitness studio franchisees arranged by a subsidiary of GREE, Inc. and a car sharing service we promote via an alliance with Park 24 Co., Ltd. In addition, through a tenant-exclusive website, “My Page,” tenants can order home-delivery laundry service and other daily-life-related services available via tie-ups with large corporate partners.

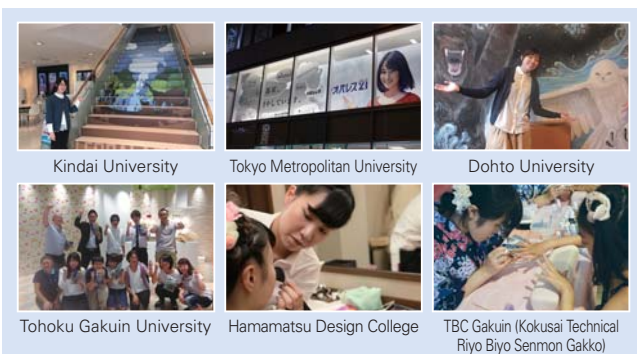


A car sharing service offered via an alliance with Park 24 Co., Ltd.



Home-delivery laundry cleaning service via our “My Page” website for tenants

### Bolstering Our School Relationships via Internships and School-Sponsored Events



Initiatives led by industry-academia consortiums

We created a sales team dedicated to marketing to educational institutions to develop the student tenant market. This sales team thinks stronger relationships with schools can lead indirectly to securing student tenants through rental housing introductions, etc., so it is assertively pushing ahead with initiatives involving industry-academic collaboration and local communities. In fiscal 2015, we worked to strengthen our relationships with educational institutions by participating in industry-academia-government consortiums aimed at energizing rural communities (four times), joining school-sponsored events with corporate participants to support students in developing their careers (90 times), and inviting students to apply for the internship program run by our human resources department.



## Strategy 4: Initiatives Aimed at Enhancing Property Values

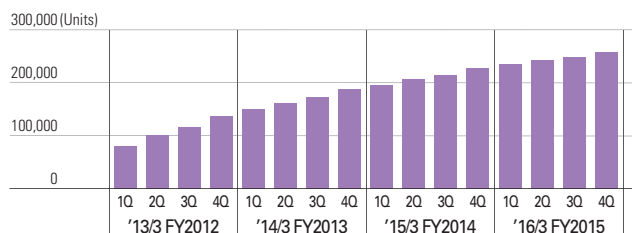
### Security Systems for “24-hour, 365-day” Safety and Peace of Mind for Tenants



For prospective tenants, attractive housing goes beyond design, room layout, and built-in amenities and fixtures. For tenants of apartments aimed at single-person households like the ones Leopalace21 builds and operates, a well-conceived security arrangement that offers safety and peace of mind is a major attraction. For this reason, we have operational tie-ups with major security companies and are installing security systems in apartments we manage.

Of the total portfolio of rooms we manage, 45.7%, or 256,900 rooms have a security system installed. We expect to install systems in more rooms, with the aim of creating housing for people who put a high value on safety and peace of mind.

#### Installations of Home Security Systems



### Renovations and Rebuilding Keeps Aging Apartments Attractive



Renovated a twenty-year-old apartment with four 2DK-type rooms into a building with ten 1K-type rooms.



Renovated a twenty-year-old apartment with four 2DK-type rooms into a building with six 1K-type rooms and two 1DK-type rooms.

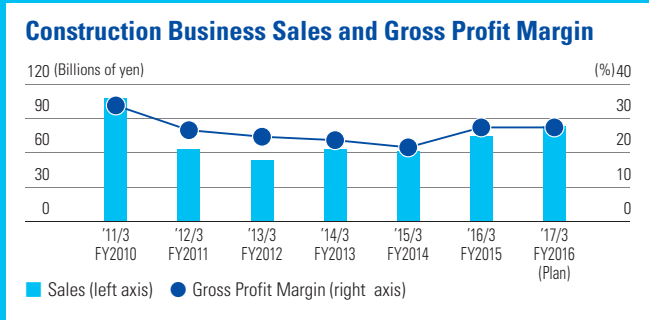


As the years pass, the fixtures and fittings in a residence age and grow obsolete. Without upkeep, the attractiveness of a residence declines, the number of tenants decreases, and occupancy rates fall. At Leopalace21, we always track the structures, fixtures and fittings of the apartments we manage and our upkeep ensures they always remain attractive regardless of their age. When the time comes to rebuild or renovate them, or to replace their fixtures and fittings, we do so. In such cases, we always keep the voice of our customers in mind while proceeding with renovations. In particular, the unique value-added interior spaces and refined exterior designs we create are popular. Our renovations translate into higher property values while ensuring the buildings are more attractive than before.

Note: “D” is for dining space and “K” is for kitchen space.

# STRATEGIC PRODUCTS FOR MODERN NEEDS BASED ON LANDOWNER DEMAND

We face fiercer competition from large housing developers in apartment construction but we are building a competitive advantage via the execution of four strategies based on landowner needs.



- Strategy 1: Marketing Focused on Metro Areas
- Strategy 2: Consulting Sales Based on Understanding Landowner Needs
- Strategy 3: Rollout of High-quality, Cutting-edge Strategic Products
- Strategy 4: Broadening our Construction Product Mix

## Strategy 1: Marketing Focused on Metro Areas

### Focusing on Three Major Metro Areas with Many Rebuilding Candidates

Leopalace21 applies a “selectivity and focus” approach in executing its regional strategies for harnessing its strengths in housing for single-person households. Specifically, we are building out network of sales offices, etc. in Japan’s three major metro regions of Kanto, Chubu, and Kinki, where single-person housing needs are concentrated.

Of our total portfolio of managed rooms, 36% are in the Kanto region, 16% are in the Chubu region, and 14% are in

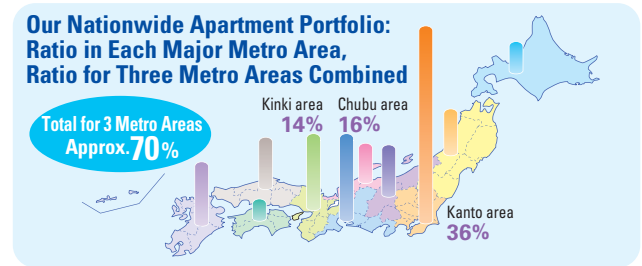
the Kinki region, and the ratio for these three regions combined is about 70%.

The net inflow of domestic migration into the three metro areas continues, and a large number of buildings in these metro areas are near an age when they need to be rebuilt. The concentration of the portfolio of apartments we manage in these three metro areas is a reflection of our “selectivity and focus” approach.

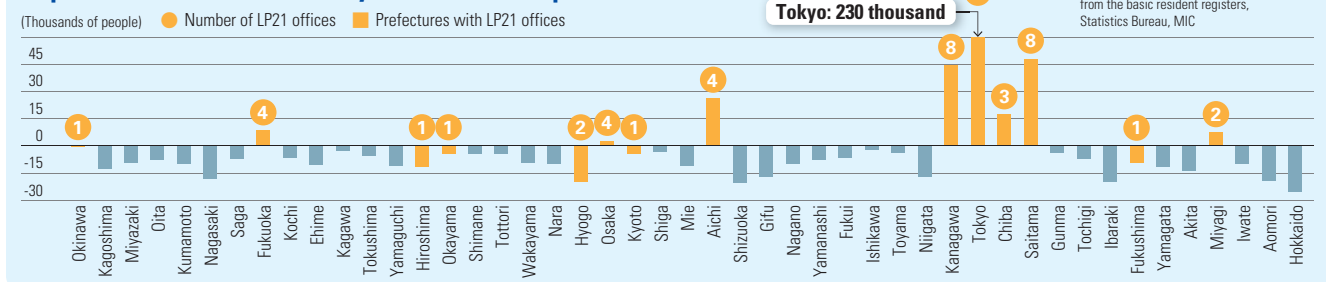
### Privately Owned Rental Housing over 35 Years Old (Rooms, % of total)

Built before 1980 (over 35 years old)	
Tokyo’s 23 wards	283,500 15.5%
Major government-designated cities	429,900 14.9%
Other municipalities	551,600 13.8%
Total of four major metropolitan areas	1,265,000 14.5%
Grand total in Japan	2,193,400 15.0%

Source: 2013 Housing and Land Survey, Statistics Bureau, Ministry of Internal Affairs and Communication (MIC)



### Population Inflows/Outflows by Prefecture in Japan in 2012-2015



Source: Report on internal migration in Japan derived from the basic resident registers, Statistics Bureau, MIC

## Strategy 2: Consulting Sales Based on Understanding Landowner Needs

### Apartment Construction Proposals Reflect Our Tax System Knowledge

Of the landowners that we build apartments for, many own property as individuals. Of these, quite a few regard apartment management as a way to reduce taxes arising from bequeathing assets. In the Japanese tax system, the inheritance tax payable on land inherited with a structure such as an apartment building on it differs from that on unused land. We are knowledgeable about the tax system and strive to uncover latent needs by proposing plans that best fit the circumstances of each individual owner.

#### Consulting-based Proposals with Benefits for Landowners



### Business Matching via Tax Accountants and Judicial Scriveners

Individual landowners that are considering whether to build apartments are often in regular contact with professional service providers such as tax accountants and judicial scriveners to protect their wealth, along with financial institutions. Leopalace21 has signed business matching contracts with professional service providers like these who advise landowners on taxes and bequeathing assets to heirs. We believe we can harness the information they glean from their client relationships as a new sales channel to secure orders.



### Customer's Voice



**Mr. Katsumi Wada**  
**Mr. Kentaro Wada**  
Tokyo Prefecture

Our relationship with Leopalace21 goes back nearly 15 years. At first we were completely uninterested in what its salespeople proposed but their enthusiasm in pitching us ideas won us over and we eventually decided to build apartments on land we inherited. I still remember well that when the project began, Leopalace21 went beyond just construction and helped us negotiate with neighbors. Since then, we have continued to do business with Leopalace21, which now manages apartments for us in four locations. Starting with the second one, the apartments we have built have been on newly purchased sites.

The reason we keep doing business with Leopalace21 is because it comes to us with ideas on what we should do based on a life plan with a view to our future rather than just trying to sell us apartments. I feel Leopalace21 has changed our lives in a major way.

An inheritance problem that rose when my mother passed away is what first brought me into contact with Leopalace21. Based on my first impression of the two young salesmen who came to visit us, I thought there is no way I can entrust these young guys with our family's precious assets. What won me over was when they told me Leopalace21 pays rent for every room in apartment buildings they manage even when there are vacancies. Since then, my relationship with Leopalace21 has grown to five apartment buildings. The salespeople have repeatedly come to me over these years with ideas and explanations I found compelling and urged me to act. I want to express how thankful I feel that they built a foundation for my family's prosperity. My aim in the years ahead is to build five more and own a total of ten apartments. As Leopalace21 is starting to expand its international business, I hope I can be involved when it seeks to develop overseas properties.



**Mr. Masakazu Muto**  
Ibaraki Prefecture

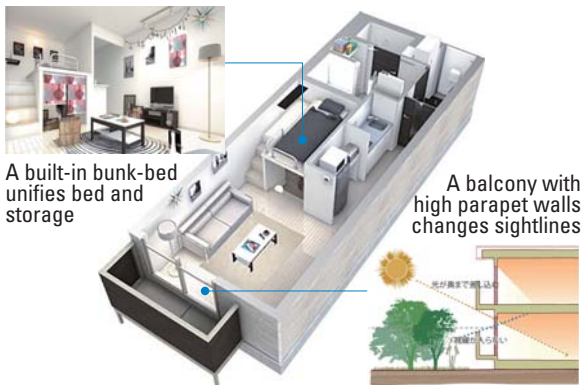
## Strategy 3: Rollout of High-quality, Cutting-edge Strategic Products

### Lines of Sight into L-SECTION Apartments Blocked to Help Prevent Crime

In response to tenant needs for safety and peace of mind, we have installed security systems that are run through our operational tie-ups with major security companies in apartments we manage. In addition, we offer apartment buildings designed to help prevent crime. Security concerns are particularly a problem for first-floor tenants in

low-rise apartment buildings, and the high-quality apartment designs we have developed such as the L-SEction address such concerns. With 1.7-meter parapet walls on its balconies that block lines of sight into first-floor apartments, this model protects tenant privacy.

#### Improves Security for First-Floor Tenants: L-SECTION



#### Wall-type pre-cast concrete: Burliant



### Our Industry-leading Sound Insulation Fixtures

Many years ago Leoplace21 apartments were thought to have thin walls. This may be why prospective tenants who valued their privacy tended to avoid our apartments. We have since then, however, developed sound insulation features, such as highly rated sound-insulated flooring “non-sound floors,” sound-insulated walls, sound-damping drainage pipes, and other features that

lessen unwanted noise that we have combined into a “non-sound system” that now comes as a standard feature in our apartments. With industry-leading sound insulation as a differentiator that sets our products apart, our apartments, we believe, enable tenants to live more comfortably than they could anywhere else.

### Our “Non-sound System” Improves Sound Insulation

#### Non-sound floors

Reduces impact noise from upper floors; sound insulation is two or three ranks more effective than conventional floors

##### Wood frames



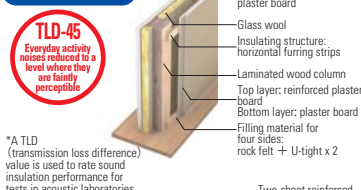
##### Steel frames



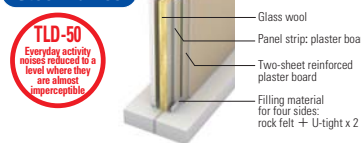
#### Highly-rated sound-insulating walls

Improved sound insulation via changes to the composition of separating walls between adjoining residences; achieved TLD\*-45 for wood frames and TLD-50 for steel frames

##### Wood frames

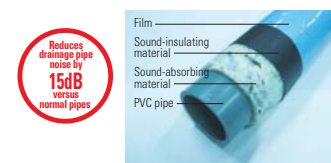


##### Steel frames



#### Sound-damping drainage pipes

Installed to reduce drainage noise; 15dB reduction versus normal PVC pipes to a level on par with libraries or suburbs late at night



Cross section of a pipe







## Strategy 4: Broadening our Construction Product Mix

### Realizing Ideal Land Usage with Plans Fine-Tuned to Suit Each Site

With 561,961 rooms under management, Leopalace21 is one of the largest managers of leased housing in Japan, but our Construction Business does not restrict itself to constructing apartment buildings. Drawing on the know-how and track record we have amassed so far, we have developed a system for responding to a wide assortment of construction contracting work beyond apartments such

as custom-built homes, facilities for seniors such as nursing-care facilities, and store and retail facilities for restaurant chains, convenience stores and the like, as well as mega solar projects and parking lots. We can satisfy the needs of property owners by presenting them with ideas fine-tuned to suit each site, thereby supporting ideal land usage from their perspective.

#### Ideal land usage

 <p><b>Apartments</b></p>	<p>We offer apartment designs that meet diversifying tenant needs. We lease back apartments in toto under our master lease system and execute all lease management tasks.</p>	<p>In response to the growing population of senior citizens, we are expanding a matching business where we bring together property owners and nursing care providers.</p>	 <p><b>Elderly care facilities</b></p>
 <p><b>Primary homes with an accessory apartment</b></p>	<p>We build primary homes with an accessory apartment that can earn rental income. The primary house for the owner's exclusive use is based on a flexible design.</p>	 <p><b>Stores</b></p>	<p>We construct retail facilities for road side locations and sites near train stations for restaurant chains, convenience stores, and drugstores. We also propose mixed-use tenant buildings with apartments.</p>
<div style="background-color: #0056b3; color: white; border-radius: 50%; width: 60px; height: 60px; display: flex; align-items: center; justify-content: center; margin: 0 auto; font-weight: bold;">             Leopalace21's land usage proposals           </div>			
<p><b>Others</b> Among the land-use ideas we propose to property owners are mega-solar projects and parking lots.</p>			

### Flexible-plan "Taiga" Homes: Built with the Highest-grade Kiso Hinoki Wood

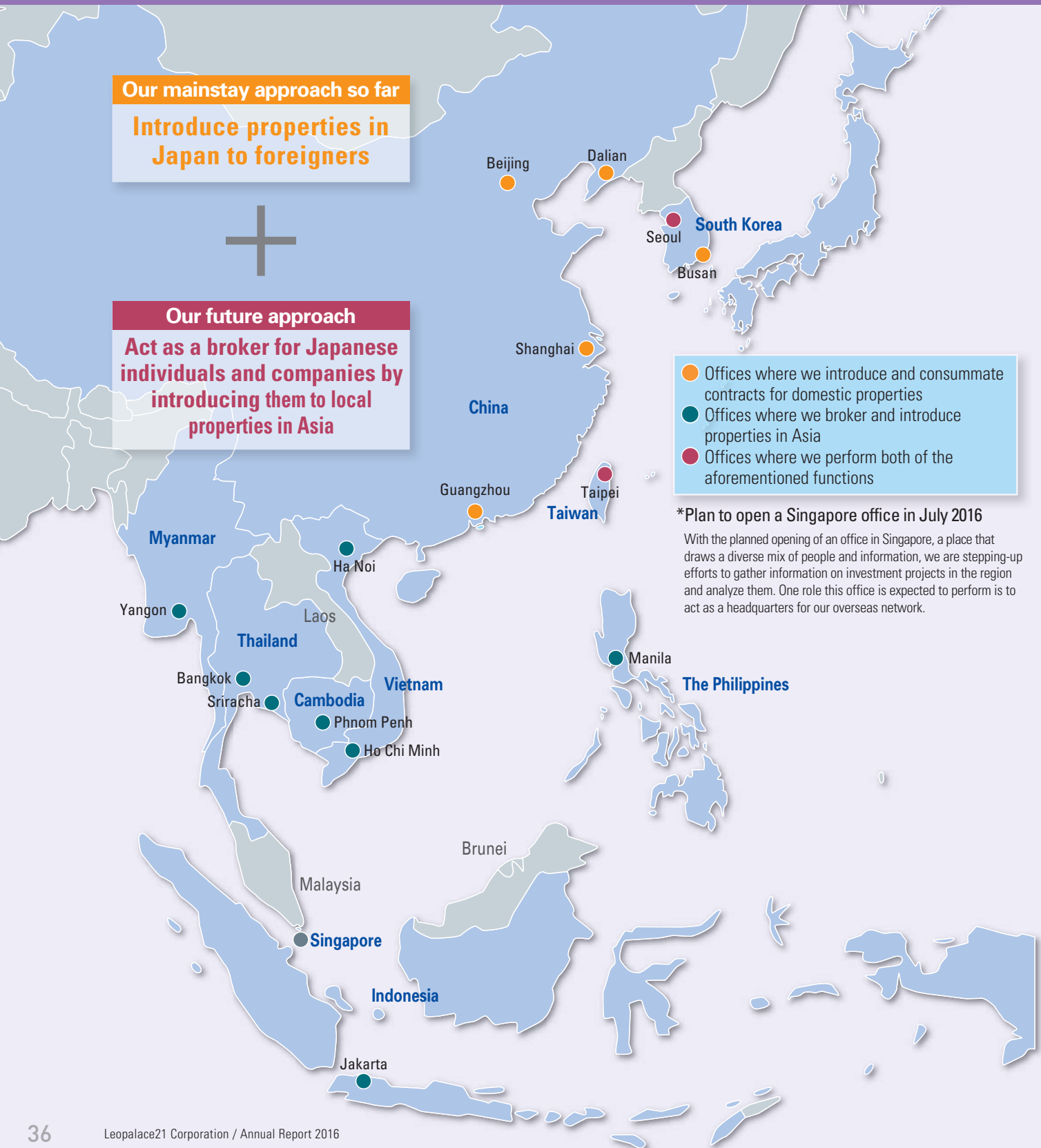
With our March 2015 acquisition of Morizou Co., Ltd., the builder of custom-built homes made with Kiso Hinoki wood, among the highest-quality wood in Japan, became a subsidiary. The "Taiga" line of custom-built homes, which we developed jointly with Morizou, is targeted at property owners with a taste for luxurious living.

Made with high-quality Kiso Hinoki wood based on a flexible design, these homes can last a century owing to the durability of Kiso Hinoki wood materials, a ventilation system that protects against degradation, and ingenious quake-resistant features such as the well-balanced placement of vibration-control dampers across its structure.



# EXPANDING OUR INTERNATIONAL BUSINESS DRAWING ON KNOW-HOW HONED IN JAPAN

We offer serviced offices and serviced apartments to Japanese nationals and Japanese companies and total support services to employees sent on overseas assignments.



## Supporting Japanese Companies Overseas with Modern Apartments and Offices

### Strong Corporate Demand for Our Thai Serviced Apartment, with Plans for Cambodia

Many Japanese companies have entered the rapidly growing Cambodian and other markets in the past few years but we have seen many cases where housing for Japanese employees on long-term assignments was not up to scratch. As a service drawing on the know-how we developed in Japan, we opened a 72-room serviced apartment in Thailand in October 2015, and we plan to open serviced apartments in Cambodia and Vietnam in the future.



Serviced apartment in Sriracha



Staff at our Cambodia office

### Launched Serviced Offices in Philippines and Myanmar

In many of the markets Japanese companies have entered in the past few years, we have seen numerous cases where small teams sent by new entrants before they are ready to construct an office building work in challenging office environments. It is thus our view that not only do employees sent on such overseas entry assignments lack adequate housing but they also lack satisfactory office space. In responses to the headaches and challenges faced by new corporate entrants, we have opened serviced offices with meeting rooms and reception desks in the Philippines and Myanmar.



Serviced Office in Manila



Staff at our Myanmar office

## Various Services to Support Entry into Overseas Markets

### Total Support for Entry into Overseas Markets

As a new addition to our international business, we launched World Business Support (WBS) to provide total support for Japanese employees sent on overseas assignments with a variety of services. In addition to introducing them to rental residential and office space overseas, WBS offers business travel management such as arranging plane tickets and obtaining visas, making hotel reservations, and performing other tasks. WBS also offers a wide range of support services in Japan for Japanese employees sent overseas from looking after their residences while they are overseas to sub-leasing or selling their housing assets to arranging to move their belongings overseas.



### Bringing Vietnamese Apprentices to Japan via Technical Intern Training Program



As a part of our international business, we have been at the fore in bringing foreign apprentices via the Technical Intern Training Program (TITP) to Japan. Building contractors we work with accepted 18 apprentices from the first TITP class in July 2015, and we have so far supported 50 apprentices who have been accepted at contractors via this program. TITP recruits start out in Vietnam studying construction trade skills. Once they complete Japanese language and building trade terminology courses, they come to Japan for further language study before joining a Japanese building contractor as a building trade apprentice. We will continue to support TITP recruits joining contractors as building trade apprentices in the years ahead.

# ADD FACILITIES AND IMPROVE PROFITABILITY IN VIEW OF GROWTH PROSPECTS

The Elderly Care Business is a strategic growth business and we plan to increase the number of facilities in our network by about 50% in the next two years. At the same time, we will work to improve profitability via management improvements.



## Group Homes

- Accept elderly patients with dementia, provide personalized nursing care
- Use completely private rooms that protect privacy as a source of appeal



## Nursing Care Centers with Day Services, Short-stays

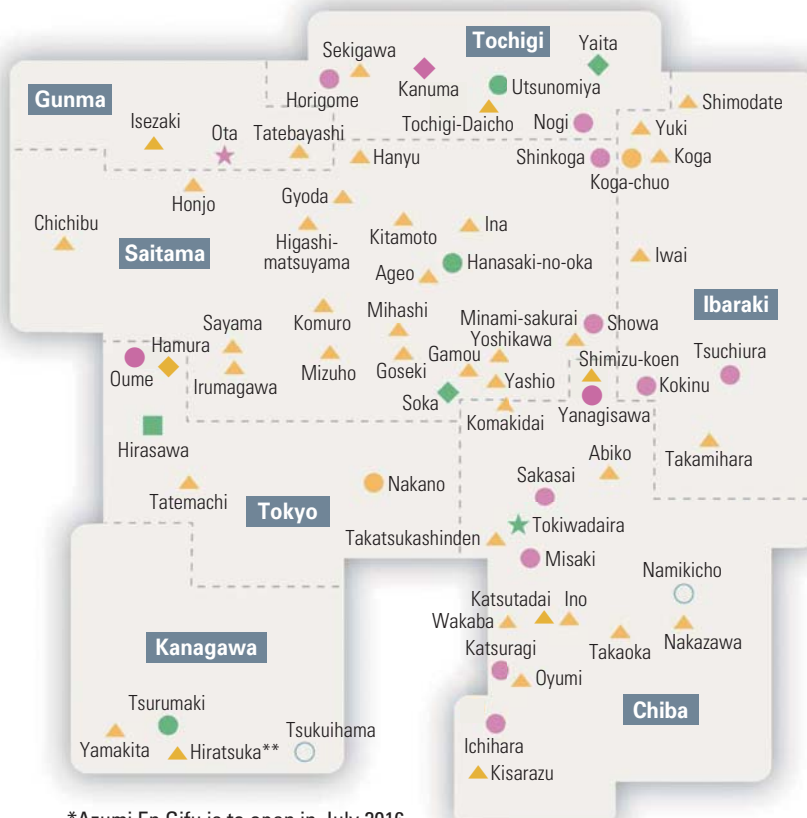
- Provide same-day and overnight nursing care service
- Add day services and short-stay services at more fee-based homes, and add sites with same-day outpatient care services



## Fee-based Residential Homes with Nursing Care

- Private long-term residences with on-site staff providing daily-life support and nursing care

### "Azumi En" Facility Map



\*Azumi En Gifu is to open in July 2016

\*\*Azumi En Hiratsuka is to open in August 2016

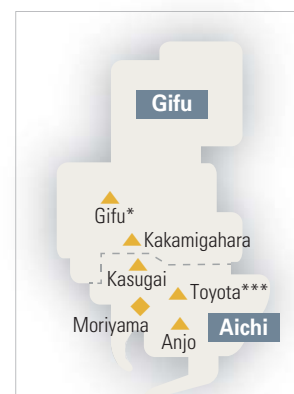
\*\*\*Azumi En Toyota is to open in September 2016

### "Azumi En" Facility Network

	Facilities
Group homes	2
Day-service, short-stay centers	47
Sites including fee-based nursing homes	21
<b>Total</b>	<b>70</b>

\*As of June 1, 2016

- ★ Fee-based home with nursing care, day/short-stay services
- ◆ Fee-based home with nursing care, short-stay service
- Fee-based home with nursing care, day service
- Fee-based home with nursing care
- ★ Fee-based residential homes with day/short-stay services
- ◆ Fee-based residential homes with short-stay service
- Fee-based residential homes
- Group homes
- ▲ Day/short-stay services
- Day services
- ◆ Short-stays





## Offering Value to Seniors Who Need Care Premised on Our Unique Philosophy

### Low Profitability at Individual Facilities amid Fierce Competition

Premised on the concept of Leopalace21 as a one stop service provider for housing, the Company rapidly scaled up the Elderly Care Business to provide support to seniors looking for residences and daily-life assistance. The elderly care market is seen as a growth field as the cohort of seniors in Japan grows but the entry of many firms from other industries has led to much fiercer competition, creating conditions where improving profitability is challenging. Moreover, compared with rivals, a higher ratio of Leopalace21 staff are recent graduates hired on a career track or are full-time employees, so this raises fixed costs and squeezes earnings. Unless occupancy rates at facilities are increased, it will be hard to boost earnings.



### Aims to Improve Profitability at Each Facility While Not Relying on Scale Economies from Expansion

At the Elderly Care Business, Leopalace21 is forging ahead with initiatives to expand the size of its network by adding more facilities while working to improve the costs of sales so each individual facility becomes profitable. It plans to step up network expansion in the next two years en route to increasing the total number of facilities to 104 as of March 31, 2018 from 67 as of March 31, 2016. At the same time, it is working to achieve profitability at the level of individual facilities by controlling the costs of sales, along with a focus on reviewing various fixed costs, so it does not want to rely on economies of scale from expansion alone for earnings.



### Improve Profitability via a Business Model with Standardized Services



**Yoshiko Sasao**  
Outside Director

After departing Recruit Co., Ltd. (now Recruit Holdings Co., Ltd.), she became an executive at TEPCO PARTNERS Co., Inc., a nursing-care provider. Her accomplishments include helping to return TEPCO PARTNERS to profit just two years after it reported 2 billion yen in losses.

The Elderly Care Business does not measure its performance in terms of efficiency alone. I feel one of its positives is its willingness to accept even difficult-to-treat elderly applicants such as those with dementia or those who are hard to nurse. It is common for nursing-care homes to turn away such patients. That said, no business can stay open if it continues to run up losses. If I were to offer the Elderly Care Business advice based on my experience in returning TEPCO PARTNERS to profit, I would recommend it retain this admirable stance but also strive to standardize service quality and show its approach can be effective as a business model where profitability can be improved. I presume the team at the Elderly Care Business has ample experience and knowledge, so once it is able to develop service drafts and test them in the field so they can be readied as manuals for dissemination to staff as practical know-how, my sense is the Elderly Care Business will return to profit swiftly.

# MOTIVATING WOMEN TO AIM FOR FULL CAREERS IS VITAL TO INCREASING CORPORATE VALUE

Companies cannot afford to wait to adopt programs to motivate women in the workplace with the law\* promoting female participation in the workplace taking effect from April 2016 and other changes shaping the business climate. We are putting our muscle into advancing measures with targets set at a higher level than prevailing industry practice.

\*Act of Promotion of Women's Participation and Advancement in the Workplace

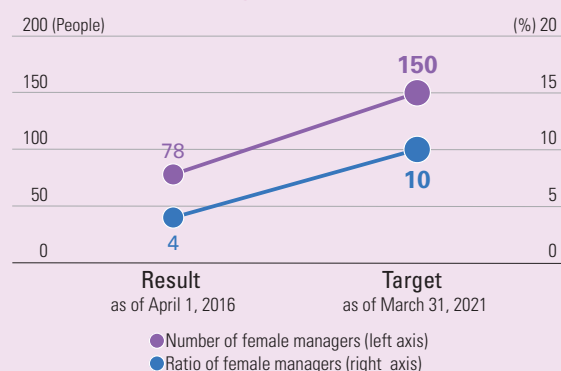


## Promoting Diverse Work Styles as a Way to Motivate Women to Aim for Full Careers

### Advancing an Action Plan to Double Female Managers at Leopalace21

For Japan, with its shrinking population, finding ways to motivate women to pursue careers throughout their lives is a pressing, important issue. This theme is a concern that we at Leopalace21 share. With the law promoting female participation in the workplace coming into effect in April 2016, we drew up an action plan to motivate women to aim higher in their careers and set targets to increase the ratio of females in our employee hiring and our ratio of female managers. To reach such targets, we aim to increase the number of female managers from 78 as of April 1, 2016 to 150 as of March 31, 2021, and raise our ratio of female managers to over 10%, a level that would put us above the prevailing practice in the rental housing industry.

Ratio of female managers



## Healthy Work-Life Balance, Workplaces with a Sense of Purpose

In our efforts to motivate female employees, we have found the prospect of important life events such as marriage and then having children have tended to pose an obstacle in motivating women in their mid-to-late twenties to aim higher in their careers, and female employees in general are often ambivalent about seeking promotions. Among the measures we are adopting to address this situation are: reforming the system for taking paid vacation to enable employees to request paid leave in increments as small as one hour; introducing an at-home telework option mainly for people on a short workday schedule; and establishing a “working support” hotline as a resource for employees to obtain counseling on how to navigate a workable balance between work and life events such as pregnancy, preparing for childbirth, a spouse’s relocation or transfer, and the like.

As a way to support women pursuing careers at Leopalace21, we also plan to conduct interviews to help them smoothly return to work after childcare leave and offer seminars on “motivating women to aim higher.” Moreover, we are working to create a work environment that instills a sense of purpose in our employees.



## Forums Raising Awareness on Need to Motivate Women to Aim Higher at Work

In addition to putting into place systems to encourage female employees to aim higher, Leopalace21 is sponsoring diversity forums with the aim of raising awareness about the need to motivate women to pursue careers in the workplace. Our sponsorship of this series reflects our conviction that the mindsets of both male and female employees about work and their careers must evolve. A December 2015 forum hosted a panel discussion on motivating women to pursue careers and an April 2016 forum featured a talk about the law promoting female participation in the workplace. We heard valuable comments at these from Outside Director Yoshiko Sasao, Ayako Ito of Sustainability Accounting Co., Ltd., from which we receive consulting on our CSR activity practices, and Yoko Yajima of Mitsubishi UFJ Research and Consulting Co., Ltd., who is seen as one of the first to call attention to the need to promote active female participation at work.



**Yuko Shimizu**

Leasing Business Division,  
Corporate Sales Department  
Deputy Division Chief

### Create Workplaces where All Women Strive to Be Role Models for Success

The thing I pay attention to as an individual in thinking about how to motivate female employees to seek careers is keeping in regular contact with former coworkers who are on childcare leave rather than focusing just on the employees who report to me now. I constantly look for ways I can make the environment here one that is welcoming to former employees.

I communicate to my female colleagues what I see in the workplace as an executive and how hard but interesting it is for me to take on responsibility as an executive based on my experience. I continue to strive to be a role model so that women who work hard are encouraged to aim high and become an executive.

## Business Overview

# AT A GLANCE

### LEASING BUSINESS



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### CONSTRUCTION BUSINESS



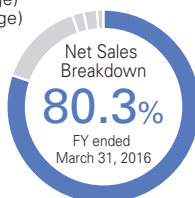
P46

#### Segment overview

This business is involved in renting rooms in properties we manage based on our master lease system. One rental agreement we developed allows usage fees to be paid on a monthly basis, easing the burden of initial costs. Another contract, the monthly agreement, requires upfront payment of usage fees for furniture and home appliances but does not require payment of water bills and utility costs. We seek to secure tenants using our outlets, franchise sales offices, cooperative real estate agents, etc. and raise occupancy rates by offering a richer array of services that improve tenant satisfaction.

#### key subsidiaries and affiliates

- Leopalace Leasing Corporation (corporate housing agency/property brokerage)
- Plaza Guarantee Co., Ltd. (lease guarantee business)
- Leopalace21 Business Consulting (Shanghai) Co., Ltd. (consulting business)
- Leopalace21 (Shanghai) Property Management Co., Ltd. (property brokerage)
- LEOPALACE21 VIETNAM CO., LTD. (property brokerage)
- Leopalace21 (Thailand) CO., LTD. (property brokerage)
- Leopalace21 (Cambodia) Co., Ltd. (property brokerage)
- LEOPALACE21 REAL ESTATE CAMBODIA Co., Ltd. (real estate business)
- LEOPALACE21 PHILIPPINES INC. (real estate brokerage)
- PT. Leopalace21 Properti Manajemen (real estate brokerage)
- PT. Leopalace Duasatu Realty (real estate business)
- Woori & Leo PMC Co., Ltd. (leasing management services)

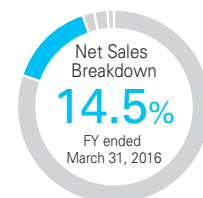


This business engages in construction, mainly apartments. We are working to bolster our product competitiveness, offering products designed from a female perspective and those for young people living on their own for the first time. Outside of apartments, we are expanding construction of commercial properties and elderly care facilities. We also plan to expand contracting for custom-built homes.

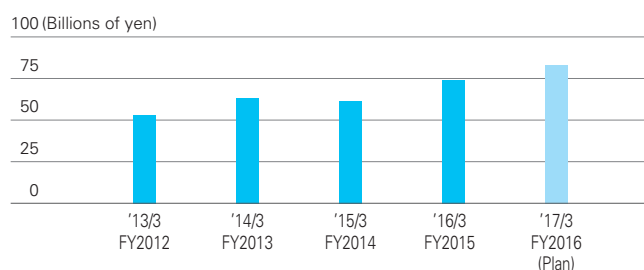
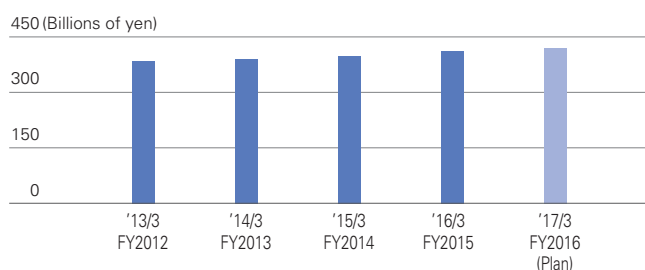
To boost custom-built home contracting, we converted Morizou Co., Ltd., a builder of high-end custom homes, into a subsidiary, broadening our construction product mix with the rollout of products jointly developed with Morizou.

#### key subsidiaries and affiliates

- Morizou Co., Ltd.

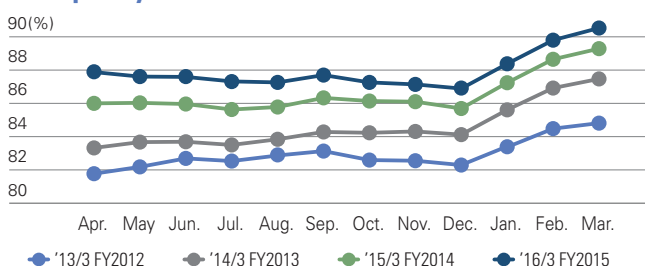


#### Changes in Net Sales



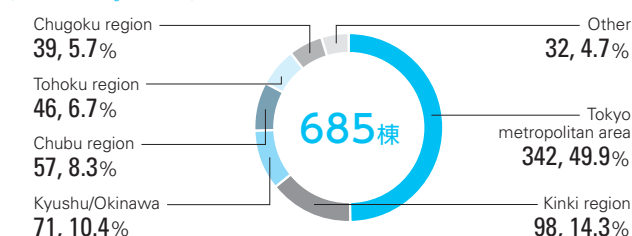
#### Key Data

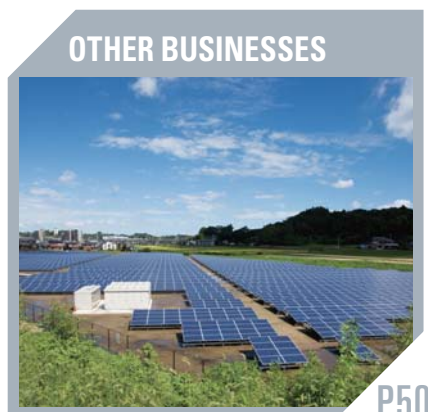
#### Occupancy Rates



#### Master Lease Apartment Completions (as of end-March 2016)

(Number of buildings, % of total)





Under the brand name “Azumi En”, our network of community-based nursing care businesses spanned 67 locations in the Kanto region as of March 31, 2016. We manage fee-based nursing homes, centers offering day services and short stays, and group homes as well as businesses offering home visits by nursing care staff and in-home nursing care support, etc.

**key subsidiaries and affiliates**

- Azu Life Care Co., Ltd. (elderly care)

Our overseas subsidiary Leopalace Guam Corp. operates sports facilities such as golf courses and baseball fields as well as resort facilities such as hotels and condominiums on the island of Guam. This business also manages hotels at six locations across Japan.

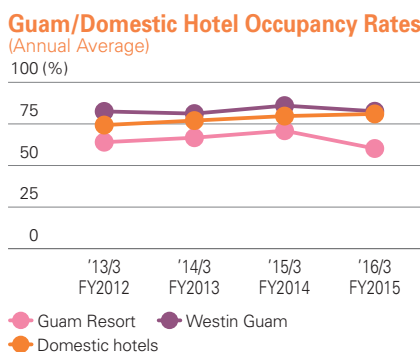
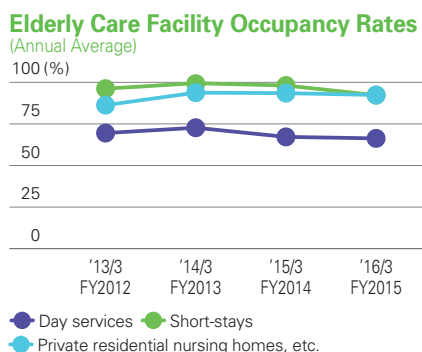
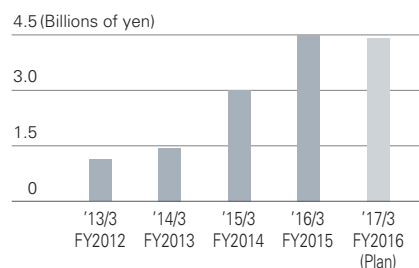
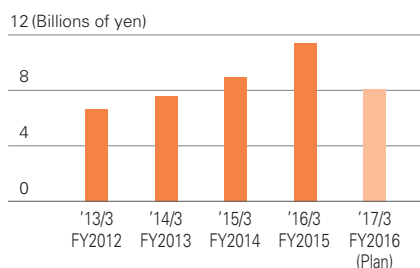
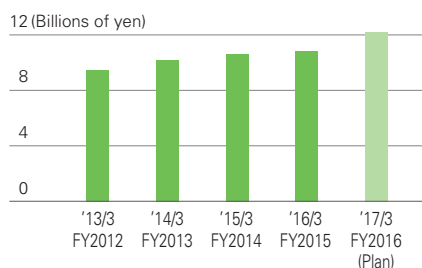
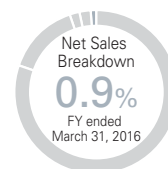
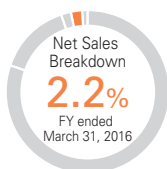
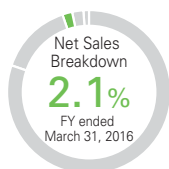
**key subsidiaries and affiliates**

- Leopalace Guam Corporation (hotels and resort business on Guam)
- WING MATE Co., Ltd. (travel agency services)

This segment centers on small-amount, short-term insurance and solar power generation. The latter installs solar power systems acquired with internal funds on leased rooftops and earns profits from reselling the electricity generated (solar panel installations on leased rooftops).

**key subsidiaries and affiliates**

- Asuka SSI (small-amount, short-term insurance)
- Leopalace Power Corporation (solar power generation)
- Leopalace Energy Corporation (power producer and supplier, PPS)
- Leopalace Smile Co., Ltd. (special subsidiary for providing clerical services)



## Business Overview

# LEASING BUSINESS



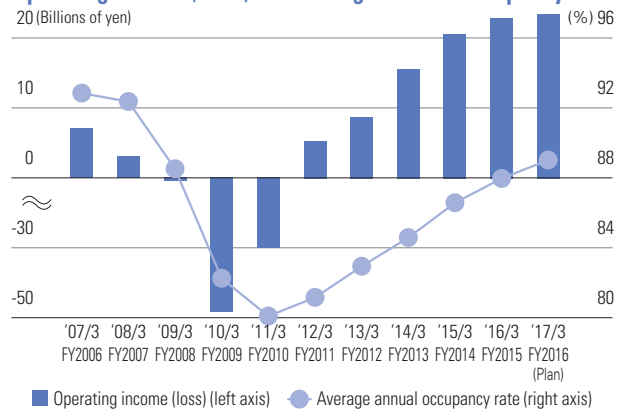
### Performance

In fiscal 2015, the Leasing Business posted net sales of 410,552 million yen (a 2.8% increase from the previous fiscal year) and operating income of 22,760 million yen (a 10.9% increase from the previous fiscal year). To maintain stable profit, we strove to secure stable occupancy rates by promoting long-term tenancy via expansion of our service mix such as the “Room Customize” plan and a tenant-exclusive website; by stepping up efforts to lock in corporate and female tenant demand via greater installation of security systems; and by expanding contracts with foreign customers via support system improvements. As a result, the number of rooms managed at the fiscal year-end rose to 561,961 (up 7,013 rooms from the previous fiscal year-end), the occupancy rate at the fiscal year-end was 90.53% (up 1.24 percentage points from the previous fiscal year-end), and the average annual occupancy rate was 87.95% (up 1.38 percentage points from the previous fiscal year-end).

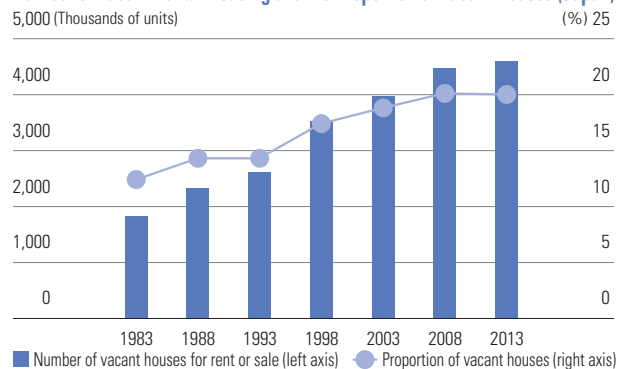
### Business Environment and Related Issues

The domestic rental housing market is already saturated due to the declining population and an increase in vacant houses. Given these conditions, it is difficult to expect a nationwide recovery in demand in the near future. As a result, in our Leasing Business, we are going as far as we can to differentiate our services by making full use of our distinctive strengths like studio apartments and rental agreements that include furniture and home appliances, and by taking steps that enable us to attract tenants even in this fiercely competitive environment. In addition, to secure stable occupancy rates it is necessary to reduce tenant outflow while moving ahead with cost reduction by correcting master lease rents in view of market rent levels and periodically reviewing routine property management tasks.

### Operating Income (Loss) and Average Annual Occupancy Rate



### Number of Vacant Rental Housing and the Proportion of Vacant Houses (Japan)



## Strategies

### Promoting long-term occupancy and limiting tenant outflow:

In order to secure stable occupancy rates, it is important not only to increase tenants but also to reduce tenant outflow. Thus, we contact tenants who plan to leave and present them with a proposal to relocate to another Leopalace21-managed apartment. In addition, we are drawing on fresh ideas such as our “Room Customize” plan and our MY PAGE website exclusively for tenants to spruce up our service mix.

### Corporate sales:

By building a sales system that is not overly reliant on one particular industry, we have made our portfolio resilient to economic swings. In addition, our development and operation of LAM System, a website aimed exclusively at corporate partners, enables us to dig deep into our existing client base in a bid to identify unmet needs and strive to add new clients and thus bolsters our marketing to corporations.

### Measures aimed at female tenants:

Females comprise only 30% of Leopalace21’s tenants. We aim to attract more female tenants by offering places where

women find it comfortable to live, such as apartments with anti-crime security features, and thereby raise occupancy rates. Specifically, we intend to enhance our services targeting women living on their own. For example, we plan to do more to offer housing with plenty of storage or a kitchen where cooking is enjoyable.

### Measures aimed at international students:

Our overseas branch network includes four sales offices in China, two in South Korea, one in Taiwan, two in Vietnam, two in Thailand, and one each in Cambodia, Myanmar, the Philippines, and Indonesia. In addition to call centers, we use “LAM School,” a website aimed exclusively at partner schools, to bolster our efforts to sew up demand among international students.

### Expanding international businesses:

We have to date provided overseas customers with rental housing in Japan through outlets overseas, but we are expanding our leasing management and brokerage services in overseas markets and working to facilitate greater collaboration between our overseas units and Japanese corporate sales function.

## Key Products/Services

### “Room Customize”:

This innovative service enables tenants to customize their living space to suit their own tastes—even for rental properties. The number of contracts for the “Room Customize” service, which allows tenants to change the wallpaper on one wall for free, has already exceeded 26,000. With this service, we aim to promote long-term occupancy by enabling tenants to personalize and form attachments to their rooms.

### MY PAGE website for tenants:

Through this website exclusively for tenants we developed in collaboration with corporate partners, tenants can use myriad services such as broadband Internet access service LEONET, online shopping, cleaning services, home delivery of dry-cleaned items, etc. We also provide tenants with various services and campaign information via this website.

### Monthly agreements:

Monthly agreements for as few as 30 days are available for short-term use. These are furnished rooms, with utilities charges included in the rental fee, making them suitable for long-term business trips or periods of training.

### Security systems:

With “24-hour, 365-day safety and security” as our motto, we have partnered with two major nationwide security companies to install security systems in properties we manage. The number of security system installations has already exceeded 250,000 rooms. We are also focusing on security camera installations, with the number of buildings with cameras in place now above 7,800.



# CONSTRUCTION BUSINESS



## Performance

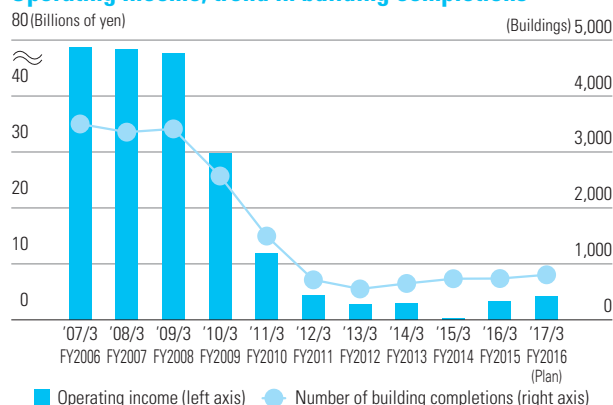
In fiscal 2015, total orders at the Construction Business were 86,439 million yen (a 1.1% decline from the previous fiscal year), net sales 74,160 million yen (a 21.0% rise from the previous fiscal year) and operating income 3,339 million yen (a 3,128 million yen increase from the previous fiscal year).

We took many steps to improve margins at the Construction Business, enabling us to achieve sharp income growth. These measures included supplying apartments mainly in urban areas where we expect high tenancy rates; introducing high-quality products with anti-quake features and sound-dampening insulation; rolling out new brands that refresh our image with tenants and bolster our competitiveness; adding more construction plan variations based on ideal land use concepts; and advancing initiatives to boost profit margins via reassessments of product prices, procurement routes, etc.

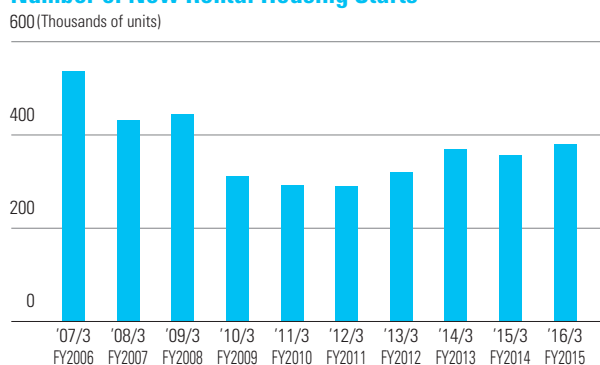
## Business Environment and Related Issues

Due to recovery in the domestic economy and our earnings, the environment facing our Construction Business is improving. Yet, as shown by the continued decline in new rental housing starts from a peak of 537,943 units in fiscal 2006, the rental housing market is saturated when assessed at the national level. In such a difficult environment, we aim to identify areas where high occupancy rates are likely and expand orders based on a more detailed supply plan, notably in the three largest metropolitan areas. At the product level, we also look to bolster competitiveness by adding tenant perspectives, especially women's, into our product development, strengthening anti-quake functions, and doing more to improve sound insulation and security.

## Operating Income, trend in building completions



## Number of New Rental Housing Starts



\* Source: Statistics on New Housing Starts of the Ministry of Land, Infrastructure, Transport, and Tourism



## Strategies

### Actively supplying apartments to specific areas:

Since the occupancy rate is high for relatively new buildings and, in particular, extremely high demand continues to be expected in Japan's three largest metropolitan areas, we aim to expand the number of apartments we supply, focusing on those areas. To establish a sales system based on tenant demand for apartments, we run a network of 60 branches, centering on 39 branches in the Tokyo metropolitan area.

### Enhancing product competitiveness:

We are actively working to reduce unwanted noise by combining sound-insulating flooring ("non-sound floor"), walls, and drainage pipes in a "non-sound system" with an industry-leading level of sound insulation that comes as a standard feature in apartments we build. We aim to erase the perception that Leopalace21 buildings have thin walls and build high-quality apartments that enable tenants to live comfortably. Among the building designs we are marketing are "L-SECTION," which improves security against crimes for first-floor rooms by blocking lines of sight into those rooms from outside the building, and

"Burliant," which is made with quake-resistant materials.

### Introducing new brands:

We launched MIRANDA and CLEINO, new brands with more high-end design features that improve on the value-added specifications of Leopalace21 apartments such as industry-leading sound insulation, security features to keep tenants safe and secure, and rooms furnished with furniture and home appliances. With the addition of these new brands, we aim to revitalize our image among tenants and bolster our competitiveness.

### Broadening construction plan variations:

We are expanding our business-use building contracting beyond apartments to encompass elderly care facilities, for which demand is expected to grow, and buildings with retail and commercial space. We have launched custom-built "Taiga" homes, which we jointly developed with Morizou Co., Ltd., a subsidiary that builds custom-built homes made using high-quality Kiso-hinoki wood. Our product lineup thus responds to a wide range of land-use needs.

## Key Products/Services

### MIRANDA:

With a key concept of "decorative," the MIRANDA brand brims with new ideas that "surprise" and "dazzle" potential tenants and invites fresh thinking about living spaces that come with unique added value.

### CLEINO:

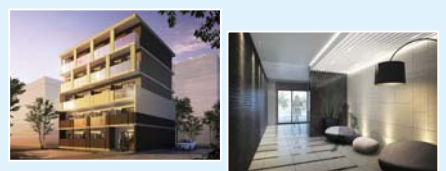
With improved fine-tuned floor plans, fittings and fixtures, and specifications based on extensive market surveys, CLEINO branded designs still enable considerable flexibility in matching the style and ideas of prospective residents and making their lives even more comfortable.

### Burliant:

Manufacturing concrete parts for Burliant apartments in factories enabled us to shorten the construction period by two months, thereby reducing the number of tasks to be performed on-site and shrinking on-site workloads. Along with realizing high wind resistance and water tightness, wall-type pre-cast concrete makes the structure so resistant to earthquakes it can withstand up to a seven seismic-intensity quake without collapsing.

### Custom-built "Taiga" homes:

Based on a flexible design, custom-built "Taiga" homes are made with the highest quality Kiso-hinoki wood. In addition to durability of hinoki wood materials, these homes are designed to last a hundred years thanks to innovative features such as a ventilation system that protects against degradation and reinforcements against earthquakes.



## Business Overview

# ELDERLY CARE BUSINESS



### Performance

At the Elderly Care Business, which runs the Group's "Azumi En" nursing-care facilities, net sales in fiscal 2015 came to 10,798 million yen (a 1.8% increase from the previous fiscal year). The business recorded an operating loss of 1,354 million yen, a widening of 748 million yen from the previous fiscal year on a run-up in new facility opening costs.

### Business Environment and Related Issues

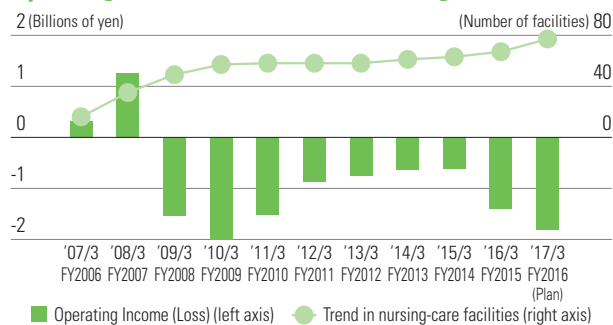
The business environment surrounding the Elderly Care Business is difficult. While the population requiring care is growing and the market is expanding, the number of facilities for seniors is also increasing. As a result, competition with other companies in the same business is growing fiercer. Under such circumstances, we aim to realize a near-term return to profitability through creative efforts and expansion of services at existing facilities, but we are also actively looking at the development of new facilities to attract demand with certainty.

### Key Products/Services

#### Azumi En:

As of March 31, 2016, we manage 67 "Azumi En" facilities in the Kanto and Chubu regions. Services at each facility include fee-based homes for seniors that offer support for their daily lives in a family-like atmosphere; group homes with daily-living support through fine-tuned nursing care; and day and short-stay services where elderly people living in their own homes can access services for a day, come for temporary stays, etc.

### Operating Income (Loss), Trend in Nursing-care Facilities



### Strategies

We have designated the Elderly Care Business a strategic growth business. Amid stable occupancy rates at existing facilities, we seek to open more new facilities in cooperation with the Construction Business with the aim of boosting earnings. At the same time, we aim to ensure healthy margins via controls on costs of sales.



**Business Overview**

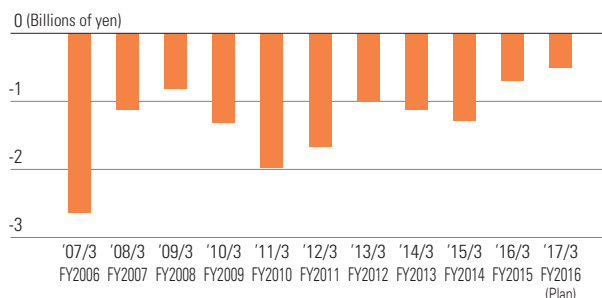
# HOTELS & RESORT BUSINESS



**Performance**

In fiscal 2015, net sales at our Hotels & Resort Business (Guam resort facilities and hotels in Japan) grew to 11,427 million yen (a 27.7% increase from the previous fiscal year) on higher room occupancy rates thanks to the success of our campaign promoting use by corporate clients of our Leasing Business. Despite higher occupancy, the business booked an operating loss on continuing heavy depreciation costs, but the operating loss narrowed by 591 million yen versus the year-ago level to 697 million yen. During fiscal 2015, we sold from within our domestic portfolio the hotel in Niigata in July.

**Operating Income (Loss)**



**Business Environment and Related Issues**

Attendant with the increase in the number of tourists from Japan going overseas, the business environment for our Guam resort facilities is turning favorable. Moreover, we have been consistently attracting tourists from Asian countries such as South Korea, China, and Taiwan, while domestic demand, particularly from business travelers, is also increasing along with the economic pickup.

**Strategies**

To encourage longer stays by senior citizens, we market our Guam resort in ways that raise its profile as a golf destination. In addition, we are putting greater effort into attracting visitors from Asia. At our domestic hotels, we offer the event halls in our hotel facilities for sports group activities and company training exercises. As a way to promote sales in our two core pillars, the Leasing Business and the Construction Business, we encourage our stakeholders, starting with shareholders and extending to property owners, tenants, and corporate partners, to use these facilities.

**Key Products/Services**

**Leopalace Hotels:**

Our hotels are situated across Japan in six locations: Sapporo, Asahikawa, Sendai, Nagoya, Okayama, and Hakata. Aimed at both long-term and short-term stays, these hotels run restaurants under the direct management of Leopalace21 and provide free laundry facilities.

**Leopalace Resort Guam:**

Leopalace Guam resort is fully equipped with sports facilities that meet international standards. Its swimming facilities have been authorized as a "JOC authorized swimming competition center" and its golf courses have been recognized as a "Japan Golf Association-designated golf course." It is used not only as a resort but also as a training camp site for athletes.

\*We sold Westin Resort Guam in April 2016.



## Business Overview

# OTHER BUSINESSES



### Performance

In fiscal 2015, net sales at Other Businesses, which includes solar power and small-amount, short-term insurance businesses, came to 4,485 million yen (a 49.5% increase from the previous fiscal year) and operating income came to 337 million yen (a 979.3% surge from the previous fiscal year).

### Business Environment and Related Issues

Since the feed-in-tariff (FIT) scheme for renewable energy took effect in July 2012, power utilities have been required to purchase electricity generated by renewable energy sources such as solar and wind at fixed prices for a prescribed period. The FIT purchase price is adjusted every year to take into account changes in the cost of renewable energy facilities, and the purchase price for solar power has fallen every year since the scheme commenced. As a result, solar panels installed relatively early on after the launch offer greater economic benefits.

### Key Products/Services

#### Solar power systems:

Most of the apartments we manage have flat roofs with more surface area than is common for normal housing, so many of these rooftops are well suited for solar panel installations. Since these apartments were built based on our designs, we can install on these rooftops without extra costs such as new tests to investigate whether they can withstand more weight, etc.

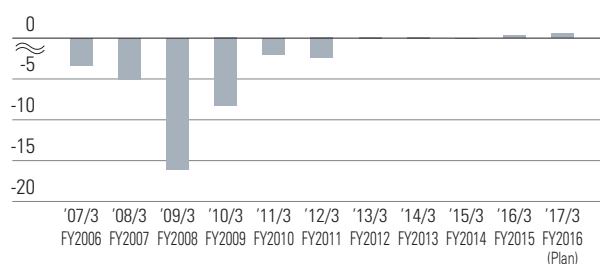
We are also careful to ensure that our solar panel installations do not negatively impact apartments. We install metal grippers we developed onto rooftop protrusions and place panels on top of these grippers so that drilling holes into roofs can be avoided. Our installation method means rainwater leaks are not a concern.



Metal Gripper

### Operating Income (Loss)

1 (Billions of yen)



### Strategies

Since fiscal 2012, we have scaled up our solar power businesses through our energy subsidiary Leopalace Power Corporation. Using a portion of the funds raised through a public equity offering announced in November 2013, we have pressed ahead with solar panel installations on the rooftops of apartments we manage. We aim to secure stable earnings from these panels, as fixed purchase prices are guaranteed for 20 years under the FIT scheme.

# TOPICS: IR Activities, Returning Profits to Shareholders

We believe proactively disclosing information in an appropriate manner is important to building relationships based on trust and deepening mutual understanding with stakeholders such as shareholders and other investors. As a step in this direction, we hold explanatory seminars aimed at individual investors. Moreover, we are focusing on returning profits to shareholders and providing a shareholders' benefit program.

## IR Events and Seminars for Individual Investors

With the aim of promoting a deeper understanding of our businesses, strategy, and earnings among individual investors, we host IR events at major cities across Japan. Moreover, we are bolstering our communication with individual investors through active participation in seminars for them arranged by sponsors such as Tokyo Stock Exchange, Nomura Investor Relations Co., Ltd., etc.

In fiscal 2015, we hosted or participated in 14 events and seminars for individual investors. There are plans for the same kind of events and seminars for fiscal 2016 as well. We intend to step up information disclosure to individual investors in the years to come.



## Dividends Restored in Fiscal 2015, our First Payments since Fiscal 2008

Our profit allocation policy is to return profits to shareholders in the form of dividends drawn from profits generated by our business activities. We reinitiated dividend payments for the first time in seven years in fiscal 2015, paying a dividend of 10 yen per share at the fiscal year-end. In fiscal 2016, we plan to pay a total dividend of 22 yen per share.

### Basic Policy on Returning Profits to Shareholders

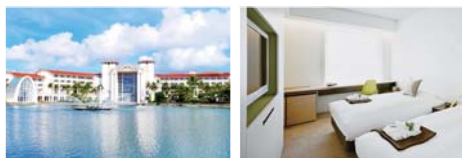
- ◆ With a longer-term target of a 30% dividend payout ratio, we strive to maintain stable dividend payments while linking our return of profits to our earnings performance.
- ◆ Through growth investments in real estate, expansion of our overseas operations, M&A, systems investment, R&D, etc., we work to increase shareholder value via expansion of earnings per share.

### Dividend Payout Plan

	Fiscal 2014 Ended March 31, 2015	Fiscal 2015 (estimate) Ended March 31, 2016	Fiscal 2016 (plan) Ended March 31, 2017
Interim dividend (¥ per share)	0.00	0.00	10.00
Year-end dividend (¥ per share)	0.00	10.00	12.00
<b>Annual total dividend (¥ per share)</b>	<b>0.00</b>	<b>10.00</b>	<b>22.00</b>
Total sum allocated for dividends (¥ mn)	0	2,628	5,783
Dividend payout ratio (%)	0.0	13.5	31.3

## Shareholders' Benefit Program

Leopalace21 has a benefit program for shareholders who are on our shareholder registry as of the record date to whom shareholder rights accrue for the relevant period twice a year (at the end of the interim and the end of the fiscal year). Under our shareholders' benefit program, we provide tickets for free lodging at Leopalace Resort Guam and tickets to receive a 50% discount on a stay at one of the Group's domestic hotels. For shareholders who have retained our shares for three years or longer, we add more free Guam resort tickets and 50% discount tickets to the tickets normally provided.



### Shareholders' Benefit Program

Holding period of less than three years	(1) For shareholders with at least 100 shares up to 999 shares	<ul style="list-style-type: none"> <li>• Free lodging at Leopalace Resort Guam: <b>2 tickets</b></li> <li>• 50% discount for domestic hotels: <b>2 tickets</b></li> </ul> <p><b>Total: A set of 4 tickets for all eligible shareholders</b></p>
	(2) For shareholders with more than 1,000 shares	<ul style="list-style-type: none"> <li>• Free lodging at Leopalace Resort Guam: <b>2 tickets</b></li> <li>• 50% discount for domestic hotels: <b>8 tickets</b></li> </ul> <p><b>Total: A set of 10 tickets for all eligible shareholders</b></p>
Holding period of more than three years	(3) For shareholders with at least 100 shares up to 999 shares	<ul style="list-style-type: none"> <li>• Free lodging at Leopalace Resort Guam: <b>3 tickets</b></li> <li>• 50% discount for domestic hotels: <b>3 tickets</b></li> </ul> <p><b>Total: A set of 6 tickets for all eligible shareholders</b></p>
	(4) For shareholders with more than 1,000 shares	<ul style="list-style-type: none"> <li>• Free lodging at Leopalace Resort Guam: <b>3 tickets</b></li> <li>• 50% discount for domestic hotels: <b>12 tickets</b></li> </ul> <p><b>Total: A set of 15 tickets for all eligible shareholders</b></p>

# DIALOGUE ON LEOPALACE21'S CORPORATE GOVERNANCE TOWARD INCREASING LEOPALACE21'S CORPORATE VALUE



**Eisei Miyama**

President and CEO, Leopalace21



**Yoshiko Sasao**

Outside Director, Leopalace21  
Representative Director,  
SHIDAX BEAUTY CARE  
MANAGEMENT CORPORATION



**Tetsuji Taya**

Outside Director, Leopalace21  
(Board Member & Managing Director,  
Industrial Growth Platform, Inc.)

**With the aim of increasing corporate value over the longer term by harnessing the knowledge of our outside directors, who have extensive business management experience, Leopalace21 executes operations. In this feature, President Eisei Miyama discusses with our two outside directors our form of governance aimed at increasing Leopalace21's corporate value.**

## What is Necessary in Governance to Increase Corporate Value over the Longer Run

**Miyama:** Our Board of Directors in the past was mostly comprised of insiders who knew the industry very well but whose knowledge did not extend much beyond that, so we had few Board members with a suitably balanced perspective. This imbalance caused us real harms, such as a span of years when society was changing, but Board members sought to go in a different direction.

We have added considerable depth to our Board since then, with Mr. Tetsuji Taya joining in 2010 and Ms. Yoshiko Sasao joining in 2015 as outside directors. Yet, even with these addi-

tions, I'm not yet satisfied we have enough cognitive diversity on our Board, so I would like to add even more depth by inviting individuals with knowledge of other fields to join. Among the items in the Corporate Governance Code promoted by the Tokyo Stock Exchange in 2015 for member companies is the inclusion of at least two outside directors on the Board, but the Company is not merely conforming with the Code. I believe in my heart that external viewpoints are necessary for good management, so I have invited outsiders to join our Board.

## How Leopalace21 Conducted its Search for its Two Outside Directors

**Miyama:** We never hire outside recruitment firms to select outside director candidates. I act on the assumption we are looking for a certain type of person or a person who will articulate certain opinions, so I speak directly to people I think would be good for our Board.

I actually met Ms. Sasao through an introduction from an advisor to the Company. I asked this advisor whether he knew any women who understood the elderly care business and was knowledgeable about human resources (HR) development at companies.

## How Outside Directors Contribute to Increasing Corporate Value over the Longer Term

I feel I can offer advice on the Elderly Care Business and the best ways to harness the capabilities of female employees.



**Sasao:** The expertise I have developed over the years is in corporate management, HR development, and ways to harness the capabilities of female employees. In terms of business management, I provide support and advice to the Elderly Care Business. I am also pleased that I can advise the Company on how to ensure its female employees can do their best work. The main task of an outside director is monitoring operations. With regards to my knowledge base and areas of expertise, I offer my views on how to improve operations.

For example, as Leopalace21 expands in the years ahead, in the domain of developing human resources, I am speaking at various occasions to manager-class employees on the need for stronger conceptualization skills and problem-solving abilities. Perhaps reflecting the influence of my proposals, the personnel system will for the first time assess employees as innovators this cycle, so changes to promote growth are becoming visible.

**Miyama:** I would describe the contribution of outside directors as bringing various issues to my attention rather than advice.

Mr. Taya runs his own firm, and Ms. Sasao, as

she just mentioned, is a specialist in corporate management and HR development. I would like to add even more depth to our Board by inviting more individuals like these two to join as outside directors.

**Taya:** Leopalace21 was in the midst of implementing restructuring measures when I joined the Board as an outside director, so that was my point of departure. At the time, the Company was deciding whether to brake or accelerate, but the boardroom milieu has clearly changed in the past 18 months or so. What should the Company do to spur growth again is a major theme of discussions, and with growth always comes risk. Rather than serve as a brake or accelerator on decision-making, I think one of the most important roles I play is to bring risks that invariably accompany growth to the Board's attention.

While helping to determine how hard to step on the accelerator and drive growth, I think one of my key tasks is to clear out any "landmines" that may lie in our path.



I think my most important role is to stay alert for risks that invariably accompany growth and bring them to the Board's attention when they emerge.

One of the best qualities of Leopalace21 is the speed of its decision-making. I think the speed with which the Company has built its overseas footprint is impressive. The next crucial step is whether it can horizontally organize these branches and subsidiaries into a network. This is because, while entering markets abroad is laud-

able, there is the risk that sticking to Japanese standards in building out its footprint overseas could lead to entirely different results in each country. I would like such risks to be watched across the Company and help build the know-how to manage such risks well.

## Outside Director Input that Factored into Management Decisions



They advised me to pay attention to risks in the International Business and adopt diverse working styles in the Elderly Care Business.

**Miyama:** Our goal is to expand our overseas footprint from 15 locations to 20 in the future, but this is merely a numerical target. We do not intend to be dismissive of risk just so we can reach a number. As for building condominiums overseas, we think there is a market need but we are uncertain whether this is the time for such a move. I travel overseas frequently these days and see some large Japanese companies launch projects that I think are unlikely to ever be in demand. If I were in their shoes, I would disperse my risks a bit more widely. There are many cases where companies draw up a business plan and set numerical targets for overseas expansion, and then acquire land because they think it is the only way and proceed to the execution stage without sufficient marketing. Mr. Taya mentioned “landmines” earlier, and I agree entirely with his assessment on that score. I think it is important to stay alert to where any “landmines” could be buried.

I’ve also received plenty of useful advice from Ms. Sasao. She is an expert in elderly care, and recently when the issue came up at meetings of the Board of Directors and the Corporate Management Council, she said she understood that the Company recognized the Elderly Care Business as a growth field but raised the point of whether there should be a bit more analysis

into whether it is fine the way it is now. Ms. Sasao thinks, for example, the Company should introduce more diverse forms of employment to help lower costs. I listened carefully to the valuable advice of both, share their concern about the problems they identified, and have sought to advance measures to improve related matters.

## On Issues at the Elderly Care Business

**Sasao:** Elderly care is considered a growth market and the entry of firms from other industries has led to much fiercer competition, stimulating greater M&A activity. As a result, profitability has further deteriorated in this already low-profit field, and this could lead to a shakeout, so without proper management, the Company could be forced to exit the business.

Leopalace21 sees this business as a growth field and aggressively expanded into it but perhaps a result of rapid expansion, profitability has suffered. I think the right course is to proceed



I feel the Elderly Care Business has many strengths, so recording them in manuals and testing them in the field so they can be disseminated widely to staff as practical knowledge will lead to swift improvements in the business.



with further expansion and improve profitability while keeping the level of each service above a certain level. It is a high-degree-of-difficulty approach but I think the Company needs to attempt to navigate such a path.

One thing that has impressed me about Leoplace21's Elderly Care Business is its willingness to accept even elderly applicants with dementia or those who are hard to care for. It is common for nursing-care homes to turn away such patients. This is surely a reflection of Leoplace21's philosophy. Accepting such applicants will surely throw up many hurdles in terms of management but I think developing service quality standards while leveraging such willingness and converting that approach into a business model where profitability can be improved could well prove an effective approach.

I feel the Elderly Care Business has many strong practices and approaches, so recording them in manuals and testing them in the field in ways that enable employees to develop practical knowledge that can be widely disseminated will lead, I believe, to swift improvements in the business. Our local reputation is already positive, but if we can improve it further, I think it will be easier to hire people.

## On Issues at the Hotels & Resort Business

**Taya:** The Hotels & Resort Business is in some respects a legacy cost. The business has a collection of underutilized assets and is not easy to exit, but merely selling such assets off is also not the answer.

Given these constraints, we must attempt to somehow convert this business into a profit center by selling off some of the business hotels, for example, or rebalancing the portfolio. If the business is converted into a profit center, the next option could be raise its value and sell it. Seen from a different pair of eyes, however, the business could even open up the next growth strategy. We acquired in 2014 a travel company where we saw potential for synergies with the Hotels & Resort Business. The pairing is still at the trial stage, so we think it is still too soon to write it off as a failure.

The pairing with our recently acquired travel company is still at a trial stage, so I think it is still too soon to write it off as a failure.



## What to Keep in Mind on Nomination and Compensation Committee Decision-making

**Miyama:** I think properly evaluating people is the most important thing. The three-person Nomination and Compensation Committee comprises me and two outside directors so that people are not appointed merely because I like them. The outside directors proposed as a nomination process that each candidate be vetted by the Committee members in person. Each candidate will be required to make a presentation in front of the Committee on their expectations for the Company and their thinking on management issues. In this way, the Committee will be able to assess them on matters apart from whether they satisfy the formal qualifications to serve as executive officers, or directors on the Board of Directors.

**Sasao:** I think it would be good to clarify the kinds of people Leoplace21 seeks to serve in executive and board roles in a decade from now and to look at people who match the identified criteria. As for me in my current role, however, what I strive to be is objective and fair and to keep in mind the need for buy-in on the part of internal stakeholders as well as external ones. I think we need to be able to explain properly why candidates were nominated, and this is why we introduced the presentation process at the Committee, as Mr. Miyama just mentioned. Thanks to this process, I have developed a clear understanding of where Leoplace21's current management team excels and where it can improve. As a result, I think it will be easier to

discuss future management policies, which I think is a very good thing.

**Taya:** When I accepted a position on the Nomination and Compensation Committee, I made a request. As an outsider, I do not know much about the day-to-day activities inside the Company, so I asked that articulation of an action plan for the upcoming fiscal year be made a component of candidate presentations. While nominees for executive and board roles tell us their targets for the current fiscal year, I

ask them to clearly articulate their action plans. If they do so, it is easier for me as an outsider to evaluate them.



I ask nominees for executive and board positions to clearly articulate their action plans for the fiscal year.

## On Developing the Next-generation of Executive Officers

**Miyama:** In fiscal 2014, we began inviting outside lecturers to give talks as part of our training program for developing next-generation executives. What emerged from the program is that many employees at that level are not very good at determining on their own what they need to do. Perhaps this reflects the top-down approach the Company has relied on to date.

When given an assignment, they are very good at moving it forward but when it comes to deciding what they must do on their own, they fall well short of what we need. Addressing that is the next key issue.

We decided to provide stepped-up training as an initiative for fiscal 2015. At the same time, at the end of the work day once a month there is an informal gathering for line managers at each business division to promote interaction. At the gathering, we ask managers to exchange their views on matters such as what we need to do about urgent challenges in the next two or three years, and if their proposals are convincing, we implement them.

We have dubbed the monthly meeting for business division line managers “Mirai Sosei Jyuku”

as blue (“sei”) is Leopalace21’s corporate color. I have launched new projects entirely through my own resources and exertions since I was a young man. When a project moved beyond the launch phase and was up and running on its own, I moved on to what I felt was the next big thing, so I was always advancing new projects. In that sense, compared with the current generation, I am better at coming up with new project ideas and thinking through what must be done.

Leopalace21 has not until recently adopted a process for collecting ideas from employees in the field, escalating proposals to senior management for assessment and selection, and then authorizing employees in the field to execute them. A horizontal organization that cuts across divisions and seeks bottom-up input was launched in 2014, and the right conditions for the new organization to function as intended are at last in place. As a result, I believe a new generation of employees will emerge to lead the Company in the future through these initiatives we have set up for each employee to think for themselves and come up with ideas and proposals.

## On CSR Activities

**Sasao:** Leopalace21 provides a positive environment where employees can do their work without impediments. Employees do not work much overtime and use about 70% of their paid vaca-

tion, a high ratio. Moreover, the Company adopted a system in 2016 where employees can use paid vacation in increments as small as one hour, an approach that is unusual among

large companies. For female employees, I feel it offers a very flexible, positive workplace.

Setting targets using a method for improving female employee motivation and prominence in the workplace, Leopalace21 targets a 2020 female manager ratio of 10%, a much higher level than that set by industry leaders. What is important to note is that many large companies are putting a lot of effort into creating a workplace welcoming of a healthy work-life balance but not in ways that increase female employee enthusiasm and motivation. Some believe this is why at large companies the female manager ratio does not seem to rise despite various initiatives. I believe if Leopalace21 offers training

I think Leopalace21 can further increase its corporate value if its female manager ratio increases to a level that ranks it among industry leaders as of 2020.



programs and mentoring for women to prepare them to succeed in executive roles and thereby increases the female manager ratio to a level that ranks it among industry leaders as of 2020, I think this would further increase its corporate value.

## On Returning Profits to Shareholders and Working with Stakeholders

**Taya:** Leopalace21 has finally returned to good health and aims to grow. My sense is investors are focusing on whether Japanese companies sensibly return profits to shareholders, and given this awareness, paying dividends is unavoidable. Yet a key concept that is important to bear in mind in thinking about capital allocation is what to do about growth, and growth requires investment funding. As Leopalace21 does not manage itself as an old-line, mature operator without growth opportunities, we naturally direct money toward future growth. In that sense, I think the capital allocation plan for fiscal 2015 is a well-balanced one.

**Sasao:** Keeping the dividend payout ratio at a level of at least 30% will surely enable us to attract long-term shareholders, so in that sense it is a positive. Since I joined the Board as an outside director, the perception of the Company I had from the outside and that I have from inside the firm are complete opposites. On this basis, we have set our dividend payout ratio at 30%, a point I think we need to assertively communicate to society and shareholders. I think if we strive to improve understanding of our positives, we will form good relationships with society and shareholders and this will further elevate public trust in our operations.

While Mr. Taya says Leopalace21 has changed considerably in the past two years, we have not done enough to tell the public about those changes, which I recently realized is a missed opportunity.

**Miyama:** I think it takes about a decade to change public perceptions. People still remember us from “Monthly Leopalace21” service ads on TV and it will take years to cancel that out.

The ratio of employees holding shares in the Company stood at 16% as of March 31, 2015, and with our encouragement, the ratio is now at 56.7%, approaching the 60% level. This ratio is higher than the average at listed companies. I think it is evidence that our employees want to invest in the Company and the sense of unity within the firm is stronger than it was before.



# CORPORATE GOVERNANCE

Leopalace21 sees the maintenance and reinforcement of corporate governance as one of its most critical management tasks. In addition to putting related systems into place, the Company discloses information and keeps management organizations and management systems working in order to ensure corporate governance functions well.

## Our Corporate Governance Philosophy

We see the construction and reinforcement of corporate governance as one of our most critical management tasks, and it is our basic philosophy of corporate activities to pursue efficient, fair, and highly transparent operations to attain greater corporate value for the sake of all our stakeholders.

Based on this philosophy, we seek to improve management organizations and management systems through such measures as reinforcing check-and-balance functions in our decision-making processes and building good relations with shareholders, business partners, etc.

Specifically, we set up the Board of Directors to enhance business performance through appropriate and rapid decision-making, responding dynamically to changes in the business and management environment. At the same time, we strive for stronger management oversight through the Audit & Supervisory Board. Moreover, through committees set up as advisory bodies to the Board of Directors, we have established a compliance system and risk management system. The newly established Nomination and Compensation Committee, set up in fiscal 2015, discusses and reviews candidates nominated to

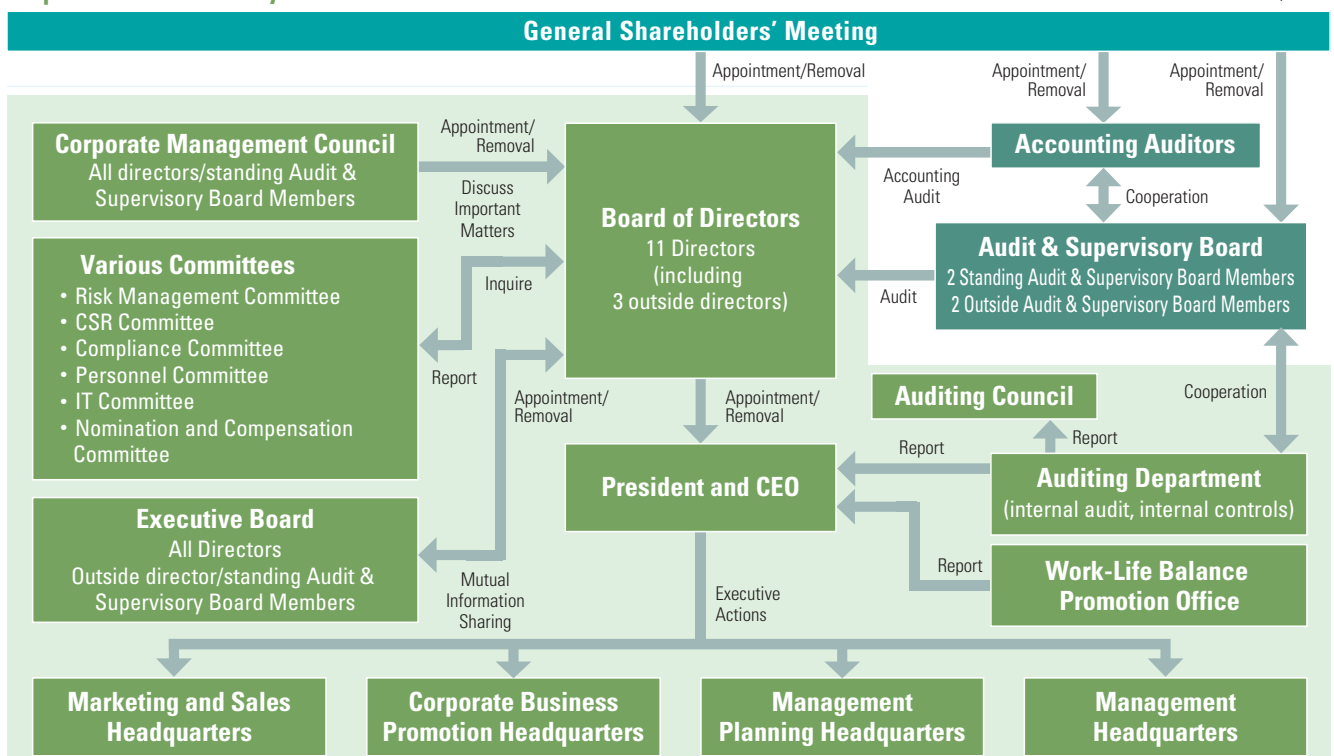
serve as executive officers or on the Board of Directors, as well as compensation decisions.

Our corporate operational structure comprises four headquarters. The Marketing and Sales Headquarters oversees various businesses; the Corporate Business Promotion Headquarters enhances collaboration among businesses; the Management Planning Headquarters is responsible for devising management plans and monitoring; and the Management Headquarters supports business operations. With this structure in place to clarify responsibilities and authorities, we strive to bolster our systems further and corporate governance.

Through the PR and IR Group in the Management Planning Headquarters, we assertively disclose information by disclosing information on our website, participating in presentations aimed at individual investors and IR fairs, and holding regularly scheduled meetings attended by Japan-based analysts and institutional investors. Moreover, top executives visit investors in Asia and North America when necessary.

## Corporate Governance System

As of June 29, 2016



## Governance System and Initiatives

### Board of Directors

The Board of Directors (the Board), a decision-making body, is composed of eleven directors, including three outside directors. It holds regular meetings once a month, while extraordinary meetings can be called at any time as required, in order for decisions to be made on critical management matters as well as to monitor business performance. Furthermore, regular meetings of the Corporate Management Council are held to discuss business operation policies or to study measures for their implementation.

### Audit & Supervisory Board

The Audit & Supervisory Board, composed of four members (two standing Audit & Supervisory Board members and two non-standing Audit & Supervisory Board members), is a body set up to monitor the performance of duties by directors. Audit & Supervisory Board members attend important meetings of the Board, etc. in accordance with the audit plan to monitor the decision-making processes for key decisions and the status of performance of duties by directors. At the same time, Audit & Supervisory Board strives to ensure the system in place enhances audit effectiveness by conducting operational status investigations and periodically exchanging views and opinions with the president.

### Nomination and Compensation Committee

The company has established policies on the selection of directors, Audit & Supervisory Board members, and executive officers as well as on policies concerning compensation for directors, Audit & Supervisory Board members, and executive officers. To ensure the best candidates are nominated and compensation is set based on these policies, the Nomination and Compensation Committee, comprising the president and three outside directors, was established. Nomination and compensation decisions are made after proceeding through deliberations at the Nomination and Compensation Committee, an advisory body to the Board.

### Outside Directors/Outside Audit & Supervisory Board Members

By nominating outside directors as well as outside Audit & Supervisory Board members, Leopalace21 strives to strengthen the oversight function to ensure that decision-making by the Board and business execution comply with relevant laws and regulations in order to achieve management transparency and fairness. At the same time, it hopes that the outside directors and Audit & Supervisory Board members provide advice from an objective standpoint based on the experience and knowledge they have obtained through their business careers as well as their insight as executives. The Company informed the Tokyo Stock Exchange that three outside directors and two outside Audit & Supervisory Board members (five in total) are independent directors/auditors, a regulatory criteria for independence.

### Corporate Governance System

As of June 29, 2016

#### Tadashi Kodama (Outside Director)

Reason for appointment	The Company expects that he will provide advice on the overall management of the Company, using his abundant insight as a senior manager of a listed company.
Career summary	<p>April 1970      Joined The Dai-Tokyo Fire &amp; Marine Insurance Co., Ltd. (now Aioi Nissay Dowa Insurance Co., Ltd.)</p> <p>June 2001      Director, Aioi Insurance Co., Ltd. (now Aioi Nissay Dowa Insurance Co., Ltd.)</p> <p>April 2004      Representative Director, President, Aioi Insurance Co., Ltd.</p> <p>April 2010      Representative Director, Executive Officer, MS&amp;AD Insurance Group Holdings, Inc.</p> <p>October 2010   Representative Director, Vice Chairman of the Board of Directors, Aioi Nissay Dowa Insurance Co., Ltd.</p> <p>June 2015      Retired from Aioi Nissay Dowa Insurance Co., Ltd.</p> <p>June 2016      Director, the Company (current)</p>
Attendance at Board of Directors meetings	—

#### Tetsuji Taya (Outside Director)

Reason for appointment	The Company expects that he will actively provide advice from an independent and fair perspective during Board of Directors meetings and other meetings, using the keen insight he has accumulated during his career and his deep knowledge and experience in corporate management.
Career summary	<p>April 1987      Joined The Fuji Bank, Limited (now Mizuho Bank, Ltd.)</p> <p>April 2007      Board Member &amp; Managing Director, Industrial Growth Platform, Inc.</p> <p>September 2009 Representative Director, Industrial Growth Platform, Inc.</p> <p>June 2010      Director, the Company (Current)</p> <p>March 2011      Board Member &amp; Managing Director, Industrial Growth Platform, Inc. (Current)</p>
Attendance at Board of Directors meetings	Board of Directors meetings: 14 of 16 meetings

#### Yoshiko Sasao (Outside Director)

Reason for appointment	The Company expects that she will supervise business execution of the Company from an independent and fair perspective, using her keen insight as a senior manager of business corporations and her deep knowledge and experience in corporate management.
Career summary	<p>April 1984      Joined Recruit Co., Ltd.</p> <p>April 2000      Joined RECRUIT STAFFING CO., LTD. on loan</p> <p>April 2004      Joined RECRUIT STAFFING CO., LTD. Manager of Marketing Support 1 Division</p> <p>April 2006      Joined Tokyo Electric Power Company, Incorporated</p> <p>November 2007 Joined TEPCO PARTNERS Co., Inc. on loan Managing Director</p> <p>July 2010      Representative Director, TEPCO PARTNERS Co., Inc.</p> <p>June 2015      Director, the Company (current)</p> <p>June 2015      Representative Director, SHIDAX BEAUTY CARE MANAGEMENT CORPORATION (current)</p>
Attendance at Board of Directors meetings	Board of Directors meetings: 13 of 13 meetings

#### Masahiko Nakamura (Outside Audit & Supervisory Board Member)

Reason for appointment	The Company expects that he will supervise the Company's management from an objective perspective, using his abundant experience and wealth of expertise in the fields of tax administration and financial accounting accumulated as an employee of the National Tax Agency and a certified tax accountant.
Career summary	<p>April 1966      Joined Sendai Regional Taxation Bureau, National Tax Agency</p> <p>July 1994      Deputy District Director of Musashino Tax Office, National Tax Agency</p> <p>July 2002      District Director of Suginami Tax Office, Tokyo Regional Taxation Bureau, National Tax Agency</p> <p>July 2006      Assistant Regional Commissioner (Fourth Large Enterprise Examination), Tokyo Regional Taxation Bureau, National Tax Agency</p> <p>August 2007   Established Masahiko Nakamura Certified Tax Accountant Office (Current)</p> <p>Representative, Masahiko Nakamura Certified Tax Accountant Office (Current)</p> <p>June 2010      Audit &amp; Supervisory Board Member, the Company (Current)</p> <p>July 2015      Outside Audit &amp; Supervisory Board Member, HOMENET Co., Ltd. (Current)</p>
Attendance at Board of Directors meetings and Audit & Supervisory Board meetings	Board of Directors meetings: 16 of 16 meetings Audit & Supervisory Board meetings: 10 of 10 meetings

#### Takao Yuhara (Outside Audit & Supervisory Board Member)

Reason for appointment	The Company expects that he will supervise the Company's management from an objective perspective, using a high level of his knowledge in many fields and abundant experience and expert knowledge as an audit & supervisory board member of several companies.
Career summary	<p>May 1971      Joined Sony Corporation</p> <p>June 2003      Corporate Senior Vice President and Group CFO, Corporate Executive Officer, Sony Corporation</p> <p>December 2007 Managing Executive Officer, Zensho Co., Ltd. (now ZENSHO HOLDINGS CO., LTD.)</p> <p>June 2008      Audit &amp; Supervisory Board Member, Ricoh Company, Ltd. (Current)</p> <p>May 2011      Managing Executive Director and CFO, Zensho Co., Ltd.</p> <p>June 2013      Audit &amp; Supervisory Board Member, mofiria Corporation (Current)</p> <p>June 2014      Auditor, KAMEDA SEIKA CO., LTD. (Current)</p> <p>June 2015      Audit &amp; Supervisory Board Member, the Company (Current)</p> <p>December 2015 Auditor, THASEGAWA CO., LTD.</p>
Attendance at Board of Directors meetings and Audit & Supervisory Board meetings	Board of Directors meetings: 12 of 13 meetings Audit & Supervisory Board meetings: 7 of 7 meetings

## Internal Audit

The Auditing Department, established as a department directly reporting to the president, oversees internal controls and internal audit functions and conducts audits, including of subsidiaries and affiliates. The Auditing Council, set up to maintain sound internal controls, is tasked with monitoring management activities and risk management and thereby strengthens governance.

## Accounting Audit

Leopalace21 hired Grant Thornton Taiyo LLC to audit its financial statements. The auditing contract we signed is for audits to be performed in accordance with Japanese legislation, the Companies Act, and the Financial Instruments and Exchange Act. The status of audits by our accounting auditor is reported at regular intervals to the Audit & Supervisory Board.

## Compensation for Directors, etc.

Compensation for directors comprises three categories: basic remuneration, stock options, and bonuses. Compensation is determined based on the policies described below. The compensation of Audit & Supervisory Board members is decided by Audit & Supervisory Board members after mutual consultation within a framework determined at the shareholder meeting that sets a ceiling on the aggregate amount.

(Basic Compensation)

This is determined for each directors based on a comprehensive assessment of the attributes of the operations they oversee, the scope of these operations, their busi-

ness performance, etc.

(Stock options)

Leopalace21 has adopted a stock-based compensation stock option plan with the objectives of ensuring board members and stockholders share gains and losses from share price movements and of giving board members incentive to enhance earnings performance. The size of the grant takes into account earnings and share price performance, and is calculated based on our corporate bylaws, including whether or not a grant is awarded. Outside directors are not allocated any stock options.

(Bonuses)

The size of the bonus awarded, including whether or not one is awarded, reflects quantitative factors such as company earnings, etc. and qualitative factors such as bolstering the management foundation, etc. and factors in a comprehensive assessment of the magnitude of contribution by each director, etc. Outside directors are not awarded a bonus.

## Amount of Compensation Awarded to Directors and Audit & Supervisory Board Members

(Millions of yen)

	Total remuneration, etc. across categories			
	Total remuneration	Basic remuneration	Stock options	Bonuses
7 Directors (excludes outside directors)	280	280	—	—
2 Audit & Supervisory Board members (excludes outside Audit & Supervisory Board members)	32	32	—	—
5 Outside directors/Audit & Supervisory Board members	34	34	—	—

\* The above includes one Audit & Supervisory Board member who resigned as of June 29, 2016.

## Compliance and Risk Management Systems

The basic policy of the internal control system is to base our corporate activities on compliance with laws and regulations as well as with social ethics. We are working to identify and correct problems from time to time, and to further improve and reinforce internal control systems.

With regards to the compliance system, the Compliance Committee has been set up as an advisory body to the Board of Directors, in addition to the establishment of the Corporate Code of Ethics and an internal reporting system

with the aim of strengthening compliance. With the president serving as chair, the Compliance Committee includes lawyers and other external experts. As one plank in our efforts to bolster governance, the committee develops various measures relating to compliance such as enhancing educational training and reinforcing the information management system. We are also working to bolster monitoring systems and to identify and improve problems.

Content	Theme
Compliance training	Compliance basics, basic rules concerning premiums and representations, etc.
E-learning	Basic knowledge concerning contracts and contract forms, the "My Number" system, a check for sexual harassment awareness, etc.
Distribution of compliance publications	Information management, etc.

With regards to the risk management system, the Risk Management Committee has been created as an advisory body to the Board of Directors to ascertain and manage the risks facing the entire Company in a comprehensive manner, with a view to strengthening risk management. With

the president serving as chair, the Risk Management Committee includes lawyers and other external experts. It not only verifies risk management conditions but also plans and implements training and other measures in its efforts to reduce risk and increase preparedness and prevention.

## Directors (As of June 29, 2016)



Back row, left to right  
 Outside Director Tadashi Kodama, Outside Director Tetsuji Taya, Outside Director Yoshiko Sasao, Director Yoshikazu Miike,  
 Director Hiroyuki Harada, Director Bunya Miyao

Bottom row, left to right  
 Director Hiroshi Takeda, Director Tadahiro Miyama, President and CEO Eisei Miyama, Director Yuzuru Sekiya, Director Kazuto Tajiri

## Executive Officers (As of June 29, 2016)



Back row, left to right  
 Executive Officer Katsuhiko Nanameki, Executive Officer Yasushi Mizuno, Executive Officer Kenichiro Samejima,  
 Executive Officer Shigeru Ashida, Executive Officer Shu Ikeda, Executive Officer Tatsuya Sasaki

Bottom row, left to right  
 Executive Officer Seiji Shinozaki, Managing Executive Officer Motoyoshi Ohishi, Managing Executive Officer Naomichi Mochida,  
 Senior Executive Officer Satoshi Abe, Managing Executive Officer Fujio Sato, Executive Officer Hideki Matsunaga

# BUSINESS AND OTHER RISKS

Listed below are the principal risks that we believe could affect the Leopalace21 Group's business performance and financial position. However, this list is not all-inclusive and does not cover all the risks that could affect Group businesses. All forward-looking statements included herein reflect the judgment of the Leopalace21 Group management as of the end of the consolidated fiscal term under review.

## 1. Revenue-related Risk

Leopalace21 apartments are primarily utilized by single persons, and corporate contracts typically involve short-term leases of apartments for use as company dormitories by workers travelling on company business. As a result, changes in the performance of the overall economy and corporate business results could affect employment rates or the demand for business trips, and this could negatively impact occupancy rates at the Company's apartments.

In addition, we have included in our forecasts all contracted orders for apartment construction, however the possibility that the client may not be able to obtain the necessary financing or loans from a financial institution is an important risk factor. Changes in the willingness of financial institutions to provide credit, changes in the assessed value of real estate to be used as collateral, and fluctuations in interest rates could affect Company revenues and adversely affect the Company's business results.

## 2. Cost of Sales

Based on the Company's apartment construction contract, the Company concludes a master lease agreement with apartment owners to lease back the constructed apartment for a period of time and at a rent level that are both fixed at the time the contract is concluded. Therefore, fluctuations in the amount of rental income received from tenants during the contract period could adversely affect the Company's profitability.

## 3. Risks Associated with Tangible Fixed Assets and Real Estate Held for Resale

Impairment losses or appraisal losses due to declines in the current market value of marketable securities, property for sale, fixed assets, or other assets could adversely affect the Company's business performance as well as its financial position. Moreover, with regard to the Company's hotel and resort related businesses, there will be a continuing need for regular investments in facility replacement and renewal. As a result, changes in depreciation expenses could have an effect on the Company's business performance.

## 4. Loan Losses, and Reserve for Bad Debt

The Company conducts financing activities, and carries on its books a balance for operating loans receivable comprising apartment construction loans and real estate equity loans. The Company also may guarantee the housing loans and membership fee loans offered to its customers by financial institutions. Apartment and other loans where repayment has become doubtful are accounted for separately as doubtful receivables (tangible), and a reserve is made for bad debt in each such case; however, our business results could be affected if amounts of uncollectible debt should increase, or if we should be obliged to honor claims pertaining to these loan guarantees.

## 5. Reserve for Apartment Vacancy Loss

In order to prepare for a risk of losses due to an increase in apartment vacancies, Leopalace21 has established a "Reserve for apartment vacancy loss" reserve fund equal to the amount of loss that may be expected to be incurred during a reasonably estimable period. The amount of this reserve is based on the rent levels set for individual leased units, the number of households, and occupancy rate forecasts calculated for each apartment building. Should any of these figures fall below the estimated values it could become necessary to increase the amount of the reserve, and this could adversely affect the results of the Company's leasing business.



## 6. Leasehold Deposits and Guarantee Deposits

Leopalace21 has long-term deposits from property owners held as an advance for apartment repair and renovation. These consist mainly of deposits received from property owners as a portion of future repair and renovation expenses, following the dissolution of Leopalace21 Owners Mutual Insurance Association. Leopalace21 makes a concerted effort as a leasing business operator to ensure the soundness of the apartment maintenance structure, through which properties fully leased from the owner are operated and maintained. However, an unexpected, large-scale repair or renovation could have an impact on Leopalace21's financial position.

Leopalace21 also has deposits for Leopalace Resort memberships related to the Guam resort business, most of which date to the opening of the resort complex in July 1993. The Leopalace21 Group works to increase member usage by improving facilities and member services, but should there be an unexpected number of requests for reimbursement of these deposits, this could have an impact on Leopalace21's financial position.

## 7. Financial Covenants

Financial covenants have been set on the numerous loan and corporate bond agreements that Leopalace21 has concluded with financial institutions. Accordingly, should consolidated net assets, consolidated or non-consolidated operating or recurring profit, or the debt-service coverage ratio (DSCR) in the solar power generation business violate the conditions of a financial covenant, there is a possibility that the Company, at the behest of the financial institution, could forfeit the benefit of the term for corporate bonds or other borrowings, which could have an impact on the Company's operating performance.

## 8. Information Leaks

The Leopalace21 Group holds a great deal of information, including personal information obtained through the consent of, or as a result of non-disclosure agreements with client companies. To control information security, the Company has drawn up the required information security guidelines, and set up a Compliance Committee to thoroughly educate our executive officers and employees about information security issues. Nevertheless, in the unlikely event that a leak of information of some type should occur, there is a possibility that the Group's reputation could be damaged, and that business performance might be affected.

## 9. Other Risks

The Group is aware that it incurs a variety of risks in the course of promoting its businesses, and it attempts to prevent, distribute or avoid risk whenever possible. Nevertheless, the Group's business performance and financial position may be affected by changes in economic conditions, the real estate market, the financial and stock markets, legal regulations, natural disasters, and a variety of other factors.

# CSR ISSUES TO BE TACKLED AND OUR VALUE CHAIN

We continue to advance initiatives daily to resolve CSR issues for all our stakeholders involved in our businesses across the value chain.



## International Business

Providing High-quality Services (P69-70)  
Promoting Diversity (P71-73)  
Developing Human Resources (P73)

## Hotels & Resort Business

Providing High-quality Services (P69-70)  
Developing Human Resources (P73)

## Leasing Business

Providing High-quality Services (P69-70)  
 Improving Quality in our Response to Customers (P69-70)  
 Developing Human Resources (P73)  
 Cultivating Strong Ties with Local Communities (P74-75)

## Construction Business

Developing Human Resources (P73)  
 Caring for the Environment (P76-77)

## Elderly Care Business

Developing Human Resources (P73)  
 Cultivating Strong Ties with Local Communities (P74-75)

## Other Businesses

Solar power generation business (P77)



# LEOPALACE21'S MANAGEMENT PLAN AND CSR ACTIVITIES

Based on our corporate philosophy of “creating new value,” Leopalace21 strives to meet the expectations of all our stakeholders and continues to be a contributor to building a sustainable society in ways that suit the needs of the times.

## Basic CSR Action Policy

In 2013, we devised a new Basic CSR Action Policy with five themes in response to the changing needs of our stakeholders, social and environmental problems, and the requirements of ISO 26000 and other standards and guidelines.

Based on compliance and corporate governance that supports our businesses, we intend to implement CSR activities in accordance with the new policy, with the aim of “creating new value” together with all of our stakeholders.

We update our key performance indicators (KPIs) and key topics for our CSR initiatives from time to time to address CSR issues that are linked to our businesses and change in concert with the currents of the times.



## CSR Management

In our CSR management, members of the CSR Committee serve as coordinators to bring together separate divisions and departments to engage in various CSR initiatives. The general manager of the Management Planning Headquarters chairs the committee. Meeting four times a year, the CSR Committee receives reports on progress against quantitative targets set each quarter by each division and department regarding initiatives that comport with the five themes of the Basic CSR Action Policy, and moves initiatives to the next phase of the PDCA cycle.

Key topics and KPIs are also approved by the CSR Committee.

### Stakeholder's Voice

Leopalace21 devised a new Basic CSR Action Policy based on compliance and corporate governance in 2013 in response to growing interest in the past few years in CSR and corporate governance. To respond more precisely to evolving social expectations, and in recognition of the importance of generating shared benefits in our CSR activities and business plans in moving toward the realization of a sustainable society, we update our CSR activities and the KPIs we use to track them from time to time. Through our businesses, we are working to identify solutions to various social problems involving places where people live and their lifestyles, and to promote relevant CSR activities.



**Yuzuru Sekiya**  
Director, Senior Executive Officer, CSR Committee Chairman

### CSR Committee, Participating Divisions and Departments

Corporate Business Promotion Headquarters
Product Engineering Supervisory Division
Subcontracting Management Department
Construction Department
Leasing Sales Planning Promotion Division
Leasing Management Department
LEONET Promotion Department
Asset Management Division
Class "L" Secretariat
Elderly Care Business Division
Hotel Operations Division
Resort Marketing Department
Personnel Department
General Affairs Department
Legal Affairs Department
Auditing Department
Corporate Management Department

<b>Basic CSR Action Policy</b>	Restatement as ISO26000 Core Subjects
<b>Engaging in sound, constructive communication with stakeholders</b>	Stakeholder engagement
<b>Providing high-quality services and supporting affluent living</b>	Consumer issues
<b>Creating pleasant work environments and developing diverse human resources</b>	Human rights, labor practices
<b>Contributing to local communities</b>	Community involvement
<b>Creating an environmentally friendly society</b>	Environment

## Overview of FY2015 Goals and Achievements, and FY2016 Goals

Basic CSR Action Policy	Main content of initiatives	FY2015 goals	FY2015 achievements	Self-assessment	FY2016 goals
Engaging in sound, constructive communication with stakeholders	Build positive relationships with landowners	No. of meetings for landowners: 250 times	257 times	◎	250 times
	Offer programs for students to support their career development	No. of sessions in student programs to support career development: 35 times	31 times	○	35 times+ leasing sales offices nationwide
	Conduct proactive IR activities	No. of meetings for individual investors, including IR fairs: 16 times	19 times	◎	20 times
Providing high-quality services and supporting affluent living	Host get-togethers for international exchange students	Hold 60 get-togethers	82 get-togethers	◎	82 get-togethers
	Expand and improve MY PAGE	Launch 20 new MY PAGE tenant services	22 new services	◎	22 services
	Create synergies between corporations and tenants	Run 60 new tie-up projects with corporate clients	36 new tie-up projects	△	36 tie-up projects
	Reduce incoming calls to service centers	Incoming call ratio (monthly avg.) of below 10% of total tenants move-ins	9.8%	◎	Below 9.5%
	Devise and market products that take surroundings into account	Cumulative security system installations: 240,000 rooms Cumulative security camera installations: 7,000 buildings	256,900 rooms 7,848 buildings	◎	270,400 rooms 9,700 buildings
Creating pleasant work environments and developing diverse human resources	Implement planned employee training	No. of training participants: a total of 2,450	A total of 3,220 people	◎	A total of 5,064 people
	Provide compliance training	e-learning enrollment rate: over 90%	97.51%	◎	Over 90%
	Hire diverse human resources	Disabled employee ratio: 2.0%	2.06%	◎	2.12%
	Accommodate diverse working styles	Paid vacation days usage rate: 70%	70.1%	◎	70%
	Contribute to society with a focus on disabled persons	No. of disabled who join workplace tours and/or receive OTJ training: 620 No. of offsite lectures: 3 times	571 people 3 times	○	638 people 3 times
Contributing to local communities	Implement cleanup campaigns	No. of cleanup events at construction sites: a total of 3,200 sites	A total of 2,240 sites	△	5 participants per site
		No. of companywide cleanup campaigns hosted: 4 times	4 times	◎	4 times, a total of 3,780 participants
		No. of cleanup events at domestic hotels: 26 times	25 times	○	26 times
	Register our network for "Kodomo #110"	All domestic hotels registered	All hotels registered	○	Keep all hotels registered
		No. of sales offices registered: 190 offices	182 offices	○	190 offices
		Azumi En facilities are registered when newly opened	67 facilities	◎	Register newly opened facilities
	Collect charitable contributions	Fund for children in areas stricken by the Great East Japan Earthquake: ¥150,000	¥121,000	○	¥150,000
		Support for UNHCR (UN institution supporting refugees): ¥800,000	¥836,000	◎	¥800,000
		Contributions from property owners: 615 "Leo Miles" point packages donated	627 point packages	◎	660 point packages
		Donations from "volunteer" vending machines: ¥1,560,000	¥1,520,000	○	¥1,520,000
Creating an environmentally friendly society	Install solar power generation systems	Solar power system installations: 535 buildings Capacity: 8,436kW	608 buildings 9,670kW	◎	Reduce CO <sub>2</sub> emissions by 23,000t via Group solar power generation
	Convert Azumi En facilities to LED lighting	No. of facilities with LED lighting installed: 62	62 facilities	◎	Install at all facilities
	Switch to energy-efficient copiers	Replacement of 40 copiers Monitor electricity use & CO <sub>2</sub> reduction	Replaced 40 copiers Upgraded models cut power use 70.4% and reduced CO <sub>2</sub> : 48.5%	◎	Initiative accomplished
	Reuse discarded materials	Reuse 6,000 boxes of expired-retention documents	3,584 boxes	△	5,125 boxes

◎: Attainment exceeded 100% ○: Attainment of 80% but less than 100% △: Attainment was below 80%

# ENGAGING IN SOUND, CONSTRUCTIVE COMMUNICATION WITH STAKEHOLDERS

Through our business activities, we actively disclose information to and engage in dialogue with our stakeholders to build healthy, positive partnerships.

## Basic View: Importance of Dialogue and Disclosure

We recognize the creation of corporate value over the medium- and long-term and our sustainable growth as an enterprise stem from our provision of resources and contributions to customers, business partners, local communities, employees, shareholders, and creditors. This reflects our understanding of the importance of striving for proper collaboration with stakeholders. We are also

working to disclose financial and non-financial information in a timely, transparent manner to a wide range of stakeholders, including our shareholders. Through continued proactive dialogue with various stakeholders, we aim to deliver new value via our corporate activities by grasping social needs with greater precision.

## Goals and Achievements

Main Activities	FY2015 goals	FY2015 achievements	FY2016 goals
No. of meetings for landowners	250 times	257 times	250 times
No. of meetings for individual investors, etc.	16 times	19 times	<b>New KPI</b> Hold 20 IR fairs

## Leopalace21's Main Stakeholders

### Apartment Tenants

- MY PAGE (website exclusively for tenants)
- Cooking classes for women
- Tenant surveys
- Tenant monitors



A cooking class for female tenants

### Landowners

- Set up a system where employees in charge follows up with owners
- Host apartment owner meetings
- Arrange events and seminars



A meeting for landowners

### Partners

- Cleanup campaign events (see page 74)



Companywide cleanup campaign

### Employees

- Provide employee training (see page 73)



Employee training

### Local Communities

- Host workplace experience days
- Accept volunteer groups at Azumi En (see page 75)



A workplace experience day

### Investors/Shareholders

### Investors/Shareholders

- Hold earnings results briefings
- Arrange small meetings for institutional investors
- Participate in IR events
- Program to support career development



An IR fair

## Basic CSR Action Policy

# PROVIDING HIGH-QUALITY SERVICES AND SUPPORTING AFFLUENT LIVING

Amid the growing diversity of rental housing needs in an increasingly diverse society, we offer tenants living spaces that are comfortable and pleasant via new lifestyle proposals.

## Basic View: Lifestyle Diversification

Attendant with shifting family composition reflecting the twin demographic trends of a growing elderly cohort and a low fertility rate and changing times, the number of single-person households continues to grow. At the same time, the foreign population in Japan continues to grow, with a three-fold increase in the number of international exchange students enrolled in schools in Japan

compared with the 1990 level. In concert with such population trends, rental housing needs are becoming more diverse. At Leopalace21, we are responding to social needs arising from the growing diversity of lifestyles, and we see such changes as offering opportunities to develop products and services in tune with the times.

## Goals and Achievements

Main Activities	FY2015 goals	FY2015 achievements	FY2016 goals
High-quality services enabling safety and peace of mind; improve client services further	Cumulative security system installations: 240,000 rooms	256,900 rooms	270,400 rooms
	Cumulative security camera installations: 7,000 buildings	7,848 buildings	9,700 buildings
	Incoming call ratio at service centers (monthly avg.): below 10%	9.8%	<b>New KPI</b> Below 9.5%

## Ideas for Personalized Living Styles

### Community Space "L+" (L plus)

We have set up community spaces we call "L+" as places all our clients can use based on the concept of "a plus for lifestyle."

In fiscal 2015, we carried out projects bringing together companies and academic collaborators to promote deeper ties between Leopalace21 and students. To make our community spaces more attractive as gathering spots, we commissioned students in the visual design department at Kindai University to come up with designer art for our Osaka L+ space and students at Tokyo Metropolitan University to do the same for our Shinjuku L+ space.

At our Sendai L+ space, Kamoi Kakoshi Co., Ltd. presented an exhibit on easy-to-make interior decorations made from masking tape.

To ensure each of our tenants enjoy their lives more, we aim to provide spaces where they can interact with neighboring tenants.



Designer art by Kindai University students decorates the steps at Osaka L+



Art made from Kamoi Kakoshi Co., Ltd.'s masking tape is exhibited at Sendai L+

## Improving Customer Satisfaction with High-Quality Services

### Launching an Industry-first Electronic Contract Service

We launched Leo-sign, the first electronic contract service in the rental housing industry, for tenants on corporate and individual contracts. In consummating an apartment lease, an entire sequence of steps have been moved to the Leo-sign platform from displaying estimates to concluding contracts as well as processing contract options such as a parking space. The system enables us to lighten our clients' workload while also improving our own operational efficiency.

Compared with the previous approach, the new system streamlines various office tasks such as preparing documents and storing contracts and the like, reducing paper usage substantially and thus lightening our environmental impact.

### Stakeholder's Voice



**Mr. Akio Inomata** LIXIL VIVA Corp.  
General Affairs and Personnel Department, Section Chief

We average about 10 contracts (for employee housing) per month, but in peak months new contracts can exceed 50.

Since the Leo-sign system was introduced, the processing of contracts has moved speedily, from getting an estimate to the online equivalent of consummating contracts with an ink seal. The system enables us to reduce resource and time costs.

**Mr. Akiyoshi Takahashi** EDOICHI Co., Ltd.  
Personnel Department General Manager

Many of our relocations come with a change of address, and processing the paperwork (for rental housing contracts) has been a major burden. I am reminded almost daily of the convenience of the Leo-sign system, which has simplified contract processes and reduced mailing and other correspondence costs. I am pleased Leopalace21 came to us with a presentation on the benefits of the Leo-sign system.

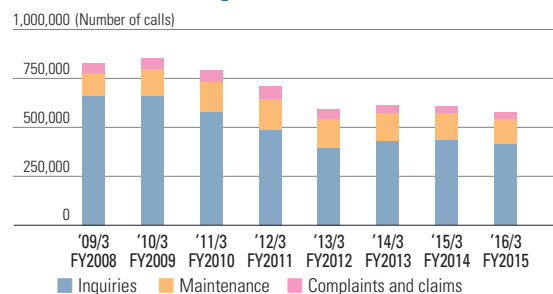
### Service Centers Offer Full Post-Move-in Support

Leopalace21 has systems in place to respond swiftly to various problems and emergencies that can arise after moving in to an apartment. At our service centers, our specialist communicators accurately analyze inquiries from customers and continuously add and update the list of frequently asked questions (FAQs) on our website. In this way, we ease customer doubts and anxieties and improve satisfaction levels, and thus enable them to live safe, comfortable lives in the apartments we manage.

Our menu of tenant services is reshaping what people expect from rental housing, such as concierge services

that respond to tenant requests via MY PAGE, a site exclusively for tenants launched in 2013.

### Trend in Incoming Calls to Our Service Centers



### Services for International Tenants, Supporting Smooth Move-ins, Comfortable Living

Across multiple dimensions, we provide support to enable international tenants to live comfortably.

Our rental housing website is available in English, Chinese, Korean, Portuguese, and Vietnamese, and our call center accepts calls in these five languages. We hold gatherings for exchange students with an orientation on move-in manners where we inform them of key dos and don'ts for contracts, move-ins, and departures. In fiscal 2015, 1,306 people came to the get-togethers we hosted at 82 sites across Japan. Over 90% of those who came gave them high marks, telling us they went away with a solid understanding of what was communicated.

We are building out our overseas office network, especially in Southeast Asia, so we have in place a well-developed system for helping with room searches and sewing up contracts before foreign customers even come to Japan. In our personnel assignments to our domestic offices, we are proactively assigning more employees with foreign citizenship (277 employees as of March 31, 2016), and we will continue to help people coming to Japan by supporting convenient apartment searches and comfortable living.

### Stakeholder's Voice

#### Ami Campus, Ibaraki University

There are about 140,000 international exchange students studying in Japan. Exchange students with various cultural backgrounds come to Japanese universities.

For exchange students coming to Japan from Indonesia and Thailand, we asked Leopalace21 to organize a course on everyday manners in Japan. As the exchange students said there are many situations where manners in their homelands seem to differ from manners in Japan, we are confident the course helped promote mutual understanding and also provided important benefits for Japanese students who interact with exchange students on campus.



## Basic CSR Action Policy

# CREATING PLEASANT WORK ENVIRONMENTS AND DEVELOPING DIVERSE HUMAN RESOURCES

We believe human resources are important as upholders of our corporate philosophy of “creating new value.” Our aim is to build pleasant workplaces where people enjoy work, enabling all employees to express their diverse individuality and harness their capabilities.

## Our Basic View: Diversifying Work Styles and Human Resources

Japan’s working-age population is projected to halve by 2060 versus the 2010 level attendant with the twin trends of a growing cohort of seniors with a low fertility rate, according to statistics published by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT). Attracting and retaining talented, capable people, regardless of their nationality or gender, is an important foundation for sustainable growth at companies. We think cultivating people

from a wide-range of backgrounds with diverse perspectives, including women, will enable us to respond to diversifying social needs and contribute to the creation of new value, and we expect these kinds of people to contribute in a major way to our growth. We thus aim to create workplaces where employees with diverse backgrounds work together easily and effectively and apply their skills and talents on the job.

## Goals and Achievements

Main Activities	FY2015 goals	FY2015 achievements	FY2016 goals
Promote work-life balance Foster diversity	Implement planned training: a total of 2,450 employees	A total of 3,220 employees	A total of 5,064 employees
	Paid vacation day usage rate: 70%	70.1%	70%

## Appropriate Personnel Evaluations

We conduct personnel evaluation interviews with all employees every six months to ensure fair and appropriate personnel evaluations. At the first stage, personnel evaluations are based on three elements: proficiency, how much effort the employee is perceived to be making, and track record, and at the second stage, third parties provide evaluations. Factoring in relative

evaluations, final evaluations, and evaluations by executives and board members are the next steps before a final overall evaluation is determined. For employees on short work-hours schedules or temporary leave, we set targets based on the number of hours they work and the duration of their employment in a bid to ensure fair and appropriate evaluations.

## Creating Employee-friendly Workplaces

### Progress in Initiatives Advanced by Work-life Balance Promotion Office

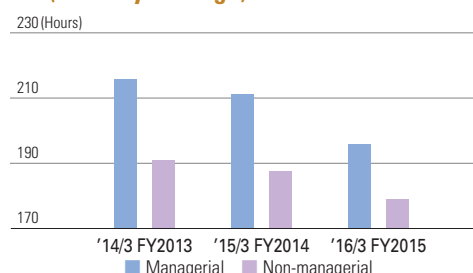
We believe promoting work-life balance is an important issue. The Work-Life Balance Promotion Office, established in January 2014 as a unit that reports directly to the President, promotes diverse working styles.

To accompany our in-place system for requesting vacation in increments as small as half a day, we introduced the “refresh” vacation system in April 2015, and as a result, the usage rate for paid vacation days climbed to 70.1% in fiscal 2015, a sharp jump from a 33.0% rate in fiscal 2014.

Since April 2016, we further refined our vacation system so employees can request vacation in increments as small as one hour. We believe this will enable employees to adopt even more diverse working styles.

Introducing an at-home telework system for employees who are raising children or taking care of family members, we will work to build workplaces where each individual can fully harness their capabilities and potential.

### Comparison of Total Working Hours (Monthly Average)



## Measures to Promote Active Female Participation in the Workplace

Encouraging women to aim higher in their careers is one plank in our management strategy. With a nudge from the law promoting female participation in the workplace taking effect from April 2016, we introduced various measures under a collaborative framework bringing together the Personnel Department and the Work-Life Balance Promotion Office.

In fiscal 2015, recognizing the need to create a platform to promote active female participation in the workplace, we sponsored a forum, THE DANKAI, for female executives and female employees to talk to each other about career development and ways of working that enable them to effectively navigate important life events. We also convened a diversity forum every quarter with the aim of raising employee awareness of the importance of retaining female employees (see page 41).

In fiscal 2016, we are working to newly commence a “working support” hotline, conduct interviews to help female employees on childcare leave return smoothly to work, provide training to managers on human resource

development focusing on female employees, and provide training for female employees to help them cultivate a forward-leaning mindset in their career development.

We have issued numerical targets established in conjunction with the law promoting female participation in the workplace coming into force.

1. Increase the number of female managers to 150 as of March 31, 2021
2. Raise the ratio of the average continuous years of service of our female employees to at least 80% of that of our male employees.

Ratio of females in employee hiring	61.0%
Ratio of female employees to total workforce	39.0%
Female manager ratio	4.9%
Ratio of female employees obtaining childcare leave	100.0%
Females on short work-hours schedule system	124 persons

Parent company data as of March 31, 2016; see the Data Compilation for further details

## Third-party Praise for our Efforts to Promote Active Female Participation at Work

In August 2015, we awarded gold certification by Saitama Prefecture as a company enabling diverse working styles. Saitama Prefecture’s Womenomics Project is aimed at stimulating the prefecture’s economy through the power and participation of women. As one initiative of the project, the prefectural government certifies companies for adopting various measures to

support work-life balance.

As has been the case since fiscal 2012, Leopalace21 was again recognized by the Ministry of Health, Labor, and Welfare for its many measures to support parenting, and as a result, obtained the “Kurumin mark.”



The Kurumin mark

## Taking Steps to Hire More Disabled Employees

With the aim of promoting the use of diverse human resources and creating a workplace that also motivates the disabled with a sense of larger purpose, we have taken steps to hire disabled employees.

In 2009, Leopalace Smile Co., Ltd. was established as a special subsidiary to employ more of the disabled, and

we now have 25 disabled employees.

In fiscal 2015, the Elderly Care Business at the parent company achieved an annual average disabled employee ratio of 2.06%, and from fiscal 2016, we will continue to advance initiatives ahead of the scheduled 2018 revision to the statutory employment rate set by the law promoting employment of the disabled.

## Employee Safety and Health

Our aim at Leopalace21 is to create workplaces where employees can be safe and healthy on the job. The Employee Health Committee is a ten-member committee with an industrial physician that convenes at 22 work sites per month, disseminates useful health-related information to employees, and publishes reports on progress in reducing the number of overtime hours in connection with worker health. In fiscal 2015, the rate of employee participation in health checkups was 99.9%, and the number of labor accidents at the parent company

came to 28. In fiscal 2016, under the slogan “Healthy employees are a driving force supporting the Company,” the Employee Health Committee will continue to strive to provide workplaces where employees can energetically work in good health.

	FY2015
No. of labor accidents	28
Accidents requiring time off work	8
Accidents not requiring time off work	20

## Developing Diverse Human Resources

Leopalace21 is channeling resources into developing human resources to achieve new growth. Specifically, we support each employee in developing their capabilities through our human resources development system while striving to bolster the organization as a whole through cross-divisional training. Moreover, in fiscal 2015, the Shonan Human Resources Development Center commenced operations as an in-house employee training center. We are implementing the following measures via our human resources development system.

### Employee Training System

The regular training system is essentially split along two lines: training according to employee rank and training according to division. The former is designed to enable all employees to obtain the knowledge and capabilities they need in a series of stages. The latter is aimed at enabling employees to polish their expertise and thus improve customer satisfaction.

#### Employee Training System

	FY2013	FY2014	FY2015
No. of participants	460	2,739	3,220
Per-head training costs (yen)	76,326	77,087	81,218

### Support for Employees Seeking to Obtain Qualifications

We support the efforts of employees to obtain every category of public qualification directly linked to operations at our businesses such as real estate transaction specialists, first-class architects, first-class building operation and management engineers, and financial planners.

### Program for language skill improvement (English)

We award employees with a bonus depending on their TOEIC score.

### Cross-divisional Training

In addition to our human resource development system, a cross-divisional training program commenced in fiscal 2014 aimed at bolstering the entire organization as part of an initiative to improve our vertical organizational structure.

In fiscal 2015, a total of 280 employees—core representatives from each division and department—came together over three sessions to share information, exchange views, and propose new initiatives that extend beyond the boundaries of our organizational chart. The training sessions focused on renewing mutual

### Training According to Employee Rank

Employee rank	Training sequence based on employee rank	
Managers	Executives	1 Training for executive learning
	Division managers	2 Strategy mapping projects
	Site leaders	3 Training to foster highly capable managers
	Team leaders	4 Follow-up training to foster highly capable managers
Non-managers	Function heads	5 Training to foster worksite leaders
	Function sub-heads	
	New employees	6 New employee training → Follow-up training → Complete new employee training

### Training According to Division

Employee rank	Leasing business	Construction business	
Managers	Executives		
	Division managers		
	Site leaders	7 Training for stronger marketing capabilities	9 Training for stronger marketing capabilities
	Team leaders		
Non-managers	Function heads	8 Training for sales offices on how to interact with customers (role playing, etc.)	
	Operations sub-heads		10 Follow-up training for young employees
	New employees		

understanding of tasks across divisions and departments, intra-company interaction, work-life balance, labor-management problems, and the like.

### Training with Specified Purposes

We provide regular training as necessary for specified purposes such as mental health training, compliance training, work-life balance training, and training on how to promote female participation in the workplace.

### Stakeholder's Voice

Rather than relying entirely on on-the-job training, we have introduced an education system for salespeople on how to market proposals, what marketing methods to apply and the like. With a common curriculum across all employee ranks to foster a unified understanding of rules and methods, we are starting to see results via a strengthening of the organizational capabilities of our sales teams, and this is translating into a decline in our employee turnover rate. To ensure benefits from training are not merely temporary, we are working to maximize the gains from training by making verification of what was learned an ongoing, routine task.



**Tatsushi Ishikura**  
Personnel Department  
General Manager

# CONTRIBUTING TO LOCAL COMMUNITIES

Together with local communities, we are continuing our activities in our immediate surroundings as a company providing living space with the aim of creating places where people can live in safety.

## Our Basic View: Our Businesses Help Strengthen Local Community Connections

With more people living in dense cities and the rural countryside becoming depopulated, connections within communities are becoming more tenuous, and these trends have given rise to many problems such as elderly people dying alone and more crime targeting children. In serving to promote interaction and collaboration among neighbors, the structure of residential neighborhoods and

how people live play important roles. At Leopalace21, we are promoting initiatives to contribute to local communities through our businesses and employees and hands-on interaction with local communities, important stakeholder group. We think such contributions will build confidence in our operations in local communities. Our aim is to become a welcomed, trusted company.

## Goals and Achievements

Main Activities	FY2015 goals	FY2015 achievements	FY2016 goals
Involve stakeholders in cleanup activities	Companywide events: 4 events	Companywide events: 4 events (2,552 buildings)	Companywide events: 4 events <b>New KPI</b> A total of 3,780 participants in companywide events
	Vicinity of construction sites: 3,200 buildings, 16,000 participants	Vicinity of construction sites: 2,240 buildings, 10,641 participants	<b>New KPI</b> Ratio of 5 persons per site for construction site vicinity cleanups

## Cleanup Campaigns

### Creating Better Places to Live via Our Cleanup Campaigns

We are continuing with our neighborhood cleanup campaigns to encourage our employees to form attachments to the towns and regions where we operate businesses and to promote deeper interaction among stakeholders. Those participating in the campaigns are, naturally, Leopalace21 employees as well as landowners and their families and local contractors who work for us at

apartment construction sites. The campaigns seek to foster communication between them and local residents.



## Initiatives via Diverse Channels Leveraging Core Businesses

Leopalace21 continues to cooperate with “Kodomo #110,” a program where private-sector businesses register to provide emergency refuge to children who feel threatened or troubled. It is seen as effective in preventing an array of harms from coming to children. Of our 182 directly run sales offices, 132 offices are registered for the program, and 50 offices run by Leopalace Partners franchisees are also registered. All Hotel Leopalace locations are registered. With five new

additions to the Azumi En facility network, all 67 facilities have been registered.

In addition, Hotel Leopalace Sendai procures food materials sourced locally to support the “local consumption of local produce” community model, and Hotel Leopalace Sapporo continues to support snow removal efforts. As a member of communities where we do business, the Hotel Leopalace locations we run will continue to support efforts that enable their residents to live in safety.

## Local Community Interactions with "Happy Hearts and Minds" as a Motto

With nearly 70 Azumi En nursing care facilities located in the Kanto and Chubu regions, we are actively striving to create opportunities for seniors at our facilities and members of local communities to interact, and we regularly invite local volunteers to visit our facilities.

At the Azumi En Ina facility in Saitama Prefecture's Ina town, about 30 students in the brass band club at Inamachi Minami Junior High School visited the facility to perform at a Christmas concert in December 2015. Listening to the old-time standards the students performed brought cheer and warm memories to the Ina facility seniors. The two groups spoke openly with each other without paying much attention to age differences at the post-concert gathering. With the seniors telling the students to "please come back!" and the students responding "we will!," the students seemed reluctant to leave as they shook hands with their new friends when departing.

We arrange for events involving volunteers and people from the local community, such as magic shows, hula dance shows, guitar performances, local community gatherings, and the like to ensure "happy hearts and minds" is not just a motto for seniors at Azumi En facilities. Through such recreational activities, we make an effort to nurture our local community ties.

### Stakeholder's Voice

Along with the Sugibuchikai troupe, which performs folk songs, kindergarteners from nearby Miura Kindergarten come every year to our facility as volunteers.



**Rumiko Takahashi**  
Azumi En Tsukuihama  
Facility Chief

Seniors who prefer not to interact much with others change when the kindergarteners arrive, actively calling out to them and patting them on the head with a smile on their faces. The seniors as well as the staff feel happy watching how cute the kindergarteners are when they sing and dance for everyone.



Christmas concert performed by the bass band club of Inamachi Minami Junior High School



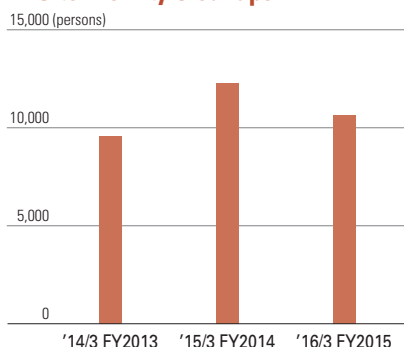
Kindergarteners from Miura Kindergarten sing and dance for the seniors



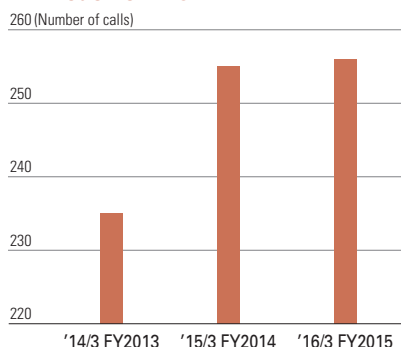
Folk songs performed by Sugibuchikai, a troupe of singing local volunteers

## Visual Presentations of Our Social Contributions

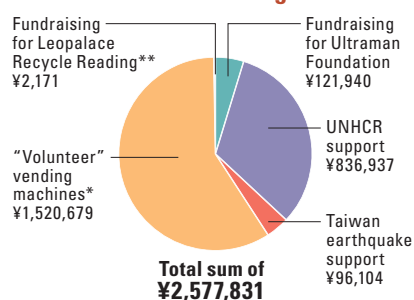
### No. of Participants in Construction Site Vicinity Cleanups



### Cumulative Registrations for "Kodomo #110"



### Breakdown: Donations and Charitable Fundraising (FY2015)



\* "Volunteer" vending machines donate a percentage of their proceeds voluntarily to charitable causes.

\*\* Leopalace21 collects old books, CDs, and DVDs that employees no longer want and sells them to corporate partner bookoffonline Corp. and donates the proceeds to charities.

### Main NGOs and charities we support and are allied with

- Japanese Red Cross Society
- Japan Committee for UNICEF (United Nations Children's Fund)
- United Nations High Commissioner for Refugees (UNHCR)
- Eco Cap Collection Box Promotion Network
- Japan Society of Breast Health (certified NPO)
- Support Association for Corporate Employment of the Challenged (SACEC)
- WWF Japan

# CREATING AN ENVIRONMENTALLY FRIENDLY SOCIETY

Recognizing the large impact our business activities have on the global environment, we remain steadfast in our pursuit of low-environmental-impact living space, and we are working to reduce the environmental burden that arises from all of our business activities.

## Our Basic View: Lowering Our Environmental Impact by Reducing CO<sub>2</sub> Emissions

The Paris Agreement reached at the COP21 in Paris in 2015 adopts a long-term target to reduce greenhouse gas (GHG) emissions from human activities to effectively zero. It calls for regular measurement and reporting of initiatives to reduce GHG emissions and an international framework for verification, so the importance of corporate commitments is growing. Once we carefully analyze a precise statistical compilation of the Group's CO<sub>2</sub>

emissions, Leopalace21 will add CO<sub>2</sub> reduction targets to its environmental KPIs. We will be hands on in taking responsibility for reducing our environmental impacts. Our aim is to be a firm that grows sustainably in harmony with society through effective resource use and the provision of value-added goods and services that factor in environmental considerations.

## Goals and Achievements

Main Activities	FY2015 goals	FY2015 achievements	FY2016 goals
Solar power generation business Factor environmental impact into our business activities	Solar power system installations: 535 buildings (8,093,000kWh, reduce CO <sub>2</sub> emissions by 2,545t)	608 buildings (9,276,000kWh, reduce CO <sub>2</sub> emissions by 2,917t)	<b>New KPI</b> Reduce CO <sub>2</sub> emissions by 23,000t via Group solar power generation
	Replacement of 40 old copiers		

## Reducing Environmental Impact of Our Business Activities

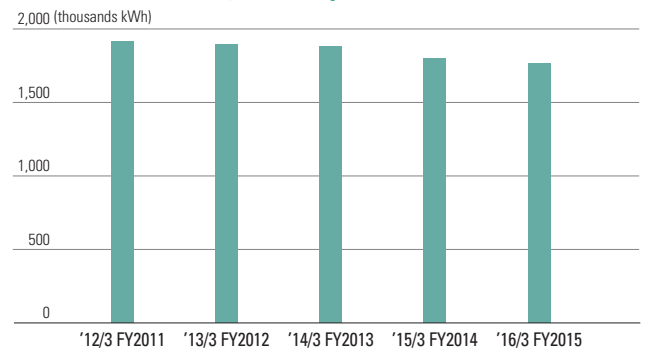
We are working to reduce the environmental burden of our business activities. In fiscal 2015, like in fiscal 2014, we implemented a "Cool Biz" dress code for summer and an Eco-green cards program, executed an initiative to reuse discarded materials, added more mini-cars to our fleet, and converted more facilities to LED lighting.

These measures were implemented at parent company properties such as the head office and at all Group facilities\*, even as we took steps to reduce electricity usage.

The head office monitors electricity usage, and we continue to advance ambitious initiatives in recognition of the large size of the impacts of our business activities on the environment. In fiscal 2015, electricity usage at the head office came to 1,763,000kWh.

\*This excludes owner salons, computer rooms, hotels, the Guam resort, and overseas offices

### Annual Electricity Consumption at Head Office



## Paper Reuse

We continue with attempts to reuse documents in storage that no longer need to be retained. In fiscal 2015, we reused important documents that had been kept at the head office and owner salons to make toilet paper and this yielded 30,532 rolls. This equates to one month's toilet paper for the Group's entire workforce.

## Replacement of Old Copiers

We finished replacing 40 old copiers with energy-efficient models in the two years from fiscal 2014 to fiscal 2015. This brings to an end an initiative to upgrade all 486 copiers in the Group's fleet.

This initiative reduced our electricity usage by 70.4%, yielding a 48.5% reduction in CO<sub>2</sub> emissions.

## Converting Facilities to LED Lighting

We implement initiatives to save energy while ensuring tenants can live comfortably. At all newly built apartments, LED lighting is a standard feature, and we install LED lighting in common-use spaces when we renovate existing apartments. We also install LED lighting in buildings at the Hotels & Resort Business and Elderly Care Business. In fiscal 2015, we installed LED lighting at Hotel Leopalace Hakata and at 46 elderly care facilities.

	Decline in annual electricity usage via switch to LED lighting (year on year, results)
Hotel Leopalace Sapporo	248,000kWh
Hotel Leopalace Nagoya	383,000kWh



## Promotion of Our Solar Power Generation Business

Since 2011 we have focused on three approaches to actively advance our solar power generation business: (1) solar panel installations via owner investments; (2) wholesaling electricity generated from solar panels installed on rooftops leased from owners; and (3) the design and execution of a mega-solar project on a vacant site.

As of March 31, 2016, we were nearly done installing solar power generation systems on properties we own, lease or manage. The aggregate capacity of these systems stands at 182.1MW, with installations on the rooftops of 12,964 buildings.

We will continue with initiatives to reduce CO<sub>2</sub> emissions via solar power generation while continuing to harness solar power generation as a way to support safe, sustainable energy generation.



# FINANCIAL SECTION

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

## 1. Operating Environment

During the subject consolidated fiscal year, the domestic economy showed gradual progression supported by improvements in corporate earnings, employment, income, and individual consumption, despite prospects being uncertain due to the downturn in the Chinese economy as well as the drastic appreciation of the yen.

In the rental housing industry, recovery from the negative effects of the consumption tax increase has progressed, and new housing starts of leased units have improved for the first time in two years (up 7.1% year-on-year). On the other hand, while 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 Company) aims to achieve targets of the Medium-term Management Plan "EXPANDING VALUE," which is in its second year, 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.

## 2. Analysis of Business Results

### (1) Net Sales

Net sales during the fiscal year under were 511,424 million yen (up 5.8% year-on-year). In the Leasing Business, net sales was 410,552 million yen (up 2.8% year-on-year), and net sales in the Construction Business was 74,160 million yen (up 21.0% year-on-year).

#### Net Sales by Segment

(Millions of Yen)	FY2014	FY2015	Change
Leasing	399,316	<b>410,552</b>	<b>11,235</b>
Construction	61,312	<b>74,160</b>	<b>12,847</b>
Elderly Care	10,608	<b>10,798</b>	<b>190</b>
Hotels & Resort	8,951	<b>11,427</b>	<b>2,476</b>
Others	2,999	<b>4,485</b>	<b>1,485</b>
Total	483,188	<b>511,424</b>	<b>28,236</b>

### (2) Earnings

Gross profit was 88,820 million yen (up 17.2% year-on-year), operating profit was 20,996 million yen (up 42.2% year-on-year), recurring profit was 19,820 million yen (up 47.6% year-on-year), and net income attributable to shareholders of the parent was 19,432 million yen (up 33.9% year-on-year).

## Operating Profit by Segment

(Millions of Yen)	FY2014	FY2015	Change
Leasing	20,532	<b>22,760</b>	<b>2,228</b>
Construction	210	<b>3,339</b>	<b>3,128</b>
Elderly Care	(606)	<b>(1,354)</b>	<b>(748)</b>
Hotels & Resort	(1,289)	<b>(697)</b>	<b>591</b>
Others	31	<b>337</b>	<b>306</b>
Adjustments	(4,116)	<b>(3,388)</b>	<b>727</b>
Total	14,763	<b>20,996</b>	<b>6,233</b>

## Change in Operating Profit

(Billions of yen)



## (3) Segment Information

### Leasing Business

The occupancy rate at the end of the consolidated fiscal year was 90.53% (up 1.24 points from the end of last fiscal year) and the average occupancy rate for the fiscal year was 87.95% (up 1.38 points from last fiscal year).

In the Leasing Business, to establish stable profits led by occupancy improvement, the Company implemented measures to promote longer rent periods such as expanding tenant services including "Room Customize" and providing a website for tenants, as well as further strengthening sales for female and corporate customers by security system installations. In addition, the Company aims to increase foreign tenants by refining customer support.

The number of units under management at the end of the consolidated fiscal year was 561 thousand (increasing 7 thousand from the end of last fiscal year), and the number of direct offices was 189 (increasing 1). The number of franchise offices was 130 (decreasing 11).

As a result of the above, net sales amounted to 410,552 million yen (up 2.8% year-on-year), and operating profit was 22,760 million yen (up 10.9% year-on-year).

### Construction Business

Orders received during the consolidated fiscal year were 86,439 million yen (down 1.1% from last fiscal year) and the orders received outstanding at the end of the consolidated fiscal year stood at 66,347 million yen (up 14.1%

from last fiscal year).

In the Construction Business, the Company focused on supplying apartments in metropolitan areas where solid leasing demand is anticipated, as well as providing high quality products with earthquake-resistance and better sound insulation. In addition, the Company 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.

As a result, net sales came to 74,160 million yen (up 21.0% year-on-year), and operating profit was 3,339 million yen (up 3,128 million yen year-on-year).

#### Elderly Care Business

Net sales were 10,798 million yen (up 1.8% year-on-year), and operating loss was 1,354 million yen (increasing loss of 748 million yen year-on-year).

#### Hotels & Resort Business

Net sales in resort facilities in Guam and hotels in Japan were 11,427 million yen (up 22.7% year-on-year), and the operating loss was 697 million yen (decreasing loss of 591 million yen year-on-year).

#### Other Businesses

In Other Businesses such as the solar power generation business, the small-claims and short-term insurance business, and the finance business, net sales were 4,485 million yen (up 49.5% year-on-year), and operating profit was 337 million yen (up 979.3% year-on-year).

### 3. Analysis of Financial Position

#### (1) Position of Assets, Liabilities, and Net assets

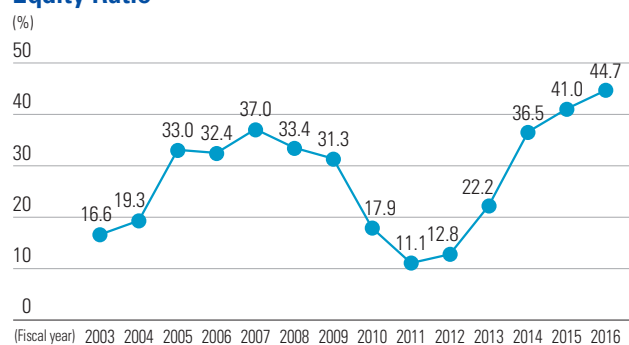
Total assets at the end of the fiscal year increased 18,616 million yen from the end of the previous fiscal year to 326,890 million yen. This was mainly attributable to an increase of 12,821 million yen in cash and cash equivalents, 3,291 million yen in deferred tax assets, 1,536 million yen in leased assets (net), 1,452 million yen in construction in progress, and 1,397 million yen in investment securities, despite a decrease of 1,383 million yen in other accounts receivable and 1,919 million yen in buildings and structures (net).

Total liabilities decreased 1,122 million yen from the end of the previous fiscal year to 180,679 million yen. This primarily reflected a decrease of 17,823 million yen in short-term interest-bearing debt, 5,327 million yen in long and short term advances received, 1,903 million yen

in customer advances for projects in progress, and 1,855 million yen in accounts payable for completed projects, despite an increase in long-term interest-bearing debt of 24,159 million yen due to the issuance of corporate bonds and 1,974 million yen in accrued income taxes.

Net assets increased 19,738 million yen from the end of the previous fiscal year to 146,211 million yen, chiefly due to a recording of 19,432 million yen in net income attributable to shareholders of the parent. The ratio of shareholders' equity to assets rose 3.7 points from the end of the previous fiscal year, to 44.7%.

#### Equity Ratio



#### (2) Cash Flow Position

Cash flow from operating activities was a net inflow of 22,104 million yen (an increase of 6,389 million yen in net inflow from the previous fiscal year). This was mainly due to 19,061 million yen of income before income taxes, and 9,614 million yen of depreciation, despite a decrease in advances received of 5,386 million yen and a decrease in accounts payable of 2,701 million yen.

Cash flow from investing activities was a net outflow of 11,087 million yen (a decrease of 6,462 million yen in net outflow from the previous fiscal year). This was primarily due to payments for the purchase of property, plant and equipment of 9,053 million yen.

Cash flow from financing activities was a net inflow of 1,374 million yen (a decrease of 373 million yen in net inflow from the previous fiscal year). This was chiefly due to proceeds from the issuance of bonds of 18,227 million yen (after deduction of bonds redemption), despite a repayment of debt and finance lease obligations of 16,875 million yen (after deduction of proceeds from debt).

As a result, cash and cash equivalents at the end of the consolidated fiscal year under review stood at 86,826 million yen, an increase of 12,321 million yen from the end of the previous fiscal year.

#### 4. Fundamental Policy on the Distribution of Earnings and Dividends

To increase shareholders' value, the Company will not only distribute profit earned from business measures in the form of dividends, but will maximize mid- to long-term corporate value and increase EPS (earnings per share) through investments in matters such as real estate, international 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 net income attributable to shareholders of the parent), in addition to maintaining a stable dividend.

For the subject fiscal year, the Company plans to pay a year-end dividend of 10 yen, the first dividend in seven years.

For the fiscal year ending March 31, 2017, the Company plans a mid-term dividend of 10 yen, a year-end dividend of 12 yen, with a total of 22 yen.

#### 5. Outlook

The Company aims to build solid management strength based on its fundamental policy of "focusing on core businesses and challenging itself with new business fields" as established in its Medium-Term Management Plan.

The Company aims to further develop the Leasing Business as a highly profitable business by taking various steps such as improving strong corporate sales, addressing tenant needs through "Room Customize" and security system installations, strengthening efforts for foreign students who demonstrate solid demand, expanding its sales network through new store openings, and reducing costs by reviewing routine property management tasks.

In the Construction Business, the Company will seek a new profit foundation through measures such as supplying apartments in urban areas where a high occupancy rate is expected, offering advanced new products, building high-quality apartments by paying attention to earthquake protection and sound insulation, etc., and expanding the number of orders received for buildings other than apartments such as elderly care, commercial facilities, and built-to-order houses.

During the Medium-Term Management Plan, the Company positions the Elderly Care Business as a growth strategy area and will endeavor to promote the opening of care facilities in cooperation with the Construction Business. As a company-wide measure, the Company will also maintain a low cost structure while strategically investing in costs (personnel, advertising, and sales promotion expenses) necessary to expand future sales and earnings.

In the next fiscal year, the Company will strengthen competitiveness mainly in the core business, as well as expand elderly care facilities in cooperation with the Construction Business, and continue to construct and manage serviced apartments and offices in the ASEAN region.

The Company has set its financial targets for the fiscal year ending March 31, 2017, the final year of its Medium-Term Management Plan, at 528,000 million yen (up 3.2% year-on-year) for net sales, 22,500 million yen (up 7.2%) for operating profit, 21,500 million yen (up 8.5%) for recurring profit, 18,500 million yen (down 4.8%) for net income attributable to shareholders of the parent, 12.0% for ROE, and 5.6% for ROA.

#### 6. Issues to be Addressed by the Company

##### (1) Acquisition of individual clients and the promotion of long-term occupancy

With respect to the tenants in the Company's properties under management, corporate clients constitute a rising trend while individual clients constitute a declining trend. The Company's policy is to continue to enhance strong corporate sales; however, taking into consideration the fact that corporate clients are easily impacted by economic cycles, from the perspective of assuring stable sales and earnings, the Company will also strengthen its efforts to take in individual clients and promote long-term occupancy through measures such as implementing advertising and sales campaigns for individual clients, expanding its sales network through new store openings, and providing a variety of services for tenants.

##### (2) Improving earnings power and developing new businesses

For the Companies to grow sustainably, improving its earnings power in the Leasing Business and developing new business domains will be necessary. Although the Companies have already made efforts to increase its earnings power by enhancing tenant services and implementing measures to increase the value of properties, in addition to implementing a "leased roof solar power generation business" through a solar power generation company, operating the rental housing management business through a joint venture in South Korea and the local real estate agency business and development of service apartments in countries of ASEAN, the Company will continue to work on developing new business fields, products and services, as well as its revenue base.

## FINANCIAL SECTION

# CONSOLIDATED BALANCE SHEETS

Leopalace21 Corporation and consolidated subsidiaries  
March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents (Notes 2-(2), 4, 5-(2), 11-(3))	88,043	75,221	781,354
Trade receivables (Note 5-(2))	6,779	6,254	60,163
Accounts receivable for completed projects (Note 5-(2))	1,992	1,714	17,687
Operating loans (Note 5-(2))	885	1,135	7,858
Securities (Notes 2-(4), 5-(2), 6)	880	831	7,813
Real estate for sale	21	21	193
Payment for construction in progress (Note 2-(15))	785	647	6,974
Raw materials and supplies	588	609	5,226
Prepaid expenses	2,847	3,656	25,270
Deferred tax assets (Note 2-(18), 10)	5,659	4,447	50,223
Other accounts receivable	1,630	3,013	14,467
Others	4,283	4,907	38,013
Allowance for doubtful accounts (Note 2-(10), 5-(2))	(212)	(199)	(1,882)
Total current assets	114,185	102,263	1,013,364
<b>Non-current assets:</b>			
<b>Property, plant and equipment:</b> (Notes 2-(6), 2-(22), 8)			
Buildings and structures (Notes 11-(3), 16)	130,653	130,100	1,159,506
Accumulated depreciation	(72,673)	(70,200)	644,954
Net	57,979	59,899	514,551
Machinery, equipment, and vehicles	23,369	20,259	207,397
Accumulated depreciation	(7,264)	(5,143)	64,469
Net	16,105	15,115	142,928
Land (Notes 11-(3), 16)	84,241	83,289	747,620
Leased assets (Note 2-(19), 19)	17,663	14,809	156,760
Accumulated depreciation	(8,246)	(6,928)	73,185
Net	9,417	7,880	83,575
Construction in progress	2,444	992	21,693
Other	11,850	12,065	105,165
Accumulated depreciation	(10,001)	(9,811)	88,760
Net	1,848	2,253	16,405
Total property, plant and equipment	172,036	169,430	1,526,773
<b>Intangible fixed assets:</b>			
Goodwill (Note 2-(17))	1,530	1,684	13,582
Others (Note 2-(8))	7,804	7,210	69,259
Total intangible fixed assets	9,334	8,894	82,841
<b>Investments and other assets:</b>			
Investment securities (Notes 2-(4), 5-(2), 6, 11-(3))	8,230	6,832	73,042
Long-term loans (Note 5-(2))	544	540	4,831
Bad debts (Notes 5-(2), 9)	1,256	1,297	11,152
Long-term prepaid expenses (Note 2-(9))	3,686	3,416	32,719
Deferred tax assets (Note 2-(18), 10)	16,734	14,654	148,512
Others (Note 11-(3))	2,232	2,905	19,810
Allowance for doubtful accounts (Notes 2-(10), 5-(2))	(2,023)	(2,085)	(17,956)
Total investments and other assets	30,661	27,561	272,112
Total non-current assets	212,033	205,887	1,881,727
<b>Deferred assets:</b>			
Bond issuance cost	671	123	5,962
Total deferred assets	671	123	5,962
Total assets (Note 22)	326,890	308,274	2,901,054

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Accounts payable (Note 5-(2))	2,606	2,803	23,129
Accounts payable for completed projects (Note 5-(2))	12,193	14,049	108,216
Short-term borrowings (Notes 5-(2), 5-(3), 11)	265	60	2,351
Current portion of long-term debt (Notes 5-(2), 5-(3), 11)	1,412	23,005	12,535
Bonds due within one year (Note 5-(2), 5-(3), 11)	4,326	1,460	38,391
Lease obligations (Notes 5-(2), 5-(3), 11)	3,054	2,355	27,103
Accounts payable—other	19,229	18,466	170,653
Accrued expenses	5	13	51
Accrued income taxes	2,919	944	25,910
Advances received (Note 2-(16))	38,701	40,781	343,465
Customer advances for projects in progress	5,026	6,930	44,611
Reserve for warranty obligations on completed projects (Note 2-(13))	447	404	3,974
Reserve for fulfillment of guarantees (Note 2-(14))	860	700	7,632
Asset retirement obligations (Note 17)	34	41	306
Others	4,301	4,504	38,172
Total current liabilities	95,384	116,521	846,508
<b>Non-current liabilities:</b>			
Bonds (Note 5-(2), 5-(3), 11)	20,001	3,960	177,502
Long-term debt (Notes 5-(2), 5-(3), 11)	14,106	7,196	125,190
Lease obligations (Notes 5-(2), 5-(3), 11)	7,659	6,450	67,972
Long-term advances received (Note 2-(16))	18,950	22,198	168,181
Lease/guarantee deposits received	7,516	8,019	66,708
Deferred tax liabilities	208	253	1,849
Reserve for apartment vacancy loss (Note 2-(12))	3,802	5,280	33,746
Liability for retirement benefit (Note 2-(11), 12)	10,224	9,351	90,743
Asset retirement obligations (Note 17)	69	76	621
Others	2,754	2,492	24,446
Total non-current liabilities	85,294	65,279	756,961
Total liabilities	180,679	181,801	1,603,470
<b>Net assets</b>			
<b>Shareholders' equity:</b>			
Common stock: (Note 18)			
Authorized: 500,000,000 shares in 2016 and 2015			
Issued: 267,443,915 shares in 2016 and 2015	75,282	75,282	668,107
Capital surplus	45,235	51,501	401,448
Retained earnings	26,125	427	231,855
Treasury stock: 4,569,520 shares in 2016 and 4,569,430 shares in 2015 (Note 18)	(3,660)	(3,660)	(32,486)
Total shareholders' equity	142,982	123,550	1,268,925
<b>Accumulated other comprehensive income:</b>			
Net unrealized gains on "other securities" (Note 2-(4))	435	379	3,861
Foreign currency translation adjustments (Note 2-(21))	3,651	3,545	32,406
Remeasurements of defined benefit plans (Note 12)	(895)	(1,021)	(7,949)
Total accumulated other comprehensive income	3,190	2,904	28,318
<b>Share subscription rights</b>	18	18	159
<b>Non-controlling interests</b>	20	0	180
Total net assets	146,211	126,473	1,297,583
Total liabilities and net assets	326,890	308,274	2,901,054

**FINANCIAL SECTION**

# CONSOLIDATED STATEMENTS OF OPERATIONS

Leopalace21 Corporation and consolidated subsidiaries  
For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Net sales</b> (Note 21)	<b>511,424</b>	483,188	<b>4,538,736</b>
<b>Cost of sales</b>	<b>422,604</b>	407,433	<b>3,750,484</b>
Gross profit	<b>88,820</b>	75,755	<b>788,252</b>
<b>Selling, general and administrative expenses</b>	<b>67,823</b>	60,992	<b>601,912</b>
Operating profit (Note 21)	<b>20,996</b>	14,763	<b>186,340</b>
<b>Other income (expenses):</b>			
Interest and dividend income	<b>121</b>	124	<b>1,076</b>
Equity in losses of affiliated companies	<b>(9)</b>	(8)	<b>(80)</b>
Foreign exchange gains (losses), net (Note 2-(20))	<b>(267)</b>	52	<b>(2,378)</b>
Interest expenses	<b>(944)</b>	(1,143)	<b>(8,377)</b>
Commission fee	<b>(171)</b>	(461)	<b>(1,521)</b>
Gain on sale of property, plant and equipment (Note 13)	<b>26</b>	6	<b>231</b>
Amortization of deposits received income	<b>102</b>	—	<b>911</b>
Compensation income	<b>61</b>	—	<b>547</b>
Gain (losses) on valuation of investment securities (Note 2-(4))	<b>58</b>	—	<b>518</b>
Refund of fixed asset tax	<b>—</b>	88	<b>—</b>
Loss on sale of property, plant and equipment (Note 14)	<b>(1)</b>	(0)	<b>(14)</b>
Loss on retirement of property, plant and equipment (Note 15)	<b>(147)</b>	(309)	<b>(1,311)</b>
Impairment loss (Note 2-(7), 8)	<b>(616)</b>	(224)	<b>(5,473)</b>
Others—net	<b>(146)</b>	(8)	<b>(1,301)</b>
<b>Income before income taxes</b>	<b>19,061</b>	12,896	<b>169,164</b>
<b>Income taxes</b> (Note 2-(18))			
Current	<b>2,999</b>	1,016	<b>26,618</b>
Refund	<b>(19)</b>	(0)	<b>(173)</b>
Deferred	<b>(3,347)</b>	(2,613)	<b>(29,712)</b>
	<b>(368)</b>	(1,597)	<b>(3,267)</b>
<b>Net income</b>	<b>19,429</b>	14,494	<b>172,431</b>
<b>Net income attributable to non-controlling interests</b>	<b>(2)</b>	(13)	<b>(21)</b>
<b>Net income attributable to shareholders of the parent</b> (Note 22)	<b>19,432</b>	14,507	<b>172,453</b>

The accompanying notes are an integral part of these statements.

## FINANCIAL SECTION

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Leopalace21 Corporation and consolidated subsidiaries  
For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Net income</b>	<b>19,429</b>	14,494	<b>172,431</b>
<b>Other comprehensive income</b>			
Net unrealized gains on "other securities"	55	(47)	491
Foreign currency translation adjustments (Note 2-(21))	107	5,660	954
Remeasurements of defined benefit plans	125	(205)	1,112
Share of other comprehensive income in affiliates	(1)	2	(14)
<b>Total</b>	<b>286</b>	5,409	<b>2,543</b>
<b>Comprehensive income</b>	<b>19,716</b>	19,904	<b>174,975</b>
<b>Comprehensive income attributable to shareholders of the parent</b>	<b>19,718</b>	19,917	<b>174,994</b>
<b>Comprehensive income attributable to non-controlling interests</b>	<b>(2)</b>	(13)	<b>(18)</b>

The accompanying notes are an integral part of these statements.

(Note)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Net unrealized gains on "other securities"</b>			
Amount accrued in the fiscal year	96	(102)	856
Rearrangements and adjustments	(30)	—	(271)
Amount before tax effects adjustments	65	(102)	585
Tax effects	(10)	55	(93)
<b>Net unrealized gains on "other securities"</b>	<b>55</b>	(47)	<b>491</b>
<b>Foreign currency translation adjustments</b> (Note 2-(21))			
Amount accrued in the fiscal year	107	5,660	954
Rearrangements and adjustments	—	—	—
Amount before tax effects adjustments	107	5,660	954
Tax effects	—	—	—
<b>Foreign currency translation adjustments</b>	<b>107</b>	5,660	<b>954</b>
<b>Remeasurements of defined benefit plans</b>			
Amount accrued in the fiscal year	(96)	(348)	(857)
Rearrangements and adjustments	221	142	1,969
Amount before tax effects adjustments	125	(205)	1,112
Tax effects	—	—	—
<b>Remeasurements of defined benefit plans</b>	<b>125</b>	(205)	<b>1,112</b>
<b>Share of other comprehensive income of associates accounted for using equity method</b>			
Amount accrued in the fiscal year	(1)	2	(14)
<b>Total</b>	<b>286</b>	5,409	<b>2,543</b>

## FINANCIAL SECTION

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Leopalace21 Corporation and consolidated subsidiaries  
For the years ended March 31, 2016 and 2015

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income				Share subscription rights	Non-controlling interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on "other securities"	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of April 1, 2014	75,282	51,501	(15,788)	(3,660)	107,334	427	(2,116)	(815)	(2,504)	18	13	104,860
Cumulative effects of changes in accounting policies			1,708		1,708							1,708
Restated balance after changes in accounting policies	75,282	51,501	(14,080)	(3,660)	109,042	427	(2,116)	(815)	(2,504)	18	13	106,568
Net income attributable to shareholders of the parent			14,507		14,507							14,507
Issuance of new shares												
Acquisition of treasury stock				(0)	(0)							(0)
Sales of treasury stock												
Net change of items other than shareholders' equity						(47)	5,662	(205)	5,409	—	(13)	5,396
Total change during period	—	—	14,507	(0)	14,507	(47)	5,662	(205)	5,409	—	(13)	19,904
Balance as of March 31, 2015	75,282	51,501	427	(3,660)	123,550	379	3,545	(1,021)	2,904	18	0	126,473
Deficit disposition	—	(6,266)	6,266	—	—							—
Net income attributable to shareholders of the parent			19,432		19,432							19,432
Acquisition of treasury stock				(0)	(0)							(0)
Sales of treasury stock												—
Net change of items other than shareholders' equity						55	105	125	286	—	20	306
Total change during period	—	(6,266)	25,698	(0)	19,431	55	105	125	286	—	20	19,738
Balance as of March 31, 2016	75,282	45,235	26,125	(3,660)	142,982	435	3,651	(895)	3,190	18	20	146,221

	Thousands of U.S. dollars (Note 1)											
	Shareholders' equity					Accumulated other comprehensive income				Share subscription rights	Non-controlling interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on "other securities"	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of March 31, 2015	668,117	457,059	3,792	(32,486)	1,096,472	3,369	31,469	(9,061)	25,777	159	0	1,122,410
Deficit disposition	—	(55,610)	55,610	—	—							—
Net income attributable to shareholders of the parent			172,453		172,453							172,453
Acquisition of treasury stock				(0)	(0)							(0)
Sales of treasury stock												—
Net change of items other than shareholders' equity						491	937	1,112	2,541	—	179	2,720
Total change during period	—	(55,610)	228,063	(0)	172,452	491	937	1,112	2,541	—	179	175,173
Balance as of March 31, 2016	668,107	401,448	231,855	(32,486)	1,268,925	3,861	32,406	(7,949)	28,318	159	180	1,297,583

The accompanying notes are an integral part of these statements.



## FINANCIAL SECTION

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Leopalace21 Corporation and consolidated subsidiaries  
For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Cash flows from operating activities:</b>			
Income before income taxes	19,061	12,896	169,164
Depreciation	9,614	7,736	85,325
Amortization of goodwill	154	—	1,370
Increase (decrease) in allowance for doubtful accounts	180	10	1,605
Increase (decrease) in reserve for apartment vacancy loss	(1,477)	(4,072)	(13,115)
Interest and dividend income	(121)	(124)	(1,076)
Interest expense	944	1,143	8,377
Foreign exchange loss (gain)	267	(52)	2,378
Equity in losses (earnings) of affiliated companies	9	8	80
Loss (gain) on valuation of investment securities	(58)	—	(518)
Loss (gain) on sale of property, plant and equipment	(24)	(6)	(216)
Loss on retirement of property, plant and equipment	147	309	1,311
Impairment loss	616	224	5,473
Decrease (increase) in accounts receivable	32	(734)	292
Decrease (increase) in payment for construction in progress	(138)	(80)	(1,225)
Decrease (increase) in long-term prepaid expenses	643	3,774	5,712
Increase (decrease) in accounts payable	(2,701)	4,924	(23,976)
Increase (decrease) in customer advances for projects in progress	(1,903)	1,114	(16,894)
Increase (decrease) in advances received	(5,386)	(9,572)	(47,807)
Increase (decrease) in guarantee deposits received	(448)	(529)	(3,984)
Increase (decrease) in accrued consumption taxes	911	982	8,090
Others	3,960	(124)	35,146
Subtotal	24,284	17,827	215,515
Interest and dividends received	89	108	791
Interest paid	(937)	(1,139)	(8,318)
Income taxes paid	(1,331)	(1,081)	(11,816)
Net cash provided by operating activities	22,104	15,715	196,171

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Cash flows from investing activities:</b>			
Payment for purchase of property, plant and equipment	(9,053)	(15,532)	(80,351)
Proceeds from sale of property, plant and equipment	666	230	5,961
Payment for purchase of intangible assets	(754)	(998)	(6,696)
Payment for purchase of investment securities	(1,515)	(101)	(13,445)
Proceeds from sale of investment securities	93	86	832
Payment for purchase of shares in subsidiaries	—	(812)	—
Payment for loans	(58)	(10)	(518)
Proceeds from collection of loans	21	38	194
Payments for purchase of time deposits	(1,100)	(600)	(9,762)
Proceeds from withdrawal of time deposits	600	500	5,324
Others	12	(349)	108
Net cash provided by (used in) investing activities	(11,087)	(17,550)	(98,396)
<b>Cash flows from financing activities:</b>			
Proceeds from short-term borrowings	399	3,900	3,548
Repayment of short-term borrowings	(176)	(3,900)	(1,567)
Proceeds from long-term debt	8,544	7,261	75,825
Repayment of long-term debt	(23,244)	(7,846)	(206,291)
Repayment of finance lease obligations	(2,397)	(1,606)	(21,280)
Proceeds from share issuance to non-controlling shareholders	23	—	207
Proceeds from issuance of bonds	21,220	4,500	188,325
Payment for redemption of bonds	(2,993)	(560)	(26,561)
Payment for purchases of treasury stock	(0)	(0)	(0)
Dividends paid to non-controlling interests	(0)	—	(4)
Net cash provided by (used in) financing activities	1,374	1,747	12,201
Effect of exchange rate changes on cash and cash equivalents	(70)	441	(628)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>12,321</b>	<b>354</b>	<b>109,348</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>74,504</b>	<b>74,150</b>	<b>661,205</b>
<b>Cash and cash equivalents at end of year</b> (Note 4)	<b>86,826</b>	<b>74,504</b>	<b>770,553</b>

The accompanying notes are an integral part of these statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Leopalace21 Corporation and consolidated subsidiaries  
For the years ended March 31, 2016 and 2015

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Leopalace21 Corporation (the "Company") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been reformatted and translated into English (with certain expanded disclosure) from the consolidated financial statements of the Company prepared in accordance with accounting principles generally accepted in Japan and filed with the Financial Services Agency as required by the Financial Instruments and Exchange Act of Japan. Some supplementary information included in the statutory consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2016, which was 112.68 yen to US\$1.00. Such translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange. Certain amounts in the previous year's financial statements have been reclassified to conform to the current fiscal year's presentation.

Figures are rounded down to the nearest 1,000,000 yen or \$1,000.

## 2. Summary of Significant Accounting Policies

### (1) Consolidation

The accompanying consolidated financial statements as of March 31, 2016 include the accounts of the Company and its 21 (18 as of March 31, 2015) significant subsidiaries (together, the "Companies"). Of these 21 subsidiaries, LEOPALACE21 PHILIPPINES INC., PT. Leopalace21 Properti Manajemen, and PT. Leopalace Dwasatu Realty have been included in the scope of consolidation because they were established in the consolidated fiscal year. Affiliated companies over which the Company exercises significant influence in terms of their operating and

financial policies have been included in the consolidated financial statements on an equity basis. Investments in 1 affiliate (1 as of March 31, 2015) have been included for the year ended March 31, 2016. All significant intercompany balances and transactions have been eliminated.

Investments in subsidiaries and affiliates that are not consolidated or accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

Since the balance sheet date of Leopalace21 Business Consulting (Shanghai) Co., Ltd., Leopalace21 (Shanghai) Property Management Co., Ltd., LEOPALACE21 VIETNAM CO., LTD., Leopalace21 (Thailand) CO., LTD., Leopalace21 (Cambodia) Co., Ltd., LEOPALACE21 REAL ESTATE (CAMBODIA) Co., Ltd., LEOPALACE21 PHILIPPINES INC., PT. Leopalace21 Properti Manajemen, PT. Leopalace Dwasatu Realty, Leopalace Guam Corporation, Leopalace Guam Distributing Corporation, Leopalace Guam Service Corporation, and WING MATE CO., LTD is December 31, their financial statements as of that date are used in the preparation of the Company's consolidated financial statement. When significant transactions occur at those subsidiaries between their fiscal year end and the Company's fiscal year end, these transactions are included in consolidation as necessary.

The former settlement date of Morizou Co., Ltd. was September 30, and therefore its financial statements based on a provisional settlement as of the consolidated settlement date in accordance with the actual settlement have been used in preparing consolidated financial statements. However, the settlement date has been changed to the end of February as of this fiscal year, and since the difference between the consolidated settlement date is less than three months, the financial statement as of the settlement date has been used, and adjustments necessary for preparing the consolidated financial statements have been made to the important transactions that took place between February 29 and the consolidated settlement date. The period between April 1, 2015 and February 29, 2016 is included in the Company's consolidated financial statement.

### (2) Cash and cash equivalents

For the purpose of the statements of cash flows, the Company considers all highly liquid investments with insignificant risk of change in value that have maturities of generally three months or less when purchased to be

cash equivalents. These include cash on hand, demand deposits at banks and highly liquid short-term investments with negligible risk of fluctuation in value and maturities of less than three months.

### (3) Inventories

Inventories of the Companies are primarily stated at cost (reflecting write down due to decline in profitability) determined by the specific identification method.

### (4) Securities

Held-to-maturity debt securities are stated at amortized cost (straight-line method).

Other securities with available fair market values are stated at fair market value at the end of the fiscal year of each consolidated companies. Other securities without available fair market values are stated at cost by the moving-average method.

Unrealized gains or losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Cost of securities sold is computed using the moving-average method.

Investments in silent partnerships are reported using the equity method, based on the latest financial statements available as at the closing dates stipulated by the respective partnership contracts.

### (5) Derivative financial instruments and hedge accounting

#### 1. Accounting principles

Fair market value

#### 2. Derivative transactions are accounted for using hedge accounting.

##### (a) Hedge accounting method

The Company uses the deferred hedge accounting method.

The interest rate swaps that meet specific matching criteria are recognized and included in interest expense or income.

##### (b) Hedging instrument and hedge items

Hedging instrument	Hedge items
Interest rate swaps	Long-term debt

##### (c) Hedge policy

Interest rate swaps are utilized as a hedge against possible future interest rate increases, in amounts

that fall within the range of the particular liability being hedged.

#### (d) Method used to evaluate the effectiveness of the hedge

Cumulative interest rate fluctuations and changes in cash flows are compared to evaluate the effectiveness of hedged item and hedging instrument. However, evaluation as of the date of settlement of the effectiveness of interest rate swaps that meet specific matching criteria is omitted.

### (6) Property, plant and equipment (except for leased assets)

Buildings for rent of the Company and domestic consolidated subsidiaries are stated at cost. Depreciation is computed generally on the straight-line basis. The range of useful lives is principally from 22 to 47 years for buildings for rent.

Property, plant and equipment other than buildings for rent of the Company and domestic consolidated subsidiaries are stated at cost. Depreciation is computed generally by the declining-balance method. However, buildings (excluding accompanying facilities) obtained on or after April 1, 1998 are depreciated by the straight-line method. The range of useful lives is principally from 15 to 50 years for buildings and structures, 17 years for machinery, equipment and vehicles, and 5 to 10 years for tools, furniture and fixtures.

Property, plant and equipment of the consolidated overseas subsidiaries are depreciated by the straight-line method based on the local GAAP. The range of useful lives is principally from 20 to 40 years for buildings and structures and from 3 to 5 years for tools, furniture and fixtures.

### (7) Long-lived assets

The Companies review long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeded the sum of the undiscounted future cash flows expected to be generated by the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the assets exceeds their recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the assets, or

the net selling price at disposition.

#### **(8) Intangible assets**

Software for internal use is amortized on a straight-line basis over the estimated useful life of 5 years.

#### **(9) Long-term prepaid expenses**

Long-term prepaid expenses are amortized evenly over a period mainly from 3 to 5 years.

#### **(10) Allowance for doubtful accounts**

The Companies maintain an allowance for doubtful accounts to reserve for potentially uncollectible receivables. A general provision for doubtful receivables is provided by applying a certain reserve percentage of the receivables based on experience from past transactions. A specific reserve is provided for the estimated amounts to be uncollectible based on the customers' financial condition or other pertinent factors.

#### **(11) Liability for retirement benefit**

In conjunction with the calculation of retirement benefit obligations, the method for attributing projected retirement benefits for the period up to the end of the current fiscal is based on straight-line basis.

Past service cost is amortized by the straight-line method over a specified period (5 years) within the average remaining service years of employees at the time of accrual. Actuarial gains/losses, which are prorated according to the straight-line method over a specified period (5 years) within the average remaining service years of employees at the time of accrual, are amortized starting from the next fiscal year of the respective accruals.

Unrecognized actuarial gains/losses and unrecognized past service cost are posted, factoring in tax effects, as the cumulative amount of adjustments related to cumulated other comprehensive income in the net assets.

#### **(12) Reserve for apartment vacancy loss**

Reserve for vacancy losses on apartment units managed under master lease agreements is calculated according to the projected loss that could occur during a logically predictable period to prepare for the risk of increased vacancies. It is based on estimated losses resulting from current rental income and expected future occupancy rates for each rental property managed by the leasing division of the Company.

#### **(13) Reserve for warranty obligations on completed projects**

Reserve for warranty obligations on completed projects is provided to reserve for execution of warranty obligations under defect liabilities in the future. It is calculated using the percentage of the past execution of warranty obligations on the completed projects.

#### **(14) Reserve for fulfillment of guarantees**

In order to provide for losses attributable to its rent obligation guarantee business, the Company's consolidated subsidiary, Plaza Guarantee Co., Ltd., records the amount of loss expected based on the rate of past guarantee fulfillments.

#### **(15) Revenues and costs of construction contracts**

In recognizing construction revenues and costs of constructions in process, the percentage-of-completion method is applied to such contracts in which the outcome of the construction activity is deemed certain by the end of the fiscal year ended March 31, 2016, while the completed contract method is applied to other constructions. Progress of construction is estimated based on the method of the ratio of actual cost incurred to total cost.

#### **(16) Advances received**

With respect to advances received, such as rent, the Company reports the portion corresponding to more than a year in "long-term advances received" under "non-current liabilities," and the portion corresponding to a year or less in "advances received" under "current liabilities." This allows the Company to more clearly present the characteristics and actual transactions of the Company's leasing business which receives rents, etc. over a long period of time, such as monthly usage fees, as advances received.

#### **(17) Amortization method and period of goodwill**

The Company has adopted a policy whereby goodwill is amortized on a straight-line basis over the period in which the economic benefits are expected to be realized. However, if the amount is negligible, it is amortized at once when it takes place.

#### **(18) Income taxes**

Income taxes comprise corporate, inhabitant and enterprise taxes.

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future

tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

#### **(19) Leases**

Leases are depreciated by the straight-line method over the lease-term of respective assets as their useful lives with no residual value.

#### **(20) Foreign currency transactions**

All monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates as of each balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of operations.

#### **(21) Foreign currency financial statements**

The assets and liabilities of consolidated overseas subsidiaries are translated into Japanese yen at the current exchange rates as of each balance sheet date, and income and expenses are translated at the average exchange rates of the fiscal year. Foreign currency translation adjustments resulting from the translation of assets, liabilities and net assets are included in foreign currency translation adjustments and non-controlling interests as a separate component of net assets.

#### **(22) Interest capitalization**

Leopalace Guam Corporation, a consolidated subsidiary, capitalized interest paid on borrowing for real estate development business for the development period into acquisition cost of property, plant and equipment.

Capitalized interests included in carrying value of property, plant and equipment were 2,194 million yen (\$19,474 thousand) and 2,260 million yen as of March 31, 2016 and 2015, respectively.

#### **(23) Consumption taxes**

National and local consumption taxes are basically excluded from transaction amounts. However, Asuka SSI, a consolidated subsidiary, includes national and local consumption taxes in operating expenses and general and administrative expenses. The nondeductible portion of consumption taxes on the purchase of assets is recorded as long-term prepaid expenses and amortized evenly over 5 years.

#### **(24) Earnings per share**

Basic earnings per share of common stock is computed by net income available to common shareholders divided by the weighted-average number of common shares outstanding for the period.

Diluted earnings per share of common stock reflects the potential dilution that could occur if securities or other contracts to issue common stock were converted or exercised into common stock or resulted in the issuance of common stock.

### **3. Additional Information**

#### **(Changes in Accounting Policies)**

##### **(Application of accounting policies related to business combinations)**

The Company has applied the Accounting Standard for Business Combinations (ASBJ Statement No. 21 on September 13, 2013; hereinafter referred to as the "Business Combinations Accounting Standard"), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22 on September 13, 2013; hereinafter referred to as the "Consolidated Accounting Standard"), the Accounting Standard for Business Divestiture (ASBJ Statement No. 7 on September 13, 2013; hereinafter referred to as the "Business Divestiture Accounting Standard"), and other standards since the beginning of the consolidated fiscal year.

The Company changed accounting policies that changes in parent's ownership interest while the parent retains its controlling financial interest in its subsidiary are accounted for equity transactions and any resulting differences are recognized directly in capital surplus, and acquisition related costs are accounted as expenses in the consolidated fiscal year in which the costs are incurred and the services are received. The Company also changed accounting policies that the settlement of tentative accounting treatment related to the business combinations that occur after the beginning of the consolidated fiscal year ending March 31, 2016 is recognized in consolidated financial statements for the period to which the business combination belongs.

Moreover, the Company changed the presentation of net income, etc., and the presentation of minority interests to non-controlling interests. To reflect changes in the relevant presentation, the Company reclassified consolidated financial statements for the previous consolidated fiscal year.

The Company applies the Business Combinations Accounting Standard and other standards in compliance with the transitional handling as set forth in Paragraph 58-2 (4) of the Business Combinations Accounting Standard, Paragraph 44-5 (4) of the Consolidated Accounting Standard and Paragraph 57-4 (4) of the Business Divestiture Accounting Standard, and it applied these standards from the beginning of the consolidated fiscal year and will continue to apply them in the future.

There is no impact on the consolidated financial statements from the changes described above.

#### (Accounting standards issued but not yet effective) “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No.26, March 28, 2016)

##### (1) Overview

The accounting standard was revised mainly with a focus on the Auditing Treatment relating to Recoverability of Deferred Tax Assets (Report No. 66, the Audit Committee of the Japanese Institute of Certified Public Accountants) when transferring the guidelines for accounting and auditing practice in tax effect accounting (the portion concerning accounting process) of the Japanese Institute of Certified Public Accountants to the Accounting Standards Board of Japan. The accounting standard is the edition to which necessary revisions have been made in the treatment of part of the amount of deferred tax assets and requirements for company categorization by basically following the set framework. Under this framework, companies are categorized into five groups, and the amount of deferred tax

assets is estimated based on these categories, which provides guidelines for the application of the Accounting Standards for Tax Effect Accounting (Business Accounting Council) for the recoverability of deferred tax assets.

##### (2) Effective Dates

The standards will be adopted from the beginning of the consolidated fiscal year that begins on April 1, 2016.

##### (3) Effects Arising from Applying New Standard and Guidance

Any impact of the adoption of the Guidance on Recoverability of Deferred Tax Assets on the consolidated financial statements is under review at this point.

##### (Changes in presentation)

##### (Consolidated Statements of Operations)

Since the quantitative significance of “Gain from cancellation of contracted work” and “Gain on adjustment of account payables” previously recorded in non-operating income has decreased, these has been recorded in “Others-net” from the subject consolidated fiscal year. To reflect changes, the Company reclassified consolidated financial statements for the previous consolidated fiscal year.

As a result, 14 million yen recorded as “Gain from cancellation of contracted work” and 50 million yen recorded as “Gain on adjustment of account payable” in the previous consolidated fiscal year has been reclassified as “Others-net.”

## 4. Cash and Cash Equivalents

A reconciliation between cash and cash equivalents in the consolidated balance sheets and consolidated statements of cash flows are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash and cash equivalents in the consolidated balance sheets	<b>88,043</b>	75,221	<b>781,354</b>
Time deposits with original maturities of more than three months	<b>(1,217)</b>	(717)	<b>(10,800)</b>
Cash and cash equivalents in the consolidated statements of cash flows	<b>86,826</b>	74,504	<b>770,553</b>

## 5. Financial Instruments

### (1) The financial instruments and related disclosures

#### (a) Policy for financial instruments

The Companies are mainly involved in raising funds (mostly bank borrowing and corporate bond issuance) needed for capital investment to carry out Leasing Business and Construction Business.

Temporary excess funds are invested in highly secure financial assets, and short-term working capital is raised by borrowing from the bank. The Companies conduct derivative transactions primarily for the purpose of avoiding interest rate and exchange rate risks, and have a policy not to conduct speculative trading.

**(b) Nature and extent of risks arising from financial instruments**

Operating receivables such as trade receivables and accounts receivable for completed projects are exposed to credit risk.

Foreign currency denominated debts and credits originated in conjunction with overseas business development are exposed to exchange risk.

Securities are mainly held-to-maturity securities and shares of the companies with which the Company has a business relationship, and those securities are exposed to market risk.

Almost all accounts payable and accounts payable for completed projects which are operating liabilities are scheduled to be paid within one year.

Loans payable, corporate bonds, and lease obligations related to finance lease transactions are mainly for the purpose of raising funds necessary for investment in facilities, and the longest repayment date is 15 years subsequent to fiscal year end.

The derivative contracts represent interest-rate swap transactions designed to hedge against the risk of future fluctuations in interest rates on borrowings, etc. Interest rate swap transactions used by the Company are exposed to risks of fluctuations in the market interest rate. For details on hedge accounting with respect to hedging instruments, hedging items, hedging policy and the method for evaluating hedging effectiveness, please refer to the aforementioned "2. (5) Derivative financial instruments and hedge accounting."

**(c) Risk management for financial instruments**

Credit risk management for operating receivables and loans outstanding follows the "Receivables management rules." While each business division manages the extension of credit to its customers, it is also organized for early detection and loss reduction of accounts where collection is doubtful due to worsening credit or similar problems.

Regarding securities and investment securities, the Company periodically investigates and understands the share price and the financial condition of the share issuing organization. In addition, for items other than held-to-maturity securities, the

Company considers the relationship with the trading partner companies and constantly re-evaluates its holdings.

The basic policy of derivatives trading is determined by the board of directors, and the execution and administration of derivatives transactions are conducted in accordance with the Company's "Derivatives Trading Management Rules." The derivatives trading management situation is periodically reported to the board of directors for comprehensive risk management. The Company's counterparties for derivative contracts are highly credit-worthy financial institutions in Japan, and therefore it does not assume the risk of counterparty default on these contracts.

Trade payables and debts are exposed to liquidity risk, but this risk is monitored by various means such as the preparation of a monthly financial plan by each company in the Companies.

**(d) Supplementary explanations on fair value of financial instruments**

Fair value of financial instruments are measured based on the quoted market price, or reasonably assessed value if a quoted market price is not available.

Fair value of financial instruments which quoted market price is not available is calculated based on a fluctuating factor, and the value might differ if different assumptions are used. Contract sums, etc. in notes to derivative contracts do not themselves represent the volume of market risk on derivative contracts.



## (2) Fair value of financial instruments

The carrying amount on the consolidated balance sheet and fair value of financial instruments as of March 31, 2016 and 2015 as well as the differences between these values are described below. Financial instruments whose fair values appear to be extremely difficult to determine are not included in the table. (See Note (b))

March 31, 2016	Millions of yen		
	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	88,043	88,043	—
(2) Trade receivables and accounts receivable for completed projects	8,772	8,772	—
(3) Securities and investment securities	4,457	4,488	30
(4) Operating loans	885		
Allowance for doubtful accounts (*1)	(112)		
Net	773	965	192
(5) Long-term loans	544		
Allowance for doubtful accounts (*1)	(86)		
Net	457	457	—
(6) Bad debts	1,256		
Allowance for doubtful accounts (*1)	(1,256)		
Net	—	—	—
Total assets	102,504	102,726	222
(1) Accounts payable and accounts payable for completed projects	14,800	14,800	—
(2) Short-term borrowings	265	265	—
(3) Bonds (*2)	24,327	24,425	98
(4) Long-term debt (*2)	15,518	15,866	347
(5) Lease obligations	10,713	10,801	88
Total liabilities	65,624	66,158	534
Derivative transactions	—	—	—

March 31, 2015	Millions of yen		
	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	75,221	75,221	—
(2) Trade receivables and accounts receivable for completed projects	7,969	7,969	—
(3) Securities and investment securities	4,485	4,503	17
(4) Operating loans	1,135		
Allowance for doubtful accounts (*1)	(105)		
Net	1,030	1,242	212
(5) Long-term loans	540		
Allowance for doubtful accounts (*1)	(94)		
Net	445	445	—
(6) Bad debts	1,297		
Allowance for doubtful accounts (*1)	(1,297)		
Net	—	—	—
Total assets	89,152	89,382	229
(1) Accounts payable and accounts payable for completed projects	16,852	16,852	—
(2) Short-term borrowings	60	60	—
(3) Bonds (*2)	5,420	5,423	3
(4) Long-term debt (*2)	30,202	30,239	37
(5) Lease obligations	8,805	8,772	(32)
Total liabilities	61,339	61,347	8
Derivative transactions	—	—	—

March 31, 2016	Thousands of U.S. dollars		
	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	781,354	781,354	—
(2) Trade receivables and accounts receivable for completed projects	77,850	77,850	—
(3) Securities and investment securities	39,563	39,834	271
(4) Operating loans	7,858		
Allowance for doubtful accounts (*1)	(994)		
Net	6,864	8,568	1,704
(5) Long-term loans	4,831		
Allowance for doubtful accounts (*1)	(770)		
Net	4,061	4,061	—
(6) Bad debts	11,152		
Allowance for doubtful accounts (*1)	(11,152)		
Net	—	—	—
Total assets	909,693	911,668	1,975
(1) Accounts payable and accounts payable for completed projects	131,346	131,346	—
(2) Short-term borrowings	2,351	2,351	—
(3) Bonds (*2)	215,894	216,769	874
(4) Long-term debt (*2)	137,726	140,807	3,081
(5) Lease obligations	95,075	95,859	784
Total liabilities	582,394	587,135	4,740
Derivative transactions	—	—	—

(\*1) Operating loans, long-term loans and bad debts have deductions of their respective allowance for doubtful accounts, which are recorded separately.

(\*2) As of March 31, 2016 and 2015, bonds due within one year of 4,326 million yen (\$38,391 thousand for 2016) and 1,460 million yen, and current portion of long-term debt of 1,412 million yen (\$12,535 thousand for 2016) and 23,005 million yen are included in bonds and long-term debt, respectively.

#### Notes:

##### (a) Matters concerning the calculation method for the fair value of financial instruments, securities, and derivative transactions

###### Assets

###### Cash and cash equivalents

###### Trade receivables and accounts receivable for completed projects

These assets are stated at carrying amount as they are settled in the short-term and their fair values approximate their carrying amount.

###### Securities and investment securities

Shares are stated at the stock exchange quoted price; bonds are stated at either the stock exchange

quoted price or the price presented by transacting financial institutions.

For notes to securities by holding purposes, please refer to "6. Securities."

###### Operating loans

The fair value of operating loans is stated at the net present value, which is calculated by discounting the principal with interest by the discount rate (i.e. the estimated interest rate for new transaction).

###### Long-term loans

###### Bad debts

The fiscal year-end outstanding balances are calculated mainly using expected future cash flows of the potentially recoverable principal and interest.

**Liabilities**

**Accounts payable and accounts payable for completed projects**

**Short-term borrowings**

These liabilities are stated at carrying amount as they are settled in the short-term and their fair values approximate their carrying amount.

**Bonds**

Bonds issued by the Company are privately offered, and their fair value is stated at the net present value, which is calculated by discounting the principal with interest by the discount rate (i.e. the current market

interest rate in consideration of residual value and credit risk).

**Long-term debt, Current portion of long-term debt Lease obligations**

These liabilities are stated at the net present value, which is calculated by discounting the principal with interest by the discount rate (i.e. the estimated interest rate for new borrowings or lease transaction).

**Derivative transactions**

Please refer to "7. Derivative Transactions."

**(b) Financial instruments whose fair value appear to be extremely difficult to determine**

Item	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unlisted shares	2,815	1,253	11,123
Unlisted bonds (subordinate corporate bonds)	824	824	7,314
Subordinate beneficiary rights of loans and accounts receivable in trust	886	891	7,908
Contributions to limited investment partnerships	125	209	1,860
Total	4,652	3,178	28,207

As they have no market value, and as it is understood that it is extremely difficult to estimate their future cash flow, the above financial instruments are not included in "Assets: Securities and investment securities."

**(c) The scheduled redemption amount of monetary claims and investment securities with maturity subsequent to fiscal year end**

March 31, 2016	Millions of yen			
	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	88,043	—	—	—
Trade receivables and accounts receivable for completed projects	8,772	—	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1)Government and municipal bonds	150	1,020	300	—
(2)Corporate bonds	—	—	—	—
Other securities with maturities				
(1)Government and municipal bonds	780	1,113	—	—
(2)Bonds (Corporate bonds)	—	—	—	824
(3)Others	—	—	—	886
Operating loans	180	593	83	27
Long-term loans	12	31	42	458
Bad debts	—	—	—	1,256
Total	97,938	2,758	425	3,453

March 31, 2015	Millions of yen			
	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	75,221	—	—	—
Trade receivables and accounts receivable for completed projects	7,969	—	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1)Government and municipal bonds	—	900	500	—
(2)Corporate bonds	—	—	—	—
Other securities with maturities				
(1)Government and municipal bonds	759	1,309	—	—
(2)Bonds (Corporate bonds)	—	—	—	824
(3)Others	72	—	—	891
Operating loans	211	728	161	33
Long-term loans	16	32	19	471
Bad debts	—	—	—	1,297
<b>Total</b>	<b>84,250</b>	<b>2,970</b>	<b>681</b>	<b>3,517</b>

March 31, 2016	Thousands of U.S. dollars			
	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	<b>781,354</b>	—	—	—
Trade receivables and accounts receivable for completed projects	<b>77,850</b>	—	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1)Government and municipal bonds	<b>1,331</b>	<b>9,052</b>	<b>2,662</b>	—
(2)Corporate bonds	—	—	—	—
Other securities with maturities				
(1)Government and municipal bonds	<b>6,922</b>	<b>9,877</b>	—	—
(2)Bonds (Corporate bonds)	—	—	—	<b>7,314</b>
(3)Others	—	—	—	<b>7,871</b>
Operating loans	<b>1,605</b>	<b>5,268</b>	<b>739</b>	<b>245</b>
Long-term loans	<b>110</b>	<b>279</b>	<b>375</b>	<b>4,065</b>
Bad debts	—	—	—	<b>11,152</b>
<b>Total</b>	<b>869,174</b>	<b>24,478</b>	<b>3,777</b>	<b>30,649</b>

(3) Scheduled repayment amount of bonds payable, long-term debt, lease obligations, and other interest-bearing debt subsequent to fiscal year end was as follows:

March 31, 2016	Millions of yen					
	Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years	Due after 5 years
Short-term borrowings	265	—	—	—	—	—
Bonds	4,326	3,966	3,966	3,966	3,066	5,037
Long-term debt	1,412	1,202	1,143	1,034	931	9,795
Lease obligations	3,054	3,000	2,648	1,574	433	1
Total	9,057	8,168	7,758	6,575	4,430	14,834

March 31, 2015	Millions of yen					
	Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years	Due after 5 years
Short-term borrowings	60	—	—	—	—	—
Bonds	1,460	1,260	900	900	900	—
Long-term debt	23,005	746	659	610	510	4,668
Lease obligations	2,355	2,141	2,060	1,676	567	4
Total	26,880	4,148	3,619	3,186	1,978	4,672

March 31, 2016	Thousands of U.S. dollars					
	Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years	Due after 5 years
Short-term borrowings	2,351	—	—	—	—	—
Bonds	38,391	35,197	35,197	35,197	27,209	44,701
Long-term debt	12,535	10,667	10,145	9,184	8,263	86,929
Lease obligations	27,103	26,628	23,507	13,974	3,845	16
Total	80,382	72,493	68,850	58,355	39,318	131,647

## 6. Securities

(1) At March 31, 2016 and 2015, information with respect to held-to-maturity debt securities for which market prices were available was summarized as follows:

March 31, 2016	Millions of yen		
	Consolidated balance sheet amount	Market value	Difference

### Securities whose consolidated balance sheet amount exceeds their acquisition cost:

Government and municipal bonds	1,502	1,533	30
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	1,502	1,533	30

### Securities whose consolidated balance sheet amount not exceeds their acquisition cost:

Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	—	—	—
Total	1,502	1,533	30

March 31, 2015	Millions of yen		
	Consolidated balance sheet amount	Market value	Difference
<b>Securities whose consolidated balance sheet amount exceeds their acquisition cost:</b>			
Government and municipal bonds	1,442	1,460	17
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	1,442	1,460	17
<b>Securities whose consolidated balance sheet amount not exceeds their acquisition cost:</b>			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	—	—	—
Total	1,442	1,460	17

March 31, 2016	Thousands of U.S. dollars		
	Consolidated balance sheet amount	Market value	Difference
<b>Securities whose consolidated balance sheet amount exceeds their acquisition cost:</b>			
Government and municipal bonds	<b>13,336</b>	<b>13,607</b>	<b>271</b>
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	<b>13,336</b>	<b>13,607</b>	<b>271</b>
<b>Securities whose consolidated balance sheet amount not exceeds their acquisition cost:</b>			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	—	—	—
Total	<b>13,336</b>	<b>13,607</b>	<b>271</b>

(2) Investment securities classified as other securities as of March 31, 2016 and 2015 were as follows:

March 31, 2016	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Difference
<b>Securities whose consolidated balance sheet amount exceeds their acquisition cost:</b>			
Stock	1,040	446	593
Bonds:			
Government and municipal bonds	1,863	1,829	34
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	2,904	2,276	628
<b>Securities whose consolidated balance sheet amount not exceeds their acquisition cost:</b>			
Stock	12	13	(0)
Bonds:			
Government and municipal bonds	38	38	(0)
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	50	51	(1)
Total	2,955	2,328	627

March 31, 2015	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Difference
<b>Securities whose consolidated balance sheet amount exceeds their acquisition cost:</b>			
Stock	979	460	519
Bonds:			
Government and municipal bonds	1,855	1,825	30
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	2,834	2,285	549
<b>Securities whose consolidated balance sheet amount not exceeds their acquisition cost:</b>			
Stock	—	—	—
Bonds:			
Government and municipal bonds	208	208	(0)
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	208	208	(0)
Total	3,042	2,493	549

March 31, 2016	Thousands of U.S. dollars		
	Consolidated balance sheet amount	Acquisition cost	Difference
<b>Securities whose consolidated balance sheet amount exceeds their acquisition cost:</b>			
Stock	9,237	3,966	5,270
Bonds:			
Government and municipal bonds	16,541	16,236	304
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	25,778	20,203	5,575
<b>Securities whose consolidated balance sheet amount not exceeds their acquisition cost:</b>			
Stock	106	115	(8)
Bonds:			
Government and municipal bonds	340	341	(0)
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	447	456	(9)
Total	26,226	20,660	5,565

(Note)

**March 31, 2016**

2,815 million yen (\$24,989 thousand) of non-listed shares, 824 million yen (\$7,314 thousand) of non-listed company bonds (subordinate corporate bonds), 886 million yen (\$7,871 thousand) of subordinate beneficiary rights to loans and money in trust, and 125 million yen (\$1,116 thousand) of contributions to silent partnerships are not included in the other securities given above because they have no market value and assigning them fair market prices is recognized to be extremely difficult. The Company acquired the non-listed company bonds (subordinate corporate bonds) and the subordinate beneficiary rights to loans and money in trust as a result of the securitization of non-recourse apartment loans that financial institutions had loaned to clients as funds for paying charges for jobs contracted to the Company.

**March 31, 2015**

1,253 million yen of non-listed shares, 824 million yen of non-listed company bonds (subordinate corporate bonds), 891 million yen of subordinate beneficiary rights to loans and money in trust, and 209 million yen of contributions to investment business limited partnerships are not included in the other securities given above because they have no market value and assigning them fair market prices is recognized to be extremely difficult. The Company acquired the non-listed company bonds (subordinate corporate bonds) and the subordinate beneficiary rights to loans and money in trust as a result of the securitization of non-recourse apartment loans that financial institutions had loaned to clients as funds for paying charges for jobs contracted to the Company.

**(3) Proceeds from sales of other securities and gain or loss on these sales for the years ended March 31, 2016 and 2015 were summarized as follows:**

**March 31, 2016**

None

**March 31, 2015**

None



(4) In addition, investment in affiliates included in investment securities of the consolidated balance sheet was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Investment securities (stocks)	23	34	206
Of which, investment in joint venture	23	34	206

## 7. Derivative Transactions

### (1) Derivative transaction not subject to the application of hedge accounting

March 31, 2016

None

March 31, 2015

None

### (2) Derivative transaction subject to the application of hedge accounting

March 31, 2016

Hedge accounting method: Exceptional accounting treatment for interest rate swaps

Type of transaction: Interest rate swaps, floating received rate and fixed paid rate

Major hedged item: Long-term debt

Contract value, etc.: 158 million yen (\$1,405 thousand)

Contract value, etc. lasting longer than one year: 58 million yen (\$517 thousand)

Fair value: The fair value of interest rate swaps subject to exceptional accounting treatment is included in the fair value of the corresponding long-term debt because they are recognized together with hedged long-term debt.

March 31, 2015

Hedge accounting method: Exceptional accounting treatment for interest rate swaps

Type of transaction: Interest rate swaps, floating received rate and fixed paid rate

Major hedged item: Long-term debt

Contract value, etc.: 233 million yen

Contract value, etc. lasting longer than one year: 133 million yen

Fair value: The fair value of interest rate swaps subject to exceptional accounting treatment is included in the fair value of the corresponding long-term debt because they are recognized together with hedged long-term debt.

## 8. Long-lived Assets

### (1) Breakdown of major plants, properties, and equipments were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Residential properties for rent	55,882	57,007	495,937
Domestic hotels	12,563	12,885	111,496
Head office and branches	24,340	24,714	216,014
Leopalace Resort Manenggon Hills Guam	26,761	27,104	237,502
Westin Resort Guam	14,431	15,157	128,077
Leopalace Power (solar power systems)	14,735	13,729	130,770

(2) Due to acceptance of national subsidies, the following reduction entry amount was deducted from the acquisition cost of relevant assets:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Machinery, equipment, and vehicles	155	155	1,375

(3) The Companies recognized impairment loss on the following asset groups for the years ended March 31, 2016 and 2015:

#### March 31, 2016

Purpose	Category	Location	Impairment loss	
			Millions of yen	Thousands of U.S. dollars
Rental assets (Apartment buildings and others, 21 units)	Land	Odawara-shi, Kanagawa, etc.	605	5,369
Idle assets	Buildings and Structures	Miura-shi, Kanagawa, etc.	4	37
	Land		7	66
Total			616	5,473

The Companies recognized each property in domestic rental assets as a unit and grouped overseas assets by managerial accounting segmentation.

The Companies wrote down book value of the rental assets and idle assets whose profitability decreased seriously due to the slump in the rental income market and continuous decline in land prices, to recoverable amounts and recognized the reduced values as impairment losses. The book value of the idle assets to be sold

is reduced to its recoverable value, and such reduction is recorded as an impairment loss under extraordinary loss.

Recoverable amounts of rental assets were measured at the higher of their values in use or their net realizable values in sale. Value in use was computed by discounting its future cash flows at 4.9%, while net realizable value in sale was determined based on publicly appraised value.

#### March 31, 2015

Purpose	Category	Location	Impairment loss
			Millions of yen
Rental assets (Apartment buildings and others, 23 units)	Buildings and Structures	Kawaguchi-shi, Saitama, etc.	1
	Land		160
Hotel	Buildings and Structures	Yokkaichi-shi, Mie	58
	Land		3
Total			224

The Companies recognized each property in domestic rental assets as a unit and grouped overseas assets by managerial accounting segmentation.

The Companies wrote down book value of the rental assets whose profitability decreased seriously due to the

slump in the rental income market and continuous decline in land prices, to recoverable amounts and recognized the reduced values as impairment losses. The book value of the domestic hotel to be sold is reduced to its recoverable value, and such reduction is recorded as

an impairment loss under extraordinary loss.

Recoverable amounts of rental assets were measured at the higher of their values in use or their net realizable

values in sale. Value in use was computed by discounting its future cash flows at 4.9%, while net realizable value in sale was determined based on publicly appraised value.

## 9. Bad Debts

Bad debts are claims as stipulated under Article 32, Paragraph 1, and Item 10 of the Regulation concerning Financial Statements. Bad debts at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Claims in the process of bankruptcy	1,066	1,066	9,461
Bad debts	73	107	656
Others	116	123	1,033
Total	1,256	1,297	11,152

## 10. Income Taxes

(1) Significant components of deferred tax assets and liabilities as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Deferred tax assets:</b>			
Loss carried forward for tax purposes	38,265	43,825	339,597
Impairment loss	21,947	22,858	194,773
Liability for retirement benefit	3,130	3,024	27,785
Bonuses payable	1,321	811	11,727
Loss on devaluation of property, plant and equipment	1,226	1,295	10,883
Reserve for apartment vacancy loss	1,172	1,730	10,408
Elimination of unrealized gain	877	867	7,783
Advances from customers for rent income	727	1,387	6,453
Allowance for doubtful accounts	691	654	6,136
Deposits received	388	432	3,449
Loss on devaluation of real estate for sale	364	384	3,234
Reserve for fulfillment of guarantees	298	247	2,651
Excess amortization on software	277	270	2,459
Accrued enterprise tax	273	120	2,427
Other payable	205	92	1,826
Reserve for warranty obligations on completed project	138	133	1,226
Asset retirement obligations	125	132	1,111
Sales promotion cost	120	120	1,073
Others	428	551	3,803
Sub total	71,981	78,942	638,812
Less: valuation allowance	(49,344)	(59,605)	(437,920)
Total deferred tax assets	22,636	19,337	200,892
<b>Deferred tax liabilities:</b>			
Reserve for special depreciation	(249)	(301)	(2,217)
Net unrealized gain on other securities	(192)	(181)	(1,704)
Fixed asset retirement expenses	(9)	(6)	(83)
Total deferred tax liabilities	(451)	(489)	(4,005)
Net deferred tax assets	22,185	18,847	196,886

### (Changes in the presentation)

"Excess depreciation," "Bad debt loss," "Sales discount for construction contracts," "Loss on devaluation of securities," and "Low-value assets," which were listed separately in the deferred tax assets for the previous consolidated fiscal year, are included in "Others" from the subject fiscal year under review due to the decrease in the quantitative significance of these items. The notes to the consolidated financial statements for the previous

consolidated fiscal year have been revised to reflect these changes in the presentation method.

As a result, 122 million yen in "Excess depreciation," 80 million yen in "Bad debts loss," 18 million yen in "Sales discount for construction contracts," 14 million yen in "Loss on devaluation of securities," and 13 million yen in "Low-value assets" presented under deferred tax assets for the previous consolidated fiscal year have been reorganized into "Others."

### (2) Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the years ended March 31, 2016 and 2015 were as follows:

	2016	2015
Normal effective statutory tax rate	33.1%	35.6%
Adjustments:		
Effect from decrease in valuation reserve	(53.9)	(94.3)
Impact of change in income tax rates	12.5	37.3
Entertainment and other expenses not deductible for income tax purposes	6.6	8.1
Per capital portion of inhabitants taxes	1.2	1.6
Tax deduction based on Tax Credits for Salary Growth	(1.1)	(0.4)
Others	(0.3)	(0.3)
Actual effective tax rate	(1.9)	(12.4)

### (Changes in the presentation)

"Tax deduction based on Tax Credits for Salary Growth" included in "Others" in adjustment for the previous consolidated fiscal year is listed separately in the subject consolidated fiscal year under review due to its increased quantitative significance. The notes to the consolidated financial statements for the previous consolidated fiscal year have been revised to reflect this change in the presentation method.

As a result, -0.7% presented in "Others" in the notes to the consolidated financial statements of the previous consolidated fiscal year has been split and reorganized into -0.4% in "Tax deduction based on Tax Credits for Salary Growth" and -0.3% in "Others."

### (3) Change in amount of deferred tax assets and liabilities due to the change in income tax rates

The Act for Partial Revision of the Income Tax Act, etc. (Act No. 15 of 2016) and The Act for Partial Revision of the Local Tax Act, etc. (Act No. 13 of 2016) were enacted on March 29, 2016. Consequently, the corporate tax rate, etc. will be lowered from the fiscal year beginning on or after April 1, 2016. Accordingly, the effective statutory tax rate used for the calculation of deferred tax assets and liabilities

will change from 32.3%, which was used the previous consolidated fiscal year, to 30.9% for temporary differences expected to be returned or paid in the consolidated fiscal year beginning April 1, 2016 and 2017, and to 30.6% for temporary differences expected to be returned or paid in the consolidated fiscal years beginning on or after April 1, 2018.

As a result of these changes in tax rates, deferred tax assets (net of deferred tax liabilities) have decreased 1,110 million yen (\$9,852 thousand), income taxes-deferred have increased 1,120 million yen (\$9,948 thousand), and net unrealized gains on "other securities" have increased 10 million yen (\$95 thousand).

Further, the limit on net operating loss deduction under the carry-forward system for tax losses incurred in consolidated fiscal years beginning on or after April 1, 2016 is reduced to the amount equivalent to 60% of taxable income for the respective year, to 55% of taxable income for tax losses incurred in consolidated fiscal years beginning on or after April 1, 2017, and to 50% of taxable income for tax losses incurred in consolidated fiscal years beginning on or after April 1, 2018. As a result, the amount of the Company's deferred tax assets decreased by 150 million yen (\$1,331 thousand), and income taxes-deferred have increased by the same amount.

## 11. Short-term Borrowings and Long-term Debt

(1) Short-term borrowings, long-term debt and lease obligations at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Short-term borrowings, with average interest rate of 0.63%	265	60	2,351
Current portion of long-term debt, with average interest rate of 1.53%	1,412	23,005	12,535
Current portion of lease obligations, with average interest rate of 2.34%	3,054	2,355	27,103
Long-term debt, due 2017 to 2031, with average interest rate of 1.30%	14,106	7,196	125,190
Lease obligations, long-term, due 2017 to 2021, with average interest rate of 2.14%	7,659	6,450	67,972
<b>Total</b>	<b>26,497</b>	<b>39,067</b>	<b>235,153</b>

(Note)

To calculate "average interest rate," weighted-average rates and fiscal year-end balances are used. Please note, however, that the current portion of lease obligations and lease obligations (net of the current portion) are recorded in the consolidated balance sheet in the amount before deducting the interest portion from total lease expenses for certain consolidated subsidiaries, and that such lease obligations are not included in the calculation of the average interest rate.

(2) The amounts of long-term debt and lease obligations (excluding their current portion) scheduled for repayment in five years from the consolidated settlement of accounts were as follows:

Millions of yen	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years
Long-term debt	1,202	1,143	1,034	931
Lease obligations	3,000	2,648	1,574	433

Thousands of U.S. dollars	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years
Long-term debt	10,667	10,145	9,184	8,263
Lease obligations	26,628	23,507	13,974	3,845

(3) Assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash and cash equivalents	17	17	150
Buildings and structures	—	26,199	—
Land	—	71,777	—
Investment securities	55	76	492
Others in Investments and other assets	—	420	—
<b>Total</b>	<b>72</b>	<b>98,490</b>	<b>642</b>

(4) Secured borrowings with pledge of collateral at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current portion of long-term debt	—	22,270	—

(5) Securities and investment securities which have been deposited with the Legal Affairs Bureau at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deposit for operation stipulated in Building Lots and Buildings Transaction Business Act	45	54	401
Deposit for housing construction warranty	976	891	8,662
Deposit for housing defect warranty	109	115	975
Advanced payment certificate in accordance with Payment and Settlement Regulations	678	920	6,019

(6) Bonds at March 31, 2016 and 2015 consisted of the following:

Company name	Name of bond	Issuance date	Millions of yen		Thousands of U.S. dollars
			2016	2015	2016
Leopalace21 Corporation	12th unsecured straight bond	September 30, 2009	360 (360)	920	3,194 (3,194)
Leopalace21 Corporation	13th unsecured straight bond	October 31, 2014	3,600 (900)	4,500	31,948 (7,987)
Leopalace21 Corporation	14th unsecured straight bond	September 30, 2015	11,067 (1,666)	—	98,216 (14,785)
Leopalace21 Corporation	15th unsecured straight bond	September 30, 2015	9,300 (1,400)	—	82,534 (12,424)
Total	—	—	24,327 (4,326)	5,420	215,894 (38,391)

Company name	Name of bond	Interest rate (%)	Collateral	Date of maturity
Leopalace21 Corporation	12th unsecured straight bond	1.04	None	September 30, 2016
Leopalace21 Corporation	13th unsecured straight bond	0.35	None	October 31, 2019
Leopalace21 Corporation	14th unsecured straight bond	0.26	None	September 30, 2022
Leopalace21 Corporation	15th unsecured straight bond	0.63	None	September 30, 2022
Total	—	—	—	—

(Note) Figures in parentheses represent the current portion.

**(7) The amounts of bonds maturity in five years from the consolidated settlement of accounts were as follows:**

Millions of yen				
Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years
4,326	3,966	3,966	3,966	3,066

Thousands of U.S. dollars				
Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years
38,391	35,197	35,197	35,197	27,209

**12. Retirement Benefit Plans****(1) Multi-employer plans**

The amount of requested contributions for the employees' pension fund program under multi-employer plans, which is processed with the same accounting method as that for the defined contribution program for the year ended March 31, 2016 and 2015, was 1,300 million yen (\$11,537 thousand) and 1,332 million yen, respectively.

**Recent funding status of the multi-employer plan as of March 31, 2016 and 2015 were as follows:**

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Pension assets	<b>64,010</b>	57,282	<b>568,070</b>
Total of amount of benefit obligations under pension funding programs and amount of minimum actuarial liabilities	<b>68,960</b>	61,415	<b>612,004</b>
Difference	<b>(4,950)</b>	(4,133)	<b>(43,934)</b>

The main components of the difference were unrecognized past service costs of 3,572 million yen (\$31,701 thousand) and 3,612 million yen, and deficiency carried forward of 1,378 million yen (\$12,233 thousand) and 520 million yen for the years ended March 31, 2016 and 2015, respectively. The Companies recognized the special annuity premium of 96 million yen (\$852 thousand) and 99 million yen as an expense for the years ended March 31, 2016 and 2015, respectively.

The deficiency carried forward of 1,378 million yen

(\$12,233 thousand) and 520 million yen will be treated by a method such as increasing the ratio of special premiums as necessary based on pension actuarial revaluation. Further, the percentages below do not match the actual percentage borne by the Companies.

Ratio of the Companies in the amount of contributions for the multi-employer program was 35% from April 1, 2015 to March 31, 2016 and 35% from April 1, 2014 to March 31, 2015.

## (2) Defined benefit plan

(a) List of adjustments between the balances of retirement benefit obligations at the beginning and end of year were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Beginning balance of retirement benefit obligations	9,351	10,050	82,990
Cumulative effect of accounting change	—	(1,708)	—
Balance at beginning of fiscal year reflecting accounting change	9,351	8,342	82,990
Service cost	1,164	1,014	10,337
Interest cost	37	36	330
Actuarial gains and losses accrued	96	348	857
Retirement benefits paid	(425)	(399)	(3,772)
Increase due to consolidation of additional subsidiary	—	9	—
Closing balance of retirement benefit obligations	10,224	9,351	90,743

(b) List of adjustments between the closing balances of retirement benefit obligations and pension assets and the liabilities and assets related to the retirement benefit posted in the consolidated balance sheet were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Funded retirement benefit obligations	—	—	—
Pension assets	—	—	—
	—	—	—
Unfunded retirement benefit obligations	10,224	9,351	90,743
Net amount of the liabilities and assets posted in the consolidated balance sheet	10,224	9,351	90,743
Liability for retirement benefit	10,224	9,351	90,743
Net amount of the liabilities and assets posted in the consolidated balance sheet	10,224	9,351	90,743

(c) Retirement benefit expenses and breakdown amounts were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost	2,464	2,347	21,874
Interest cost	37	36	330
Amortization of actuarial gain or loss	221	136	1,969
Amortization of past service cost	—	6	—
Retirement benefit expenses related to the defined benefit program	2,724	2,526	24,174

(Notes) 1. Contributions of 1,300 million yen (\$11,537 thousand) and 1,332 million yen, including 516 million yen (\$4,583 thousand) and 525 million yen attributable to employees for the "Japan Housing Construction Industry Employees' Pension Fund" integrated employees' pension funds, are included in the service cost for the year ended March 31, 2016 and 2015, respectively.

2. Retirement benefit expenses of domestic consolidated subsidiaries, which are calculated based on a simplified method, are posted as service cost.



(d) Items posted as the remeasurements of defined benefit plans (before deduction of tax effects) were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Past service cost	—	(6)	—
Actuarial gains/losses	(125)	211	(1,112)
Total	(125)	205	(1,112)

(e) Cumulative items posted as the remeasurements of defined benefit plans (before deduction of tax effects) were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized past service cost	—	—	—
Unrecognized actuarial gains/losses	895	1,021	7,949
Total	895	1,021	7,949

(f) Main calculation basis for actuarial assumptions at the end of the fiscal year:

Discount rate for the years ended March 31, 2016 and 2015 were 0.03% to 0.89%.

### 13. Gain on Sale of Property, Plant and Equipment

Gain on sale of property, plant and equipment for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Buildings and structures	23	3	208
Machinery, equipment, and vehicles	2	3	23
Land	—	0	—
Total	26	6	231

### 14. Loss on Sale of Property, Plant and Equipment

Loss on sale of property, plant and equipment for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Land	0	—	5
Others (Property, plant and equipment)	0	—	6
Others (Intangible assets)	0	0	3
Total	1	0	14

### 15. Loss on Retirement of Property, Plant and Equipment

Loss on disposal of property, plant and equipment for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Buildings and structures	139	281	1,239
Others (Property, plant and equipment)	3	8	29
Others (Intangible assets)	4	19	43
Total	147	309	1,311

## 16. Rental Properties

The Company possesses rental apartments in major cities and regions throughout Japan. As a subsidiary company, Leopalace Guam Corporation possesses rental housing within resorts, Leopalace21 (Thailand) CO.,LTD. possesses a serviced apartment, and Plaza Guarantee Co., Ltd. possesses buildings for rent. For the years ended March

31, 2016 and 2015, income arising from these rental properties were 4,302 million yen (\$38,182 thousand) and 4,266 million yen, and impairment losses were 605 million yen (\$5,369 thousand) and 161 million yen, respectively.

Also, the changes in book value of rental properties during the year ended March 31, 2016 and 2015, and the fair value as of March 31, 2016 and 2015 were as follows:

### March 31, 2016

Millions of yen			
Consolidated balance sheet amount			Fair value as of March 31, 2016
Balance as of April 1, 2015	Increase/Decrease	Balance as of March 31, 2016	
63,819	339	<b>64,159</b>	<b>66,145</b>

### March 31, 2015

Millions of yen			
Consolidated balance sheet amount			Fair value as of March 31, 2015
Balance as of April 1, 2014	Increase/Decrease	Balance as of March 31, 2015	
64,030	(210)	63,819	65,435

### March 31, 2016

Thousands of U.S. dollars			
Consolidated balance sheet amount			Fair value as of March 31, 2016
Balance as of April 1, 2015	Increase/Decrease	Balance as of March 31, 2016	
566,377	3,014	<b>569,392</b>	<b>587,022</b>

- (Notes)
1. Carrying value recorded on the consolidated balance sheets is the amount after deducting accumulated depreciation and accumulated impairment loss from acquisition cost.
  2. For the years ended March 31, 2016 and 2015, the main increase was the acquirement of a serviced apartment of 1,278 million yen (\$11,343 thousand) and – million yen, and the main decrease was impairment loss of 605 million yen (\$5,369 thousand) and 161 million yen, respectively.
  3. Fair value as of the end of the current consolidated fiscal year is calculated by the Company mainly based on “Real-estate appraisal standards.”

## 17. Asset Retirement Obligations

Omitted due to immateriality

## 18. Supplemental Information on the Statement of Changes in Net Assets

Shares issued and treasury stocks for the year ended March 31, 2016 were as follows:

Type of shares	Shares			March 31, 2016
	April 1, 2015	Increase	Decrease	
Shares issued				
Common stock	267,443,915	—	—	<b>267,443,915</b>
Total	267,443,915	—	—	<b>267,443,915</b>
Treasury stock				
Common stock	4,569,430	90	—	<b>4,569,520</b>
Total	4,569,430	90	—	<b>4,569,520</b>

(Note) Increase in treasury stock of 90 shares is the purchase of shares less than one unit.

Stock acquisition rights (SAR) and own share options for the year ended March 31, 2016 were as follows:

Type	Class of shares issued upon exercise of SARs	Number of shares issued upon exercise of SARs				Outstanding as of March 31, 2016	
		April 1, 2015	Increase	Decrease	March 31, 2016	Millions of yen	Thousands of U.S. dollars
SARs as stock option	—	—	—	—	—	18	159
Total	—	—	—	—	—	18	159

Matters concerning dividends for the year ended March 31, 2016 were as follows:

(1) Amount of dividends paid: None

(2) Dividends which basis dates are in the current consolidated year but have effective dates in the next year:

(Resolution)	Class of shares	Total amount of dividends	
		Millions of yen	Thousands of U.S. dollars
June 29, 2016 General shareholders' meeting	Common stock	2,628	23,329

Source of dividend	Dividends per share		Basis date	Effective date
	Yen	Dollars		
Retained earnings	10	0.09	March 31, 2016	June 30, 2016

Shares issued and treasury stocks for the year ended March 31, 2015 were as follows:

Type of shares	April 1, 2014	Shares		March 31, 2015
		Increase	Decrease	
Shares issued				
Common stock	267,443,915	—	—	267,443,915
Total	267,443,915	—	—	267,443,915
Treasury stock				
Common stock	4,569,210	220	—	4,569,430
Total	4,569,210	220	—	4,569,430

(Note) Increase in treasury stock of 220 shares is the purchase of shares less than one unit.

Stock acquisition rights (SAR) and own share options for the year ended March 31, 2015 were as follows:

Type	Class of shares issued upon exercise of SARs	Number of shares issued upon exercise of SARs				Outstanding as of March 31, 2015 Millions of yen
		April 1, 2014	Increase	Decrease	March 31, 2015	
SARs as stock option	—	—	—	—	—	18
Total	—	—	—	—	—	18

Matters concerning dividends for the year ended March 31, 2015 were as follows:

(1) Amount of dividends paid: None

(2) Dividends which basis dates are in the current consolidated year but have effective dates in the next year: None

## 19. Leases

### (1) Finance lease transactions

The Companies primarily lease furniture and electronic appliances, for apartments of their leasing business. Leases are depreciated by the straight-line method over the lease-term of respective assets as their useful lives with no residual value.

## (2) Operating lease transactions

Future minimum lease payments related to non-cancelable operating leases subsequent to March 31, 2016 and 2015 were as follows:

March 31, 2016	Millions of yen		
	Future lease payments	Prepaid lease payments	Differences
Due within one year	<b>242,226</b> <b>(242,209)</b>	<b>1,315</b> <b>(1,315)</b>	<b>240,911</b> <b>(240,893)</b>
Due after one year	<b>240,091</b> <b>(240,070)</b>	<b>2,723</b> <b>(2,723)</b>	<b>237,367</b> <b>(237,346)</b>
Total	<b>482,317</b> <b>(482,279)</b>	<b>4,039</b> <b>(4,039)</b>	<b>478,278</b> <b>(478,239)</b>

March 31, 2015	Millions of yen		
	Future lease payments	Prepaid lease payments	Differences
Due within one year	242,609 (242,595)	2,183 (2,183)	240,426 (240,412)
Due after one year	343,062 (343,032)	2,499 (2,499)	340,562 (340,532)
Total	585,672 (585,627)	4,682 (4,682)	580,989 (580,944)

March 31, 2016	Thousands of U.S. dollars		
	Future lease payments	Prepaid lease payments	Differences
Due within one year	<b>2,149,685</b> <b>(2,149,529)</b>	<b>11,673</b> <b>(11,673)</b>	<b>2,138,011</b> <b>(2,137,856)</b>
Due after one year	<b>2,130,735</b> <b>(2,130,548)</b>	<b>24,173</b> <b>(24,173)</b>	<b>2,106,562</b> <b>(2,106,374)</b>
Total	<b>4,280,421</b> <b>(4,280,078)</b>	<b>35,847</b> <b>(35,847)</b>	<b>4,244,573</b> <b>(4,244,230)</b>

Future operating lease payments fixed under master lease agreements in leasing business are shown in parentheses.

## 20. Contingent Liabilities

Contingent liabilities as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Contingent liabilities to financial institutions for customers who have a home mortgage	<b>838</b>	898	<b>7,437</b>
Contingent liabilities to financial institutions for customers who have a membership loan	<b>3</b>	15	<b>32</b>
Total	<b>841</b>	914	<b>7,469</b>

## 21. Segment Information

### (1) Overview of Reportable Segments

The Companies' reportable segments are the components for which separate financial information is available, and whose operating results are reviewed regularly by the board of directors in order to determine allocation of resources and assess segment performance.

The Companies have four reportable segments, the Leasing Business, Construction Business, Elderly Care Business and Hotels & Resort Business.

The Leasing Business operations comprise the leasing and management of apartment buildings and other properties, repair work, broadband internet service, rent obligation guarantee, and the company residence agency

business. The Construction Business constructs apartments and other buildings and installs solar power systems on a contract basis. The Elderly Care Business operates elderly care facilities. The Hotels & Resort Business operates hotels and resort facilities.

### (2) Calculation Method for Sales, Profits and Losses, Assets, and other Items by Reportable Segment

The accounting methods for reportable segments are basically the same as that presented in "Summary of Significant Accounting Policies." The reportable segment profits (losses) represent operating income (loss). Inter-segment sales and transfers are based on prevailing market prices.

### (3) Information Regarding Sales, Profits and Losses, Assets, and other Items by Reportable Segment for the years ended March 31, 2016 and 2015 were as follows:

March 31, 2016	Millions of yen								
	Reportable segment				Segment Total	Others	Total	Adjustments	Consolidated Total
Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business						
<b>Sales</b>									
Sales to customers	410,552	74,160	10,798	11,427	506,939	4,485	511,424	—	511,424
Inter-segment sales and transfers	944	2,614	—	3,640	7,199	149	7,349	(7,349)	—
Total	411,497	76,774	10,798	15,068	514,139	4,635	518,774	(7,349)	511,424
<b>Segment profit (loss)</b>	<b>22,760</b>	<b>3,339</b>	<b>(1,354)</b>	<b>(697)</b>	<b>24,047</b>	<b>337</b>	<b>24,385</b>	<b>(3,388)</b>	<b>20,996</b>
<b>Segment assets</b>	<b>99,329</b>	<b>16,755</b>	<b>2,657</b>	<b>55,246</b>	<b>173,988</b>	<b>23,076</b>	<b>197,065</b>	<b>129,825</b>	<b>326,890</b>
<b>Other items</b>									
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

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

2. Breakdown of adjustments was as follows:

Segment profit (loss)

	Millions of yen	Thousands of U.S. dollars
Inter-segment eliminations	(320)	(2,844)
Corporate expenses*	(3,067)	(27,227)
Total	(3,388)	(30,071)

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

Adjustments in segment assets (129,825 million yen, \$1,152,158 thousand) consist mainly of surplus operating funds, long-term investment capital, and assets which do not belong to reportable segments.

Adjustments in the increase of property, plant, and equipment, and intangible assets (1,599 million yen, \$14,199 thousand) consist of capital investments which do not belong to reportable segments.

3. Segment profit (loss) is adjusted to operating profit on the consolidated statements of operations.

March 31, 2015	Millions of yen								
	Reportable segment				Segment Total	Others	Total	Adjustments	Consolidated Total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business					
<b>Sales</b>									
Sales to customers	399,316	61,312	10,608	8,951	480,188	2,999	483,188	—	483,188
Inter-segment sales and transfers	790	12,065	—	2,827	15,682	127	15,810	(15,810)	—
Total	400,107	73,378	10,608	11,778	495,871	3,127	498,999	(15,810)	483,188
<b>Segment profit (loss)</b>	20,532	210	(606)	(1,289)	18,848	31	18,879	(4,116)	14,763
<b>Segment assets</b>	96,218	16,810	2,428	56,502	171,960	21,481	193,441	114,832	308,274
<b>Other items</b>									
Depreciation	2,992	170	24	1,872	5,060	1,330	6,390	1,345	7,736
Increase in property, plant, and equipment, and intangible assets	5,551	73	21	1,017	6,663	12,180	18,844	5,514	24,358

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

2. Breakdown of adjustments was as follows:

Segment profit (loss)

	Millions of yen
Inter-segment eliminations	(1,346)
Corporate expenses*	(2,769)
Total	(4,116)

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

Adjustments in segment assets (114,832 million yen) consist mainly of surplus operating funds, long-term investment capital, and assets which do not belong to reportable segments.

Adjustments in the increase of property, plant, and equipment, and intangible assets (5,514 million yen) consist of capital investments which do not belong to reportable segments.

3. Segment profit (loss) is adjusted to operating profit on the consolidated statements of operations.

March 31, 2016	Thousands of U.S. dollars								
	Reportable segment					Others	Total	Adjustments	Consolidated Total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Segment Total				
<b>Sales</b>									
Sales to customers	3,643,527	658,147	95,835	101,417	4,498,928	39,808	4,538,736	—	4,538,736
Inter-segment sales and transfers	8,383	23,202	—	32,311	63,897	1,330	65,228	(65,228)	—
<b>Total</b>	<b>3,651,911</b>	<b>681,349</b>	<b>95,835</b>	<b>133,728</b>	<b>4,562,825</b>	<b>41,138</b>	<b>4,603,964</b>	<b>(65,228)</b>	<b>4,538,736</b>
<b>Segment profit (loss)</b>	<b>201,995</b>	<b>29,632</b>	<b>(12,017)</b>	<b>(6,192)</b>	<b>213,418</b>	<b>2,993</b>	<b>216,412</b>	<b>(30,071)</b>	<b>186,340</b>
<b>Segment assets</b>	<b>881,517</b>	<b>148,698</b>	<b>23,588</b>	<b>490,292</b>	<b>1,544,097</b>	<b>204,798</b>	<b>1,748,895</b>	<b>1,152,158</b>	<b>2,901,054</b>
<b>Other items</b>									
Depreciation	33,199	1,826	438	17,869	53,334	18,280	71,615	13,709	85,325
Increase in property, plant, and equipment, and intangible assets	55,427	814	2,412	16,418	75,073	34,767	109,840	14,199	124,040

## Related information

### 1. Products and services

Information concerning products and services has been omitted, since similar information is reported in “21. Segment Information.”

### 2. Geographic area

#### (1) Sales

Information concerning sales by geographic area has been omitted, since more than 90% of sales reported in the consolidated statement of operations are generated in Japan.

#### (2) Plant, property, and equipment

### March 31, 2016

Millions of yen								
Japan	Trust territory of U.S.A. Guam	People's Republic of China	Kingdom of Thailand	Socialist Republic of Vietnam	Kingdom of Cambodia	Republic of the Philippines	Republic of Indonesia	Total
128,355	41,785	1	1,283	6	468	120	15	172,036

### March 31, 2015

Millions of yen						
Japan	Trust territory of U.S.A. Guam	People's Republic of China	Kingdom of Thailand	Kingdom of Cambodia	Total	
126,835	42,396	3	7	187	169,430	

### March 31, 2016

Thousands of U.S. dollars								
Japan	Trust territory of U.S.A. Guam	People's Republic of China	Kingdom of Thailand	Socialist Republic of Vietnam	Kingdom of Cambodia	Republic of the Philippines	Republic of Indonesia	Total
1,139,118	370,831	15	11,387	53	4,156	1,071	140	1,526,773

### 3. Major customers

Information concerning sales to major customers has been omitted, since sales to any particular customer does not exceed 10% of sales reported in the consolidated statement of operations.

### Information concerning impairment loss on fixed assets by reportable segments

March 31, 2016

	Millions of yen						Consolidated total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Others	Adjustments	
Impairment loss	<b>605</b>	—	—	—	—	<b>11</b>	<b>616</b>

March 31, 2015

	Millions of yen						Consolidated total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Others	Adjustments	
Impairment loss	161	—	—	62	—	—	224

March 31, 2016

	Thousands of U.S. dollars						Consolidated total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Others	Adjustments	
Impairment loss	<b>5,369</b>	—	—	—	—	<b>104</b>	<b>5,473</b>

### Information concerning goodwill amortization and unamortized balance by reportable segments

March 31, 2016

	Millions of yen						Consolidated total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Others	Adjustments	
Goodwill amortization	—	<b>154</b>	—	—	—	—	<b>154</b>
Balance	—	<b>1,530</b>	—	—	—	—	<b>1,530</b>

March 31, 2015

	Millions of yen						Consolidated total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Others	Adjustments	
Goodwill amortization	—	—	—	4	—	—	4
Balance	—	1,684	—	—	—	—	1,684

March 31, 2016

	Thousands of U.S. dollars						Consolidated total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Others	Adjustments	
Goodwill amortization	—	<b>1,370</b>	—	—	—	—	<b>1,370</b>
Balance	—	<b>13,582</b>	—	—	—	—	<b>13,582</b>

### Information concerning gain on negative goodwill by reportable segments

For the years ended March 31, 2016 and 2015

Not applicable.



## 22. Amounts per Share

(1) The following tables set forth the net assets and net income per share of common stock for the years ended March 31, 2016 and 2015.

	Yen		U.S. dollars
	2016	2015	2016
Net assets	556.06	481.05	4.93
Net income attributable to shareholders of the parent			
Basic	73.92	55.19	0.66
Diluted	—	—	—

(2) Basis of computation of basic and diluted net income per share for the years ended March 31, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Basic net income per share			
Net income attributable to shareholders of the parent	19,432	14,507	172,453
Amount not attributable to common stock	—	—	—
Net income attributable to common stock	19,432	14,507	172,453
Weighted-average shares during the year (Thousands of shares)	262,874	262,874	
Dilutive securities that didn't have dilutive effects and therefore were not included in the calculation of diluted net income per share.	New stock acquisition rights (650)		

## 23. Related Party Transactions

The following tables set forth related party transactions for the years ended March 31, 2016 and 2015.

For the year ended March 31, 2016

(a) Unconsolidated subsidiaries and affiliates

None

(b) Directors and major individual shareholders

Attribute	Name	Address	Capital stock		Business or position	Percentage of share ownership	Relation
			Millions of yen	Thousands of U.S. dollars			
Directors and close relatives	Toshiko Miyoshi	—	—	—	—	—	Leasing of land and building

Attribute	Name	Transaction	Transaction amount		Account	Balance	
			Millions of yen	Thousands of U.S. dollars		Millions of yen	Thousands of U.S. dollars
Directors and close relatives	Toshiko Miyoshi	Leasing of apartments	26	231	Prepaid expenses	—	—

- (Notes) 1. Consumption taxes were not included in amounts.  
 2. Conditions of leasing of apartments are the same as transactions with third parties.  
 3. Toshiko Miyoshi is a close relative of Tadahiro Miyama, Director of the Company.

## For the year ended March 31, 2015

### (a) Unconsolidated subsidiaries and affiliates

None

### (b) Directors and major individual shareholders

Attribute	Name	Address	Capital stock Millions of yen	Business or position	Percentage of share ownership	Relation
Directors and close relatives	Toshiko Miyoshi	—	—	—	—	Leasing of land and building

Attribute	Name	Transaction	Transaction amount Millions of yen	Account	Balance Millions of yen
Directors and close relatives	Toshiko Miyoshi	Leasing of apartments	26	Prepaid expenses	—

(Notes) 1. Consumption taxes were not included in amounts.

2. Conditions of leasing of apartments are the same as transactions with third parties.

3. Toshiko Miyoshi is a close relative of Tadahiro Miyama, Director of the Company.

## 24. Other

The following tables set forth quarterly information for the year ended March 31, 2016.

(Cumulative period)	First quarter	Second quarter	Third quarter	Full-year
Net sales (Millions of yen)	<b>124,524</b>	<b>252,316</b>	<b>376,541</b>	<b>511,424</b>
Income before income taxes (Millions of yen)	<b>3,791</b>	<b>9,511</b>	<b>14,467</b>	<b>19,061</b>
Net income attributable to shareholders of the parent (Millions of yen)	<b>3,303</b>	<b>8,211</b>	<b>12,462</b>	<b>19,432</b>
Net income per share (yen)	<b>12.57</b>	<b>31.24</b>	<b>47.41</b>	<b>73.92</b>

(Accounting period)	First quarter	Second quarter	Third quarter	Full-year
Net income per share (yen)	<b>12.57</b>	<b>18.67</b>	<b>16.17</b>	<b>26.51</b>

(Cumulative period)	First quarter	Second quarter	Third quarter	Full-year
Net sales (Thousands of U.S. dollars)	<b>1,105,113</b>	<b>2,239,229</b>	<b>3,341,692</b>	<b>4,538,736</b>
Income before income taxes (Thousands of U.S. dollars)	<b>33,650</b>	<b>84,407</b>	<b>128,397</b>	<b>169,164</b>
Net income attributable to shareholders of the parent (Thousands of U.S. dollars)	<b>29,320</b>	<b>72,871</b>	<b>110,604</b>	<b>172,453</b>
Net income per share (U.S. dollars)	<b>0.11</b>	<b>0.28</b>	<b>0.42</b>	<b>0.66</b>

(Accounting period)	First quarter	Second quarter	Third quarter	Full-year
Net income per share (dollars)	<b>0.11</b>	<b>0.17</b>	<b>0.14</b>	<b>0.24</b>

## 25. Subsequent Events

Not applicable

## INDEPENDENT AUDITOR'S REPORT

### To the Board of Directors of LEOPALACE21 Corporation

We have audited the accompanying consolidated financial statements of LEOPALACE21 Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

#### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LEOPALACE21 Corporation and its consolidated subsidiaries as at March 31, 2016, and their consolidated financial performance and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

#### Convenience Translation

The United States dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for the convenience. Our audit also included the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*Grant Thornton Taiyo LLC*

June 29, 2016  
Tokyo, Japan

# DATA COMPILATION

## EXTERNAL ENVIRONMENT

### Number of New Housing Starts

The number of new housing starts rose for the first time in two years in fiscal 2015, with rental housing starts also climbing for the first time in two years on a 7.1% year-on-year increase to 383,678 units. Starts of rental units less than 30 square meters aimed mainly at single-person households remained robust, surging 26.4% year on year to 60,882 units.

	(1,000 units)		
	FY2013	FY2014	FY2015
Rental units	370	358	<b>384</b>
Of which, rental units under 30m <sup>2</sup>	36	48	<b>61</b>
Other	617	522	<b>537</b>
Total	987	880	<b>921</b>

Source: New residential housing construction work commencement statistics, the Ministry of Land, Infrastructure, Transport, and Tourism

### Number of Households

The number of households in Japan is expected to decline from 2020 due to Japan's twin demographic trends of a growing elderly cohort and a low fertility rate. On the other hand, the number of single-person households, including those in our target demographic cohort of ages 15-64 (productive population), are expected to trend sideways from here.

	(1,000 households)						
	2005	2010	2015 (forecast)	2020 (forecast)	2025 (forecast)	2030 (forecast)	2035 (forecast)
Single-person households	14,458	16,784	17,637	18,270	18,648	18,718	18,456
Of which, under 25	2,178	2,060	1,952	1,885	1,760	1,645	1,515
Of which, age 25-34	2,971	2,999	2,721	2,531	2,441	2,311	2,147
Of which, age 35-64	5,444	6,745	6,956	7,175	7,440	7,464	7,172
Of which, age 65 or older	3,865	4,980	6,008	6,679	7,007	7,298	7,622
Married couples	9,637	10,269	10,861	11,037	10,973	10,782	10,500
Married couples with children	14,646	14,474	14,274	13,814	13,132	12,340	11,532
Single-parent with children	4,112	4,535	4,982	5,338	5,558	5,648	5,645
Others	6,212	5,779	5,150	4,594	4,127	3,743	3,421
Total	49,063	51,842	52,904	53,053	52,439	51,231	49,555

Source: January 2013 estimates on the number of households and forecasts, the National Institute of Population and Social Security Research

### Number of Vacant Homes in Japan

Amid the concentration of populations in cities, the number of vacant homes is growing, especially in rural areas. The number of vacant properties in Japan available for rent or sale stands at 4,601,000 units, or one in five homes, according the fiscal 2013 Housing and Land Survey, the most recently published one.

	1983	1988	1993	1998	2003	2008	2013
Number of vacant houses for rent or sale (1,000 units)	1,834	2,336	2,619	3,520	3,978	4,476	4,601
Ratio of vacant dwellings (%)	12.4	14.3	14.3	17.4	18.8	20.1	20.0

Source: Housing and Land Survey, the Ministry of Internal Affairs and Communications

## LEASING DATA

### Apartment Rooms under Management

The number of apartment rooms we have under management is the earnings foundation of the Leasing Business. For a third successive year, the number of rooms under management grew, rising to 561,961 as of the end of March 31, 2016. The proportion of our total portfolio located in our focus regions of Kanto, Chubu, and Kinki, where growth was conspicuous, stands at about 70%.

	(Rooms)		
	FY2013	FY2014	FY2015
Hokkaido	14,229	14,199	<b>14,132</b>
Tohoku	33,704	34,300	<b>34,843</b>
Kita-Kanto	39,874	40,126	<b>40,381</b>
Tokyo metro area	155,568	158,322	<b>161,756</b>
Hokuriku-Koshinetsu	40,649	40,630	<b>40,643</b>
Chubu	86,642	87,225	<b>87,711</b>
Kinki	78,153	78,906	<b>79,790</b>
Chugoku	37,292	37,838	<b>38,439</b>
Shikoku	14,483	14,497	<b>14,535</b>
Kyushu-Okinawa	48,318	48,905	<b>49,731</b>
Total	548,912	554,948	<b>561,961</b>

## Leases by Contract Type

We are strengthening our marketing efforts aimed at corporations, a category where we see prospects for long-term stable earnings. The number of corporate contracts for apartments grew 5.6% year on year to 277,261 rooms as of March 31, 2016 for a corporate contract ratio of 54.5%, keeping corporate contracts above half of our lease portfolio for a third consecutive year.

	FY2013		FY2014		FY2015	
	Units	%	Units	%	Units	%
Corporations	246,272	51.3	262,577	53.0	<b>277,261</b>	<b>54.5</b>
Individuals	179,036	37.3	182,142	36.8	<b>183,008</b>	<b>36.0</b>
Students	54,802	11.4	50,768	10.2	<b>48,451</b>	<b>9.5</b>
Total	480,110	100.0	495,487	100.0	<b>508,720</b>	<b>100.0</b>

## Average Annual Occupancy Rate

Like fiscal yearend occupancy rates (see below), the average annual occupancy rate recovered during the fiscal year under review. The average annual occupancy rate was 88.0% in fiscal 2015, the fifth successive year of increase. This in large part reflected a rise in long-term lease contracts and further progress toward longer occupancy periods.

	FY2013	FY2014	FY2015
Average annual occupancy rate	84.6	86.6	<b>88.0</b>

## Fiscal Yearend Occupancy Rates by Region

With the economy now beyond the slump that followed the collapse of Lehman Brothers, the occupancy rate improved 1.2 percentage points to 90.5% as of March 31, 2016. The occupancy rate of properties located in the Tokyo metro area and the regions of Tohoku and Chugoku stood at well over 90%, with almost no vacancies.

	End-FY2013	End-FY2014	End-FY2015
Hokkaido	77.5	79.4	<b>81.8</b>
Tohoku	93.9	94.3	<b>94.4</b>
Kita-Kanto	82.9	85.0	<b>85.5</b>
Tokyo metro area	91.0	92.5	<b>92.8</b>
Hokuriku-Koshinetsu	80.0	84.4	<b>88.3</b>
Chubu	83.5	86.4	<b>89.1</b>
Kinki	87.6	89.6	<b>90.6</b>
Chugoku	90.0	91.4	<b>92.5</b>
Shikoku	83.4	83.7	<b>87.0</b>
Kyushu-Okinawa	90.7	90.6	<b>90.7</b>
Total	87.5	89.3	<b>90.5</b>

## Number of Leasing Sales Offices and Sales Personnel

The Leasing Business is forging ahead with building a network balanced between directly run leasing sales offices and franchisee-run offices. Meanwhile, we continue to bolster our sales force, which grew 5.0% year on year to 1,603 people as of March 31, 2016.

	FY2013	FY2014	FY2015
No. of lease sales offices	348	329	<b>319</b>
Of which, Leopalace Centers	184	188	<b>189</b>
Of which, Leopalace Partners (franchisees)	164	141	<b>130</b>
No. of leasing sales personnel	1,512	1,526	<b>1,603</b>
Of which, Leopalace Centers	1,132	1,108	<b>1,181</b>
Of which, corporate sales	380	418	<b>422</b>

	FY2013	FY2014	FY2015
Security systems installed (cumulative, rooms)	187,756	226,801	<b>256,900</b>
Security cameras installed (cumulative, buildings)	3,142	5,505	<b>7,848</b>
Services centers, no. of incoming calls	609,877	608,294	<b>576,764</b>
Of which, inquiries	428,293	433,589	<b>412,947</b>
Of which, maintenance related	144,059	137,740	<b>129,614</b>
Of which, complaints or claims	37,525	36,965	<b>34,203</b>
Tenant response rates from Internet (new contracts only)	53,019	54,455	<b>57,556</b>

## CONSTRUCTION DATA

### Orders

Orders edged down for the first time in four years in fiscal 2015, but were nearly flat at 86,439 million yen. While orders were down in our mainstay of apartments as well as in nursing care facilities and solar power systems, overall orders were propped up by those for stores and commercial space and for detached housing at subsidiary Morizou.

(Millions of yen)

	FY2013	FY2014	FY2015
Building categories	67,446	84,679	<b>86,421</b>
Apartments	61,354	79,798	<b>77,004</b>
Elderly care facilities	5,516	4,343	<b>2,872</b>
Stores & commercial space	575	536	<b>2,040</b>
Custom-built homes*	—	—	<b>4,502</b>
Solar power systems	13,693	2,715	<b>18</b>
Total	81,139	87,395	<b>86,439</b>

\*Subsidiary Morizou

### Apartments Completions

The number of apartments completed rose 4.4% year on year to 685 buildings in fiscal 2015. Of those, completions of our mainstay two-story models declined but completions of models with three stories and models with four stories or more increased, and their weighting in aggregate completions climbed to about one-fourth.

(Buildings)

	FY2013	FY2014	FY2015
Two stories	453	537	<b>513</b>
Three stories	77	92	<b>125</b>
Four stories or more	23	27	<b>47</b>
Total	553	656	<b>685</b>

### Apartment Completions by Region

Of the three major metro areas, order activity was focused on the Tokyo metro area owing to the firmness of demand. The number of apartment completions in the Tokyo metro area rose sharply. In addition, the number of apartment completions in Kyushu-Okinawa also increased, including notable growth in apartment demand in Okinawa.

(Buildings)

	FY2013	FY2014	FY2015
Tohoku	50	45	<b>46</b>
Kita Kanto	15	28	<b>20</b>
Tokyo metro area	274	306	<b>342</b>
Hokuriku-Koshinetsu	6	5	<b>5</b>
Chubu	42	66	<b>57</b>
Kinki	77	90	<b>98</b>
Chugoku	46	54	<b>39</b>
Shikoku	1	3	<b>7</b>
Kyushu-Okinawa	42	59	<b>71</b>
Total	553	656	<b>685</b>

### Solar Power Systems Installed, Total kW Capacity Installed

Solar power system installations continue to be a source of earnings growth at the Construction Business. As of March 31, 2016, the cumulative number of buildings where solar power systems have been installed came to 12,964, lifting total power generation capacity to 182,070 kW.

(Cumulative)

	FY2013	FY2014	FY2015
No. of buildings with solar power systems installed	9,001	12,356	<b>12,964</b>
Of which, no. of buildings with systems installed by LP21 Group	1,114	3,969	<b>4,493</b>
Power generation capacity installed (kW)	125,836	172,399	<b>182,070</b>
Of which, power capacity installed by LP21 Group (kW)	21,494	58,694	<b>67,060</b>

### Sales Offices Accepting Construction Orders, Sales Personnel

The domestic economy has tracked a mild recovery path in the past few years and demand for apartment construction is also rebounding, so we are increasing the number of sales offices tasked with seeking construction contracts. We are also continuing to add more sales personnel at these sales offices.

	FY2013	FY2014	FY2015
Sales offices responsible for construction orders (offices)	54	60	<b>60</b>
Sales personnel responsible for construction orders (personnel)	363	418	<b>427</b>

## ELDERLY CARE DATA

### Number of Facilities

With a network of over 60 facilities, the Elderly Care Business is based in the Tokyo metro area but it is also expanding in the Chubu region as a designated growth business, opening in particular facilities offering day services and short stays. Our aim is to increase the number of facilities in our network to 104 as of March 31, 2018.

	(Facilities)		
	FY2013	FY2014	FY2015
Fee-based homes	21	21	21
Day services, Short stays	38	40	44
Group homes	2	2	2
Total	61	63	67

### Utilization Rate

The utilization rate at fee-based homes for seniors and group homes stayed high at over 90%. In contrast, attendant with the opening of new facilities, the utilization rate for facilities with day services and short stays declined.

	(Utilization rate, %)		
	FY2013	FY2014	FY2015
Day services	72.7	67.2	66.3
Short stays	99.2	98.1	92.3
Fee-based homes & group homes	93.8	93.5	92.4

## HOTELS & RESORT DATA

### Leopalace Resort Guam

At Leopalace Resort Guam, a resort facility the Company runs in Guam, profitability continues to improve thanks to efforts to promote usage by stakeholders such as corporate clients.

	2013**	2014	2015
No. of visitors to Guam* (millions)	1.335	1.343	1,409
No. of visitors to Leopalace Resort Country Club (users)	51,000	54,000	52,000
No. of stakeholder visitors (people who stayed, recreational facility users)	28,000	30,000	44,000 (33.8% of the total)

\* Data on the number of visitors to Guam, Guam Visitors Bureau (a government agency)

\*\* Leopalace Resort Guam's fiscal year corresponds with the calendar year.

	(Utilization rate, %)		
	2013**	2014	2015
Leopalace Resort Guam	66.7	71.0	60.2
Westin Resort Guam	81.2	86.0	82.6

\*We sold Westin Resort Guam in April 2016.

### Leopalace Hotels

Leopalace21 operates hotels across Japan, where there has been progress in promoting usage by stakeholders such as usage by corporate clients on business trips.

(Utilization rate, %)	FY2013	FY2014	FY2015
Asahikawa	78.7	82.1	79.1
Sapporo	84.8	88.1	87.9
Sendai	79.6	81.4	78.0
Niigata**	66.1	68.1	62.9
Nagoya	70.9	76.6	80.5
Yokkaichi*	83.1	81.1	—
Okayama	75.7	75.7	73.3
Hakata	88.3	91.9	94.2
No. of stakeholder stays (persons)	17,044	13,581	11,648 (5.7% of the total)

\* Hotel Leopalace Yokkaichi was sold in August 2014.

\*\* Hotel Leopalace Niigata was sold in July 2015.

## SOCIAL KEY PERFORMANCE INDICATORS

### Governance

	FY2013	FY2014	FY2015
Outside directors	1	1	2
Female directors	0	0	1
Yakuin* remuneration (millions of yen)	284	329	347
Directors (excludes outside directors)	234	277	280
Audit & Supervisory Board members (excludes outside ASB members)	31	32	32
Outside directors and ASB members	19	20	34

\*In this table, "yakuin" refers to directors, Audit & Supervisory Board members, and outside directors.

### Employee Composition (Parent company)

	FY2013			FY2014			FY2015		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
No. of employees	5,782	4,184	1,598	6,149	4,402	1,747	6,413	4,491	1,922
No. of career-track employees	5,279	3,964	1,315	5,668	4,193	1,475	5,961	4,274	1,687
No. of temporary hires	503	220	283	481	209	272	452	217	235
Average age	35 years, 11 months	36 years, 8 months	34 years, 0 months	35 years, 10 months	36 years, 8 months	33 years, 8 months	35 years, 11 months	36 years, 11 months	33 years, 7 months
Average cumulative years of service	7 years, 4 months	8 years, 4 months	4 years, 9 months	7 years, 6 months	8 years, 6 months	4 years, 11 months	7 years, 9 months	8 years, 11 months	5 years, 0 months

### Work-life Balance (Parent company)

	FY2013			FY2014			FY2015		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
No. of employees on short work-hours schedules	88	4	84	125	5	120	128	4	124
No. of employees on childcare leave	138	1	137	137	0	137	116	3	113
Ratio of paid vacation usage	31.7%	22.1%	58.9%	33.0%	23.9%	58.0%	70.1%	64.2%	85.1%
Rate of workforce turnover	11.8%			10.3%			8.7%		
Ratio of new hires	19.2%			14.4%			10.9%		

### Diversity (Parent company + domestic consolidated subsidiaries)

	FY2013	FY2014	FY2015
No. of disabled employees	112	120	125
Disabled employee ratio	2.07%	2.04%	2.04%
No. of mandatory retirees that have been rehired*	20	25	28
No. of employees with foreign citizenship	185	215	277
No. of foreign managers	18	22	19
Ratio of females of employee hiring	51.6%	55.1%	61.0%
No. of female managers	44	60	75
Female manager ratio	3.2%	4.1%	4.9%

\*Employees who reach the mandatory retirement age can be rehired on a different contract.

### Support for Employees Seeking to Obtain Qualifications

	FY2013	FY2014	FY2015
No. using support for obtaining qualifications	122	96	490
No. using support system for obtaining specified qualifications	—	—	364
No. in program for language skills improvement	—	—	21
No. using a discount program for textbooks for the Takken real estate transaction specialist exam	71	52	52
No. awarded a bonus for obtaining Takken qualification	51	44	53

"Takuchi tatemono torihiki shi" or "Takken": This qualification recognizes those who passed a test on Japanese building lots and transactions law.



## Labor Safety and Health

	FY2013	FY2014	FY2015
No. of labor accidents	39	49	<b>28</b>
Accidents requiring time off work	8	18	<b>8</b>
Accidents not requiring time off work	31	31	<b>20</b>

## Community Contributions

	FY2013	FY2014	FY2015
No. of cleanup campaign participants	13,203	15,497	<b>14,239</b>
Of which, in vicinity of existing properties	3,642	3,203	<b>3,598</b>
Of which, in vicinity of construction sites	9,561	12,294	<b>10,641</b>
Total sum of donations (thousands of yen)	1,832	2,254	<b>2,577</b>
Leopalace21-affiliated offices etc. registered for "Kodomo #110**"	235	255	<b>255</b>
No. joining observation tours and OTJ training at Leopalace Smile**	436	609	<b>571</b>
No. joining domestic hotel observation tours	50	21	<b>45</b>

\* "Kodomo #110" is a program where private-sector businesses register to provide emergency refuge to children who feel threatened or troubled.

\*\* Leopalace Smile Co., Ltd. is a special subsidiary set up to employ the disabled under Article 44 of the Act for Employment Promotion etc. of Persons with Disabilities.

## Stakeholder Communication Initiatives

	FY2013	FY2014	FY2015
No. of owner meetings	211	193	<b>257</b>
No. of IR events (meetings for individual investors, etc.)	12	17	<b>19</b>
Career-support activity programs	—	—	<b>31</b>

## Efforts to Reduce our Environmental Impact

	FY2013	FY2014	FY2015
Annual electricity usage at head office (thousands of kWh)	1,878	1,799	<b>1,763</b>
Solar power generation capacity (kW)	125,836	172,399	<b>182,070</b>
CO <sub>2</sub> reduction via solar power generation (t-CO <sub>2</sub> )	37,963	52,010	<b>54,927</b>



### Independent Assurance Statement

June 15, 2016

Mr. Eisei Miyama  
President and CEO  
Leopalace21 Corporation

#### 1. Purpose

We, Sustainability Accounting Co., Ltd., have been engaged by Leopalace21 Corporation ("the Company") to provide limited assurance on the Company's environmental performance data disclosed in the item under Efforts to Reduce our Environmental Impact in Leopalace 21 of the Data Compilation section of the Company's Annual Report 2016 ("the Environmental performance data"). The purpose of this task is to carry out our assurance procedures and express our conclusion on whether the Environmental performance data were calculated in accordance with the Company's standards. The Company's management is responsible for calculating the Environmental performance data. Our responsibility is to independently express our assurance conclusion.

#### 2. Procedures Performed

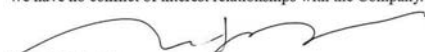
We conducted our assurance engagement in accordance with International Standard on Assurance Engagement 3000 (ISAE 3000). The key procedures we carried out included:

- Interviewing the Company's responsible personnel to understand the Company's standards
- Reviewing the Company's standards
- Performing cross-checks on a sample basis and performing a recalculation to determine whether the Environmental performance data were calculated in accordance with the Company's standards.

#### 3. Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Environmental performance data have not been calculated in all material respects in accordance with the Company's standards.

We have no conflict of interest relationships with the Company.

  
Takashi Fukushima  
Representative Director  
Sustainability Accounting Co., Ltd.

# CORPORATE HISTORY



1973

- Started business as Miyama Inc.

1985

- Ramped up launch of Leopalace21 urban apartments
- Increased capital to 132 million yen

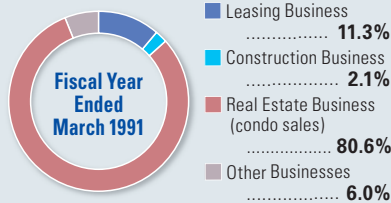
1986

- Increased capital 452 million yen

1987

- Increased capital to 760 million yen
- Increased capital to 2,740 million yen

## Sales breakdown by business



Before the "Master Lease System" was established, our mainstay was built-for-sale apartments

1991

- Obtained a patent for housing with lofts

1993

- Opened Leopalace Resort Guam

1997

- Launched Leopalace Fraternity

1998

- Increased number of managed rooms to 100,000
- Leopalace21 awarded 1998 Good Design Award

1999

- Launched "Monthly Leopalace" short-term rental apartments furnished with furniture and home appliances



Growth Period

Bubble Period

Post-Bubble Period

Business model transition

Economic growth period

Mainstay is apartment development and sales

New business model (Shift from built-for-sale to construction subcontracting)

Full launch of a synergy model combining Construction and Leasing Pillars

1988

- Launch a unique membership-based tenant system
- Launched online computer management of building and tenants

1989

- Increased capital to 4,417 million yen
- Listed on over-the-counter market (JASDAQ)
- Change company name to MDI Corporation

1990

- Increased capital to 22,484.5 million yen

1995

- Launched corporate membership sales

Business model in transition period

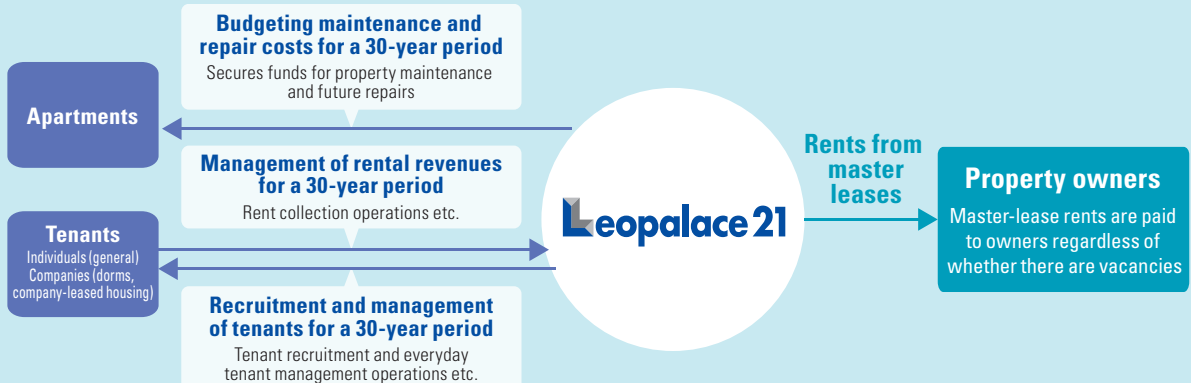
2000

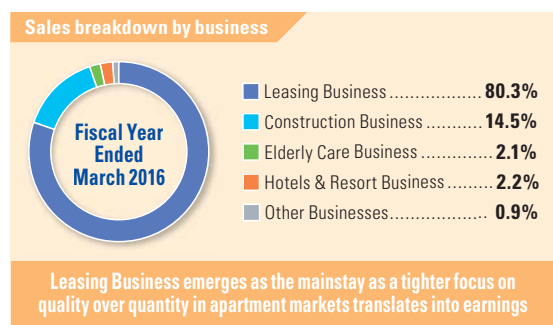
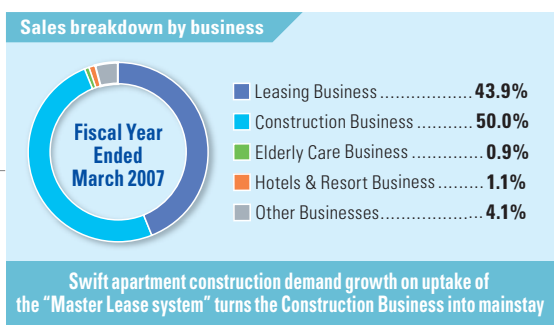
- Increased capital to 30,524.35 million yen via third-party allotment of new shares
- Change company name to Leopalace21 Corporation

2001

- Launch Leopalace REIT, a real estate securitization product

## Leopalace21 Developed and Commenced the Industry's First "Master Lease System"





**2002**

- Increased capital via public offering to 37,204.34 million yen
- **Start broadband business**



- Opened Leopalace Center Seoul in Gangnam
- Launched Monthly Leopalace Flat service
- Increased number of managed rooms to 200,000

**2008**

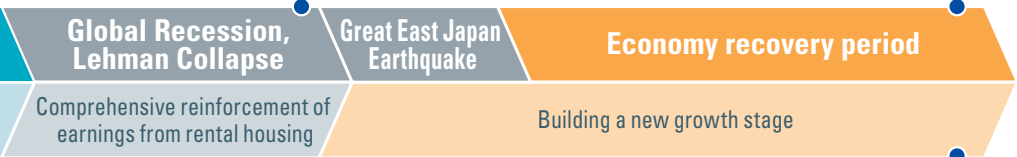
- Launch of membership-based 'Class-L' service

**2009**

- Number of managed properties increases to 500,000
- Open Leopalace21 Business Consulting (Shanghai) Co., Ltd. Open Beijing Branch

**2010**

- Number of managed properties increases to 550,000
- Launch Leopalace Partners franchise system
- Capital increases to 56.56 billion yen following third-party allotment of new shares
- Open Shanghai Corporation Dalian Branch and Guangzhou Branch



**2004**

- Listed on 1st section of Tokyo Stock Exchange
- Increased capital via public offering to 55,640.66 million yen

**2005**

- Increased number of managed rooms to 300,000
- Started Residential Business and Elderly Care Business

**2006**

- Opened Leopalace Center Taipei and Leopalace Center Busan

**2007**

- Increased number of managed rooms to 400,000
- Opened Leopalace Center Seoul in Jongno

**2011**

- **Ramped up security system installations for apartments**



- Ramped up rollout of solar power system sales

**2012**

- **Launched "Room Customize" service**



- Established power generation subsidiary Leopalace Power Corporation
- Established Woori & Leo PMC Co., Ltd. in South Korea
- Increased capital to 58,314.41 million yen on receipt of cash for exercise of No. 1 new share subscription rights

**2013**

- Increased capital to 60,415.91 million yen on receipt of cash for exercise of No. 2 new share subscription rights
- Increased capital to 62,867.36 million yen on receipt of cash for exercise of No. 3 new share subscription rights
- Introduced "non-sound system" fittings as standard feature in Leopalace21 apartment
- Established Leopalace21 (Thailand) CO., LTD. and LEOPALACE21 VIETNAM CO., LTD.
- Established elderly care service subsidiary Azu Life Care Co., Ltd.

**2014**

- Increased capital to 75,282.36 million yen via public offering and third-party allotment
- Established Leopalace Energy Corporation, a power producer and supplier (PPS)
- Established Leopalace21 (Shanghai) Property Management Co., Ltd. and Leopalace21 (Cambodia) Co., Ltd.
- Opened Myanmar branch (Leopalace21)
- Converted WING MATE CO., LTD. into a subsidiary via a stock acquisition

**2015**

- Opened Ha Noi branch of LEOPALACE VIETNAM
- Converted Morizou Co., Ltd. into a subsidiary via a stock acquisition
- Established LEOPALACE21 PHILIPPINES INC., started operating serviced offices
- Commenced operations of serviced apartments in Thailand
- Established Sriracha Branch in Thailand (Leopalace21)
- Established PT. Leopalace Duasatsu Realty in Indonesia

**2016**

- Agreed to be the title sponsor of "Leopalace21 Myanmar Open," a golf tournament for professional male golfers in Asia
- Commenced operations of serviced office in Myanmar

# CORPORATE PROFILE

## Corporate Data

(As of March 31, 2016)

### Company Name:

Leopalace21 Corporation

### Head Office:

2-54-11 Honcho, Nakano-ku, Tokyo  
TEL: +81-3-5350-0001 (Main Line)

### Established:

August 17, 1973

### Paid-in Capital:

¥75,282.36 million

### Operations:

Construction, leasing and sales of apartments, condominiums, and residential housing; development and operation of resort facilities; hotel business; broadband business; and elderly care business, etc.

### Number of Employees:

7,846 (consolidated basis)  
6,413 (non-consolidated basis)

## Members of Board of Directors and Auditors (As of June 29, 2016)

### Directors

President and CEO	Eisei Miyama
Director	Tadahiro Miyama
Director	Yuzuru Sekiya
Director	Hiroshi Takeda
Director	Kazuto Tajiri
Director	Yoshikazu Miike
Director	Hiroyuki Harada
Director	Bunya Miyao
Director (Outside)	Tadashi Kodama
Director (Outside)	Tetsuji Taya
Director (Outside)	Yoshiko Sasao

### Audit & Supervisory Board Members

Standing Audit & Supervisory Board Member	Mutsuhiro Yamada
Standing Audit & Supervisory Board Member	Atsunori Nasu
Audit & Supervisory Board Member (Outside)	Masahiko Nakamura
Audit & Supervisory Board Member (Outside)	Takao Yuhara

## Major Shareholders (Top10)

(As of March 31, 2016)

Shareholders	Thousands of Shares	Percentage of Outstanding Shares
1 Japan Trustee Services Bank, Ltd. (Trust Account)	42,389	16.12%
2 STATE STREET BANK AND TRUST COMPANY 505225	10,583	4.02%
3 The Master Trust Bank of Japan, Ltd. (Trust Account)	9,883	3.75%
4 MSIP CLIENT SECURITIES	5,931	2.25%
5 Stockholding Association for Leopalace21's Business Connection	5,773	2.19%
6 MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	5,524	2.10%
7 STATE STREET BANK AND TRUST COMPANY 505103	4,697	1.78%
8 BBH FOR FIDELITY LOW-PRICED STOCK FUND (PRINCIPAL ALL SECTOR SUBPORTFOLIO)	4,619	1.75%
9 JP MORGAN CHASE BANK 380634	3,976	1.51%
10 STATE STREET BANK AND TRUST COMPANY	3,892	1.48%

Note: Of the shares listed above, those held in trust accounts as part of trust bank operations are as follows:

Japan Trustee Services Bank, Ltd. (Trust Account) 41,781 thousand shares  
The Master Trust Bank of Japan, Ltd. (Trust Account) 9,805 thousand shares

## Stock Information

(As of March 31, 2016)

### Number of Shares:

Authorized: 500,000,000  
Outstanding: 267,443,915

### Number of Shareholders:

48,476

### Listing:

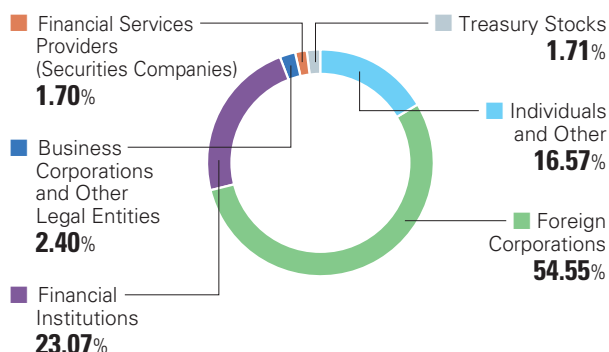
First Section of the Tokyo Stock Exchange  
(Security code: 8848)

### Transfer Agent:

Mitsubishi UFJ Trust and Banking Corporation

## Shareholder Composition

(As of March 31, 2016)

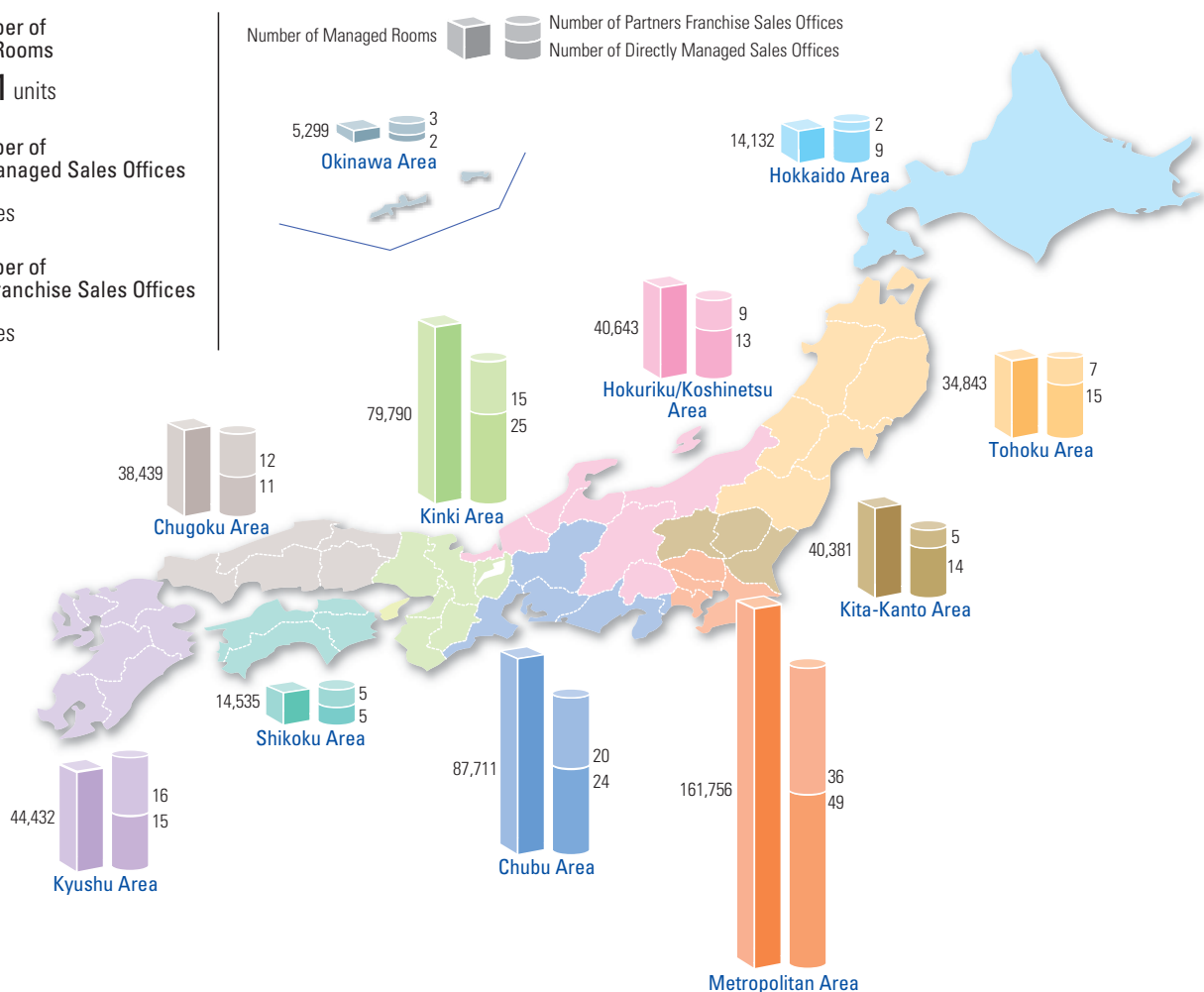


## Number of Apartment Rooms under Management and Domestic Leasing Sales Offices by Area (As of March 31, 2016)

Total Number of Managed Rooms  
**561,961** units

Total Number of Directly Managed Sales Offices  
**182** offices

Total Number of Partners Franchise Sales Offices  
**130** offices



## Share Price and Trading Volume

(As of March 31, 2016)

### Share Price

(Yen)



### Trading Volume

(Thousand shares)



# Leopalace21 Corporation

2-54-11 Honcho, Nakano-ku, Tokyo 164-8622, Japan

TEL: +81-3-5350-0001 (Main Line)

<http://eg.leopalace21.com/>