



Leopalace 21

CREATIVE EVOLUTION

Annual Report 2018

For the fiscal year ended March 31, 2018

Profile

Leopalace21 has established a unique business model fusing two core businesses, the Development Business, which involves in real estate development as well as 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 and Hotels, Resort & Other Businesses.

In the International Business (within our “Leasing 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.

Contribute to society by creating and providing

Corporate Philosophy

“Creating New Value”

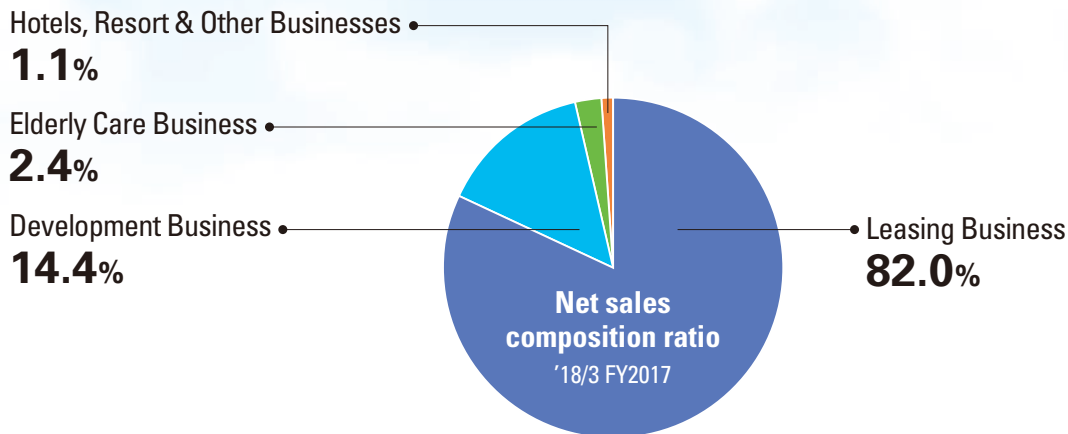
1. We keep a close eye on modern-day needs, and strive to create new value in our own unique way, through flexible thinking and dynamic, inclusive teamwork.
2. We are only happy if our customers are happy. We are constantly working to improve our products, services and technologies and to grow as a company.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

Mission Statement

We seek to always be innovators,
to create without ceasing,
and further,
we strive to increase value
for society as a whole.

Adopted on December 16, 2016

Leopalace21 delivers unique and exclusive values in Japan and overseas through our four businesses.



new value based on the theme of “housing.”

“10 Promises” of Leopalace21 Group

1. We will broadly contribute to society through continuous reform and the creation of new value.
2. We will aim to be a reliable and admired company with emphasis on equal opportunities and fair business practices.
3. We will prioritize serving our customers, and listen closely to what they have to say and identify their needs.
4. We will continue to provide valuable products and services in a timely manner, through constant innovation.
5. We will create a comfortable working environment where employees can fully exercise their skills and respect individuality and sense of values.
6. We will create a corporate culture where change and challenge is valued, and independence is respected.
7. We will provide appropriate returns of our results through fair, transparent and healthy business operations.
8. We will continue to grow through accurate identification of environmental changes, reforming our business model in a timely manner.
9. We will contribute to the development of society and the economy, by committing to high ethical standards and complying with the law.
10. We will diligently protect the global environment, and contribute to a prosperous society through corporate activities with close ties to regional communities.

Enacted on April 6, 2018

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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, 2017 through March 31, 2018 (fiscal year 2017). 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 reader 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.

Reference Guidelines

- ISO26000
- GRI (Global Reporting Initiative)
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.

To Our Stakeholders

In parallel with supporting the continuous growth of core businesses while constructing a base for growth areas, we will begin to reform our organization structure in “the first year of human resources and organization development.”

Leopalace21 was off to a great start this fiscal year, the first year of the medium-term management plan. Although the forecasts were not achieved in the Development Business due to changes in the environment surrounding apartment construction, the Leasing Business continued to record increases in revenue and profit. In addition, we were able to take the required measures in the growth businesses, including the International Business.

In the Leasing Business, for example, we have taken steps to improve our services using IoT and AI. In real estate development, investors and Leopalace21 have entered into partnerships for our real estate specified joint enterprise products. Furthermore, our subsidiary company, Leopalace Trust Co., Ltd., has acquired the Investment-based Trust Company license. In the International Business, we opened a serviced apartment in Cambodia and a serviced office in South Korea.

I would like to take this opportunity to convey my sincerest apologies for the tremendous trouble and distress caused due to deficiencies in the construction of parting walls for some of the apartments we constructed. This resulted from inadequacy in our management structure, and the entire management team is taking the situation very seriously. We have started investigations of all of our apartments. Should we find any deficiencies in the course of the investigations, we will swiftly carry out repair works in consultation with specific administrative agencies. At the same time, we will endeavor to determine the cause of this situation and develop a rigorous quality management system to prevent any recurrences. The entire Leopalace21 will engage in the investigations and repair works, and will make every effort to regain the trust of our stakeholders.

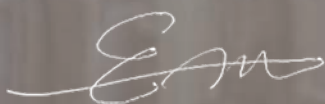
In fiscal 2018 (fiscal year ending March 31, 2019), we will ensure that the above repair works are fully completed. We will also grow our Development Business by expanding real estate development, as well as undertake the necessary measures so that our Leasing Business, International Business, and other businesses continue along a steady growth path. Additionally, we will reform our organization structure in “the first year of human resources and organization development,” with a view to transitioning to a holding company.

In closing, I would like to humbly request your continued support and encouragement.

June 2018

Eisei Miyama

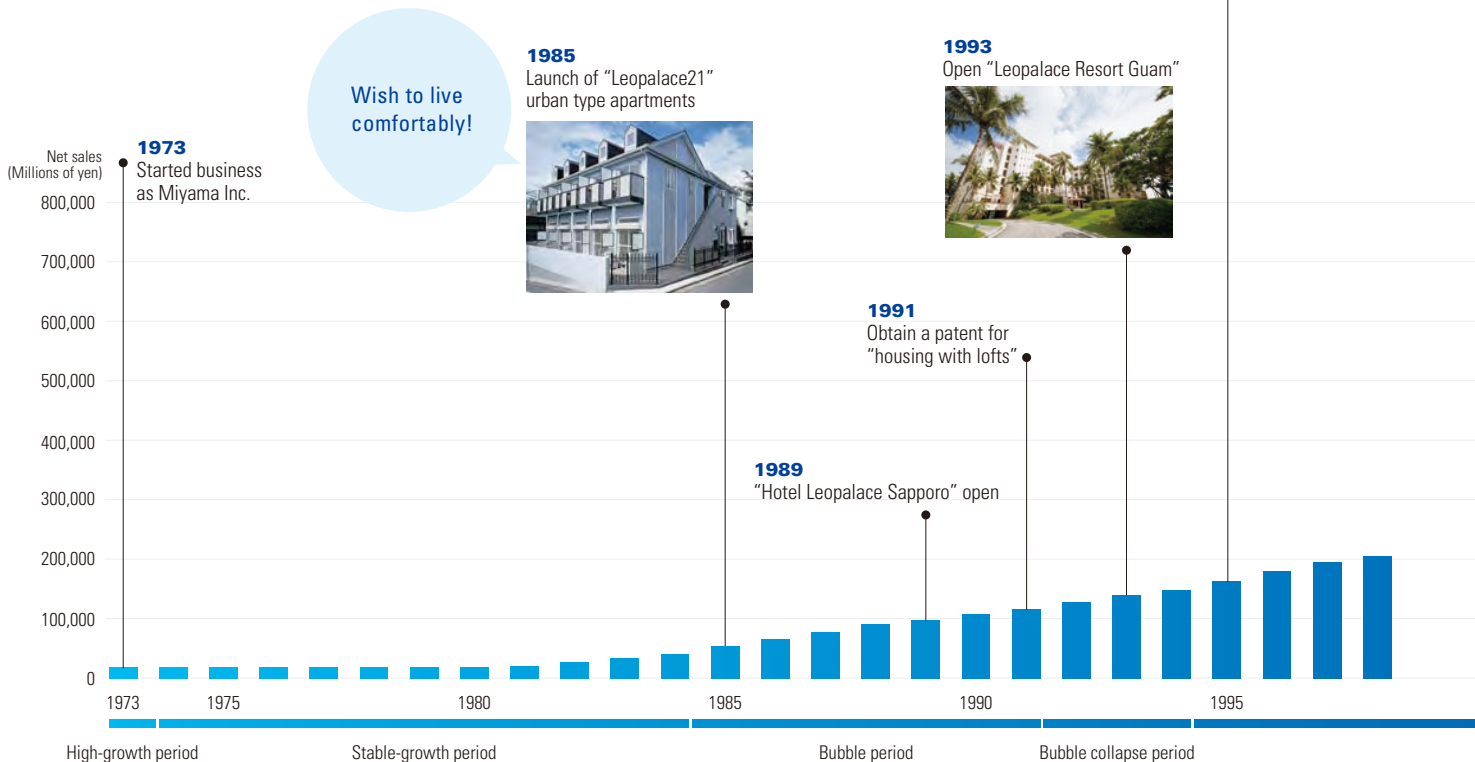
President and CEO




Trajectory of Growth

Created various values of “the first in the industry” to expand business while contributing to society

Since the establishment in 1973, Leopalace21 has created various values of being “the first in the industry,” responding to the needs of housing. With our strengths which have been cultivated over the years we will make further progress toward the next stage.



History of Overseas Expansion

2002

- Open Leopalace Center Seoul

2006

- Open Leopalace Center Taipei and Leopalace Center Busan

2007

- Open Leopalace Center Jongno

2009

- Establish overseas subsidiary in China (Shanghai), open Beijing Branch

2010

- Open Dalian Branch and Guangzhou Branch

2012

- Establish Woori & Leo PMC Co., Ltd. in South Korea

2013

- Establish one overseas subsidiary in Thailand and one in Vietnam

2014

- Establish overseas subsidiary in Cambodia
- Open Myanmar Branch

2015

- Open Hanoi Branch
- Establish overseas subsidiary in Philippines, start operating serviced office
- Start operating serviced apartment in Thailand

- Open Sriracha Branch

- Establish overseas subsidiary in Indonesia

2016

- Start operating serviced office in Myanmar

- Establish overseas subsidiary in Singapore

- Start operating serviced apartment in Vietnam

2017

- Acquire Enplus Inc. and make it into an affiliate

- Start operating serviced apartment in Cambodia

2018

- Start operating serviced office in South Korea (Seoul)

Four strengths of Leopalace21

1
Scale

2
Tenant Matching Capabilities

3
Innovative Products

4
High-quality Service

Want to enjoy living alone to the full extent

1999

Launch "Monthly Leopalace" furnished with furniture and home appliances



Want to freely rearrange my room

2012

Start "Room Customize" (current "my DIY") service



Want to live in a room safe and secured for female

2011

Start "Security System" installations for apartments



2017

Promote smart apartments
Install "Leo Remocon" and "Leo Lock" in sequence

2015

Adopt computerized lease agreement

2013

Adopt "Non-sound System" as standard feature

Want to enjoy internet in my room

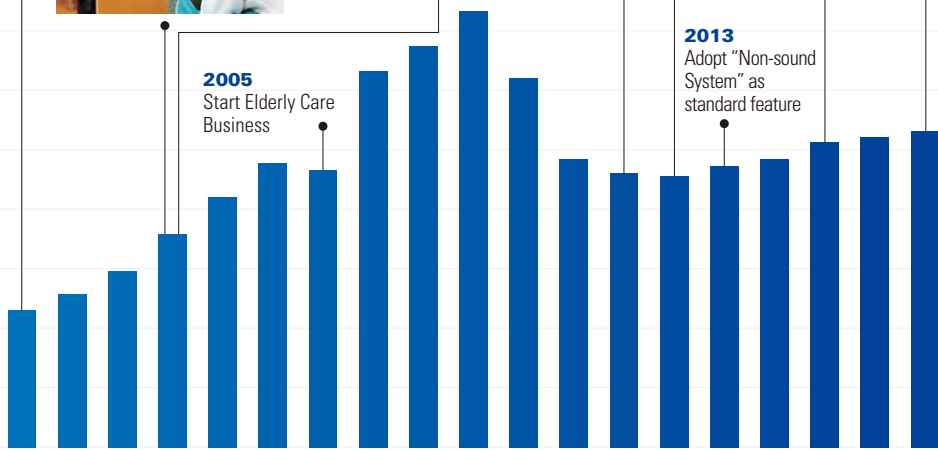
2002

Start broadband business



2005

Start Elderly Care Business



Economic uptrend period

Global recession period

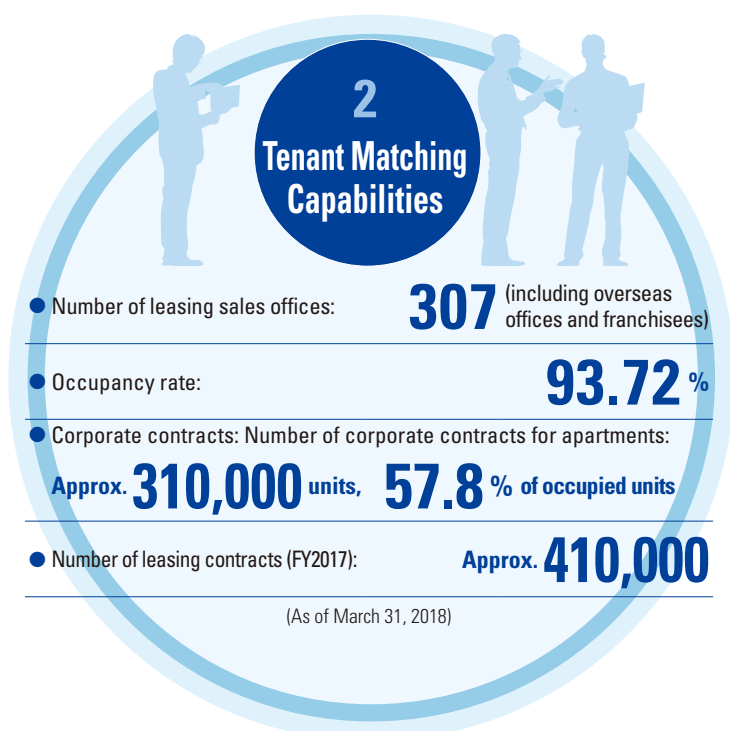
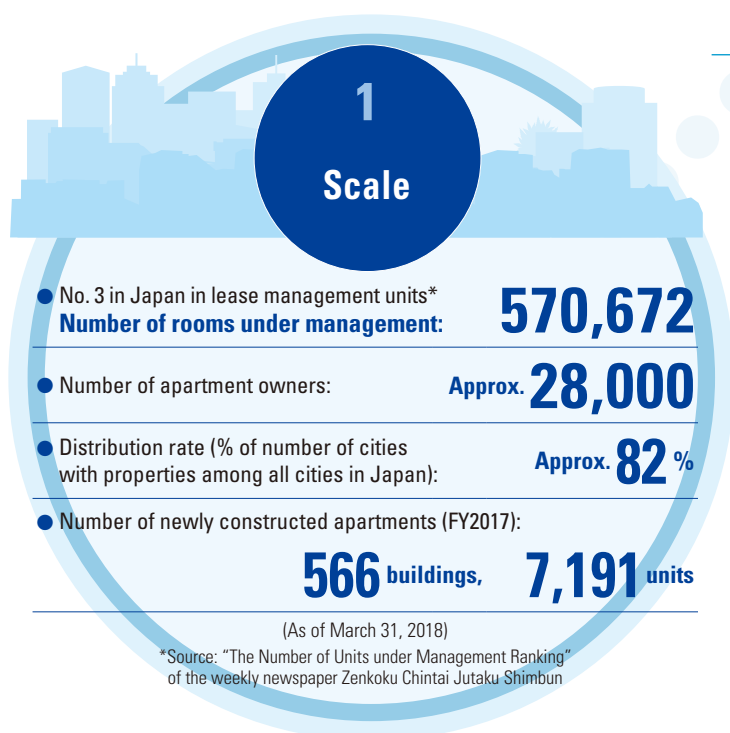
Economy recovery period

Fiscal year

Cultivated Strengths and Business Model

Leopalace21's unique business model led by four strengths

Business model of Leopalace21 is driven by the following four strengths gained from our experience and knowledge amassed across the Companies over the years. Harnessing the strengths, with the Leasing Business and Development Business serving as our foundation, we seek to unearth synergies between these two Core Businesses and the Hotels, Resort & Other Businesses, and we are directing resources to the Elderly Care Business and International Business to further reinforce our unique business model.



Leopalace21's are the driving force



Hotels, Resort & Other Businesses

This segment includes Leopalace Resort which operates sports facilities, hotel and condominium in Guam, and Leopalace Hotels operated in four locations nationwide.



Each business generates in Leopalace21's

four strengths of our business model

Construction Real Estate Development

Development Business

Developing high-end products to satisfy what is required for rental housing such as low cost, energy saving and high durability.



Core Business

Elderly Care Business

Providing nursing-care facilities and services, in an environment marked by full-scale aging society coming up.



Growth Strategy Business

synergies and creates value unique business model

3 Innovative Products

- Number of contracts for "my DIY" service: **Approx. 40,000**
- Ratio of apartments with furniture and home appliances: **Approx. 94%**
- Ratio of apartments with Internet access: **Approx. 97%**
- Ratio of apartments with "Leo Lock" installed: **100% among subject properties**

(As of March 31, 2018)

4 High-quality Service

- Number of foreign languages supported: **7**
- Japanese Call Center's operating hours: **24 hours**
- Contracts through corporate housing services: **with 205 companies, for 61,800 units**
- Number of units with security systems installed: **Approx. 300,000**

(As of March 31, 2018)

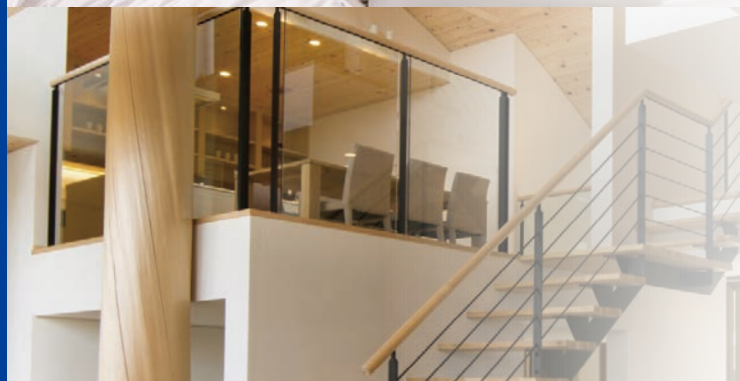
Leopalace21's Long-term Vision

Strive to remain as a company to create and provide new value relating to “housing” even after 30 years.

Since its founding, Leopalace21 has been responding to various social challenges and needs related to people and housing. Those efforts include supplying urban-type apartments, opening an overseas resort hotel, providing apartments with furniture and home appliances, starting the Elderly Care Business, and expanding globally using our real estate know-how amassed in Japan.

When looking to the future with a long-term perspective, it is obvious that a variety of social challenges will keep arising in the real estate industry which we are a part of. Leopalace21 will grow further by continuing to resolve these problems going forward.

By striving together to embody our mission statement, “We seek to always be innovators, to create without ceasing, and further, we strive to increase value for society as a whole” and resolving those social challenges, Leopalace21 will develop new value creation for people and housing not only in Japan but globally as well.



Leopalace21's Priority Issues

Priority issues (initiatives)

Main SDGs related to priority issues

Responding to declining population

- Increasing single-person households
- Increasing vacant housings



Our initiatives responding to the social challenges such as increasing single-person households and vacant housings caused by declining population are related to the above two SDGs.

Responding to aging society

- Decrease in productive age population
- Increase in the needs for nursing care



Our initiatives responding to the social challenges such as of decreasing productive age population and increasing number of elderly caused by the aging of society are related to the above two SDGs.

Other priority issues

- Response to lifestyle diversification



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- Promotion of diversifying work styles and human resources



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- Contribution through our business that helps strengthen local communities



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- Lowering of our environmental impact by reducing CO₂ emissions



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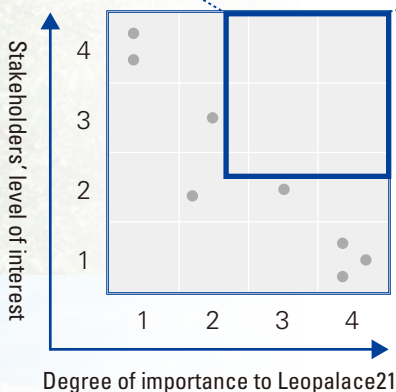
- Necessity of dialogues with and disclosure to stakeholders



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Leopalace21's Initiatives

Leopalace21's priority issues



Social Challenges We Should Address

To identify the social challenges we intend to actively address in the future, we plotted the challenges on a materiality map based on two axes; our stakeholders' level of interest and the degree of importance to Leopalace21. Among the numerous various challenges, we identified "declining population" and "aging society" as Leopalace21's two challenges to be addressed with the highest priority. Resolving these identified challenges is connected not only to creating value to our diverse stakeholders but also to realizing the SDGs which were agreed upon at the United Nations Sustainable Development Summit.

Leopalace21's Initiatives for Opportunities

Leopalace21's business is aimed to resolve issues related to people and housing. Declining population and an aging society are currently major challenges in the society, including the industry where we belong. Leopalace21 has been focusing on responding to these challenges. We engage in initiatives that lead to creating and sustaining value by accurately understanding the things that occur due to the issues and categorizing them as opportunities or risks.

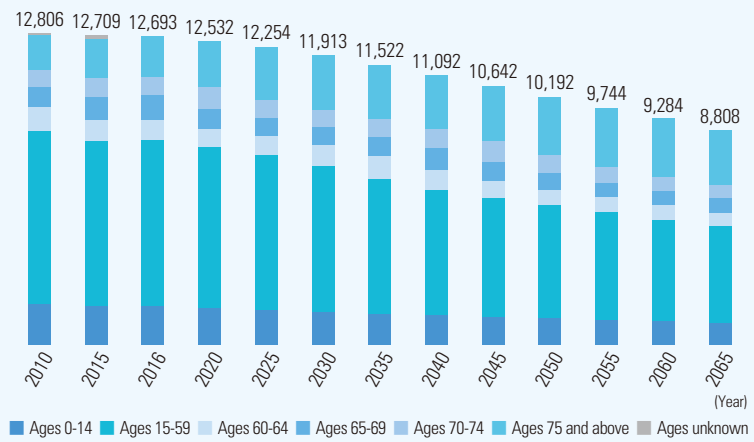
Social Challenges

Challenge
1

Declining Population

The decline in the birthrate will accelerate in the future. The total population in Japan is forecast* to drop below 100 million, to 97.44 million by 2055, and then will continue to decline even further to fall below 90 million by 2065.

Future population estimates by age group in Japan (10,000 people)



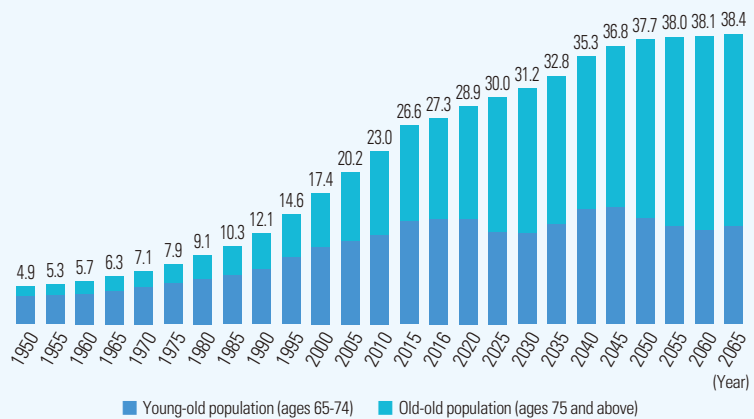
* Source: White Paper on Aging Society (June 2017), Cabinet Office, Government of Japan

Challenge
2

Aging Population

The percentage of aged people in Japan is expected* to continue increasing to reach almost one aged person (ages 65 and above) in every 3 persons by 2035 and one in every 2.6 persons by 2065.

Change in the ratio of the population aged 65 and above (%)



* Source: White Paper on Aging Society (June 2017), Cabinet Office, Government of Japan

and Risks of Social Challenges

Leopalace21's Initiatives

What's happening

Increase in one-person households

The National Institute of Population and Social Security Research foresees a decline in the total number of households in the future leading up to 2040 while predicting a continued increase in the total number of one-person households. The number of households of single person in productive age (ages 15-64), which is our target, is estimated to level off at 10 to 12 million in the next 20 years.

Opportunities

- Increase in needs for one-room type housings suitable for one-person households
- Increase in the number of Japanese companies expanding into ASEAN



P12-13

P18-19

Risks

- Excess supply of apartments
- Increase in vacant housing



P14-15

P14-15

Increase in foreign nationals

According to the notification status summary in the Situation of Notified Foreign National Employment Status by the Ministry of Health, Labour and Welfare in January 2018, supported by the factors such as the use of skills training programs, the number of foreign workers in Japan increased 194,901 (18.0%) year on year to 1,278,670 as of October 31, 2017, recording the highest number for 4 straight years.

Opportunities

- Increase in nursing care needs
- Increase in foreign workers and exchange students



P16-17

P18-19

Increase in nursing care needs

Survey of Long-term Care Benefit Expenditures by the Ministry of Health, Labour and Welfare shows that the needs for nursing care service business are expected to grow further in the future in line with the consistent increase of the number of people using nursing care services.

Risks

- Decrease in productive age population
- Shortage in human resources for nursing care



P18-19

P16-17

Social Challenge 1

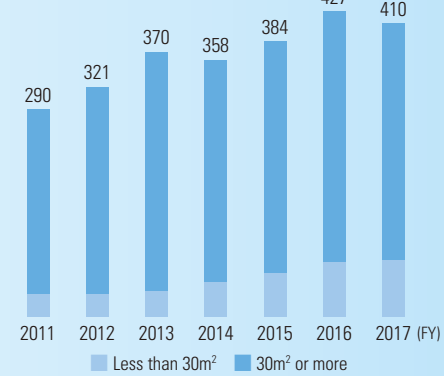
Leopalace21's Opportunity Initiatives for

Opportunities in a declining population

Increase in needs for one-room type housings suitable for one-person households

Due to the estimate that the total number of households will continue to decline in the future up to 2040 while the number of one-person households will increase, the needs for one-room type housings suitable for one-person households are increasing. According to the statistical data for the number of new housing starts (housing for rent) released by the Ministry of Land, Infrastructure, Transport and Tourism, the number of rental housings of 30m² or smaller, which is our business target, has kept increasing since 2011 up to approximately 79,000 units in fiscal 2017 in spite of the year-on-year decrease of the total number of housings for rent.

Number of new housing starts (housing for rent) (1,000 housings)



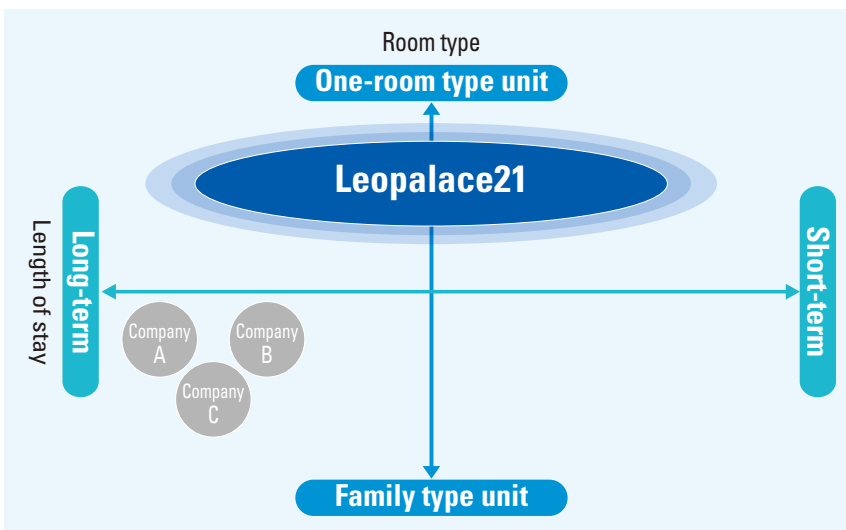
Source: New Housing Starts Statistics, Statistics Bureau, Ministry of Land, Infrastructure, Transport and Tourism

Leopalace21's opportunity initiatives

Establishing a unique position in the market targeting one-person households

Leopalace21 has been expanding business with urban type apartments at the core from an early stage through focusing on housings for one-person households that are different from conventional housings, which respond to the needs for short-term stays as well as housings with furniture and appliances. We have built and managed properties that leverage our know-how for one-person households, such as design, specifications and man-

agement, for more than 30 years. We also have rental properties with a wide range of room types and periods of stay for residents, and have established a unique foothold that has comparatively low competition. Our positioning in a market shared by our competitors is represented as "specializing in one-room type units" as well as "targeting medium-term stays."

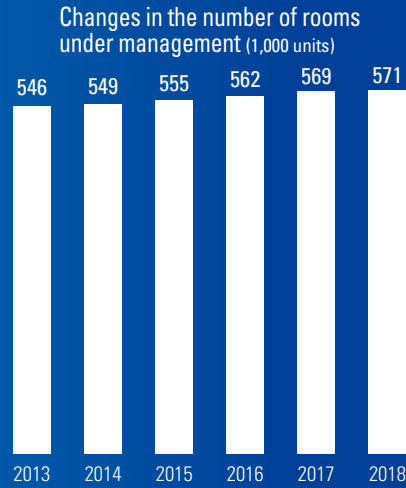


a Declining Population

Competitive advantages of Leopalace21

Maintaining foundation of a long-term market leader (approx. 570,000 units managed throughout Japan)

One competitive advantage of Leopalace21 is its overwhelmingly large stock of managed apartments. Since Leopalace21 (urban type apartments) were released in 1985, we have grown in a scale that boasts roughly 570,000 rooms (units) under management throughout Japan to date. We must have a presence in the market to sustain medium- to long-term competitive advantages. The enormous number of rooms under management will be our platform to keep the presence as the industry's market leader for the next 10 or even 20 years.



*As of the end of March

Leopalace21's differentiation strategy

Promoting measures to enhance the value of properties matching the needs of the times

Leopalace21 always strives to provide products and services that lead the real estate industry. We are promoting product development and measures to enhance the value of existing properties that focus on comfort, environment and disaster prevention, as well as safety and security, which are particularly in high needs by tenants. Leopalace21 drives forward the development of choice properties by advancing measures, including support for a

transition to IoT via "Leo Remocon," "Leo Lock," and "Facial Recognition System;" installation of "PUDO Station" open delivery lockers that anyone can use; "my DIY" for tenants to customize rooms as they like; introduction of solar power generation systems that can contribute to environmental conservation; and security systems that consider safety and security by linking to major security companies.

my DIY



STB device "Life Stick"



Leo Remocon



Open-type delivery lockers "PUDO Station"

レオパレス21

×



Security system



Leo Lock

Social Challenge 1

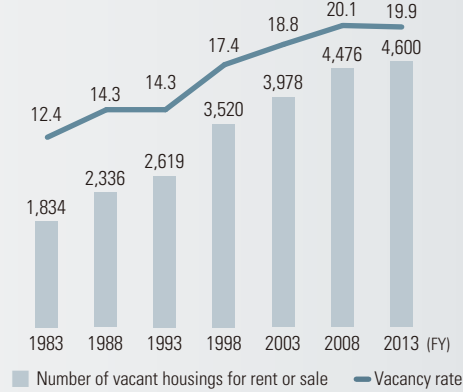
Leopalace21 Risk Initiatives for

Risks in a declining population

Increase in vacant housings in Japan due to excessive supply of housings for rent

The number of new rental housing starts in Japan has been increasing with circumstances that include revisions to the inheritance tax and prolonged low interest rates resulting from negative interest rate policy implemented by the Bank of Japan. However, as the number of regions constructing new rental housings that exceed the actual demand has increased, the number of vacant housings has been consistently increasing. There were roughly 4.6 million vacant housings for rent or sale in 2013 with a vacancy rate of 19.9%, which is partially becoming a social issue.

Changes in the number of vacant housings for rent (1,000 housings) and vacancy rate (%) in Japan



Source: 2013 Housing and Land Survey, Statistics Bureau, Ministry of Internal Affairs and Communications

Leopalace21's risk response

Properties centered on metro areas with increased migration

The number of contracts in the Construction Business (current Development Business) decreased to fall into an operating loss as a result of stagnation in apartment demand due to the global financial crisis triggered by the 2008 collapse of Lehman Brothers. Through the business structure reforms conducted from fiscal 2010, we were able to shift to a stable

profit structure as a result of accelerated initiatives, such as concentrating of areas to supply properties, advancing the shift to the Leasing Business (sales composition changed from 43.9% to 82.0%), and expanding the variation of construction products in the Development Business.

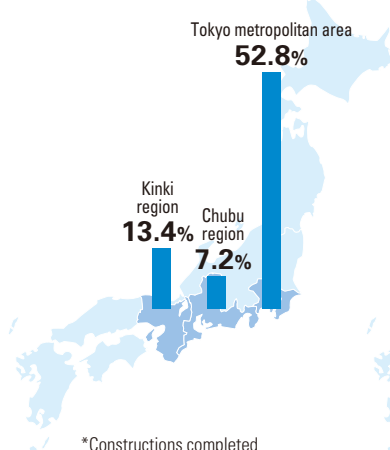
Top 5 prefectures with large excess in in-migrants

Prefecture	Net-migration in 2017: (in-migrants)–(out-migrants)
Tokyo	75,498
Chiba	16,203
Saitama	14,923
Kanagawa	13,155
Fukuoka	6,388

Source: Report on Internal Migration in Japan Derived from the Basic Resident Registration, Statistics Bureau, Ministry of Internal Affairs and Communications

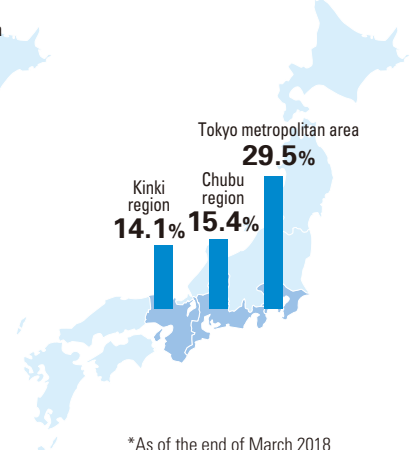
Focused on metro areas

Number of rooms newly supplied



*Constructions completed in the fiscal year ended March 2018

Number of rooms under management



*As of the end of March 2018

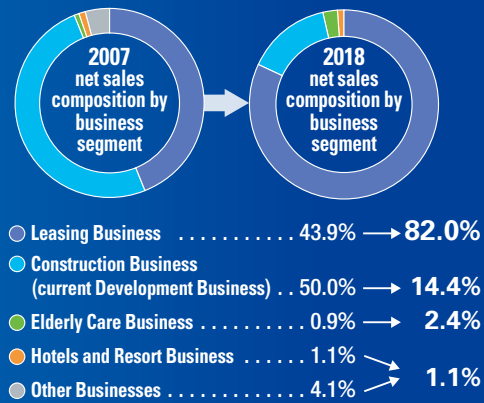
a Declining Population

Leopalace21's business structure reforms

Reducing construction contracts and establishing a stable revenue and profit structure focusing on Leasing Business

Allocating resource to selected and focused areas is indispensable for the success of business. Development Business of Leopalace21 implements a strategy that concentrates on regions where large tenant demand is forecast. One indicator to determine this demand is the inflow and outflow of tenants by prefecture summarized in the "Report on Internal Migration in Japan Derived from the Basic Resident Registration." Based on the above report, we determined that the prefectures with the highest excessive number of people moving in against number of people moving out in 2017 were 7 prefectures including the Tokyo metro area such as Tokyo, Chiba, and Saitama. We are concentrating more than 70% of our new housing units and about 60% of properties under management in 3 major metro areas. We are sustaining a stable tenant rate by concentrating new property supply and property management in major cities that will continue to have a booming migration.

Increasing profitability of existing apartments through thorough implementation of business structure reforms

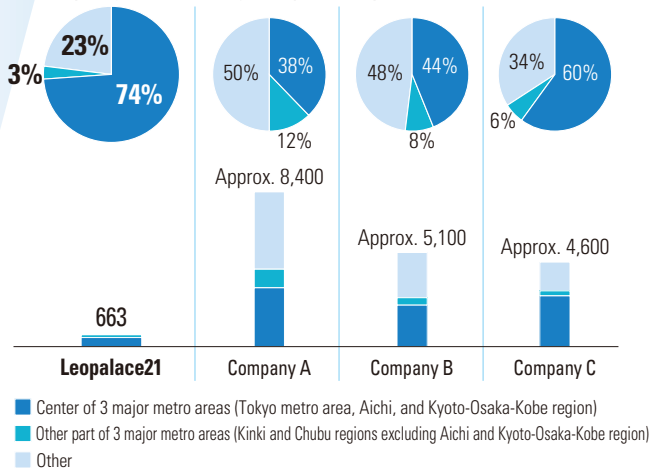


Leopalace21's differentiation strategy

Superior in construction ratio in metro areas in spite of falling short in the supply of new rooms

As we shifted to a new business structure with the Leasing Business at the core by reducing the number of construction contracts, we lag behind major subleasing companies in terms of new apartment supply. However, Leopalace21 holds the highest construction ratio in major metro areas where a large demand can be expected compared to those subleasing companies.

Number of new apartment buildings constructed by major subleasing companies by area (FY2016 results)



■ Center of 3 major metro areas (Tokyo metro area, Aichi, and Kyoto-Osaka-Kobe region)
 ■ Other part of 3 major metro areas (Kinki and Chubu regions excluding Aichi and Kyoto-Osaka-Kobe region)
 ■ Other

Source: 2017 Competitiveness Analysis of Housing Manufacturers, JUTAKU SANGYO KENKYUSHO CO., LTD.

Proposing ideal land use

As an excess supply of apartments is becoming a social issue, we do not propose apartment construction in areas where demand is not expected. Leopalace21 proposes optimal plans to help realize ideal land use in line with the needs of each region, such as elderly care facilities, childcare facilities, stores and buildings with commercial space, and custom-built homes.

Examples of proposals for ideal land use



Social Challenge 2

Leopalace21's Opportunity Initiatives for

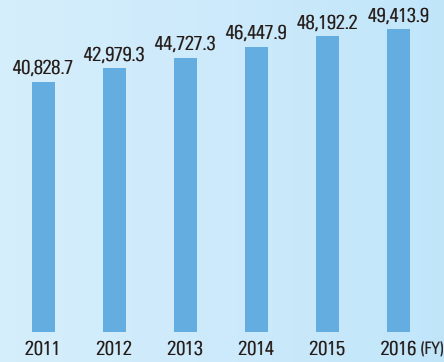
Opportunities in an aging population

Increase in usage needs for nursing care facilities

Along with the aging of Japan's population, the needs for nursing care service business are expected to grow further in the future as the number of elderly people requiring nursing care increases year by year. A survey by the Ministry of Health, Labour and Welfare shows an ongoing increase in the number of people using nursing care services with the total annual number of recipients of these services in fiscal 2016 climbing to 49,413,900 people. In particular, the number of people using in-home services, including day services and short stays, is also increasing dramatically every year.

*The "total annual number of recipients" is the total number of people who received nursing care services each month from May to April of the following year.

Change in the number of people using nursing care services (1,000 people)



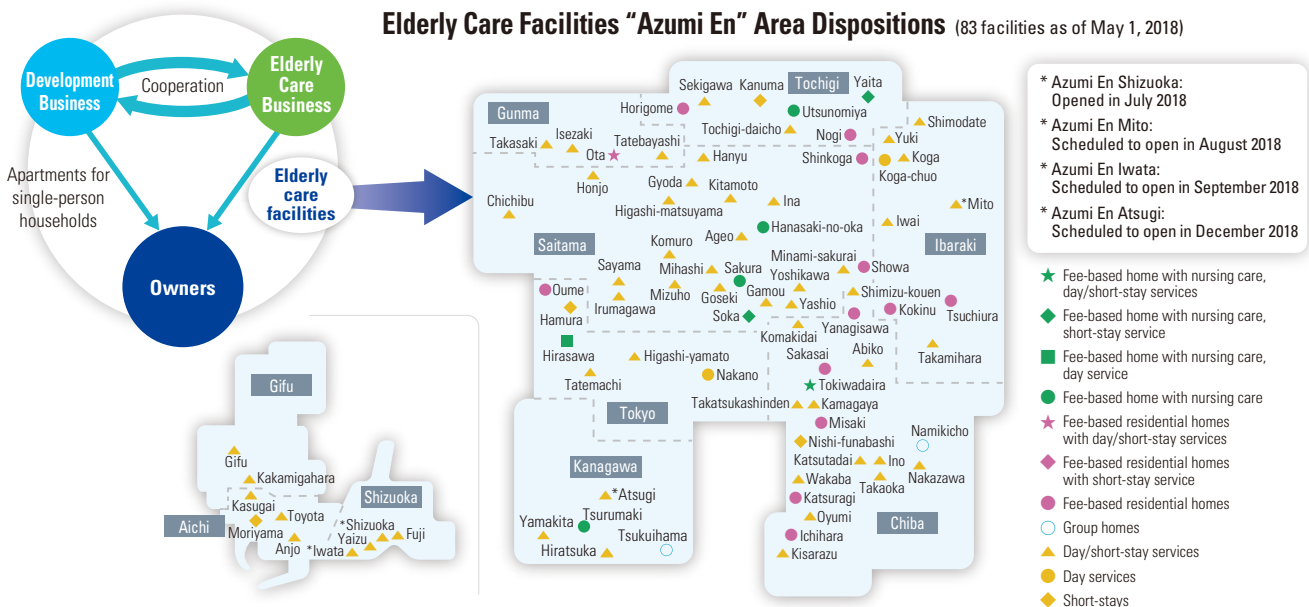
Source: Survey of Long-term Care Benefit Expenditures, Ministry of Health, Labour and Welfare

Leopalace21's opportunity initiatives

Creating synergies through cooperation with the Development Business

The Elderly Care Business, which is a growth strategy business, is expected to create synergies through cooperation with our core businesses. Azumi En nursing care facilities of the Elderly Care Business have been developed widespread in the Kanto and Chukyo areas in the same way as the Development Business, one of our core businesses. There are cases where land owners prefer our proposals for an elderly

care facility over an apartment. We believe the Elderly Care Business is indispensable in considering approaches to realize effective land use. In the future, we also predict needs for proposals related to the welfare of customers entering into corporate contracts, and foresee the Elderly Care Business as one of those proposals to be developed in multifaceted cooperation with the Development Business.



an Aging Population

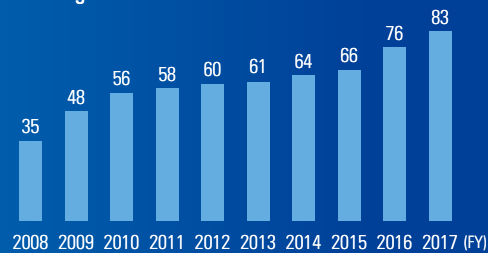
Competitive advantages of Leopalace21

Elderly Care Business as Growth Strategy Business

Leopalace21 positions the Elderly Care Business as a growth strategy business and is increasing the number of facilities. In addition to day services (same-day service), short-stays (short-term overnight stays), elderly homes with nursing care services/residential style elderly homes (move-in), and group homes (residents with dementia live together), we are also developing services such as visiting care, in-home bathing assistance, visiting care and nursing care with regular visits and 24 hour support, and in-home support. As of May 1, 2018, we operate 83 facilities, with plans to increase the number to the total of 87 facilities focusing on the areas in need.



Change in the number of Azumi En facilities



Leopalace21's profit improvement strategies

Improving profitability through quantity increase and cost control

Leopalace21 considers the elderly care market as a growth market. However, the fierce competition in the market due to many new entries from different industries makes it difficult to improve profitability. Compared to our competitors, we have a high full-time employee ratio and the fixed costs derived from the full-time employees are putting pressure on profit. Therefore, it has been difficult for us to increase profit

unless we achieve a higher occupancy rate. In light of this situation, we are furthering our review of costs that can achieve profitability at each facility rather than expanding the number of facilities during the current medium-term management plan. In addition, we will improve profitability (becoming profitable) at each facility by various cost control measures, such as the use of IT.

1

Increase facilities

In order to respond to the growing nursing care demand as well as social challenges, such as a shortage in the number of nursing care facilities, we will increase the number of facilities.

May 1, 2018



Plan for March 31, 2020

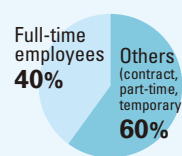


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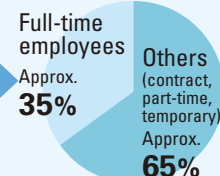
Reform cost structure

We are working to secure profit by further optimizing labor costs.

Fiscal 2015



Plan for fiscal 2019



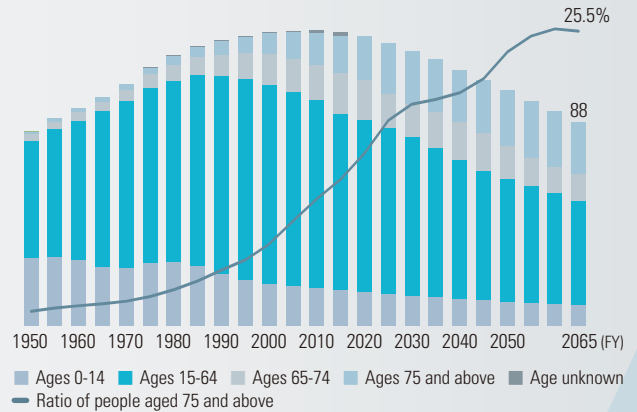
Social Challenge 2 Leopalace21 Risk Initiatives for

Risks in an aging population

Dramatic decline in the productive age population

The productive age population in Japan has been dropping with its peak in 1995 due to the progression of declining birthrate and aging population. The estimated population of people aged 14 and below has also been continuously declining since 1982, and there is no stop to the lowering birthrate. In the future, the total population is expected to decline to 119.13 million people by 2030 and 92.84 million people by 2060 while the productive age population is expected to decline to 68.75 million people by 2030 and 47.93 million people by 2060. On the other hand, the ratio of people aged 75 and above is forecast to continue to rise to 19.2% by 2030 and 25.7% by 2060.

Change in the Japanese Population (Million People)



*Source: 2017 White Paper on Aging Society, Cabinet Office, Government of Japan

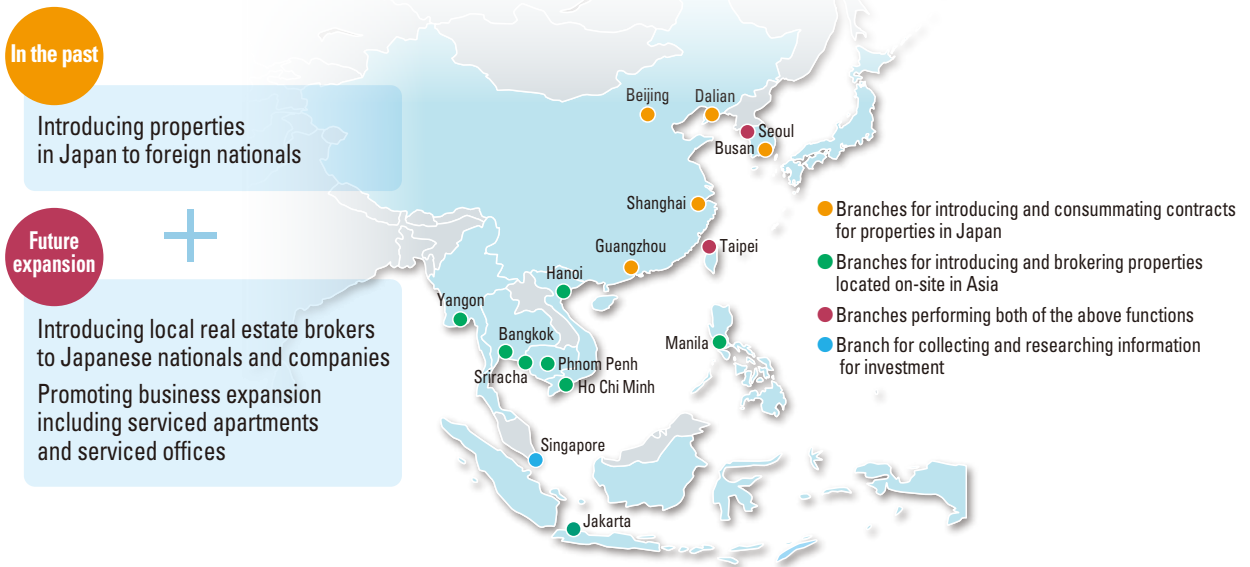
Leopalace21's global strategy

Overseas expansion of the Leasing Business

Leopalace21 engages in real estate brokerage and introduction locally for Japanese nationals and Japanese companies, in addition to our conventional business of introducing real estate in Japan to foreign nationals, by establishing 16 branches overseas with a focus on the ASEAN region. In South Korea, we established Woori & Leo PMC Ltd. through a merger with a major residential management company to enter into the leasing management business and gradually

increase the number of management contracts. Furthermore, in order to respond to the growing needs for comfortable living in local areas following the increase of Japanese companies expanding into the ASEAN region, we operate serviced offices and serviced apartments with high-quality equipment and services in high-quality buildings. We opened a new service apartment in Cambodia in December 2017 and a service office in Seoul in May 2018.

Overseas expansion of the Leasing Business (16 branches)



an Aging Population

Leopalace21's resilience (response capabilities)

Overseas expansion into the ASEAN region and utilization of foreign workers in Japan

While the productive age population in Japan is expected to decline, the population in the ASEAN region is growing along with the increase of work productivity and significant development of the region is expected. Considering this business environment, Leopalace21 engages in various initiatives to utilize the human resources of the ASEAN region that include skills trainings in Vietnam to develop on-site construction workers for Japan, in addition to conducting local real estate brokerage and introduction in the ASEAN region.

Overseas expansion emphasizing Asia

GLOBAL VISION

&

Use of foreign workers in Japan
Utilization of foreign human resources

— Overseas personnel support and utilization of foreigners as human resources at Leopalace21 —

Global Relocation Operating Support (GROS)

Leopalace21 has brought Enplus Inc. under its umbrella as a subsidiary company in October 2017 to expand GROS, support services for personnel transfers between Japan and overseas. Currently, we have 16 offices in Asian countries and provide one-stop services to assist customers, including support to bring in foreign employees, overseas outsourcing of personnel, and end-to-end support for overseas appointments.

Utilizing human resources of ASEAN region

As the labor shortage progresses due to the decline in the productive age population in Japan, Leopalace21 provides skills training in Vietnam to accept interns who completed the training into its contractors in Japan. In addition, we actively promote utilization of overseas human resources. For example, we use local companies in Vietnam and Cambodia to create drawings of our properties as part of our BPO.



- 1 Facilitating introductions of medium- to high-class SA* in Japan
- 2 Lifestyle support by bilingual employees
- 3 Facilitating support for property introductions in major cities worldwide
- 4 Supporting transfers between countries

*SA: Serviced apartment



Skills training

Opportunity and Risk Management Discussions

At the Board of Directors meeting, Leopalace21 determines important matters regarding management including strategies to address social challenges, and monitors the status of business execution as well as directors' execution of duties. We are enhancing corporate value by systematically responding to the changing business and management environments.

Challenges discussed at the Board of Directors meeting (Refer to page 64 "Corporate Governance")

We hold regular Board of Directors meeting once a month as well as convening the meeting flexibly as necessary to discuss and determine various matters, such as strategies, investment criteria, and management resources in resolving social challenges. To address social challenges such as declining and aging population, we consider diversification and multipolarization of construction properties other than low-rise apartment buildings is important in Japan, and position our International Business as growth strategy business for overseas. Furthermore, we also focus on the development of organization and human resources. We believe both human resources with entrepreneurial mindset to drive our Company and organizational structure enabling innovation are

indispensable. Based on this belief, the Board of Directors is discussing the following challenges:



Considerations related to the challenges at the Board of Directors meeting

1. Investment criteria

(real estate investment/M&A in Japan and overseas)

- Cultivating objectivity and validity of investment activities based on WACC
- Distributing risk by setting up investment frameworks by country while incorporating country risk into overseas investments
- Overseas investments that sufficiently consider tax systems, foreign exchange risks, etc.

2. Organization and human resource development

- Implementing on-site training such as the management duties of the Company as well as the selection of next-generation management candidates in addition to extensive human resource development programs for all employees
- Stronger links to prevent the negative effects of vertical sectionalism in addition to entrusting authority and responsibility to next-generation management through the company system
- On-site staff and management to have the same mindset and to share information

Finalized action plans

- (1) Formulation of guidelines for investment management
- (2) Real estate investment in ASEAN/Japan:
We consider the risks in each ASEAN country to execute real estate investments
- (3) Merging of Enplus Inc. as our subsidiary:
Enplus Inc. became our subsidiary in October 2017, which made us Japan's first relocation management* company.
- (4) Offices specializing in development excluding apartments

- (5) Establishment of Regional Supervision Department
- (6) Transition to the company system

Trial operation is scheduled to start in October 2018.

* An outsourcing service for global personnel administration that fully manages processes in the country of origin and destination for corporate personnel transfers. We also support the movement of personnel for various cases such as new hires and medium- to long-term business trips and training in addition to long-term appointments.

9 offices
out of **59 offices**



about Social Challenges

“ Creating an even more ideal form of Leopalace21 is vital ”

Tadahiro Miyama

Director, Senior Vice President, General Manager of Sales and Marketing General Headquarters, General Manager of Corporate Business Promotion Headquarters (concurrent position)

Our medium-term management plan addresses sustainable growth with our core businesses as the driving force, but we cannot expect the same large growth that we have had up until now. Increasing the number of apartments is not realistic in Japan where the low birth-rate and longevity are in stride. Our core businesses may be in a harsh environment, but creating an even more ideal form of Leopalace therein is vital. We have positioned the Elderly Care Business and the International Business as growth businesses, but especially in terms of our International Business, our name recognition is still limited locally. We will plant the seeds within this medium-term management plan, including a Joint Venture (JV) System with local companies. Leopalace21 will spearhead growth and diversify risk by leading the International Business to record 25% to 30% of operating profit of the entire Company in the long term.



“ The challenge is how to leverage the stock held in the future ”

Tadashi Kodama

Outside Director

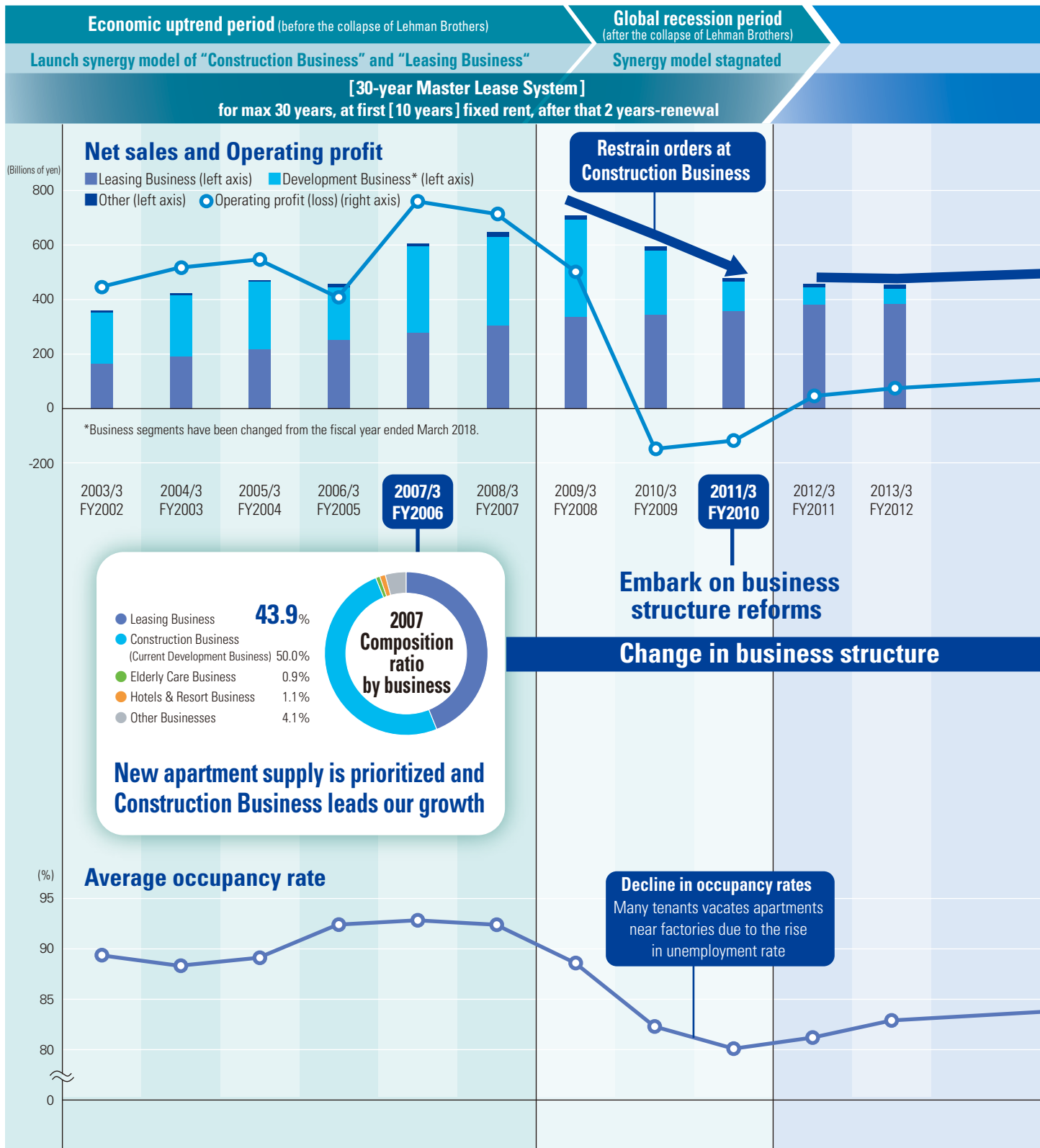
The challenge in the Development Business is whether Leopalace21 can provide product design capabilities, such as elderly care facilities in addition to apartments, as well as low-cost products with high-added value. Along with the aging of owners, issues related to business succession and inheritance will be more apparent. I believe it is vital for us to consider how we should deal with the stock as well as the flow. New development faces a harsh environment, but I think a lot of business opportunities can be found by cultivating the stock, such as proposals for rebuilding and renovating properties. I also think it is important to provide our owners with end-to-end proposals that include trust into the perspectives of business succession. Rather than only proposing apartments, projects suitable to the location, such as convenience stores, are important. I think the abundant stock of Leopalace21 will be our strength in the future.



Business Model Transition

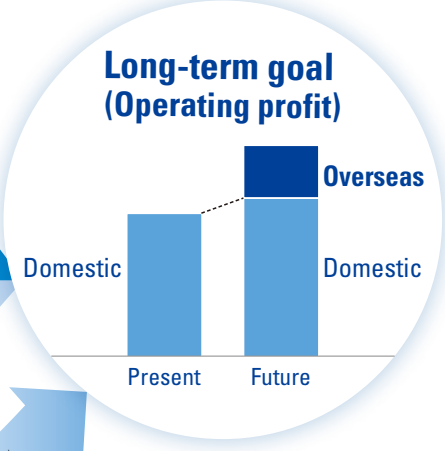
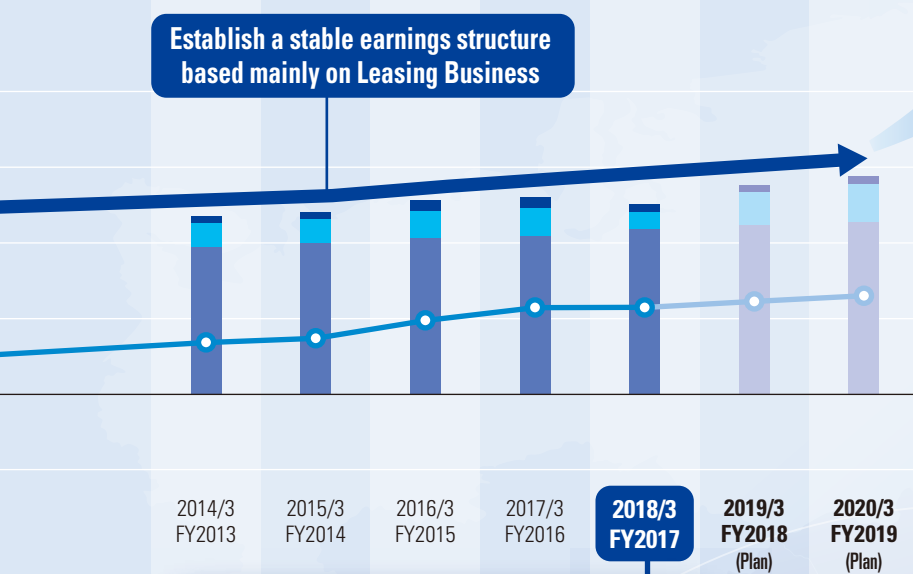
Following the global financial crisis triggered by the 2008 collapse of Lehman Brothers, the Company recorded operating losses as orders at the Construction Business (current Development Business) declined. However, with the business structure reforms we implemented in the year ended March 2011, we have steadily returned to a stable earnings structure.

Our aim for the medium-term is to enlarge and grow the scale of our operations to achieve a balanced earnings mix from the Leasing Business and Development Business while expanding our growth fields of the Elderly Care Business and International Business.

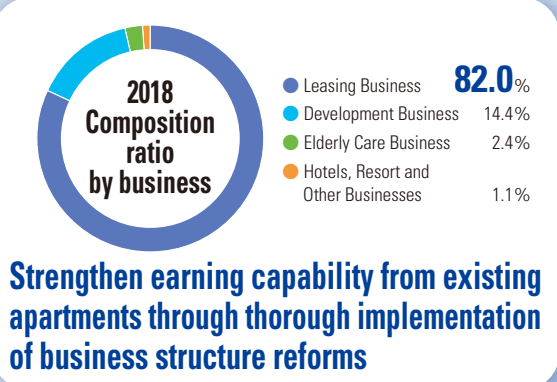


Economy recovery period (current and hereafter)
Reinforcement of earnings from rental housing
[30-year Master Lease System]
 for max 30 years, at first [2 years] fixed rent, after that 2 years-renewal

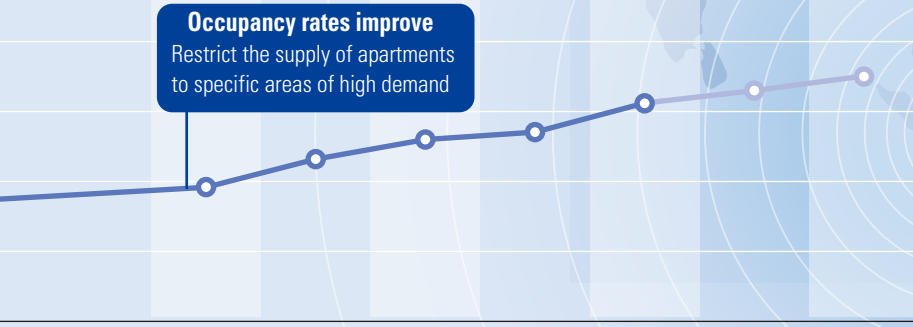
Establish a stable earnings structure based mainly on Leasing Business



Our aim for the long-term is to expand the domestic businesses, and simultaneously, apply the real estate know-how we acquired in Japan to the overseas businesses so that around 25% of our entire operating profit is made overseas.



Occupancy rates improve
 Restrict the supply of apartments to specific areas of high demand



Top Interview

Most medium-term management plan targets were met in the plan's first year.

The fiscal year ending March 2019 has been marked as the “initial year for people-building and organization-building,” a year in which the focus is squarely placed on developing the managers of tomorrow while trialling the implementation of a company system with a view to achieving long-term growth.

1. Our Plans, Management Policy, and Vision
2. Our Organization and People
3. Corporate Governance
4. Distributions to Shareholders
5. Deficiencies Found in Certain Company-developed Properties

1. Our Plans, Management Policy, and Vision



One year has passed since the start of the medium-term management plan “Creative Evolution 2020” in April 2017. How do you view the Company's progress towards plan objectives so far?

On a whole, most of the numerical targets set have been met. However, when broken down by segment you can see a clear division in areas in which we are performing well and areas in which we are falling short, and I hope to make the appropriate course corrections during this medium-term plan period. This is not based on a false hope that sheer willpower alone can make up the difference in areas we are lacking. The areas in which we are deficient are clearly apparent, and we will look to implementing definite countermeasures while accurately identifying changes in the market environment.

The Leasing Business has exceeded expectations, with occupancy rate targets being met one year in advance of the set deadline. This segment has also started the second year of the plan in

a favorable position, and we are looking to further build on this growth in the year to come.

Conversely, issues remain with the Development Business, with the construction business in particular struggling due to a wide range of factors. Moves are now in motion to compensate for this in the real estate development business, for example, with designer apartments and condominiums produced by Company subsidiary, Life Living Co., Ltd., and other real estate specified joint enterprise products. The designer apartments and condominiums offered by Life Living are not only highly competitive due to their unique design sensibilities using a patented approach; they also make for outstanding investment opportunities for property owners. The real estate specified joint enterprise product “LOVIE” also



Eisei Miyama

President and CEO,
Leopalace21

offers an ideal investment opportunity from the perspective of asset and tax management, with the product selling out as soon as it became available. With existing apartment owners making up a considerable customer segment, this consideration for asset utilization in close alignment with customer needs is a major reason for the favorable returns seen in this segment.

We managed to exceed the planned reduction in deficit in our Elderly Care Business, with this segment on track for a full recovery. While the last 12 years have concentrated on increasing the number of new elderly care facilities in operation out of anticipation for future market expansion, these expansion plans have been temporarily put on hold to focus on restoring each facility to the black and to ensure appropriate staffing placement is carried out.

With regard to our International Business, we started operating serviced apartments in Cambodia in December 2017, and opened a serviced office in Seoul in May 2018. In terms of our overseas strategy, accurately analyzing current market conditions is a matter of the utmost importance. Customer needs vary in subtle ways from country to country. Having said that, our serviced offices and serviced apartments remain in particularly high demand across South

East Asia, with most use expected to be from Japanese company employees traveling to these countries as part of a work transfer. Increases in the economic strength and national earnings figures in each of these countries will likely coincide with increased demand for housing offering higher standards of living, and we will look to developing products that meet this build up in demand among the local population by country as these circumstances arise.

This medium-term management plan has also seen the adoption of ROIC as a key management indicator. To this end, we have striven to increase asset and capital efficiency and have conducted reviews of held assets while adopting the weighted average cost of capital (WACC) as a measure of the hurdle rate on investments. A clear example of this is seen with our investments in real estate in South East Asian countries as part of our International Business. Relying completely on the decisions of responsible persons on-site often leads to inconsistencies in judgment criteria, producing poor results. With this in mind, the Business Management Headquarters establishes investment frameworks and investment criteria with due consideration given to individual country risks and other factors pertaining to each country.

Medium-term Management Plan: Key Points and Strategy

Basic Policy

- Support continuous growth of core businesses in ways that further increase corporate value while constructing a base for growth areas

Business Strategies (Value creation via cash flow generation)

- Core businesses: Balance apartment supply and management, and enforce concentration and diversification
- Growth businesses: Move the Elderly Care Business and International Business into profit, which are less exposed to shrinking domestic population

Financial Strategies (Value creation via balance sheet management)

- Introduce ROIC as a key indicator
- Review asset holdings with a view to enhancing asset and capital efficiency
- Improve and strengthen distributions to shareholders



Numerical Targets

	2018/3 (FY2017) (Plan)	2018/3 (FY2017) (Actual)	2019/3 (FY2018) (Plan)	2020/3 (FY2019) (Plan)
Sales	540.0 billion yen	530.8 billion yen	553.0 billion yen	575.0 billion yen
Operating profit	23.5 billion yen	22.9 billion yen	24.5 billion yen	26.0 billion yen
Net income ^{*1}	14.2 billion yen	14.8 billion yen	15.0 billion yen	16.0 billion yen
Adjusted net income ^{*2}	18.4 billion yen	14.2 billion yen	19.0 billion yen	20.0 billion yen
ROIC ^{*3}	—	7.5%	8%	8%~10%
Adjusted ROE ^{*4}	—	9.0%	11%	Maintain 12%

*1 Net income attributable to shareholders of the parent is shown as "net income."

*2 Adjusted net income = Net income after adding (subtracting) corporate taxes

*3 Return on invested capital (ROIC) = Net operating profit after taxes (NOPLAT) / Interest-bearing debt + Net assets

*4 Adjusted ROE = Adjusted net income / Average net assets (average of period-start and period-end net assets)

Performance by Segment

(Millions of yen)		2018/3 (FY2017) (Plan)	2018/3 (FY2017) (Actual)	YoY	Compared to plan
Leasing	Sales	435,000	435,537	+14,195	+537
	Operating profit	25,000	26,062	+3,052	+1,062
Development	Sales	85,000	76,587	(3,734)	(8,412)
	Operating profit	5,000	3,663	(2,123)	(1,336)
Elderly Care	Sales	12,500	12,807	+1,270	+307
	Operating profit	(1,900)	(1,596)	+71	+303
Hotels, Resort & Others	Sales	7,500	5,908	(1,379)	(1,591)
	Operating profit	(1,500)	(846)	(428)	+653
Adjustments	Operating profit	(3,100)	(4,353)	(540)	(1,253)



"Solving issues with people and housing" lies at the heart of Leopalace21's business model. Given the current business environment, the Company is now facing major social challenges in the form of the declining and aging of the population. How do you propose Leopalace21 goes about tackling and resolving these issues?

Firstly, with regard to internal activities relating to the declining and aging of the population, we are raising the maximum age of employment to compensate for the future reduction in the workforce. I myself am turning 61 this year and, provided my health keeps, I feel that I can keep working until I am 75. In May this year we established the Healthcare Promotion Office to help keep employees in peak physical condition. We are currently building an ideal workplace environment so employees can continue to work for a long time as part of internal activities intended at countering the declining and aging of the population.

Meanwhile, as the decline and aging of the Japanese population continues to reduce the available workforce, the number of foreign workers in Japan continues to increase. In addition to providing such foreign workers with housing, we have also developed measures to respond to, and resolve, potential living issues, providing seminars introducing foreign workers to Japanese lifestyle habits around the time of their arrival, as

well as call centers providing assistance in 5 languages. While more and more rental properties are becoming more open to accepting tenants from overseas, few can match the level of support we provide.

From a rental perspective, securing tenants over the long term is vitally important. In 2011 we embarked on a series of business structure reforms as a hedge against the risks presented by a declining population, concentrating the provision of new apartments in areas of anticipated population growth, such as the metropolitan area. However, the level of competition for prime real estate locations in major metropolitan centers is intense, with landowners well versed in the level of demand, and it will take a lot to keep afloat amongst these pressures. To set ourselves apart, we are concentrating on increasing the variety of offerings we have available, making building proposals best suited to the land available in addition to our lineup of apartments, as well as focusing on land development projects

involving the purchase of attractive land for construction works targeting investors.

Further, in areas of intense competition we are also witnessing an increase in the number of instances where we are entrusted with managing apartments built by other companies. I see this as a manifestation of the way our conscientious building management service has been received favorably, and we will look to gradually expanding this segment with a view to increasing building contracts when buildings under management need rebuilding.

Initiatives Relating to the Declining and Aging of the Population	
Internal Activities	Business Response to External Factors
<ul style="list-style-type: none"> • Raising the maximum employment age • Establishment of the Healthcare Promotion Office to help keep employees in peak physical condition 	<ul style="list-style-type: none"> • Provision of housing to foreign tenants • Rolling out services increasing the level of comfort of foreign tenants • Concentrating the provision of apartments on major metropolitan centers • Expanding our range of construction works • Accepting contracts to manage properties owned by other companies

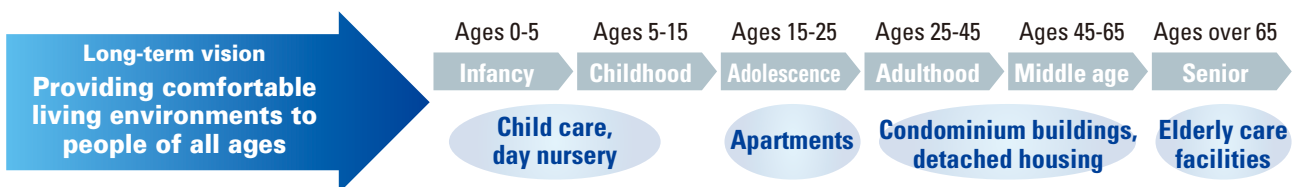


Business activities must be implemented with a long-term view of the future in mind in order to resolve the kind of social issues mentioned above. Could you detail Leopalace21’s long-term vision?

Our business is one of solving issues relating to people and housing, and our field of business will remain focused on the provision of housing and offices that offer an exceptional level of comfort, both now and over the long term. At the moment, most people know us from our TV commercials and other advertisements as a company that provides student apartments. However, both now and in the future there is a need to shift away from a sole focus on apartments, to become a provider of comfortable housing and real estate suited to people across all stages of their life, from newborn babies to elderly citizens or, to put it more coarsely, to serve and support from the cradle to the grave. With this in mind, we are seeing an increase in the number of child care and day nursery facilities found in our buildings, and I hope to see this

child care business grow over time. Looking ahead, we hope to leverage our housing solutions fit for people of all age groups, from newborn babies to elderly residents, in resolving these issues and providing additional services.

While it may not take hold for another 20 to 30 years, we plan to take this concept overseas as well. If the provision of housing services meeting the needs of all generations takes off in Japan, there is no reason why similar services should not also be viable overseas. Considering issues with the declining population in Japan, we will look to expanding our services to cover the ASEAN region in particular, which is expected to see continued growth. I feel that a similar business model to that employed in Japan could also be applied overseas as well.



Could you speak more on what priority measures have been set for fiscal 2018 in order to achieve the long-term vision and the current medium-term management plan? Further, what risk factors (business environment, personnel issues, etc.), if any, need to be overcome to promote these measures?

With the Leasing Business exceeding the plan in its first year, we will look to implement measures to maintain this pace to keep these results from sagging. We have purposely held off on increasing the supply of apartments to the same degree seen previously, focusing rather on boosting occupancy rates at unoccupied properties by maintaining a comprehensive understanding of the advantages offered at each location and effectively communicating this in a manner that makes up for the apparent downsides to each property, such as its location, etc.

With regard to the Development Business, we are working to establish a structure that facilitates non-apartment building proposals. Of the 59 development offices located across Japan, 9 offices have shifted to proposing buildings that do not consist

of apartments. In other words, these are specialist units focused on providing non-apartment building solutions. One area in which we are seeing particular interest is in construction requests received for rehabilitation facilities for the elderly. These typically involve matching the building owner with facility operators once we have determined the suitability of the site for the construction of such facilities through consultations with the owner, with the Company undertaking responsibility for the construction of such facilities. Looking ahead, we hope to continue to increase the variety of construction activities in which we are involved in order to better meet the needs of a broad range of land owners.

Additionally, as with the real estate specified joint enterprise products we commenced sales for in the previous fiscal year, we will



look to diversifying exit strategies to better respond to the asset management needs of existing property owners and, in particular, to better pursue real estate development in major metropolitan areas.

In terms of our International Business, we have made various inroads into boosting the brand recognition of Leopalace21 overseas, such as by hosting the Leopalace21 Myanmar Open golf tournament, and efforts made introducing local properties to stationed employees in Japanese and foreign companies located in ASEAN countries, together with the development and operation of serviced apartments and serviced offices in this region, have borne fruit. We will take this opportunity to carry out real estate investments, etc. using WACC while taking into account country risks and other risk factors.

In terms of our Elderly Care Business, with targets surrounding the number of operating facilities now met, our focus now turns to cost structure reforms. While we will look to bring labor costs in line by cutting back on the ratio of full-time regular employees, any perceived drop in the level of service quality will not be tolerated. Training sessions on approaches to the Elderly Care Business continue to be implemented at our Head Office with a view to establishing and improving quality standards. Due to the potential for inconsistencies in training implemented at individual facilities caused by differences in the managerial capabilities and

the abilities of those teaching on-site, all employees, whether regular employees, contract employees, part-time employees, or temporary dispatch employees, receive their training at our Head Office. I feel this helps achieve a standard level of service quality.

With regard to risk factors facing us in the current term, the most prominent one that comes to mind is the changing economic environment. Our main clients in the Leasing Business are corporate enterprises, and we have striven to pull in a well-balanced array of business clients from all industries without too great a focus on specific industries. Having said that, changes in the economic environment can cause unavoidable damage to certain industries which, in turn, impacts our Leasing Business as well. I also see reputational risk as a major pressing concern. When a company gets to our size, no one can guarantee that certain areas will not inevitably fall short of expectation. Deficiencies of this nature require a definitive explanation together with corrective actions, without ever attempting to conceal.

While the Company has numerous achievements to its name, we tend to fumble when it comes to briefing the public, and PR activities in this area have fallen somewhat short. Looking ahead, we hope to be more comprehensive in strategically promoting our CSR activities and other contributions the Company has made to society at large.

Priority measures for FY2018

Leasing Business	<ul style="list-style-type: none"> • Strengthen efforts to maintain the current standard
Development Business	<ul style="list-style-type: none"> • Propose non-apartment buildings • Expand real estate development
International Business	<ul style="list-style-type: none"> • Initiate investments in real estate as a hedge against country risks associated with ASEAN countries
Elderly Care Business	<ul style="list-style-type: none"> • Promote cost structure reforms • Implement training at our Head Office to improve and standardize service levels

2. Our Organization and People



I wonder if there is need for debate as to whether the current Group structure is feasible for rapidly responding to changes in the business environment. What are your views as President on how the Group organization should be structured?

I get asked on the bringing up of the next lineup of management personnel all the time, even from Outside Directors, as it is stated in the Corporate Governance Code. I started to grow more aware of this need around 3 years ago, and I have since held various gatherings and study sessions with different business divisions. When doing so I see many have picked up management techniques by ear, but have little in the way of practical management experience. In other words, just like driving a car these people

have got the license yet have not yet driven solo on a public road. With this in mind, this fiscal year we have started selecting and developing management personnel in earnest, such as by installing department managers as corporate executives at subsidiary companies, etc. Looking ahead, we will look to select the next wave of deputy managers, section chiefs and skilled personnel for additional training and experience, with those producing particularly outstanding results selected as executive officers.

While eventually we will look to shift to a holding company structure, in the meantime we will start trialling the operation of a company system in October of this year. Specifically, we are reviewing changes to our organizational structure in order to take a more earnest approach to the development of management personnel. Naturally, measures countering any ill effects brought about by the proposed shift to a holding company structure, such as a weakening of ties between subsidiary companies, have already been taken into account. Currently the Company is structured in such a manner to promote horizontal ties between departments, a setup that will be carried over even after the adoption of a holding company structure. Naturally the disadvantage to this is that everyone tends to prioritize their own company or division above all else. This is prevented with the evaluation system. We adopted a personnel evaluation system whereby the achievements of one's own company or division accounts for 90% of the weighted score, with the remaining 10% evaluating the level of cross-functional support provided, that is, the degree to which the employee collaborated with other Group companies and divisions, and contributed to the optimization of the Group as a whole. This feature is set to make the system function on the whole.

Further, this year we will look to strengthening the level of col-

laboration between Headquarters and those in the field at the forefront of our operations, an area in which we have been particularly lacking. Specifically, this involves fostering a sense of cohesiveness by gathering branch offices in different regions and holding meetings with all involved. The heads of each region began giving guidance on how activities can be streamlined in each region, and what can be done to exchange customer information and boost synergism between each party.



“Initial year for people-building and organization-building”



Even with society racing towards a digital future, we still see many companies view their growth as being reliant on “people” and “human resources.” What is Leopalace21’s human resource strategy?

Fiscal 2018, the second year of the medium-term management plan, was marked as the “initial year for people-building and organization-building.” When it comes to human resources, we have done all that we can, and all that we can think of. This fiscal year the focus has shifted on how these human resources can be leveraged. Our human resources strategy can be largely broken down to initiatives implemented across the company as a whole, and initiatives intended for human resources in management positions. First, let’s look at our company-wide activities. It is here that outstanding human resources are built up as members of management, and it is here that human resource development shifts into top gear.

Leopalace21 management classes have been held for the last couple of years. Up until now, these classes have been themed around brainstorming what could be done to better the Company,

and what business strategies participants would take if they were in the President’s shoes. Looking ahead, I hope to hold classes based on my own management experience, and that of others as well. In other words, I hope to theme these sessions around the decisions made by people involved in management under various circumstances, and where they succeeded, and where they failed. While many have heard the stories of prominent figures in management in other companies and industries, surprisingly few have heard from those with management experience at Leopalace21. Decisions made as President, decisions made by the Management Planning Department, and decisions made by the General Manager of the Management Headquarters in light of the risks faced are likely to differ from position to position. This is the level of familiarity I am talking about. Many of us

only seem to look at the end results, but if we look at the reasons leading up to decisions made regarding something familiar to us we can gain a greater insight into why such decisions were made, and whether these decisions resulted in success or failure. I feel

this can serve as an extremely useful frame of reference. We will continue to apply this approach to training the next generation of potential executive officers working below the current set of executive officers.

3. Corporate Governance



The Revised Corporate Governance Code was published in June 2018. With the cost of capital being one such area undergoing revision, could you provide some further details on how Leopalace21 views the cost of capital?

We plan to regularly refer to shareholder equity costs and WACC values in implementing capital policies and profit distribution measures that ensure a minimum level of distributions to shareholders.

Additionally, we introduced ROIC as a management indicator (enhancing asset and capital efficiency and reviewing held

assets), and adopted the use of WACC when determining the hurdle rate for potential investments. As mentioned above, we have introduced investment frameworks and investment standards on a per-country basis, particularly in relation to investments in ASEAN countries.



The revised Corporate Governance Code mentions the need to disclose the Company's policy and approach to the curtailment of cross-shareholdings. Could you provide more details on cross-shareholdings held by Leopalace21?

Currently the Company owns cross-shareholdings in 7 companies, 3 of which are listed companies (Toyo Kanetsu K.K., Nac Co., Ltd., Seven Industries Co., Ltd.). The Company only acquires stock when doing so is broadly recognized as an effective means of maintaining and enhancing relationships with clients, capital tie-ups and business

partners, and the abovementioned cross-shareholdings have been acquired with this viewpoint in mind. However, should a meeting of the Board of Directors raise concerns as to the medium- to long-term economic rationality of said stock purchases, the need to retain ownership of said cross-shareholdings will come under review.



The revised Corporate Governance Code also goes into great detail on improving the functions of the Board of Directors. How is Leopalace21 currently handling additions to the Code, such as calling on the Board of Directors to become actively involved in the formulation and administration of succession plans, and in establishing objective, transparent systems for setting manager compensation?

I meet with people I feel are best suited as Outside Directors to the Company, describing my vision for the Company to convince them to come on board. All Outside Directors have experience as managers. No matter the industry, all managers strive to improve business performance, set a direction for the company to pursue, and ultimately assume responsibility for the company. Managers set policy based on a keen understanding of issues faced on-site and what the market wants. A broad gap emerges in the opinions and proposals given at meetings of the Board of Directors between Directors who have experience putting this into practice as managers and those of a more scholarly bent. Our Board of Directors meetings consist of animated discussions between members with management experience that give way to an active exchange of opinions. We do not determine policy by majority votes - all decisions implemented are unanimous. Matters are discussed exhaustively, and decisions are only made when every-

one is convinced. When faced with dissenting opinion, we delve into the grounds for the objection and, in many cases, convince the opposing party of a proposal's merits provided that improvements can be implemented to overcome the risks posed.

One of the most frequent topics of discussion relates to decisions concerning investments and human resources in management positions, and these discussions are an extremely effective means of recognizing risks pertaining to such matters. Fielding Board of Directors positions with internal personnel alone inevitably leads to certain biases emerging. Our Outside Directors are involved in all types of Company meetings, and are well versed in Company matters. Additionally, they all maintain a proactive stance towards investment. They provide invaluable advice for delivering further Company growth based on a complete understanding of all requirements and a calculated assessment of the risks involved.

Bolstering Corporate Governance (Enriching Our Lineup of Outside Officers)

Enhancing checking functions to ensure
continuous value creation

All 3 Outside Directors are corporate executives

Ratio of Outside Directors
who are or have been
corporate executives

100%



Outside Directors attend all types of Company and Committee meetings

- Board of Directors meetings (monthly)
- Corporate Management Council (monthly)
- Executive Officers meetings (monthly)
- Monitoring meetings (monthly)
- Risk Management Committee meetings (monthly)
- Compliance Committee meetings (monthly)
- Management strategy meetings (monthly)
- Outside officer meetings (monthly)
- Company meetings (every quarter)
- Group management meetings (every half-year period)

4. Distributions to Shareholders



Could you provide more details on distributions to shareholders for FY2018 and the Company's future policy on returning profits to shareholders?

Our current medium-term management plan has set a total return ratio target of 50%. We aim to implement reviews of held assets based on a management policy that prioritizes the enhancement of asset and capital efficiency, using the net proceeds from asset sales to invest for future growth, or to provide distributions to shareholders. In fiscal 2017 we secured dividends of 22 yen

(dividend payout ratio of 37.9%), and bought back 8 billion yen (10.76 million shares) of our own shares, representing 4.08% of the total number of issued shares (total return ratio of 92.3%). As with fiscal 2017, in fiscal 2018 we expect to secure dividends of 22 yen (dividend payout ratio of 37%), with a maximum share buyback of 8 billion yen (total return ratio of 90.3%).

5. Deficiencies Found in Certain Company-developed Properties

Allow me to take this opportunity to apologize for the serious inconvenience and concern caused by deficiencies of apartment parting walls found at some Leopalace21 developed properties. The Company acquired ISO9001 certification in 2008, and has developed a systematic inspection system.

In 2009 we increased the number of process inspections covered by our inspection system, and in 2015 we introduced final building inspection testing handled by a third-party inspection body. That such deficiencies occurred in spite of these enhance-

ments to our inspection system is a matter of utmost concern. Full building inspections are currently underway at a total of roughly 38,000 properties (apartment housing) developed by Leopalace21. Looking ahead, we will strengthen our inspection system in an aim to complete said full building inspections as quickly as possible. Further, in the event that said inspections show further deficiencies, we will promptly complete the necessary repair work in close liaison with specific administrative agencies. In addition to this, we will develop exhaustive quality management structures aimed at conducting additional reviews into the root causes of this incident and preventing their recurrence. Leopalace21 will join together as one in applying itself to the remaining inspection and repair work that lies ahead in working at our utmost to regain the trust placed in the Company. We humbly ask for your continued support in this matter.



June 2018
Eisei Miyama
President and CEO

Creating Value for Stakeholders

We believe that contributing to a comfortable lifestyle and building an abundant society through our business activities will lead us to improve value for all our stakeholders, including our customers and shareholders. By considering active disclosure of information to and communication with our stakeholders as important, we strive to build healthy and better partnerships.

To support the company's growth in the medium-and-long term and to increase corporate value, it is vital to build up bonds of trust with stakeholders and to make stakeholders feel satisfied.

We recognize the creation of corporate value over the medium- and long-term and our sustainable growth as an enterprise stemming from our provision of resources and contributions to apartment tenants, owners, business partners, local communities, employees, shareholders, and creditors, etc. Proactively communicating with all our stakeholders is set forth as 1 theme of our Basic CSR Action Policy.

Delivered value

We proactively provide information to shareholders through meetings for individual investors, participation in IR events, and small meetings with institutional investors.



Shareholders

Together with all stakeholders

Moreover, we also recognize the importance of information disclosure, and are working to disclose financial and non-financial information in a timely, transparent manner to a wide range of stakeholders, including our shareholders. Through continued communication with various stakeholders, we aim to deliver new value via our corporate activities.

Delivered value

We actively communicate with local residents not only by holding hands-on experience events of our apartments, but also by accepting volunteers at Azumi-En.



Local Communities



Owners

Delivered value
We aim to build positive relationships with owners by making regular visits to them, providing support for their asset management, and holding meetings with owners and other events.



Tenants

Delivered value
We support our tenants by providing information through MY PAGE (a website exclusively for tenants), holding cooking classes, as well as organizing get-togethers and manners orientations for foreigners.



Business Partners

Delivered value
We strengthen our relationship with business partners through their participation in cleanup campaign events in local areas and around apartment building construction sites.



Employees

Delivered value
We develop systems to support employees' promotions by offering employee training and career development programs, establishing a system to support studying for certifications.

Initiatives for Property Owner Satisfaction

Leopalace21 strives to share information and maintain communication with property owners through “Class L,” a membership association for property owners. By holding Property Owners’ Meetings and providing services such as Life-stage Support, we work side by side with property owners not only as a business partner for managing apartment leasing, but also as a life partner.



Property Owners’ Meeting



Holding of Property Owners’ Meetings

Leopalace21 seeks to build favorable relations with property owners through Property Owners’ Meetings. In addition to releasing results reports quarterly, we communicate our corporate policy and timely topics as well as holding social events. We maintain communication with property owners as a channel to solicit their opinions, and reflect them in our management

practices. Thanks to these efforts, approximately 70% of the orders received in fiscal 2017 were repeat orders from property owners who have placed orders with us previously.

Plan: **250** meetings
Actual: **424** meetings, **8,632** participants

Life-stage Support

Leopalace21 offers “Life-stage Support” Service for property owners comprised of three pillars; asset formation, tax planning, and life planning. Even after agreements have been reached and construction work has been completed, our personnel periodically visit property owners and respond to their individual requests, which include answering questions about assets, preparing a financial plan, and reviewing and designing a life plan. In fiscal 2017, periodic individual consultation sessions were held 177 times. Furthermore, in May 2018, Leopalace Trust Co., Ltd. was established by acquiring a license from the Financial Services Agency. Leopalace Trust is the second Investment-based Trust Company in the industry, with the first one being formed six years ago, and will enable the Company to meet the needs of an increasingly complex era.

Future Support

Taking into account the opinions received at Property Owners’ Meetings, Leopalace21 offers “Future Support,” a service that proposes solutions based on the concerns expressed to us by owners of older properties. Future Support considers the individual circumstances of property owners (family composition, tax status, etc.) and the situation surrounding their property, and presents the best proposal with input from experts. The proposed solutions address not only apartments, but also how to make use of the owners’ existing properties in ways that accommodate their concerns, such as renovating, selling, and replacement.

Proposals by Future Support

Continue managing apartment

Modify line of business or use

Sell the existing property / purchase another property



Asset formation

Life plan design
Home / real estate
Financial asset
Second opinion



Tax planning

Income tax
Inheritance tax
Gift tax
Fixed assets tax
Second opinion



Life planning

Concierge service
Leo Mileage Program
Special service
Members-only event

Initiatives for Tenant Satisfaction



With foreign tenants in Japan rising in number every year, Leopalace21 is boosting its foreign tenant services, with the Global Support Center (GSC Shinjuku) which opened in June 2016 playing the central role. As a support service exclusively for foreign tenants, GSC assists foreign tenants in their native language on all aspects of living in Japan, including move-in orientations and helping with their troubles during tenancy.



Etiquette seminar

Implementation of Etiquette Seminars for Foreign Tenants

GSC's activities are aimed at preventing troubles attributable to foreign tenants, and creating an environment that will enable them to live securely and comfortably with their neighbors and nearby residents. Specifically, GSC holds etiquette seminars at the Community Space to help foreign tenants with their day-to-day living in Japan, for example, through teaching them road traffic manners and crime prevention measures, checking their understanding of acceptable conduct, and practicing garbage separation. The etiquette seminars are open not only to tenants, but also to their roommates and acquaintances. In fiscal 2017, etiquette seminars were held 209 times and attended by 674 people.

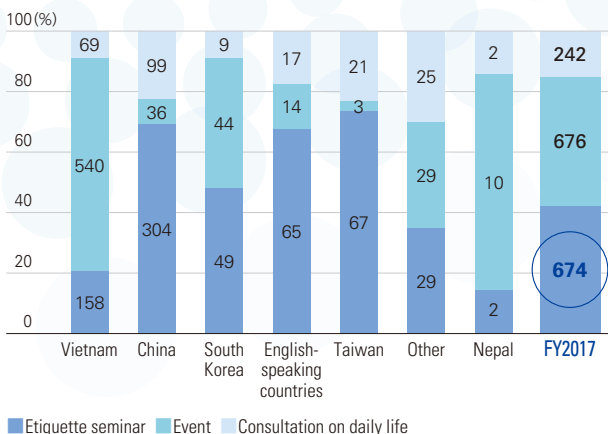
In the case that a complaint is received from a nearby resident or others regarding noise, garbage or other matters related to etiquette after a foreign tenant has moved in, GSC will visit the apartment to instruct foreign tenants one-on-one and continue to monitor them to prevent any recurrences.

Call Center and Networking Event Follow-ups

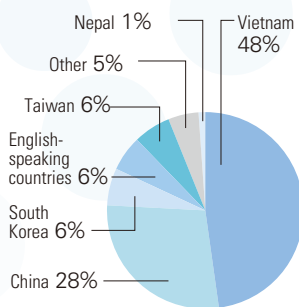
The Company organizes a number of networking events at GSC's Community Space for foreign tenants who are living away from their home countries and are prone to feeling anxious or stressed from living in the foreign land of Japan. The events are wide-ranging and include New Year's party, career support, chigiri-e (Japanese-style paper collage), and nail tip workshop. Through such events, Leopalace21 establishes opportunities to communicate with tenants, and strives to build up trust and improve their etiquette.

In addition to GSC, our Call Center also provides various consultation services for tenants in five languages; English, Chinese, Korean, Portuguese, and Vietnamese.

Visits to GSC by Nationality and Purpose



Visits to GSC by Nationality



	Total (People)	Year-on-Year
Vietnam	767	+107.8%
China	439	+20.9%
South Korea	102	+175.7%
English-speaking countries	96	+71.4%
Taiwan	91	+40.0%
Nepal	14	+366.7%
Other	83	-21.0%
Total visitors	1,592	+59.7%



Leopalace21 Value Creation Responding to Social Challenges and Needs

Customer's Voice

Leopalace21 offers services tailored to the times to a vast number of people, primarily under the "Leasing Business" and "Development Business." Here are some of the feedback from owners of an apartment, nursery school, and a building with commercial space, as well as a host agency of foreign students and a nursing care facility user.

Owner of building with commercial space

I was able to protect the place dear to me

Mr. Chobei Tanaka Kyoto

I run a narazuke (Japanese pickles) shop which has been in business for over 220 years in Kyoto. The building was aging, and I had to choose either rebuilding or selling it. Wondering if there was any way to keep this old shop on the land where it had been for a long time, I went to Leopalace21 to ask for their advice. Mr. Yamamoto, who was in charge, proposed various plans in light of the wishes I had expressed. We settled with making a multifunctional facility, with the shop and processing plant on the first floor, my residence on the second floor, and a hotel on the third floor and above. Since I was able to lease part of the facility to a hotel, which would be a long-term tenant, I as an owner will not have to worry for some time. In the coming years, I hope that the place will be used not only by us but also by many other people, and would like to contribute to society in this manner.



Apartment owner

Leopalace21 always makes proposals that look ahead to the future

Mr. Masayoshi Hirai Tokyo

Our relationship with Leopalace21 has continued since my predecessor's time, so it has lasted more than 20 years. My family has been farmers for several generations. My father, too, grew vegetables in the field, while also running a rental housing business. Back in those times when my father used to operate the business, he seemed to struggle with having to do it all on his own. Now that we have Leopalace21 doing everything, it has been a huge help. We currently own 5 apartment buildings, and at the proposal of Leopalace21, are building a sixth building which will be an accredited nursery school. Leopalace21 is very good at identifying the needs of society before others do and incorporating them immediately. It would be wonderful if we could make even a small contribution to society through the opening of this nursery school.



Nursery school owner

I opened an accredited nursery school

Mr. Masaharu Yamashita Nursery school

I had owned a field and been in the agriculture business until a few years ago, when it became impossible to continue the work due to health reasons. Since I had some concerns, including inheritance matters, I went to discuss with Leopalace21 and ultimately decided to build a nursery school. Mr. Ohashi, who worked with me, went far and beyond simply giving me advice on measures to promptly deal with the expiration of the "Productive Green Area" designation in 2022. To ensure that all the required procedures are completed before the nursery school opens, Mr. Ohashi managed the schedule, negotiated with the municipality, supported the management of construction work, satisfied the various requirements of business matching with the nursery school operator, and more. The nursery school opened as scheduled thanks to him, and I am truly grateful.





Host
agency of
foreign
students

It is very helpful that Leopalace21 can provide orientations and perform procedures locally

Mr. Hiroki Hama J. F. Oberlin University

Our division provides preparatory education for foreign students wishing to study in Japan, and offers a range of programs including a 2-week short-term study program and summer course. Every year, foreign students had a difficult time finding housing in Japan, and this had been a headache for us. About 3 years ago we consulted Leopalace21, and that is when our relationship started. Since Leopalace21 has branches overseas, students can receive an orientation directly from Leopalace21 and sign the contract in their countries. After arriving in Japan, they only have to receive their room key and can move into their rooms immediately. As this seems to match their needs, many foreign students choose Leopalace21 for their housing.

Azumi En
user

With all the events, every day is exciting

Ms. Kyoko Shiobara Tokyo

I have been going to Azumi En since it opened in July 2013. My family visited Azumi En beforehand, and thought it would be great as it is new and has all kinds of facilities. Since the food is good and I can meet nice staff, I like Azumi En the most out of the centers I have used previously. There are many events. Along with sport and cooking events, students from the nearby Hosen Gakuen visit for work experience, wind instrument performances, and so on. I look forward to going to Azumi En every day. I especially look forward to the bathing service and my once-a-month haircut.





Human Resources Strategy at Leopalace21

Advancing our Human Capital Essential for Sustainable Growth

The Company implements a human resources development system that is based on the view that the nurturing of a strong team of human resources will serve as the basis for building a strong organization, one that can forge a better tomorrow.

This system includes a rich array of programs focusing not only on members of management, but on employees in non-management positions as well as young employees with the intention of having this serve as a stepping stone to boost the careers of all employees. In the past year we have also started to flesh out initiatives intended to aid employees in their efforts toward self-improvement, such as by offering group training and correspondence courses open to all comers.

Human Resource Development Program

In addition to programs intended at training employees in how to fulfill their current work duties in an optimal manner, the Company is also actively enriching skills development programs for young employees. The human resource development program offers an important foundation of support for brushing up one's work skill set needed to perform one's duties, while also providing a smooth step-up to higher positions.

Feature 1: Program administration that emphasizes career enhancement support

We aid the career development of our employees through a broad range of human resource systems and measures.

The Company tailors its human resource development programs (training, qualification support programs, etc.) based on the experience levels and capabilities of program participants in order to better facilitate their learning experience so that participants get more out of the training. This approach is based on a philosophy that views the self-directed, proactive use of said programs by employees as a surefire means of not only promoting individual career development, but also bolstering the collective organizational strength of the Company as a whole.

Feature 2: Links to career enhancement

In terms of promotion to management positions, we have implemented promotion qualification accreditation testing in addition to other measures as a means of carrying out promotions according to actual performance. Looking ahead, we hope to leverage a broad range of human resources information relating to feedback on the desired career path of individual employees and the state of skills development initiatives in order to implement improvements across the whole human resources system to better allow for fair, impartial human resource management.

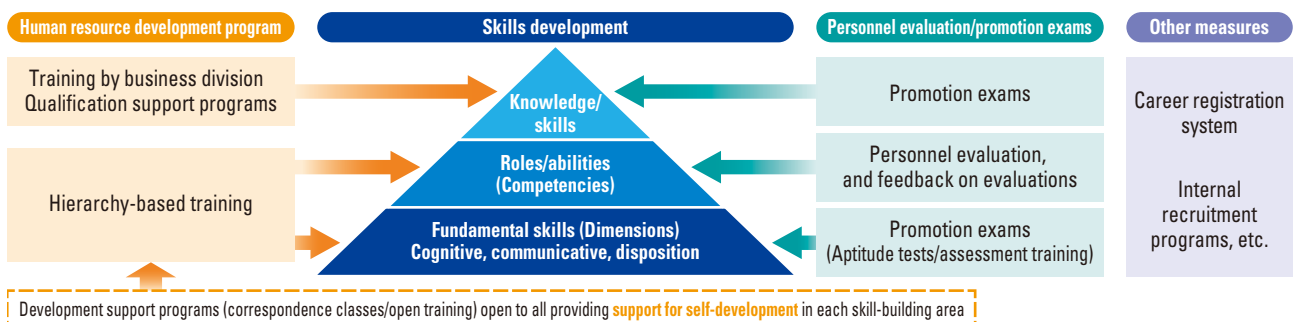
Feature 3: Supporting the retainment of learned knowledge

We incorporate ways to have employees apply their newfound awareness and knowledge learned during training programs to have them acquire first-hand experience.

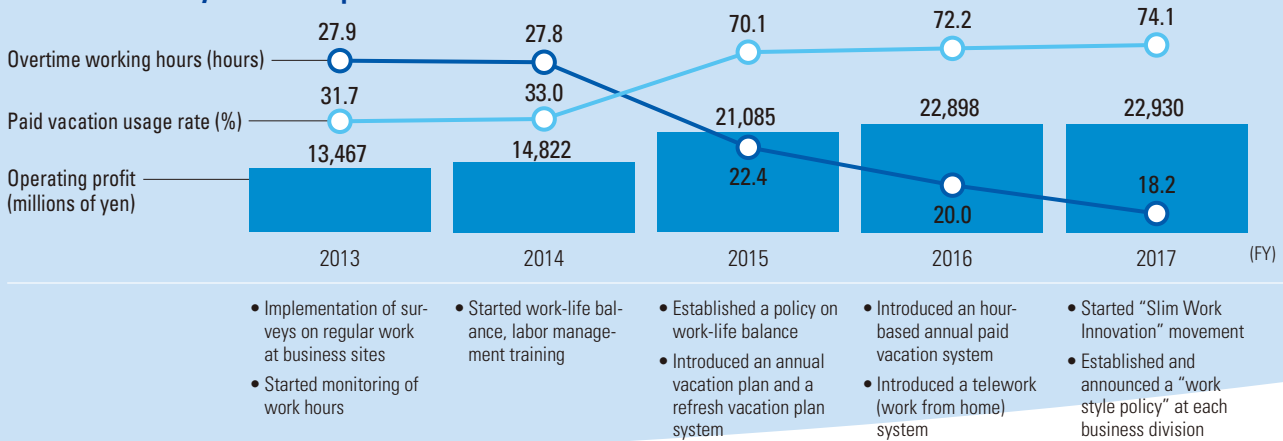
Feature 4: Providing a broad range of learning and self-development opportunities

Last year, the Company started the "Leo College," offering classes to all as a means of supporting employees with a high motivation to learn new skills. Leo College has turned into a place of active learning, offering group classes at all major Company locations across Japan, as well as correspondence courses.

Association chart showing the relationship between the human resource development program and the human resource system/measures at the Company



Results of work style reform implemented



Work-life Balance

Promoting a good work-life balance was raised as an area of focus for bolstering human resources as a step towards achieving the medium-term management plan announced by the Company in May 2017. With the launch of the Work-Life Balance Promotion Office in January 2014, the Company has actively taken strides towards establishing an easier work environment for all employees through the introduction of the refresh vacation plan system, the hour-based annual paid vacation system, telework system, and other such measures.

In November 2016 we also introduced initiatives promoting the use of childcare leave by male employees, and in March 2017 we joined the "Iku-Boss Corporate Alliance" established by NPO Fathering Japan. The "Iku-Boss Corporate Alliance" is a corporate network aimed at fostering managers (i.e., "iku-bosses") to deliver results for the organization and still find time to enjoy their work and private lives while keeping in mind the work-life balance of employees reporting to them. As a result of these initiatives, the ratio of male employees starting childcare leave among male employees whose spouse gave birth between October 1, 2016 and

September 30, 2017 increased from 2.9% in the previous year to 25.5%, a significant increase. This already puts the Company clear of the 13.0% target set by the government for 2020.

Such initiatives have received widespread acclaim, with the Company accredited with the "Platinum Kurumin" mark issued by the Ministry of Health, Labour and Welfare in October 2017, and the Company being recognized as a "2018 outstanding health and productivity management organization (White 500)" run by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi in February 2018 for the second consecutive year.



Establishment of the Healthcare Promotion Office

In May 2018 the Company established the Healthcare Promotion Office, an organization that reports directly to the President. The Healthcare Promotion Office is permanently staffed by public health nurses, clinical psychologists and other healthcare professionals to provide our employees with the healthcare support they need. The Office's core activities for fiscal 2018 center on 4 key areas, **(1) developing sound mental health, (2) improving dietary habits, (3) promoting club activities, and (4) implementing initiatives that promote a smoke-free or reduced smoking lifestyle.**

Specifically, these initiatives involve the following.

(1) Developing sound mental health

This involves developing a workplace environment that all employees can actively take part in by following up on employees who have undergone training, have been on leave, or have just returned to the workplace by phone, email or through counseling,

and enhancing support systems for employees returning to the workplace.

(2) Improving dietary habits

Dietitians provide coaching on dietary habits as a means of promoting increased knowledge on dietary habits, lifestyle changes and physical improvements among employees.

(3) Promoting club activities

This involves creating opportunities for exercise for employees through the promotion of club activities, including golf, athletics, baseball (softball), volleyball, basketball, badminton, tennis, soccer, futsal and yoga.

(4) Promoting a smoke-free or reduced smoking lifestyle

We are striving to prevent passive smoking and other such health hazards through the promotion of a smoke-free/reduced smoking project which aims to cut the employee smoker rate to 30%.



Leopalace21
Employee
Round Table

Promotion of Work-style Reform and Business Efficiency Initiatives



Tokyo Branch 1-2,
Subcontracting Business Division
Masahiko Tanabe

We must change to become a company able to keep pace with the needs of the generation. I think we always have to continue to grow as individuals.



East Japan Branch, Corporate Sales Supervision
Department
Yumi Toi

I would like to strengthen employee development by everyone having a future goal and vision, and build a workplace where we can grow together.



Tokyo Metropolitan Block 1 (PCR),
PCR Promotion Department
Yuri Oshima

I would like to incorporate a wide range of knowledge from daily studies to improve productivity as I can't guide other employees if I don't understand it myself.



Capabilities Development Promotion Department,
Leasing Management Supervision Headquarters
Teppei Saito

I would like to improve the workplace environment and further human resource development while creating an environment where everyone has a management perspective and considers income and expenditure.



How have your work styles changed through work-style reform?

Tanabe The greatest change I have seen over my 14 years since I joined the company in 2004 is setting a time to end the day in advance. In the past, the atmosphere was one where we would work until we finish the task at hand. Now, we think about the time we finish our work. This way of thinking has dramatically changed how I use time. On the other hand, the office has become a place where people feel free to leave at the time they have set even if the work is not done. This is one area where we need to do better.

Toi When I joined Leopalace21, most of the women working would resign after they got married but now, there is a colleague who has married and has two children and is currently taking a maternity leave. The Company is also fostering a working environment where people can take advantage of its systems. I think we have come a long way in building branch offices able to support and cover employees who are on maternity leave.

In the past, employees who were married to one another were unable to work at the same branch office. This often meant that the female employees would resign when their husbands were transferred. Today, the Company has put in place a system for married couples to continue to work by assigning them to the same office or to offices on different sides of the same station.



Leopalace21 is advancing the establishment of a motivating workplace environment conscious of work-life balance. In this round table, employees working in each department specifically discussed the changes to their work styles and the progress of making businesses more efficient.

Oshima I joined the company at a time when there was no convention for men to take childcare leave. Back then, I was in charge of sales at one of our branch offices and sometimes had to work on weekends and holidays. Today, I feel like that generation has ended and I now live in a completely different one. I first set a time as a goal, and then work backwards from that time. I move what I can to the next day and start from order of priority. Although the drawback is that I make a minor compromise and move tasks to the next day when the set time comes. This is something I hope to change in the future.

Saito I have been engaging in leasing management since I joined the Company. I manage properties and products while working with owners and tenants as well as the neighborhood community and stakeholders. The tendency back then was to work until the task was done. Today, each employee has a habit of focusing on efficiency because we have to consider how to increase our productivity in the limited amount of time that we have. This has heightened the skills of each individual to think. I feel like the Company has become bottom-up rather than top-down.

Kawasaki I would sit at my desk looking at my computer until late into the night when I first started working at the Leopalace Center Yokohama. This was an exciting time in the Company right before it went public. I was in charge of tasks such as accounting and deposits in addition to acting as business liaison with the Head Office. Then, I was transferred to engage in sales at the Corporate Sales Department 3 years after that. I think the relationship between the Head Office and the field has changed since I first joined the Company. The relationship started as the Head



Corporate Business Promotion Department,
Corporate Business Promotion Headquarters

Yuri Kawasaki

I would like to make information such as the voices, activities and needs of customers obtained by members who work directly with the customers visible and into shape.



Planning & Design Block 1, Product Technology
Supervision Department

Kaori Takimoto

I would like to play a role in creating new products by not only being versed in the businesses that I am directly involved with but also understanding the businesses of other departments.



International Sales Department,
International Business Supervision Department

Yuji Takayama

International business is one of the growth strategies of our Company, and becoming profitable is our current mission. I would like to increase the recognition of Leopalace21 overseas as well.



Work-Life Balance Promotion Office

Yasuko Matsuura

I would like to foster an even better company by encouraging every employee to take advantage of the internal offering system and support programs for the acquisition of certifications at the Company.

Office sending messages while the field staff just executed the orders. The corporate climate today encourages the Head Office to listen closely to the field staff to incite innovation throughout the entire Company. I also had felt a gap between the Head Office and the field before, but the organization has gradually changed and various departments have been established. I was working in the field until my transfer to the Head Office in 2015. When I moved to the Head Office, the Senior Vice President said to me, "You are the bridge between the field and the Head Office. Make sure you listen to ideas from both sides and take action that would utilize both of them." I think messages that are sent from the management team throughout the entire Company in a wide range of circumstances create this environment and level of speed. My own motivation today has changed from what it once was when I first joined the Company.

Takimoto I have worked in the Planning and Design Section since I joined the Company. There was a lot of overtime and sometimes even worked on weekends and holidays. Everything is a lot different today. I don't have to work on weekends or holidays anymore and I can actively telecommute because I am a technical staff. For example, I telecommute from my house when planning apartments for a client, which is part of my day-to-day work at the section I work in. I am able to send what I create at home as data to the office and check it later at the office without any issue. I think this helps to facilitate better efficiency because I don't need to waste time going to the office. In addition, our workplace is actively promoting employees with reduced hours to telecommute. This also helps create a work environment friendly to women, I think.

Takayama When I joined the Company, an atmosphere focused on efficiency was already in place. My supervisor encouraged me to go home at 6:00 p.m. on Wednesdays. Our International Business Department has a busy season in which we had to work until about 10:00 p.m. on some nights. That hasn't happened recently, though. However, we still sometimes have to work late due to the time difference between the countries we are in charge,

but non-management employees can leave early in that case while management stays a little longer.

Furthermore, LINE WORKS, which was implemented for meetings, has been very helpful in improving productivity recently. Previously, we had set up a projector and gathered in a conference room when holding overseas meetings. However, with LINE WORKS, we no longer need meeting rooms or projectors and can talk with 10 to 20 people worldwide by using earphones at our desks. There is no need to printout materials as we look at them on our computer screens. We sometimes had run into problems where materials were not prepared by the start of a meeting or could not finish work on time, but this conference system has helped save time and sometimes even made the start of meetings ahead of schedule.

Matsuura I was assigned to the IT Department at the Head Office when I joined the Company to configure internal systems, install and design infrastructure, and deploy computers among other things. There was a lot of overtime and work during nights, weekends, and holidays when we were replacing systems. Since then, I have taken childcare leave twice and returned to work. I am currently working in the Work-Life Balance Promotion Office to promote work-style reform and diversity. The Company offers more programs today that allow employees to take up to 3 years of childcare leave. I myself have found the programs very helpful because I can even take leave by the hour if I need to look after a sick child.

The Work-Life Balance Promotion Office also works to build an inclusive environment where diverse people can work at the same level from women and LGBTs to people with disabilities and elderly. The amount of overtime has also dropped, but our next challenge is to see how much we can increase productivity in the future. It isn't enough just to implement programs. We have to change the corporate climate or otherwise employees will not take advantage of those programs. I feel like the entire Company is changing from our President addressing work-life balance and the active participation of women on our homepage, and establishment of a new Healthcare Promotion Office.



We are promoting even greater productivity via the adoption of AI, etc. while heightening customer satisfaction.

Toi The Corporate Sales Department introduced a system able to check messages from customers even while outside of the office 4 years ago by giving every employee a company mobile phone. We have also put in place a system that shares client information as a team. Someone in the team can respond to our customers so that they will not be left unattended. This system ensures greater customer satisfaction and also promotes better productivity in the Company. This innovation was realized after consulting with the Systems Department about requests from field staff for a better way to handle inquiries from customers when outside the office. Productivity is higher than ever thanks to this system.

Kawasaki I was assigned to the AI Section/Fintech Section in May. We utilize AI, Fintech, and other state-of-the-art technology in the aim of further improving productivity. We strive toward the goal of incorporating AI into rental fee optimization, property searches, and other daily operations to generate more time for tasks which people can be highly productive in. I still have a lot to learn, but I am doing my best every day hearing from companies that are helping us.

Saito I am sure systemization will continue to evolve in the future, but only a person can do things like negotiating with customers. I think we need to become even more efficient in our work so we can devote more time to creative jobs only people can do. The adoption of AI is also progressing in my department. We had been responding to calls from customers with a call center until we adopted the Leo support system. Now, customers can write a comment on the homepage and receive the appropriate guidance about their inquiry by the AI. By separating our tasks from what AI

can do, we are improving our work styles.

Takimoto As I am sure many have seen on the news, a system has been developed to incorporate lot conditions and other aspects of construction and derive an appropriate building when considering the design of a building. In the future, I hope we can incorporate these systems in a way that will bring a synergistic effect so that we will leave tasks up to AI that can be handled by AI while taking advantage of that extra time in customer relations.

Tanabe Adoption of AI is underway in each of our business divisions. However, in solution sales I'm currently involved in, we look for solutions to issues our customers haven't realized they have. Our job is to make sure we solve the problems our customers face. This is something only a human being can do.

Kawasaki In the Corporate Business Promotion Headquarters, we foster greater business efficiency by leveraging leading technology while also promoting solution sales. I want to create more time for our unique solution sales by utilizing a variety of technology to handle simple operations. I hope we can increase our corporate value by listening closely to the real challenges our customers face and finding solutions to them. I don't feel AI is a threat if we are able to find the appropriate balance between people and technology. We should not waste the valuable time of our excellent employees on minimal internal tasks, but rather take full advantage of beneficial technology such as AI.



Business Overview At a Glance

Leasing Business ➡ 46P

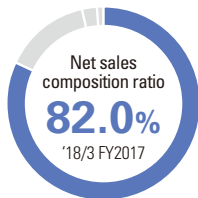


Segment Overview

This business is involved in leasing rooms in properties we manage based on our master lease system. One rental agreement we offer allows usage fees to be paid on a monthly basis, the other, the monthly agreement, requires upfront payment of usage fees. We seek to secure tenants using our direct offices, franchise sales offices, cooperative real estate agents and other means, in order to raise occupancy rates by offering a richer array of services that improve tenant satisfaction. We also conduct solar power generation business to earn profits from selling the electric power generated from solar panels installed on leased rooftops of the apartments.

Main Group Companies

Leopalace Leasing Corporate housing services	PLAZA Guarantee Rent guarantee services (South Korea)	WooriLeoPMC Leasing management services (South Korea)	ASUKA SSI Short-term home contents insurance for tenants
レオパレス21 ビジネスコンサルティング (上海) 有限公司 Tenant reference services	LEOPALACE21 VIETNAM CO., LTD. Real estate agency (Vietnam)	Leopalace21 (Thailand) CO., LTD. Real estate agency (Thailand)	Leopalace21 (Cambodia) Co., Ltd. Real estate agency (Cambodia)
PT. Leopalace Duasatu Realty Real estate agency (Indonesia)	LEOPALACE21 PHILIPPINES INC. Real estate agency (Philippines)	Leopalace21 Singapore Pte. Ltd. Investment consulting	
Leopalace Power Power generation business	Leopalace Energy Power producer and supplier		
レオパレス信託株式会社 Land trust, Real estate management trust	Enplus Inc. エンプラス株式会社 Relocation management		



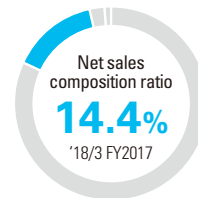
Development Business ➡ 48P



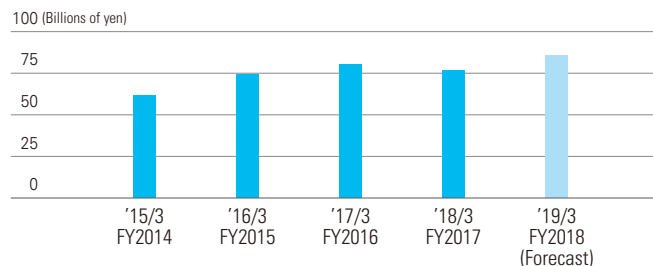
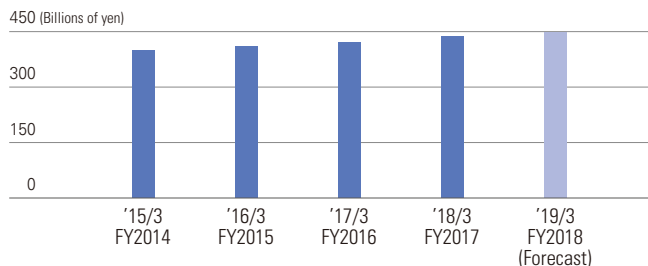
This business engages in construction of mainly apartments and real estate development. We are working to bolster our product competitiveness, offering products designed from a perspective of female tenants who are the major customers of our specialty of 1-room type units and those for young people as well. Outside of apartments, we are expanding the construction of commercial properties and elderly care facilities. We also plan to further diversify into the construction of custom-built homes and residences for one block sale. Morizou Co., Ltd., our subsidiary company, develops custom-built homes made of Kiso hinoki cypress, and Life Living Co., Ltd., another subsidiary company of ours, develops designer-brand condos of the "Branche" series in order to make the best proposals for utilizing land.

Main Group Companies

株式会社もりぞう 戸建注文住宅 Morizou Co., Ltd. Homes made of Kiso hinoki cypress Custom-built homes	LifeLiving Real estate development
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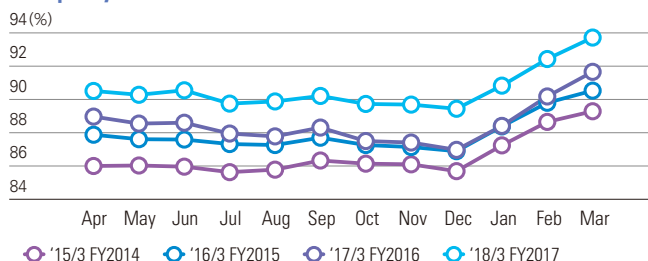


Sales Trend Results of FY2016 (ended March 31, 2017) and after are adjusted to new segments

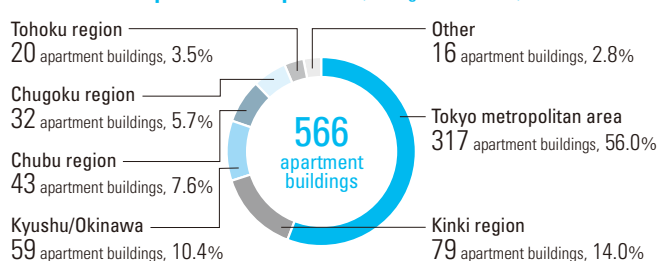


Key Data

Occupancy Rates



Master Lease Apartment Completions (during '18/3 FY2017)



Elderly Care Business ➡ 50P



Under the brand name "Azumi En," our network of community-based nursing care businesses spanned 83 locations mainly in the Kanto areas as of May 1, 2018. 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 staffs and in-home nursing care support and other services. We are especially focusing on ambulatory-type operations such as day services and short stays.

Hotels, Resort & Other Businesses ➡ 51P

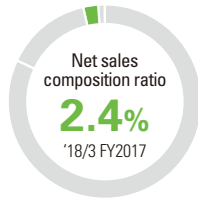


Hotels, Resort and Other Businesses are involved in the management of domestic hotels, management and operation of resort facilities on the island of Guam, travel agency services, clerical agency services and other businesses.

Main Group Companies



Azu Life Care Co., Ltd.
Elderly care



Main Group Companies



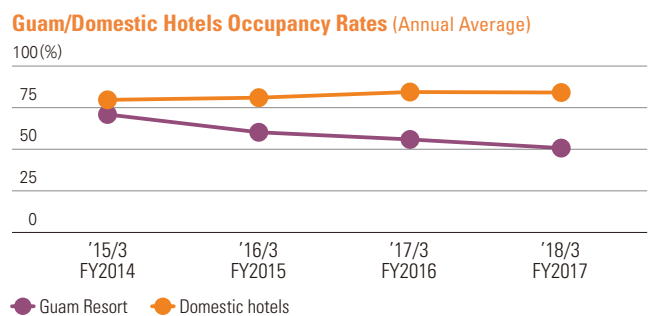
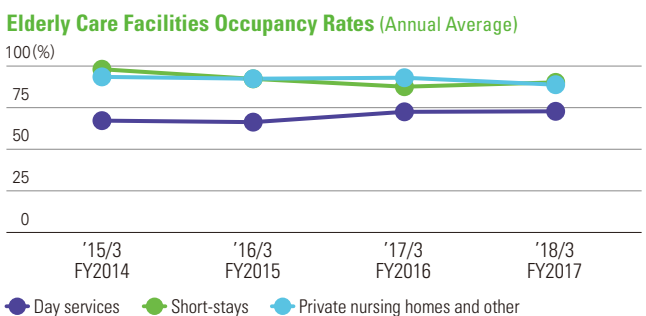
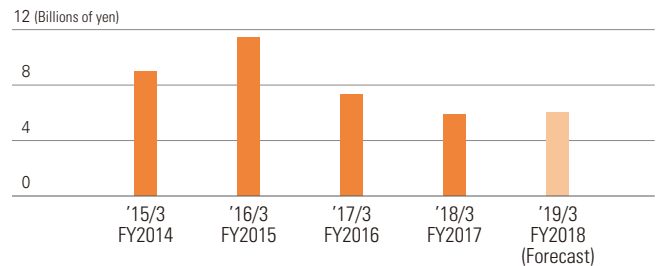
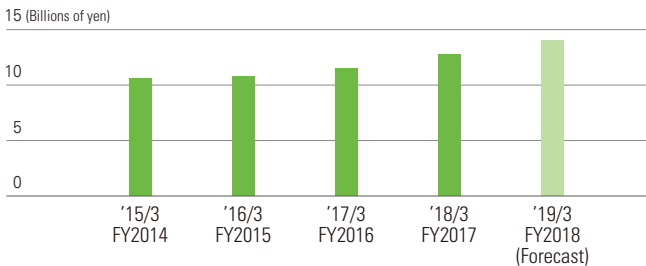
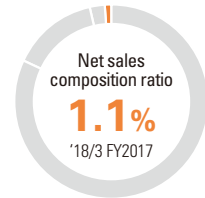
Resort business



Travel agency services



Special subsidiary company



Business Overview

Leasing Business



SWOT Analysis

- No.1 in studio (one-room type) apartments managed
- Apartments equipped with furniture, electric appliances, Internet, and IoT
- Corporate contracts make up approx. 58% of total contracts

- Contracts with individuals sluggish

Strengths

S W

Weaknesses

Opportunities

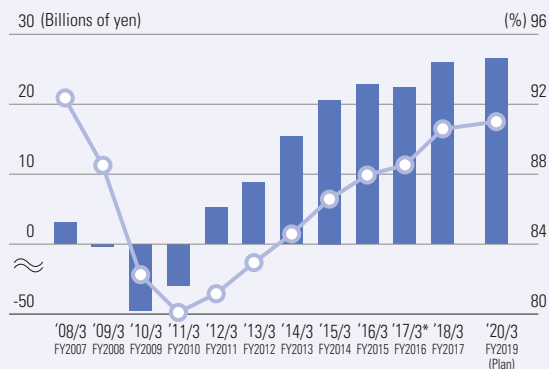
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Threats

- Population of single productive workers expected to remain unchanged in next 20 years
- Three major metropolitan areas continue to enjoy net population influx
- Increase in corporate recruiting due to labor shortages
- Growing number of Japanese companies entering ASEAN

- Declining population
- Consistent increases in rental apartment vacancies across Japan
- Geopolitical risks in ASEAN

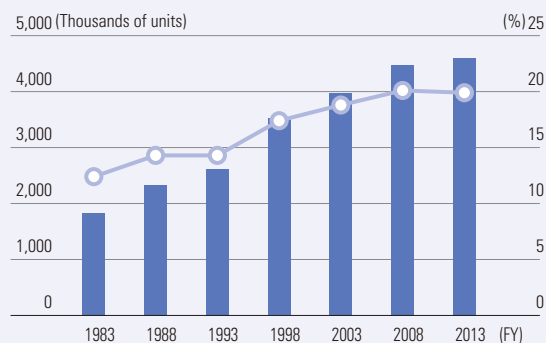
Operating Income (Loss) and Average Occupancy Rates



- Operating income (loss) (left axis)
- Average annual occupancy rate (right axis)

*Figures for FY2016 (ended March 31, 2017) and after are adjusted to new segments.

Rental Housing Vacancy Numbers and Rates (Japan)



- Vacancy number (rental and for-sale) (left axis)
- Vacancy rate (right axis)

Source: "Housing and Land Survey" (Ministry of Internal Affairs and Communications)

Performance

In fiscal 2017, sales in the Leasing Business amounted to 435,537 million yen, up 3.4% from the previous year, and operating income totaled 26,062 million yen, up 13.3%. During the year, we sought to secure stable occupancy rates by addressing demand for corporate dormitories and corporate housing and enhancing our support system for foreign tenants. Meanwhile, we provided IoT-ready apartments that increase tenant satisfaction. As a result, the number of units under our management at fiscal year-end was 570,672, up 1,833 from a year earlier, and the fiscal year-end occupancy rate was 93.72%, up 2.06 points. The average occupancy rate for the year was 90.59%, up 2.06 points from the previous year.

Business Conditions and Issues

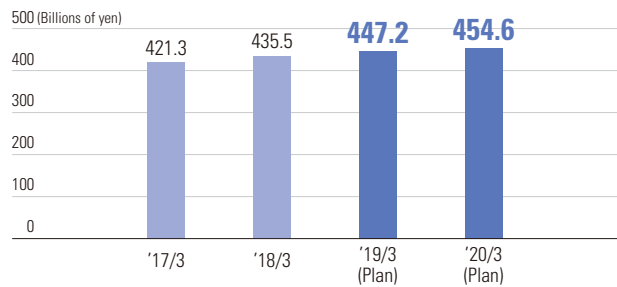
In the rental housing market, the number of new construction starts decreased for the first time in 3 years with the drop in demand for apartment construction as a measure to save inheritance taxes, and the change in environment for apartment loan financing. However, there has been a continuous increase in the construction of properties that are 30 square meters or smaller, which are the Company's target market. The number of vacant rental houses in Japan has been consistently increasing, so a recovery in nationwide demand is unlikely. Under such circumstances, we believe a differentiation strategy is important based on concentrated supply of properties in areas where high occupancy rates can be expected in the future, and provision of value-added services that deploy our unique strengths. In addition to discouraging tenant outflow, it is necessary to adopt other measures, such as proper maintenance and management of properties, optimization of rental and sublease prices based on market factors, and periodic reviews of routine property management tasks.

Progress of measures related to the medium-term management plan (FY2017-FY2019)

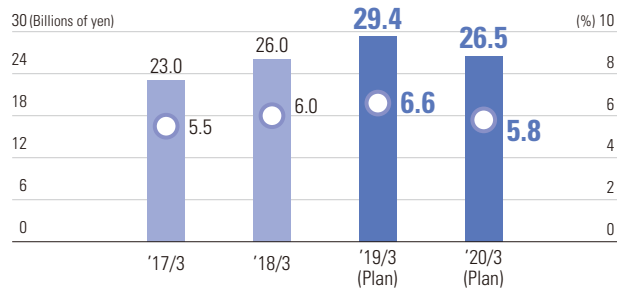
A look at the leasing business environment over the period of our medium-term management plan reveals that the number of single-person houses in our target cohort of the productive population (aged 15–64) will trend sideways for the next 20 years. Moreover, Japan’s 3 major metropolises areas, which represent our target geographical market, continue to enjoy a net population influx. In addition, we expect companies to continue hiring people due to shortage of manpower, and we forecast increasing need for dormitories and company residences. Under these circumstances, Leopalace21 will deploy its key strength—around 570,000 units under management—to enhance its presence as a one-stop solutions provider that addresses the various needs of corporate clients. At the same time, we will encourage long-term residence, restrict tenant outflow, embrace demand from foreign students, and expand female residential occupancies.

In fiscal 2017, we began making rent assessments, property searches, and call center services using AI as part of our pilot projects under the above concept. In addition, we have started offering private lodging properties in Ohta-ku, Tokyo, which is designated as a private lodging special zone. Moreover, our international operations have made strides, especially in the ASEAN region.

Sales



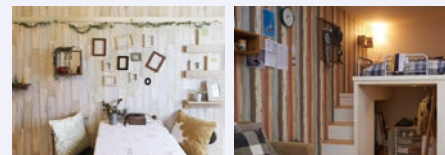
Operating Income



Key Products and Services

“my DIY”

Even rental properties can be customized to one’s liking. The number of contracts for our “my DIY” service, which allows tenants to change the wallpaper on 1 wall for free, has already reached 39,594. This fiscal year, we held various contests and aimed to have tenants personalize and form greater attachments to their rooms.



Industry-first electronic lease contract service

Seeking to improve customer convenience, in November 2015 we introduced tablet terminals at Leopalace Center, our nationwide leasing offices, becoming the first in the industry to provide an electronic contract service. Without the need for personal seals and document storage, this has led to greater convenience for both the Company and its customers, and also helps save resources.



Promoting “smart” apartments

Leo Remocon enables tenants to use their smartphones to operate home appliances remotely. Even air conditioning and other functions can be controlled from outside. This service will be provided as standard on all newly constructed residences completed after October 2016. Moreover, Leo Lock, a smart lock key that can be opened and locked using a smartphone, has been provided as standard on properties completed after October 2017.



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 systems installed has now reached 290,000. In June 2017, we acquired Superior Disaster Prevention Leasing certification.



Business Overview

Development Business



SWOT Analysis

- High-quality, high-value-added products (including strong sound insulation)
- Reduced construction costs through separate ordering and industrialization
- Still gathering know-how outside of low-rise apartment buildings

Strengths

Opportunities

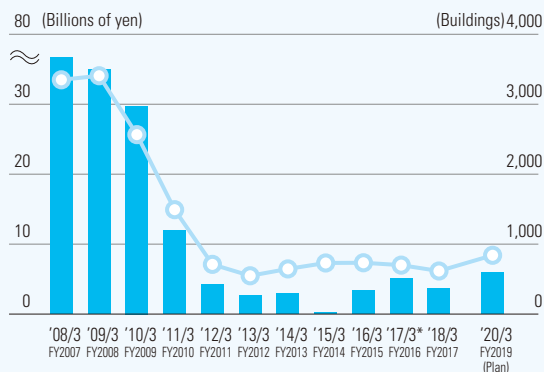
- Major increase in taxable people due to inheritance tax revision
- New rental housing construction under 30m² starts steady
- Diversifying business to include construction of elder care facilities, commercial facilities, and customized houses, in addition to apartment buildings

Weaknesses

Threats

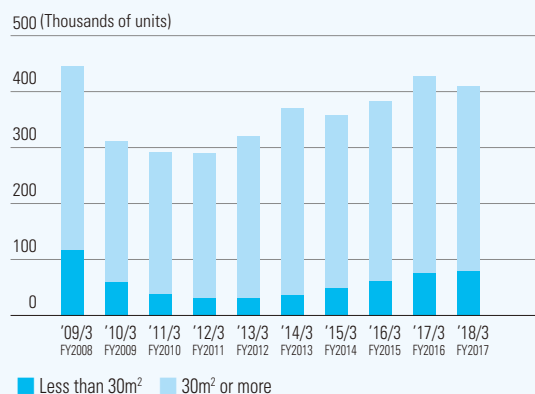
- Construction demand peaking ahead of 2020 Tokyo Olympics; rising construction costs
- Rental property vacancies increasing across Japan

Operating Income, Trend in Building Completions



- Operating income (left axis)
 - Number of building completions (right axis)
- *Figures for FY2016 (ended March 31, 2017) and after are adjusted to new segments.

Number of New Rental Housing Starts



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

Performance

In fiscal 2017, orders received in the Development Business amounted to 75,905 million yen, down 13.3% from the previous year, and sales totaled 76,587 million yen, down 4.6%. Operating income fell 36.7% year on year, to 3,663 million yen.

We focused on attracting orders in Japan's 3 major metropolitan areas, where populations continue to increase and high occupancy rates are expected in the future, while strategically investing in high-quality, cutting-edge products. We also launched new brands aimed at strengthening competitiveness and refreshing our image among tenants. In addition, we expanded construction variations to optimize land usage while reviewing product prices and supply channels in order to improve profitability, with segment operating income growing significantly as a result. Nevertheless, during the fiscal year under review, from the effects of media reports on apartment construction and apartment loans, orders were sluggish and profits consequently decreased.

Business Conditions and Issues

Despite signs of improvements in corporate profits as well as employment and income conditions, conditions for our Development Business have become temporarily unfavorable due to media reports on apartment construction and apartment loans. As a result, rental housing construction starts have decreased for the first time in 3 years. Meanwhile, there has been an increase in the construction of properties that are 30 square meters or smaller, an area which the Company excels in. The rental housing market is, nonetheless, saturated when assessed at the national level. In this environment, we will identify areas where high occupancy rates are likely and implement a more detailed supply plan, including in Japan's three largest metropolitan areas, aimed at expanding orders. At the product level, we will bolster competitiveness by incorporating tenants' perspectives into product development while strengthening earthquake resistance and improving sound insulation and security.

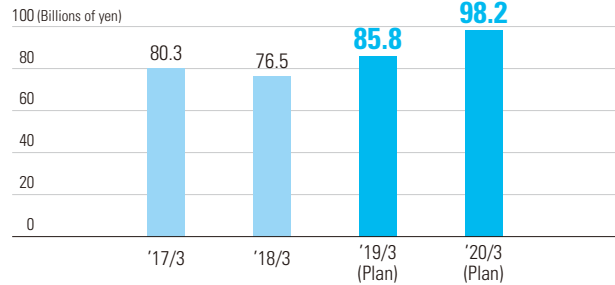
Progress of measures related to the medium-term management plan (FY2017-FY2019)

Over the period of our medium-term management plan, our Development Business will benefit from healthy new construction starts of rental housing that are 30 square meters or smaller, but the number of vacant units continues to rise across Japan. As a result, the intensification of market competition is unavoidable. Under such circumstances, Leopalace21 will continue supplying high-quality, high-value-added products and services in its quest to become the partner of choice among customers.

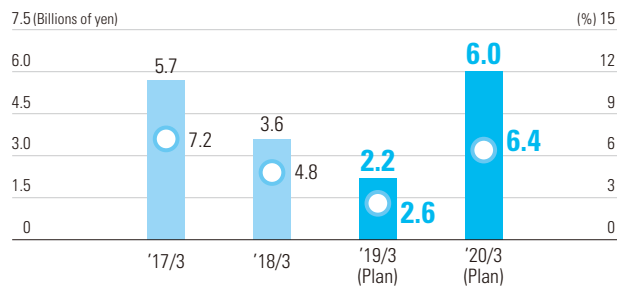
During this fiscal year, we began soliciting investors for real estate specified joint enterprise products for the LOVIE rental condominium series in Tokyo. In addition, we founded Leopalace Trust, which aims to strengthen supports and consulting services for customer asset succession. Leopalace Trust acquired the Investment-based Trust Company license from the Financial Services Agency in May 2018.

From the fiscal year ending March 2019, in order to tap into non-apartment development properties, we will take measures that include converting some of our branch offices into the ones specializing in non-apartment facilities such as social welfare facilities and commercial facilities. We will promote the optimal allocation of branches including the closing of Sendai Office No. 2.

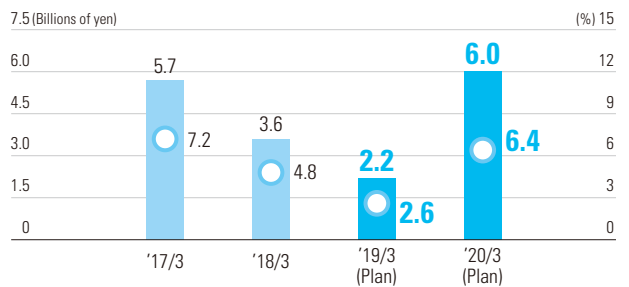
Sales



Operating Income



Operating Margin



Key Products and Services

MIRANDA

With “decorative” as its key concept, MIRANDA is a rental housing brand filled with new ideas that “surprise” and “dazzle” potential tenants and invites fresh thinking about living spaces that come with unique added value.



MIRANDA
ミランダ

CLEINO

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



CLEINO
クレイノ

Custom-built houses made of Kiso hinoki cypress (Morizou Co., Ltd.)

Based on flexible designs, custom-built homes are made with the highest-quality *kiso-hinoki* wood. In addition to durability of such wood, these homes are designed to last 100 years thanks to innovative features, such as a ventilation system that prevents degradation and reinforcement against earthquakes.



Branche (Life Living Co., Ltd.)

With an emphasis on design and function, Branche rental apartment buildings are compact and can be constructed efficiently on small and odd-shaped lots as little as 165 square meters. Here, we employ the patented “TEN-FOUR CUBE Construction Method” enabling us to incorporate 4 stories in a 10-meter-high building, which would be normally limited to 3 stories using regular construction method, giving it significantly higher expected returns in rent.



Business Overview

Elderly Care Business



SWOT Analysis

- Operation of 83 facilities in Kanto and Chubu regions
- Addressing various needs, including day service, short stay, and fee-based nursing

- High labor-cost burden

Strengths

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Weaknesses

Opportunities

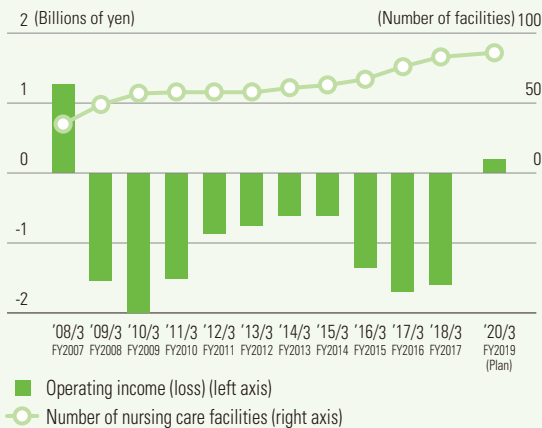
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Threats

- People 65 and over to reach 30% of total population by 2025

- Reduced nursing care fees following review of nursing care insurance system

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



Performance

In the Elderly Care Business, which runs the Company's "Azumi En" network of nursing care facilities, sales in fiscal 2017 totaled 12,807 million yen, up 11.0% from the previous year. The business reported an operating loss of 1,596 million yen, loss decrease of 71 million yen, due to improvements in occupancy rates and other factors. Positioning elderly care as a strategic growth business, we have expanded and upgraded our facilities in recent years. As of May 1, 2018, we operated 83 nursing care facilities, having opened 7 new facilities over the previous 1-year period.

Business Conditions and Issues

Conditions in the Elderly Care Business are mixed. On the one hand, the population of people requiring care is rising, so the market for related services is expected to continue growing. On the other hand, the number of facilities for seniors is also increasing, giving rise to intense competition within the industry, in addition to difficulties in attracting care personnel. Under these circumstances, we will target a return to profitability at an early stage by increasing utilization rates and enhancing operational efficiency.

Key Products and Services

Azumi En

As of May 1, 2018, we managed 83 "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 meticulous nursing care; and day and short-stay services where elderly people living in their own homes can access services for temporary stays.



Business Overview

Hotels, Resort and Other Businesses



SWOT Analysis

- Business synergies with stakeholders

- Inadequate marketing to general customers other than stakeholders

Strengths

S W
O T

Weaknesses

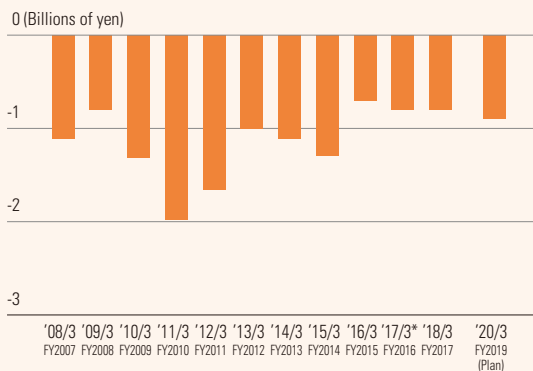
Opportunities

Threats

- Japan: Hotel industry booming due to economic growth and inbound demand
- Guam: Stable for Japanese travelers; South Korean market showing remarkable growth

- Decreasing foreign visitors to Japan due to yen's appreciation
- Burden of regular investments to renew facilities

Operating Income (loss)



*Figures for FY2016 (ended March 31, 2017) and after are adjusted to new segments.

Performance

In fiscal 2017, sales in our Hotels, Resort and Other Businesses amounted to 5,908 million yen, down 18.9% from the previous year, and operating loss was 846 million yen, loss increase of 428 million yen. During the year, we opened a new annex of Hotel Leopalace Sapporo, doubling the number of rooms from 86 to 195. Outside of Japan, the occupancy rate of Leopalace Resort Guam decreased as a consequence of reports on North Korea's missile launch in August 2017.

Business Conditions and Issues

In the Hotels & Resort Business, we are working to stabilize our performance by encouraging apartment owners and corporate rental customers to use our facilities and thus improve occupancy rates.

Key Products and Services

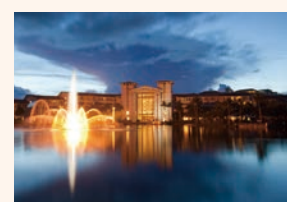
Leopalace Hotels

We currently operate four Leopalace Hotels in Japan (Sapporo, Sendai, Nagoya, 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 services.



Leopalace Resort Guam

Leopalace Resort Guam is fully equipped with sports facilities that meet international standards. Its swimming facilities have been certified 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.



Initiatives for Supporting Corporate Value

Leopalace21's ESG Management

Based on our corporate philosophy of "creating new value," Leopalace21 promotes ESG activities to meet the expectations of a range of stakeholders and develop a sustainable society in line with the needs of the times.

Achieving a Sustainable Society

The Sustainable Development Goals (SDGs) are global targets for the years 2016 to 2030 that were adopted at the United Nations Summit in September 2015. They consist of 17 universal goals and 169 targets, which are applied to all countries including developed countries, addressing challenges such as disparities, sustainable consumption and production, and climate change. The Company strives to meet the needs and demands of society and contribute to solving the issues through initiatives which are in line with our Basic CSR Action Policy.



Leopalace21's Basic CSR Action Policy

The Company has established a Basic CSR Action Policy with 5 themes in response to the needs of our stakeholders, social and environmental problems, and the requirements of ISO26000 and other standards and guidelines, and has been steadily taking actions. Based on compliance and corporate governance that support our businesses, we intend to implement CSR activities in accordance with the policy, with the aim of "creating new value" together with all of our stakeholders.



Leopalace21's ESG Initiatives

Realization of Long-term Vision










The SDGs aim to address challenges in a range of fields, many of which overlap with the Company's initiatives that contribute to society through our businesses. Under our independently developed 5 themes of the Basic CSR Action Policy, the Company has identified activities that contribute to the relevant SDGs. In this way, we promote actions under the ESG (Environment, Social, Governance) framework with a view to realizing our long-term vision.

Governance

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- Basic View on Governance P62
- Progress Towards Strengthening Governance P63
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Basic CSR Action Policy	SDGs to which We Aim to Contribute		
Engaging in sound, constructive communication with stakeholders P71	Goal 17	Strengthen the means of implementation and revitalize the global partnership for sustainable development	

Social

Basic CSR Action Policy	SDGs to which We Aim to Contribute		
Providing high-quality services and supporting affluent living P72	Goal 10	Reduce inequality within and among countries	
	Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable	
	Goal 13	Take urgent action to combat climate change and its impacts	
Creating pleasant work environments and developing diverse human resources P74	Goal 3	Ensure healthy lives and promote well-being for all at all ages	
	Goal 5	Achieve gender equality and empower all women and girls	
	Goal 8	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	
Contributing to local communities P76	Goal 4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	
	Goal 10	Reduce inequality within and among countries	
	Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable	

Environment

Basic CSR Action Policy	SDGs to which We Aim to Contribute		
Creating an environmentally friendly society P78	Goal 3	Ensure healthy lives and promote well-being for all at all ages	
	Goal 7	Ensure access to affordable, reliable, sustainable and modern energy for all	
	Goal 13	Take urgent action to combat climate change and its impacts	

Corporate Governance Dialogue: **Toward Increasing**



Tetsuji Taya

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

Tadashi Kodama

Leopalace21 Outside Director
Former Representative Director, Vice Chairman of the
Board of Directors, Aioi Nissay Dowa Insurance Co., Ltd.

In an era of dramatically changing business environments and unpredictable future, incorporating the perspectives of outsiders into business management is vital for the company to drive sustainable growth. Leopalace21 appoints people with know-how in different fields as outside directors. Our 3 outside directors discussed how governance should be conducted for increasing the corporate value of Leopalace21 in the medium to long term.

Business Environment and Leopalace21's Adaptation

Social challenges being addressed by Leopalace21

Kodama The declining birthrate, aging population and decreasing working population are social challenges that affect not only Leopalace21 but also the entire country of Japan. In the face of such major challenges, apartments were supplied continuously and demand for them increased prematurely, primarily due to the inheritance tax revision and the low interest rate under the negative interest rate policy of the Bank of Japan. We are now seeing their adverse effects being manifested.

In addition, regional disparities are emerging as another major challenge. We considered what impact they would have on the Company over the next several years and undertook development activities in metro areas. While the business environment is difficult, the Company has been able to orient its

activities toward a certain direction.

Currently, existing properties are rapidly aging. For about a decade, we saw thousands of apartments being supplied annually, and there is a risk of property values falling. Furthermore, new technologies including IT have been developed in recent years but have only been adopted in new properties, and this too is becoming a problem. We will need to think about how to overcome these challenges.

Taya It was around the time of the Lehman Brothers collapse when the Company began to recognize the issue of the excess supply of apartments that would arise from the population decline and other major challenges. I believe Leopalace21

Corporate Value in the Medium to Long Term



Yoshiko Sasao

Leopalace21 Outside Director
Executive Officer (Responsible for Work Style Reform),
JDC Corporation

3 Outside Directors Discuss How Governance Should Be Conducted for Increasing Corporate Value

was the first company to change course toward adjusting supply to demand, despite its strong expansionary intentions. Leopalace21 is quick to incorporate new things based on the times and the needs of stakeholders.

The next issue for the Company is the Development part of Leasing and Development that constitute the 2 core businesses. While it is good that the Company changed its focus to leasing, its growth will reach a limit without supply. In other words, the Company will need to explore how to carry out development taking into account collaboration with leasing, as well as how the Elderly Care Business and International Business can draw on the know-how the Company has accumulated to contribute to future growth.

At the same time, attempting anything new requires human re-

sources who can perform them. M&A is expected to pick up not only of businesses but also of human resources, and the Company, too, will actively incorporate experienced, veteran talents.

Sasao Leopalace21 shifted its business model to the Leasing Business in metro areas all at once. With that at the core, the Company put its energy into corporate sales and other activities, and thereby, achieved its current high profitability. Meanwhile, the Company faces the challenges of increasing the profitability of the Elderly Care Business and International Business in a short period of time, and how to maintain the high occupancy rate of over 90% in the Leasing Business. If market competition intensifies, productivity will go down inevitably. Figuring out how to resolve this productivity issue will also be important.

Leopalace21's strengths and challenges to be overcome

Kodama Our key strength lies in the high competitiveness of our core business products, combined with the Company's ability to match owners and tenants almost all on its own. The occupancy rate in fiscal 2017 was 90.59%. Supporting this is corporate sales capabilities, which I believe is another strength of the Company. That said, if the occupancy rate becomes this

high, there would be no properties to supply even if demand increases further, and this will become an issue. In the Development Business, the issue is how to enhance our capabilities, including the design and cost of non-apartment products such as nursing care facilities and shops.

The overwhelming number of rooms under the management

of Leopalace21 is also an issue. What to do with this stock is a critical matter. The business environment is difficult for new development, but there are still significant business opportunities that can be seized by making good use of this stock.

Furthermore, the Company has developed real estate products for investment, in accordance with the Act on Specified Joint Real Estate Ventures. Given their good locations, the products were sold in a very short amount of time. Since this has provided some know-how in development, I think the Company will be able to further expand its business if it can acquire good real estate and develop them successfully.

The corporate culture and atmosphere are at the source of the Company's strength. The three of us are discussing about retaining them.



Taya The strength of Leopalace21 is well depicted by its mission statement. It contains a line that reads, "We seek to always be innovators, to create without ceasing." This is the concept of open innovation. Leopalace21 used to be a closed company which sought to complete everything on its own, rather than partnering with other companies. In the last few years, however, in response to the changes in the social environment and so on, it has come to adopt the concept of open innovation, as in corporate governance. The recently announced new initiatives related to IoT are precisely connected to this. This is to say, the Company's strength is its management ability which allows it to instantly incorporate new things that lead to increasing value and respond flexibly to changes. Moreover, Leopalace21 also has cultural strengths. There are often companies that attempt open innovation, but in many cases, they fail because they cannot let go of the past. The Company has a corporate atmosphere that does not really dwell on the past. This can also serve as a strength.

Conversely, what about the weaknesses of Leopalace21? I would say the fact that the Company possesses the core

commodity of apartments but has not been able to find other revenue sources is a weakness. In this regard, the Company will need to activate its business with corporations through M&A and other means.

Kodama I agree that the corporate culture and atmosphere are at the source of the Company's strength. For a company that has become this large in scale, it has few internal procedures. Companies of a certain scale with a history spend considerable time on procedures. Since long ago, Leopalace21 has consistently kept procedures to a minimum. This, on the flip side, is also a weakness.

In terms of governance strengthening this time, one of the challenges is pursuing this without losing the benefits of the corporate culture. The three of us are always discussing about retaining this corporate atmosphere and culture.

Sasao The Company's strength is its strong ambition to achieve targets, and the fact that once a decision is made it carries through with it. Up to now, the people at the head office and the headquarters of each business division have done an outstanding job identifying the needs of customers on the ground, creating good products and services, and implementing them swiftly, and as a result, the Company has expanded in a short period of time. As the market environment changes and competition intensifies, however, it will become difficult for the head office and headquarters to be involved in everything as they were in the past. Therefore, it will be important that employees on the ground keep their eyes open to the needs and subtle changes of customers, while making the best adjustments from the viewpoint of the entire company and manifest results in piecemeal.



It will be important to keep eyes open to the needs and subtle changes of customers, while making the best adjustments from the viewpoint of the entire company and manifest results in piecemeal.

Leopalace21's risks and responses

Kodama Responding to risk requires a broader perspective. It is becoming necessary to take the overall balance into consideration even when you deal with a standalone risk. Leopalace21 is similar to retail business and had placed relatively more weight on advertising. I made a point that there was no public relations department for risk management. Then, last year, a relevant department was set up immediately. If harmful rumors spread

or other risks were to arise, there is now a system in place for disclosing information to stakeholders appropriately and quickly. Going forward, it will become key to provide good information to the market, albeit in a different form from before. An example is IR activities. By taking initiative to release information to the market, risk can be avoided. Leopalace21 is becoming a company that can carry out offensive risk management, so to speak.

Taya What is good about Leopalace21 is its quickness. It is extremely sensitive to risk. The Company is confronting risks squarely in an environment which exposes it to various risks. The Company's structure allowing information to be communicated up the chain is another positive feature. If an advice is received, the Company has the momentum to immediately make system adjustments. The approach is very advanced. As for major management risks, given how the Company is made up of monoculture, decisions made by top management have relatively more importance. It is therefore critical to examine whether the decisions are truly correct and whether there are no risks. The management understands this and intends to have management decisions examined in light of the perspectives of us three outsiders who have management experience. In this sense, the Company has a high sensitivity to risk.

Sasao The facts reported about the Company in the news media must be taken seriously and addressed sincerely and swiftly, while striving to regain trust. At the same time, making steady efforts to communicate the positive aspects of the Company and its initiatives will help to earn trust and become one form of risk management. Sometimes I wondered why the Company doesn't communicate with the mass media when it has so many positive features. The Company is now beginning to have a structure in place that allows this, but it should engage the media even more proactively. Similarly, although the Company engages in what is truly a diverse range of CSR activities, they were not obvious at all. The Company needs to come up with a clear CSR policy and develop a story that it can tell.

Corporate Governance of Leopalace21

Role of outside directors at Leopalace21

Kodama To put it plainly, outside directors rigorously check the progress of the medium-term management plan, as well as monitor and supervise compliance and management. Having said that, our most important role is not only to serve as a brake, but also to make judgments on risk-taking for growth. Unless we do that, we cannot have hopes for increasing corporate value. It is the role of outside directors to convey opinions frankly to top management. In short, we must always be conscious of creating an environment of tension and cooperation. Rather than focusing on the agenda items or themes in front of us, it is important to make recommendations by taking one step back.

The medium-term management plan is essential for the sustainable growth of the Company. Additionally, it must carry through with the plan to increase corporate value, making it imperative that outside directors check the stages of the plan. Furthermore, it is vital that outside directors take a step forward and engage in discussions based on the long-term future vision.

Taya As far as formalities go, whether or not an environment can be created that allows the people executing the business to maintain motivation will impact the Company's value creation. One of our roles is to give appropriate advice, for example, on executive appointments, compensation system, and incentive creation, and this is what we have actually been doing.

While the three of us are not from this industry, we have experience in corporate management. In that sense, we also have the role of serving as discussion counterparts and helping to identify how value can be created in a mature market and so forth.



Our role is to support value creation in a mature market.

Sasao In addition to of course fulfilling the supervisory function under the Governance Code, I, as an outside director, hope to increase the Company's brand value by engaging in my specialty of promoting diversity management, including promotion of women's empowerment, and the Elderly Care Business in which I have management experience. To this end, I am collecting information including about companies promoting women's empowerment and diversity management. In addition, I share information with the members of the Work-Life Balance Promotion Office, make clear what the Company is currently lacking, and brainstorm what strategies Leopalace21 should take based on its strengths to become an industry pioneer. I am taking steps to be able to play a supporting role for people on the ground while coordinating with the public relations team.

As a result of these efforts, the Company ranks in among the companies leading in the promotion of women's empowerment and work-life balance. To further strengthen these efforts, it will be essential not only to simply incorporate the leading industry trends and the approaches of advanced companies, but also to integrate them to fit the corporate culture and strengths of Leopalace21.

Protocols and setting the tone in meetings of the Board of Directors

Kodama The Corporate Governance Code consists of 73 principles. Companies must comply with the principles, and if not, state the reason. The Company is in compliance with nearly all items, and its Board of Directors meeting and information provision mechanisms are deemed to be of a very high level. For instance, formal rules are being established for discussing and monitoring an array of projects, including investment projects. Our task is to determine what discussions would take place and what kind of vision would be set forth based on this platform.

Taya Revising the KPIs has also been raised for discussion. As the Company's business model is development and leasing, development was originally contracted and balance sheets were not used for business management. Doing new things, such as the Elderly Care Business, International Business, and M&As of new businesses, however, requires the use of balance sheets to a great extent. At such major strategic turning points, dialogue with investors becomes non-sensible unless the KPIs are revised. Against this background, ROIC was set as one of the KPI targets in a timely manner in order to fit with the strategy's vision.

When a decision is made to make global investments, outside directors contribute towards clarifying the investment standards and establishing the necessary standards and KPIs based on the strategy. Know-how is also shared across the directors. Sometimes directors offer new perspectives during the discussions, such as on how know-how in Japan can be utilized to do something overseas as part of the services for corporate customers.



Sometimes directors offer new perspectives during the discussions on the overseas business development strategy.

Sasao Expressing views often leads to more in-depth and detailed discussions at the meetings of the Board of Directors. As an outside director, I give heed to asking, for example, for clarification of the synergy effects between a certain project and existing businesses, clarification of the demerits and risks when there is a lot of discussion only on the merits, a simpler explanation of the KPIs because they are hard to understand, or whether the KPIs have been fully permeated across the organization, to ensure that the discussions at the meetings of Board of Directors contribute to increasing the corporate value of the Company.



Expressing views often leads to more in-depth and detailed discussions at the meetings of the Board of Directors.

Kodama I think it is common for outside directors to receive a lecture on the agenda items prior to the Board of Directors meetings. There is nothing like that at the Company. Instead, regular meetings, executive officer meetings, monitoring meetings, Risk Management Committee meetings, Compliance Committee meetings, management strategy meetings, as well as the Board of Directors meetings and company-wide meetings are held quarterly, and a Group management team meeting is held semi-annually. Outside directors are requested to attend these meetings. I gather that in place of lectures before the Board of Directors meetings, outside directors are expected to attend these meetings to gather sufficient information.

That is not to say that you would be able to understand everything by attending the meetings. Board of Outside Directors meetings have been initiated to deepen understanding of the Company and for all outside directors to have the same information. It started with outside directors, for conversation's sake, asking each other to share information after the Board of Directors meeting.

After about a year had passed, it was decided that the meeting would be joined by outside Audit & Supervisory Board members, standing Audit & Supervisory Board members, and the general manager of the Auditing Department. It was also decided that an outside officers meeting would be held with these members following a Board of Directors meeting. Internal regulations have been established for this purpose.

What is being done at this meeting? Since the meeting is attended by the general manager of the Auditing Department, audit reports are given periodically and an explanation is provided regarding what is happening on the ground and at the branch level. Members of relevant divisions and departments attend depending on the theme of each meeting, and all members are briefed and exchange opinions. At the last meeting, a member of the nursing care department was invited to present on the future prospects of the nursing care business, which was followed by a Q&A session with everyone. Outside directors can get almost all of the information through this meeting and the meetings I mentioned earlier.

Sasao At the previous discussion, since there was talk about integrating the customer center in Saitama with Niigata's, the status of customer centers was explained, given that the centers are the first to hear the voices of customers. We discussed matters such as the functions of each customer center, what would change with the integration, and whether anyone had resigned. All members went through the complaints that were received by the customer centers.

I attend various meetings, and discussions like the one I just mentioned take place every time. In that respect, it feels like the information comes to you.

Kodama So, on the contrary, the directors may become assimilated unless a line is drawn somewhere. Although we

try to be careful with what we say day-to-day, oftentimes I regret having made an executive officer-type remark. I do feel, however, that giving an executive-type advice allows the people attending the meeting to conduct frank discussions. If we overly monitor, we would not be able to receive any information. On this point, I think we have found a good balance. With regard to the issues raised at the Board of Outside Directors meetings, on behalf of the Board I first share the information with the President or Senior Vice President, and then share the information with officers and those in charge once every few months to ensure that it is communicated as the opinions of outside directors. In that sense, I believe we have a relationship of moderate tension and cooperation.

Officer compensation

Taya I was appointed outside director after the collapse of Lehman Brothers, when discussions were focused on reducing compensation. Since then, the Company's view on officer compensation has shifted to how to normalize and deepen the relationship with the stakeholders that were affected after the collapse of Lehman Brothers, namely, the shareholders and apartment owners. Of course, the Company has been returning profits to shareholders, including in the form of share buybacks and dividends. The Company is at last transitioning to growth mode, and the compensation of executive officers now fluctuates based on their commitment to results and the ratio in which they were achieved.

The compensation structure is not that complex yet. At this stage, compensation varies slightly depending on the commitment made to the business plan and the achievement ratio. It looks ahead to single fiscal year results and the results under the medium-term management plan.

Kodama As Mr. Taya has said, we are at last beginning to see the Company taking shape following the collapse of Leh-

man Brothers. With the next medium-term management plan starting, discussion on introducing performance-linked compensation for officer compensation raised questions about whether the indicators to be added could be explained accurately to the officers and whether they will understand them. So it was decided that profits would be returned to a broad range of stakeholders in a relatively simple manner.

A more sophisticated evaluation system will be developed, and efforts will be made to ensure that the stakeholders including shareholders will have a greater understanding.



A more sophisticated officer compensation system will be developed, and efforts will be made to ensure stakeholder understanding.

Human Resources Strategy

Human resources development, women's empowerment, and work style reform

Sasao The Company puts a lot of effort into its human resources. The training cost per employee is quite high. In addition to sales personnel training and training for skills enhancement to increase customer satisfaction, training is conducted by occupation, by rank, regarding compliance, and regarding women's empowerment. The Company has also built a training facility within a building it owns in Fujisawa, which goes to show that the Company makes unparalleled efforts. In Toyo Keizai's CSR

ranking, Leopalace21 ranked in 33rd in the human resources category, putting it amongst the top-ranking companies in Japan.

The women's empowerment initiative is fundamentally based on work-life balance and work style reform. Overtime work has decreased dramatically, and the ratio of employees taking paid vacation has risen to over 70%. Furthermore, last year, the ratio of employees who took paternity leave rose to more than 25%. These values are top-notch figures among Japanese companies,

with Leopalace21 receiving the “Platinum Kurumin” certification as a good supporter of child-rearing from the Ministry of Health, Labour and Welfare (MHLW), a rare feat in this industry. Although it was not selected this year, last year the Company was selected as a “Semi-Nadeshiko Brand” for its programs that raise female employee motivation. It was also selected as a Certified Health and Productivity Management Organization (White 500).

Given this situation, the Company receives many requests from a range of companies wanting to hear about its human resources development.

This transformation was triggered by President Miyama’s strong desire to manage businesses with good governance and to transform Leopalace21 into an outstanding company.

Taya The corporate culture was originally imperfect. The Company sought to transform something that was more or less imperfect into something superior all of a sudden. Its intention is reflected in the dramatic improvements in the figures.

Kodama At last year’s Board of Directors meeting, the Company indicated where it performed poorly on CSR. I stated that this was because of its inadequate approach. With regard to paternity leave, I suggested that the Company approach the eligible male employees since it is clear who they are. The Company quickly went ahead with this. A year later, the ratio of employees who took paternity leave rose to an astonishing figure of over 25%.

Sasao This is usually an unthinkable figure in the real estate business. It is not something you can accomplish even if you set your mind to it. When the President used to be a general manager, there was a female employee who worked very hard. At the time, he wondered what could be done so that she would work longer. This experience seemed to have played a significant role in the improvements.

Efforts are also being made to recruit human resources. A considerable number of personnel and expenses are being invested for recruitment, including the injection of a sizeable number of recruiters. Accordingly, the number of applicants has increased significantly. Around 300 people are being selected from a pool of 20,000 people. In the past, the turnover rate was extremely high, so new graduate hires were recruited in large numbers. Today, the turnover rate has decreased quite substan-

tially, and the Company no longer needs to hire so many people.

Kodama Speaking of the turnover rate, the rate for first-year new graduate hires has improved tremendously. At one time, the turnover rate at the Company was very high. The current rate is an improvement compared to then, and also compared with other companies. Major companies are also struggling with the first-year turnover rate. I believe the Company’s figures have improved thanks to the development of a well-established system, including new employee training.

The human resources department is dealing with all issues related to the vast number of human resources. The Company excels in determining which specific issues it would address and taking action from there—for example, it decides which MHLW certifications it will pursue and which goals it will embark upon.

Sasao It is amazing that performance has not fallen even with the dramatic improvement in the work-life balance. Overtime work has decreased from 30-40 hours per month to less than 20 hours. The ratio of employees who take paid vacation increased from around 30% to over 70%. Performance has increased even with these improvements, which is outstanding.



The Company receives many requests from a range of companies wanting to hear about its human resources development.

Kodama Certainly, improving the work-life balance has made steady progress. The Company has also done an excellent job using IT systems to improve performance. More IT is being adopted in operations, for example, the shift to electronic lease contracts and OCR document reading. The Company is also endeavoring to calculate rent prices using AI, albeit this is still in the initial stages. Furthermore, cost-efficient measures are being taken by partnering with ventures instead of using expensive systems offered by top line vendors.

Employing foreign human resources

Sasao In terms of human resources, priority is being given to securing foreign employees in light of the declining population in Japan. Specifically, the Company actively employs technical trainees from Vietnam. It has training centers and other

facilities in the countries to train people, so that they are ready to work immediately upon arriving in Japan. That said, such employees are still small in number.

Kodama More foreign nationals are being recruited straight out of university. In 2018, over 10 such foreign nationals were hired. To enhance supports for the increasing number of Brazilian tenants, new graduate hires from Portugal were recruited this year at the request of personnel on the ground. It is ex-

pected that foreign employees can help strengthen supports for foreign residents in Japan who are anticipated to grow in number, as well as work in ASEAN countries where Leopalace21 is expanding its business.

Developing the next generation of management human resources

Taya Companies compete for talented personnel, so it is hard to find them from the outside. You have to train human resources. For starters, there is the question of what “management human resources” is. First of all, if management is about decision-making, they must have the information and



It is important that they get to experience an array of businesses, and accumulate and deepen their know-how.

experience to make decisions. If so, they need to be able to collect and analyze information, think logically, and make decisions. In the case of a company in which everything is decided top-down, the people below will stop making decisions. Trying to get people who have not been making decisions to make a decision will obviously not work. That is why people need to be fully experienced in making decisions.

Furthermore, if employees have experience only in a single business, the know-how they need to do something new will inevitably be one-sided. In this light, it is important that they get to experience an array of businesses, and accumulate and deepen their know-how.

The Company will develop management human resources with decision-making and know-how as dual pillars.

ESG Activities of Leopalace21

Kodama The Company has many positive attributes but is not good at appealing them in a unified manner. For example, the Company utilizes tons of resources to build properties. Subsidiary company Morizou Co., Ltd. and others log trees and make use of lumber remnants in an eco-friendly manner. There are many more things that the Company can appeal. It should acquire environmental ISO certification.

It is not easy to acquire environmental ISO certification. But if the Company can appeal all of the aspects to outsiders, i.e., communicate them to the market, Leopalace21 will be highly acclaimed by the market and investors.

Taya I consider that environmental contribution activities have the objective of increasing corporate value, and that environmental contribution itself is not the objective. In that regard, we should be thinking about how profit can be made or how the environmental footprint can be decreased through engaging in environmental contribution activities within the scope of the Company’s business. The adoption of technology discussed earlier falls in line with this concept. Ideally, the Company advances initiatives for increasing corporate value, and in this process, ultimately aims to make an environmental contribution.



Leopalace21 will become a highly acclaimed company if it continues to execute excellent initiatives and can successfully appeal this globally.

Sasao As far as ESG is concerned, the Company executes the Elderly Care Business which registers as much as 13 billion yen in sales. It is, however, not really known that Leopalace21 operates Azumi En, elderly care facilities. Likewise, it is not well known that there is a special subsidiary called Leopalace Smile, which was established to give rewarding workplaces and an opportunity to work to people with disabilities who have the will and ability to work. This company has a steady business performance and is operated without relying on subsidies. Since there are ESG-type businesses such as the Elderly Care Business and a special subsidiary within the Group, it is vital that the Company contributes to the community and society by finding synergies with existing businesses, with the ESG-type businesses forming a core foundation. Leopalace21 should further appeal why it is engaged in the Elderly Care Business and why it has a special subsidiary.

Corporate Governance

Corporate Governance System and Initiatives

Basic View on Corporate Governance

The Company sees the construction and strengthening of corporate governance as one of its most critical management tasks, and will aim to realize its corporate philosophy, achieve management plans, increase corporate value in the medium to long term, and grow continuously by strengthening of this corporate governance. Furthermore, our basic philosophy of corporate activities is to pursue efficient, fair, and highly transparent operations to attain greater corporate value for the sake of all our stakeholders.

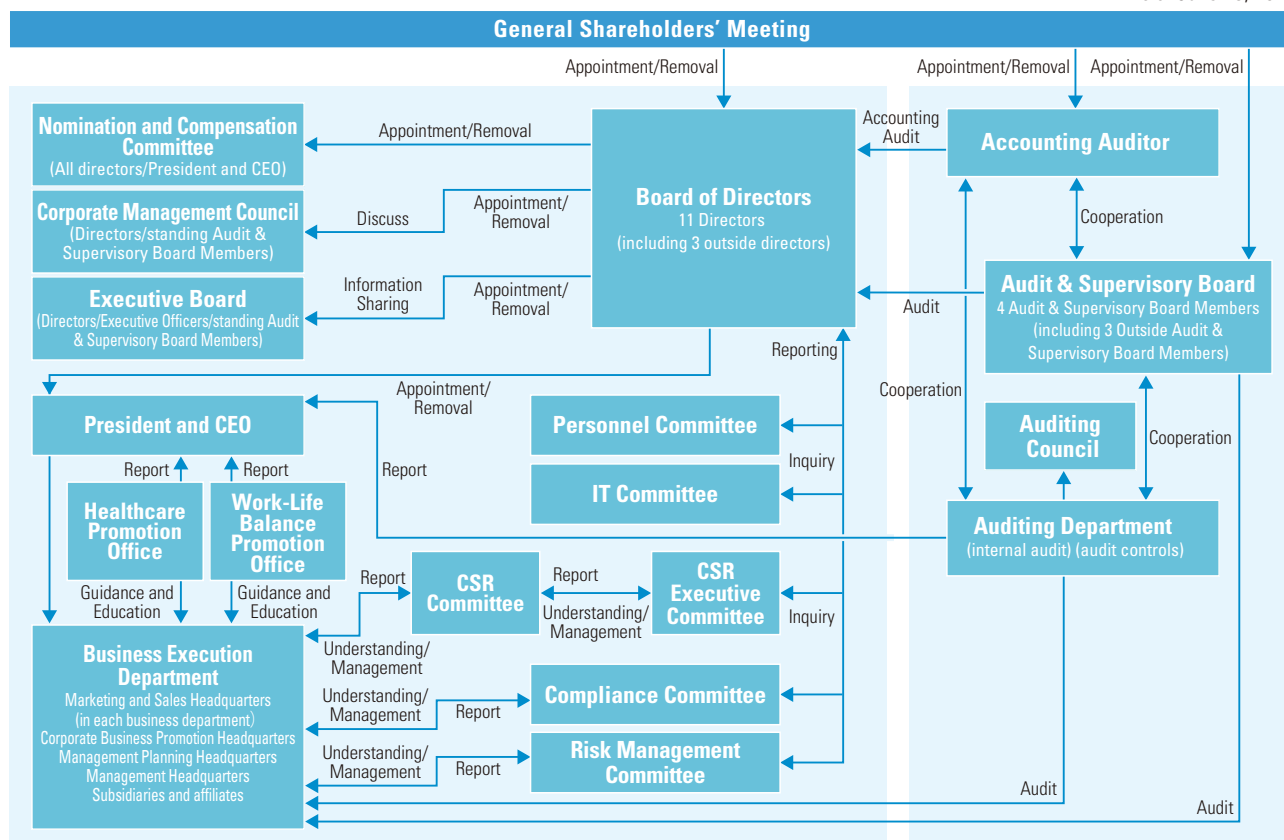
Based on this philosophy, we endeavor to improve our management structure, management organization, and management system mainly through appropriate and rapid decision-making, reinforcing the monitoring function of our decision-making, establishment of a compliance system, improvement and strengthening of an internal control system, and establishment of good relations with stakeholders.

The Board of Directors holds the Corporate Management Council before the meeting of the Board of Directors to discuss important matters concerning overall business operations for the

purpose of rapid decision-making by management and smooth business operation. In addition, the Executive Board is held to share information about company management, with a view to operating business smoothly and strengthening coordination for business operation.

Moreover, the Board of Directors has set up committees to examine the key management issues of the Company. Specifically, they are: the Risk Management Committee responsible for dealing with risks that arise in business operations; the CSR Executive Committee and CSR Committee responsible for working to resolve CSR challenges; the Compliance Committee responsible for developing and operating our legal compliance system; the Personnel Committee responsible for discussing the utilization of human resources; the IT Committee responsible for developing our IT environment; and the Nomination and Compensation Committee responsible for discussing the selection of officers and deciding their compensation.

As of June 28, 2018

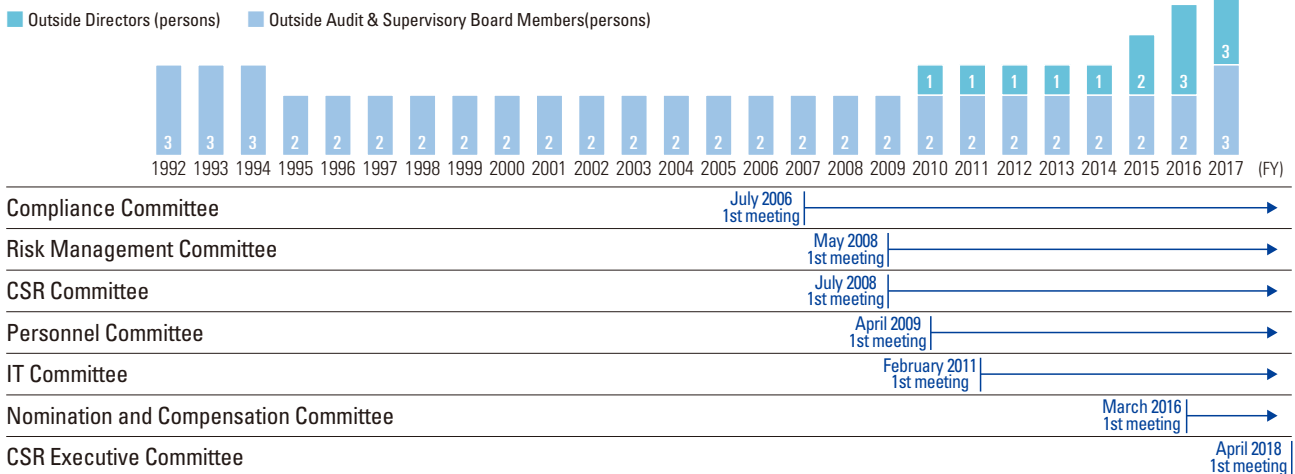


Progress Towards Strengthening Governance

The Company has taken steps to strengthen the corporate governance system to realize its corporate philosophy, achieve management plans, increase corporate value in the medium to long term, and grow continuously. In terms of incorporating the perspective of outsiders into management, we have appointed outside Audit & Supervisory Board members from over 25 years ago and, immediately following the collapse of Lehman Brothers which had a significant impact on the Company's corporate management, appointed outside directors. Since then, to further enhance the supervisory functions of management, we

increased the number of outside directors and 3 are currently appointed, all of whom satisfy the requirements for an independent officer and have experience in corporate management in various industries. Additionally, committees have been established at the Board of Directors to examine key management issues of the Company. Notably, the Nomination and Compensation Committee set up in March 2016 is comprised of 4 members, 3 of whom, i.e., a majority are outside directors. The Committee seeks to make the best appointments and determine compensation by taking into account outside perspectives and know-how.

Major Corporate Governance Initiatives



Three Characteristics of Leopalace21's Governance

1 All three outside directors have corporate management experience

Outside directors with corporate management experience

100%

All 3 outside directors of the Company have corporate management experience. They offer advice and supervision mainly in the Corporate Management Council and Board of Directors meetings from broad, diverse perspectives.

2 Gradually increasing the ratio of outside officers

Ratio of outside officers

Approximately 10% → 40%

As of June 2018, there are 6 outside officers appointed, including 3 outside directors and 3 outside Audit & Supervisory Board members, so the ratio of outside officers has been raised significantly since our founding.

3 All members of the Nomination and Compensation Committee are outside directors with the exception of the President and CEO

Members of the Nomination and Compensation Committee

The Company's Nomination and Compensation Committee consists entirely of outside directors except for the President, in order to select and decide compensation for officers objectively, transparently, and fairly.

Corporate Governance

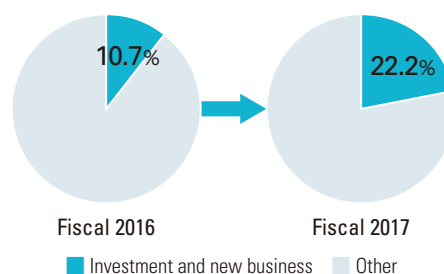
For Effective Board of Directors Meetings

Board of Directors (Meetings convened 16 times in fiscal 2017)

The Board of Directors is focused on both ensuring the mobility of management and enhancing its supervisory functions. It currently consists of 11 directors including 3 outside directors. We consider proper appointment of directors to be important for increasing corporate value, thus we include discussing this matter in the Nomination and Compensation Committee composed of outside directors, together with determining compensation, in the decision-making process. The President and CEO serves as the Chairman of the Board of Directors. In addition to regular monthly meetings, the Board also holds meetings flexibly as necessary to decide important matters concerning management, as well as monitor the status of business performance and supervise the execution of duties by directors.

Board Meeting Agenda

The Board of Directors meetings discuss a range of themes covering all areas of management. As we transition to the stage of aggressive business management with the advancement of business structure reforms and the cementing of the management foundation, the agenda items include not only M&A and real estate in Japan, but also increasing matters related to investment and new business in other countries (primarily the ASEAN region).



Seminars for Directors

To execute future business operations and increase corporate value, it is essential that management resources including directors acquire a deeper level of necessary knowledge. The Company organizes seminars for directors to provide opportuni-

ties and support for such knowledge acquisition.

In fiscal 2017, seminars were held on crisis management, human resources development, work-life balance, diversity and other business matters.

Topic	Theme	Participants
Crisis management	Crisis management communications	Directors, Audit & Supervisory Board members, Executive Officers, others
Human resources development	Inspiring innovation	Directors, Audit & Supervisory Board members, Executive Officers, others
Work-life balance	Work-life balance as a management strategy	Leopalace21 (incl. group companies) Directors, Audit & Supervisory Board members, Executive Officers, and managers (vice general manager and above) at head office and nearby offices
Diversity	Diversity and work-style reform	Leopalace21 (incl. group companies) Directors, Audit & Supervisory Board members, Executive Officers, assistant general managers and higher-level officers and employees, and managers (vice general manager and above) at head office and nearby offices
Other business matters	Real estate business opportunities in 2020 and beyond	Directors, Audit & Supervisory Board members, Executive Officers, others

Officer Compensation

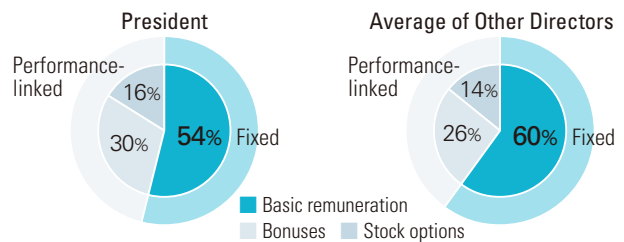
The compensation of directors of the Company is designed to motivate directors to execute their duties to the fullest to achieve management plans and increase corporate value in the medium to long term. Therefore, compensation is comprised of four categories; basic remuneration (fixed compensation), stock options (performance-linked compensation), annual bonuses, and medium-term management plan period bonuses. They are paid according to their respective purposes. Whereas the ratio of fixed compensation to performance-linked compensation had been around 75:25, the proportion of performance-linked compensation was increased, changing the ratio to 54:46 for the President and to an average of 60:40 for other directors in fiscal 2017.

The compensation of individual directors is decided upon deliberation at the Nomination and Compensation Committee to ensure it is appropriate for fulfilling the above objectives. The Committee is comprised of 3 outside directors and the President and CEO.

Nomination and Compensation Committee Meetings convened 4 times a year

Meeting	Discussion Items
1st Meeting	Selection and compensation amount of Executive Officers for FY2017 Selection of Audit & Supervisory Board member candidates for FY2017
2nd Meeting	FY2017 officer compensation and FY2018 performance indicators
3rd Meeting	Selection and compensation amount of Executive Officers for FY2017
4th Meeting	New appointment and reappointment of director candidates and Executive Officers for FY2018

Composition of Officer Compensation



*1 The stock option compensation amount is based on the composition value at the time of the officer compensation system revision (May 2017).

*2 Medium-term management plan period bonuses are not included.

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

(Millions of yen)

Officer category	Total remuneration	Total remuneration, etc. across categories			No. of relevant officers
		Basic remuneration	Stock options	Bonuses	
Directors (excludes outside directors)	563	325	77	160	8
Audit & Supervisory Board members (excludes outside Audit & Supervisory Board members)	19	19	—	—	2
Outside directors/Audit & Supervisory Board members	71	71	—	—	6

* The above includes 1 Audit & Supervisory Board member who resigned as of June 28, 2018.

Evaluating Effectiveness of Board of Directors Meetings

After the business year has ended, the Company conducts an evaluation of the functions to be fulfilled by the Board of Directors meetings, mainly to make improvements on management issues. For the evaluation, all members of the Board of Directors meetings are evaluated individually through a questionnaire. The Secretariat for the meetings aggregates and analyzes the data and reports to the Board of Directors, and related discussions are then conducted. The fiscal 2017 evaluation showed that the medium-term management strategy and the development of the future management resources were matters of great importance for the Company, and while initiatives for these matters appeared to be improving, members viewed that further improvements could be made. Furthermore, the Board was able to carry out monitoring by setting KPIs, set forth investment criteria, and establish measures for developing the

future management resources. In light of these evaluation findings, it was decided that the primary activities of the Board in FY2018 would be “deepening the discussion on each of the business strategies” for the medium term and implementing the “Management Resources Development Plan (Succession Plan).”

Fiscal 2017 Board of Directors Meetings: Main Evaluation Findings

Monitor by setting KPIs	Revise KPIs of each business division, as well as subsidiaries and affiliates, and conduct monitoring using the revised KPIs from the second half of the year.
Set forth investment criteria	Establish Guidelines on Investment Project Management. Conduct implementation and monitoring from second half of the year.
Establish measures for developing the future management resources	Establish the Management Resources Development Plan (Succession Plan). Commence with a selected group from fiscal 2018.

Corporate Governance

Compliance

Leopalace21 conducts business based on our corporate philosophy of “creating new value.” As part of that process, we have created a Corporate Ethics Charter. We are determined to establish legal and social compliance as the cornerstone of our corporate activities. This is exemplified by our President and CEO, whose role is to increase awareness about the spirit of this code and continuously share it with all officers and employees of all group companies.

To set legal and social compliance as the cornerstone of our corporate activities

Compliance Hotline

We have set up an internal compliance hotline (the Legal Department) and an external compliance hotline (a law firm) for accepting reports from our officers and employees and providing guidance to them when they find a possible violation of laws and regulations or unfair practices.

The compliance hotline system ensures whistleblower protection and an appropriate response based on the result of an investigation in accordance with the Whistleblower Protection Act and our Whistleblowing Regulations. We will make improvements regarding any problem identified. The system also serves as a suggestion box so that officers and employees can submit, in confidence, opinions about the Company.

It should be noted that we have set up a partner hotline for accepting reports from officers and employees of our business partners which have continuous business relationships with us and providing guidance to them when they find a possible violation of laws and regulations or unfair practices within the Company. Similar steps as those taken with our hotline system will be followed.

Education and Training

The Company continuously strives to increase compliance awareness and knowledge of each officer and employee.

Group trainings are held for our officers and employees, including new graduates and mid-career hires, to deepen their understanding of our view on compliance and the basic policy of the Company. Furthermore, compliance officers are assigned within departments to proactively increase awareness of and advance measures on compliance. Group trainings are also conducted for these officers to further their understanding of our view on compliance, raise their awareness, and understand their role.

As part of the Company-wide efforts to eliminate harassment, outside instructors offer group training by employee rank that is specific to harassment prevention.

In addition, the Company conducts awareness-raising activities and e-learning courses as appropriate on themes that match the needs of the times, such as harassment prevention, information handling, and LGBT, thereby promoting compliance of the entire Company and further expanding its corporate ethical horizon.

We operate the external hotline

Of the hotlines that have been set up to strengthen the compliance system, the Marunouchi Sogo Law Office operates the external hotline. A lawyer in charge hears the issue from an officer or employee, reports to the Compliance Committee Secretariat, and procedures are taken including an investigation. If there is a violation of compliance, measures will be taken appropriately to correct it (we also accept anonymous reports to ensure that a broad range of people can access the hotline). Going forward, we will continue to work hard to increase compliance of the Company.



Marunouchi Sogo Law Office

Responses to Anti-social Forces

We clearly state in our Corporate Ethics Charter that any “association with anti-social forces be eliminated.” We have no relations with anti-social forces or organizations that threaten the social order and safety and stand firmly against them.

Anti-Bribery Policy

Leopalace21 has adopted an anti-bribery policy to counter bribery in the countries and regions where the Company engages in business activities.

Corporate Governance

Risk Management

Leopalace21 has developed a risk management system for identifying risks, preventing their manifestation, and addressing actualized risks. For disasters and other emergency situations, we have a system to give appropriate instructions and take proper responses in order to avoid confusion, achieve a swift business recovery, as well as continue and restore the business.

Risk Management Regulations

The Leopalace21 Group has created the Risk Management Committee 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. The Risk Management Committee is composed of members including outside experts such as lawyers. In addition to checking the status of risk management, the Committee plans and implements programs such as training in order to reduce and prevent risk.

The Risk Management Committee is convened once a month for regular meetings and as needed when considered necessary by the chairman. The General Manager of the Management Headquarters makes quarterly reports on the risk management status to the Board of Directors.

Risk Management Committee

Chairman	President and CEO
Vice Chairman (Risk Management Officer)	General Manager of Management Planning Headquarters and General Manager of Management Headquarters

<Role of employees>

• Risk Management Officer

The General Manager of the Management Planning Headquarters who serves as one of the Risk Management Officers fulfills the role of: (1) developing strategic PR policies and other information dissemination policies; (2) developing policies for coping with reputational risks and implementing the measures; and (3) conducting external relations during crises. The General Manager of the Management Headquarters who serves as the other Risk Management Officer fulfills the role of: (1) managing risks of Leopalace21 and making legal assessments; and (2) dealing with lawsuits.

Both of the Risk Management Officers will give instructions to the Risk Management Committee Secretariat to check and investigate the risks facing the Company, as well as report to the President and CEO and the Risk Management Committee regarding the details and coping measures for the risks they think are necessary.

• Head of business divisions

When the head of business divisions detects a risk at the organization under their jurisdiction, or is informed about a risk, they report about the risk and the responses to the President and CEO.

• Head of departments & subsidiaries and affiliates

The head of departments and the head of subsidiaries and affiliates keep abreast of the risks facing their departments and companies, respectively, and when a risk is found, take the necessary measures immediately. In addition, the head of departments and the head of subsidiaries and affiliates report the risk and the measures taken to the head of business divisions and risk manager, as well as to the head of the departments under their jurisdiction and the risk manager of the departments, respectively.

<Risk analysis and assessment>

The heads of business divisions as well as subsidiaries and affiliates analyze the known risks considering their level of impact, likelihood, and other factors, and examine coping measures based on the analysis. The Risk Management Committee assesses the analysis results and coping measures and instructs their review as necessary.

ISO27001 (ISMS) Certification Acquisition (Information Management System Strengthening)

Leopalace21 (Information System Department) has acquired ISO27001 (ISMS) certification to assure that we are a partner trusted by customers. ISO27001 is one of the international standards for information security and is also known as "Information Security Management System."

In addition to this certification, Leopalace21 will take appropriate management measures to ensure that its information assets related to all of its business activities are protected from hacking, leakage, alteration, destruction, unauthorized use, and interference with use. The Company will also immediately take appropriate remedial actions when necessary. Furthermore, we will continuously improve the security level by implementing the Plan-Do-Check-Act (PDCA) cycle.



ISO 688408 / ISO 27001
* Acquired by the Information System Department

Corporate Governance

Directors, Audit & Supervisory Board Members,

Directors (As of June 28, 2018)



President and CEO
Eisei Miyama

Oct. 1977 Joined Leopalace21 Corporation
Jun. 1990 Director
Jan. 1996 Executive Director of Management
Nov. 1996 General Manager of the Leasing Business Headquarters
Apr. 2003 Senior Managing Director
Apr. 2009 General Manager of the Management Planning Headquarters
Dec. 2009 Vice President and Representative Director
Feb. 2010 President and CEO (current)
Jun. 2010 President and CEO (current)



Director and Senior Vice President
Tadahiro Miyama

Sep. 1985 Joined Leopalace21 Corporation
Jun. 2003 Director
May 2007 Executive Director of Management
May 2011 Director and Senior Executive Officer/
General Manager of the Marketing and Sales Headquarters (current)
Apr. 2014 Director and Senior Vice President (current)/
General Manager of the Corporate Business Promotion Headquarters (current)



Director and Senior Executive Officer
Yuzuru Sekiya

Apr. 1980 Joined the Sumitomo Bank, Limited
Apr. 2010 Joined Leopalace21 Corporation on loan/
Executive Officer/Deputy General Manager of the Management Headquarters
Jun. 2010 Director and Executive Officer
Apr. 2014 Director and Senior Executive Officer (current)/
General Manager of the Management Planning Headquarters (current)
Apr. 2015 General Manager of the Hotel and Resort Business Division



Director and Senior Executive Officer
Hiroshi Takeda

Apr. 1988 Joined Leopalace21 Corporation
Apr. 2009 Director and Executive Officer/General Manager of the Sales Planning Department, Subcontracting Business Division
May 2011 General Manager of the Asset Management Department, Leasing Business Division
Apr. 2013 Managing Executive Officer/General Manager of the Leasing Business Division
Jun. 2015 Director and Senior Executive Officer (current)
Apr. 2016 General Manager of the Apartment Construction Subcontracting Business Division (current)/Deputy General Manager of the Marketing and Sales Headquarters (current)



Director and Senior Executive Officer
Kazuto Tajiri

Apr. 1975 Joined the Kyowa Bank, Ltd.
Apr. 2013 Joined Leopalace21 Corporation/
Managing Executive Officer/General Manager of the Business Management Headquarters
Jun. 2013 Director and Managing Executive Officer
Apr. 2014 General Manager of the Management Headquarters (current)
Apr. 2016 Director and Senior Executive Officer (current)



Director and Managing Executive Officer
Hiroyuki Harada

Apr. 1980 Joined NISSANSHA INC.
Jan. 1985 Joined Leopalace21 Corporation
Oct. 2004 General Manager of the Personnel Department
May 2007 Executive Officer
Jun. 2013 Director and Executive Officer
Jan. 2014 General Manager of the Work-life Balance Promotion Office (current)
Apr. 2014 Deputy General Manager of the Management Headquarters (current)
Apr. 2016 Director and Managing Executive Officer (current)
May 2018 General Manager of the Healthcare Promotion Office (current)



Director and Managing Executive Officer
Bunya Miyao

Apr. 1983 Joined Nakamichi Leasing Co., Ltd.
Jun. 1990 Joined Leopalace21 Corporation
Sep. 2000 Deputy Manager of the Financial Department
Jul. 2008 General Manager of the Resort Business Headquarters
Jul. 2010 General Manager of the Management Planning Department
Apr. 2013 Executive Officer
Jun. 2016 Director and Executive Officer
Apr. 2018 Director and Managing Executive Officer (current)/Representative in charge of Management Planning and Investor Relations, Management Planning Department (current)



Director and Managing Executive Officer
Hiromi Ito (New Candidate)

Apr. 1983 Joined the Kyowa Bank, Ltd.
Apr. 2015 Joined Resona Business Services Co., Ltd./
Senior Managing Director
Apr. 2017 Joined Leopalace21 Corporation/Managing Executive Officer/Deputy General Manager of the Management Headquarters (current)
Jun. 2018 Director and Managing Executive Officer (current)

and Executive Officers



Director (Outside)
Tadashi Kodama

Apr. 1970 Joined the Dai-Tokyo Fire & Marine Insurance Co., Ltd.
Apr. 2010 Representative Director, Executive Officer, MS&AD Insurance Group Holdings, Inc.
Oct. 2010 Representative Director, Vice Chairman of the Board of Directors, Aioi Nissay Dowa Insurance Co., Ltd.
Jun. 2011 Director, Vice Chairman of the Board of Directors, Aioi Nissay Dowa Insurance Co., Ltd.
Jun. 2012 Senior Advisor, Aioi Nissay Dowa Insurance Co., Ltd.
Jun. 2015 Retired from Aioi Nissay Dowa Insurance Co., Ltd.
Jun. 2016 Outside Director, Leopalace21 Corporation (current)



Director (Outside)
Tetsuji Taya

Apr. 1987 Joined the Fuji Bank, Limited
Jun. 1998 Joined Merrill Lynch Securities Co., Ltd.
Apr. 2003 Managing Director, Industrial Revitalization Corporation of Japan
Apr. 2007 Board Member & Managing Director, Industrial Growth Platform, Inc. (current)
Jun. 2010 Outside Director, Leopalace21 Corporation (current)



Director (Outside)
Yoshiko Sasao

Apr. 1984 Joined Recruit Co., Ltd.
Apr. 2006 Joined Tokyo Electric Power Company, Incorporated
Nov. 2007 Joined TEPCO PARTNERS Co., Inc. on loan/ Managing Director
Jun. 2012 President, TEPCO PARTNERS Co., Inc.
Jun. 2015 Outside Director, Leopalace21 Corporation (current)
President and Representative Director, SHIDAX BEAUTY CARE MANAGEMENT CORPORATION
Apr. 2017 President and Representative Director, Hasegawa Social Works Co., Ltd.
May 2018 Executive Officer, JDC Corporation (current)

Audit & Supervisory Board Members (As of June 28, 2018)



Standing Audit & Supervisory Board Member

Atsunori Nasu

Jun. 1983 Joined JAPAN LIFE Co., Ltd.
May 1987 Joined Leopalace21 Corporation
Apr. 2007 General Manager of Leasing Inspection Unit, Leasing Business Division
Apr. 2010 General Manager of Area Strategies Department
Apr. 2012 General Manager of Auditing Department
Nov. 2015 Auditor, Morizou Co., Ltd. (current)
Jun. 2016 Standing Audit & Supervisory Board Member (current)

Standing Audit & Supervisory Board Member (Outside)

Jiro Yoshino

Apr. 1978 Joined Dai-Tokyo Fire and Marine Insurance Co., Ltd.
Apr. 2012 Managing Executive Officer, Aioi Nissay Dowa Insurance Co., Ltd. Executive Officer, MS&AD Insurance Group Holdings, Inc.
Jun. 2013 Standing Audit & Supervisory Board Member, MS&AD Insurance Group Holdings, Inc.
Jun. 2017 Standing Audit & Supervisory Board Member, Leopalace21 Corporation (current)

Audit & Supervisory Board Member (Outside)

Masahiko Nakamura

Apr. 1966 Joined Sendai Regional Taxation Bureau, National Tax Agency
Jul. 2006 Assistant Regional Commissioner (Fourth Large Enterprise Examination), Tokyo Regional Taxation Bureau, National Tax Agency
Aug. 2007 Established Masahiko Nakamura Certified Tax Accountant Office, Representative, Masahiko Nakamura Certified Tax Accountant Office (current)
Jun. 2010 Audit & Supervisory Board Member, Leopalace21 Corporation (current)

Audit & Supervisory Board Member (Outside)

Takao Yuhara

Apr. 1969 Joined NIPPON CHEMICAL INDUSTRIAL CO., LTD.
May 1971 Joined Sony Corporation
Jun. 2003 Corporate Senior Vice President and Group CFO, Corporate Executive Officer, Sony Corporation
Jun. 2008 Audit & Supervisory Board Member, Ricoh Company, Ltd.
May 2011 Managing Executive Director and CFO, Zensho Co., Ltd.
Jun. 2013 Audit & Supervisory Board Member, mofiria Corporation
Jun. 2014 Audit & Supervisory Board Member, KAMEDA SEIKA CO., LTD. (current)
Jun. 2015 Audit & Supervisory Board Member, Leopalace21 Corporation (current)
Dec. 2015 Auditor, T.HASEGAWA CO., LTD (current)

Corporate Governance

Executive Officers (As of June 28, 2018)



Back row, left to right: Executive Officer Minoru Wada, Executive Officer Mayumi Hayashima, Executive Officer Kiyoshi Arai, Executive Officer Norihito Fukushima
 Front row, left to right: Executive Officer Shigeru Ashida, Managing Executive Officer Fujio Sato, Senior Executive Officer Satoshi Abe, Executive Officer Kenichiro Samejima, Executive Officer Katsuhiko Nanameki



Back row, left to right: Executive Officer Kazunori Tanimoto, Executive Officer Yasushi Mizuno, Executive Officer Tatsuya Sasaki, Executive Officer Yoshiyuki Ichikawa
 Front row, left to right: Managing Executive Officer Naomichi Mochida, Senior Executive Officer Motoyoshi Ohishi, Managing Executive Officer Seiji Shinozaki, Executive Officer Shu Ikeda

Corporate Governance

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.

Our 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 stemming from our provision of resources and contributions to customers, business partners, local communities, employees, shareholders, and creditors. We are 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.

Main Activities and Targets the CSR Committee Oversees

Main Activities	SDGs	Restatement as ISO26000 Core Subjects	FY2017 Targets	FY2017 Results	Self-assessments	FY2018 Targets
Build positive relationships with owners		7. Community involvement	No. of meetings for owners 250 times	424 times	◎	500 times
Offer programs for job-seeking students to support career-development activities			No. of events conducted 30 times	35 times	○	29 times
Conduct proactive IR activities			No. of events conducted for investors and shareholders 22 times	22 times	○	22 times

◎: Attainment above 120% ○: Attainment below 120% but above 100% △: Attainment below 100% but above 70% ×: Attainment below 70%

Overview of IR Activities

Leopalace21's primary IR activities include releasing a range of IR tools on our website, results briefings for analysts and institutional investors, individual meetings, visits to foreign institutional investors, and tours of our facilities. We also actively conduct IR activities for individual investors. In addition to holding briefings for shareholders and property owners, we disclose information on our website for individual investors so that they can obtain a clearer understanding of the Company, including information on the Company's history and market trends, 3-year plan and numerical targets, and business strategy.

IR activities (April 1, 2017 - March 31, 2018)	No. of times	No. of people or companies
Briefing for analysts and institutional investors	2	122 people
Facility tour for analysts and individual investors	2	8 people
Meeting with analysts and institutional investors	146	263 companies
Visit to foreign institutional investors	2	25 companies
Briefing for individual investors	27	3,526 people

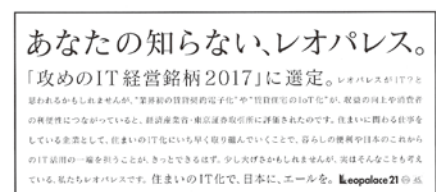
PR Activities (Media Gathering, Full-Page Newspaper Ad, and Others)

In September 2017, the Company held a gathering for members of various media outlets, such as newspaper reporters, magazine editors, and TV network producers, attended by 58 people in total.

Furthermore, an advertisement of the Company was placed in newspapers 4 times.

IR Awards

The Company was awarded the Internet IR Excellence Award for its website in 2017 granted by Daiwa Investor Relations Co., Ltd. We also received the "Silver" score in the Gomez IR Site Ranking 2017 by Morningstar Japan K.K. as well as the 5th IR Good Visual Award judged and selected by the IR Good Visual Award Committee (Japan Investor Relations Associations, Value Create Inc.).



Basic CSR Action Policy

Providing High-Quality Services and Supporting

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.

Our 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 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.

Examples of Our Initiatives

1 Rent Assessment System Utilizing AI, a First in the Real Estate Industry

The Company and AI inside Inc. have jointly developed a rent assessment system using AI inside's "Neural X artificial intelligence (AI)" system to help determine rents and optimize the operation of properties. The system was introduced on February 1, 2018.

By introducing this system, which is capable of learning not only the rent-setting data accumulated by Leopalace21, but also basic information, location conditions, information about the surrounding area, as well as a vast amount of data using deep

learning technology, the Company can now calculate prices to reflect a property's inherent value and the unique strengths of Leopalace21. This has made it possible to properly calculate rents and strategically set rents, along with improving the work-life balance of employees and cutting costs. Leopalace21 will continue to proactively incorporate the latest technologies, including AI.

2 Opening of Azumi En Fuji, Nursing Care Facility with the Latest IoT Systems

The Company's subsidiary Azu Life Care Co., Ltd. opened the nursing care facility Azumi En Fuji (day and short-stay services), which has introduced and employs IoT systems, in February 2018.

In addition to installing a security camera system to watch over and prevent users from leaving the facility, it has introduced a bed-leaving sensor that detects the status of people who are sleeping simply by placing it on their bed, and a finger vein authentication key that locks and unlocks doors using finger veins instead of a key, making Azumi En Fuji a nursing care facility that employs the largest number of IoT systems in Shizuoka Prefecture.* We will make active use of IoT systems to manage the health of facility users, improve services to increase security, and lessen the burden on facility staff.

*Leopalace21 survey



Azumi En Fuji



Security camera system for protecting facility users



Bed-leaving sensor



Finger vein authentication key

Affluent Living

Main Activities and Targets the CSR Committee Oversees

Main Activities	SDGs	Restatement as ISO26000 Core Subjects	FY2017 Targets	FY2017 Results	Self-assessments	FY2018 Targets	
Devise and market products that take surroundings into account		6. Consumer issues	Security system Security camera	8,025 rooms 1,835 buildings	9,763 rooms 1,976 buildings	○	6,667 rooms 1,380 buildings
Reduce incoming calls to service centers			Incoming call ratio (monthly avg.) vis-à-vis total no. of tenants	Below 8.5%	8.3%	○	Below 8.0%
Support schools and students via industry-academia-government cooperation	 		Industry-academia-government partnership planning	18 events	16 events	△	18 events
Install parcel delivery lockers	 		No. of approved locker locations	100 locations	74 locations	△	70 locations
Develop support system for rising number of foreign tenants	 		Manner seminar and event	210 times	263 times	◎	Manner seminar participants: 2,500

◎: Attainment above 120% ○: Attainment below 120% but above 100% △: Attainment below 100% but above 70% ×: Attainment below 70%

3 Safe and Secure Housing

To meet the needs of tenants and property owners who seek homes with strong security systems, the Company has tied up with the leading security service companies, SECOM CO., LTD. and SOHGO SECURITY SERVICES CO., LTD., to install security systems in 290,000 rooms, which make up a majority of properties under our management. We are also boosting our security measures by becoming the first in the industry to introduce a cloud-based security camera service at our rental properties.

Furthermore, all apartments of the Company's core MIRANDA and CLEINO brands have acquired the "Excellent Security Rental Apartment" certification, a program established by the Japan National Crime Prevention Association and the Center for Better Living that certifies apartments which meet their security criteria.



MIRANDA
ミランダ



CLEINO
クレイノ

Selected as "Competitive IT Strategy Company" for 2 Consecutive Years

We were recognized among the "2018 Competitive IT Strategy Company" selected by the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange (TSE). With the population declining and population inflow restricted to major metro areas, Leopalace21 is committed to better developing products and services that correctly gauge the needs of tenants. Our growth strategy enshrines differentiation with other companies through industry-first measures utilizing digital technology such as the "first facial recognition system for rental properties" and "industry-first rent assessment system utilizing AI."



Basic CSR Action Policy

Creating Pleasant Work Environments and

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

At Leopalace21, we think people from a wide range of backgrounds with diverse perspectives, enable us to respond to diversifying social needs, contribute to the creation of new value, and contribute in a major way to our growth. We aim to create workplaces where employees with diverse backgrounds find it easy to work together effectively and can apply their skills and talents on the job.

Examples of Our Initiatives

1 Recognized as 2018 Outstanding Health and Productivity Management Organization (White 500) with a Maximum 5-Star Rating

The Company was named a “2018 outstanding health and productivity management organization” in the large enterprise category (White 500) in a February 2018 announcement recognizing companies that excel in this field by the Ministry of Economy, Trade and Industry (METI) and Nippon Kenko Kaigi. This is the second consecutive year that Leopalace21 was recognized following on from last year.



2 Acquired Platinum Kurumin Certification

The Company has obtained special Platinum Kurumin certification for establishing an action plan in accordance with the Act on Advancement of Measures to Support Raising Next-Generation Children and going beyond satisfying all criteria to strive for even higher standards. Only 153 companies in Japan (as of August 2017) have received the Platinum Kurumin certification, which recognizes companies that engage in more superior childrearing supports than the Kurumin certification.



3 Received the Honorable Mention Award for Telework Promotion

In January 2018, the Company received the Telework Promotion Honorable Mention Award presented by the Japan Telework Association, in recognition of our activities that contribute to achieving a society where diverse human resources can play active roles.

Telework initiatives of Leopalace21

In order to promote telework, we have introduced systems for employees to work at home 4 times a week and to work remotely using mobile devices, as well as electronic contracts. As a result, work efficiency increased, creating more communication time with customers. They have also led to greater work-life balance, including supports for balancing work and childcare or nursing care. Moreover, shifting 95% of contracts from paper to electronic formats has resulted in outcomes such as reduction in expenses and 4.1 hours less overtime work at the Asset Management Department compared to the previous year.

	At-home Work	Remote Work Using Mobile Device
Start	May 2016	April 2016
Location	Home	Client office, while traveling, etc.
Implementing Departments	Full-time employees with shortened work hours for childcare or nursing care who engage in tasks suited for at-home work	Sales personnel of Asset Management Department, etc.
Target Employees	Approx. 60 employees; No. using the program: 37 employees	Approx. 250 employees
Applicable Tasks	Quantitative work (includes managers); up to 4 days per week	Sales and contractual work
Basis of Evaluation	<ul style="list-style-type: none"> Report to supervisor his/her plan and performance before and after commencing at-home work Quantitative work enables supervisors to have a more detailed understanding of employees' progress and achievements compared to when they are at the office, making evaluations easier 	As employees belong to sales departments that engage in out-of-office work, no notable changes

Developing Diverse Human Resources

Main Activities and Targets the CSR Committee Oversees

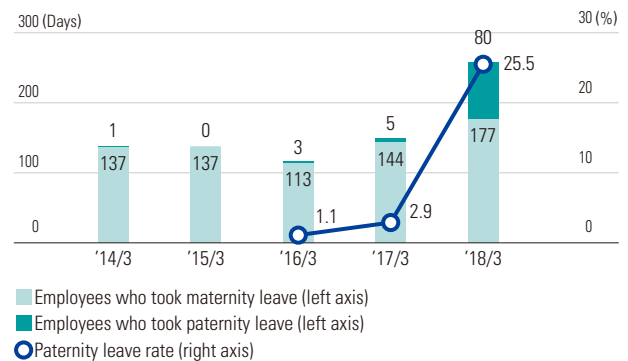
Main Activities	SDGs	Restatement as ISO26000 Core Subjects	FY2017 Targets	FY2017 Results	Self-assessments	FY2018 Targets
Accommodate diverse working styles		2. Human rights 3. Labor practices	Paid vacation day usage rate 70%	74.08%	○	70%
Planned human resources development			No. of training participants A total of 5,184 persons	A total of 6,217 persons	◎	A total of 3,441 persons
Hire diverse human resources			Disabled employee ratio 2.40%	2.28%	○	2.30%
Diversity forum			Held 4 times	4 times	○	4 times
Health forum			Held 5 times	5 times	○	5 times

◎: Attainment above 120% ○: Attainment below 120% but above 100% △: Attainment below 100% but above 70% ×: Attainment below 70%

4 Paternity Leave Rate Reached 25.5%

The Company has introduced the “Welcome Baby Registration System” and other programs to encourage employees to take paternity leaves. As a result, the percentage of employees whose spouse gave birth between October 1, 2016 and September 30, 2017 and took paternity leaves reached 25.5%, a significant improvement from the 2.9% of the previous year. The Company has thus already achieved the 13% target by 2020 set by the government. We will continue to take measures that contribute to improving work-life balance to create a workplace environment where employees can unleash their capabilities and potential to the maximum and increase customer satisfaction.

Acquisition of Parental Leave



5 Established Healthcare Promotion Office Under the President

In May 2018, the Company established the Healthcare Promotion Office, a specialized body under the direct control of the President, in order to create a workplace environment where employees can stay healthy, both mentally and physically, by being highly conscious of their health and work dynamically. The Office is staffed with specialists including health nurses and clinical psychologists who offer health supports to employees. The

main activities include implementing the Mental Health Promotion Project and Dietary Improvement Project, recommending club activities, and organizing non-smoking and smoking reduction campaigns. We will increase employees’ health awareness by further reinforcing the linkages between health and business management, and thereby, deepen employee engagement.

No.	Activities	Content	Purpose and Effects
1	Mental Health Promotion Project	<ul style="list-style-type: none"> Implement mental health education (e.g., anger management, stress control) Strengthen counseling follow-ups by clinical psychologists for employees who are on leave or have returned to work 	Learn about appropriate stress relief methods Facilitate smooth return to work
2	Dietary Improvement Project	<ul style="list-style-type: none"> Organize diet coaching by a certified nutritionist 	Deepen knowledge on diet Improve lifestyle habits and practices
3	Recommend club activities	<ul style="list-style-type: none"> Plan to launch 20 sports clubs, e.g., volleyball, badminton, tennis, futsal, and yoga 	Create physical exercise opportunities for employees Promote smooth intra-company communications Enhance work-life balance
4	Organize non-smoking and smoking reduction campaigns	<ul style="list-style-type: none"> Conduct employee questionnaire twice a year and disclose non-smokers’ views Hold non-smoking activities coinciding with the World No Tobacco Day on May 31 Organize Non-Smoking and Smoking Reduction Month twice a year and promote awareness-raising activities 	Lower smoking rate Deter second-hand smoking

Basic CSR Action Policy

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

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. At Leopalace21, we are promoting initiatives to contribute to local communities through our businesses and employees and hands-on interaction with local communities, an 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.

Examples of Our Initiatives

1 Concluded Agreement on Creating Anti-Crime Communities with Saitama Prefecture and Saitama Prefectural Police

The Company concluded the Agreement on Creating Anti-Crime Communities with Saitama Prefecture and Saitama Prefectural Police in February 2018. The Agreement is aimed at protecting children, women, and the elderly from crime and enabling people in Saitama Prefecture to live safely and securely through the coordinated efforts of the Company, Prefecture, and Prefectural Police for preventing crime. We will work even more closely with Saitama Prefecture to realize safe and secure communities by installing security cameras and home security systems at the properties we manage, holding security seminars for property owners, placing anti-crime stickers at the Company's offices, among other initiatives.



(From left) Governor of Saitama Prefecture, Leopalace21's Ko Sato, and Chief of Saitama Prefectural Police

2 Collaborated with Fukaya City Half Marathon

As part of our contribution to society, we collaborated for the second consecutive year with Fukaya City Half Marathon held in Fukaya City, Saitama Prefecture. Our booth at the venue had an exhibit using the Company's "my DIY" service that allows for customization including changing the wallpaper. In addition, we conducted a questionnaire on the design of the living space of Fukka-chan, the mascot of Fukaya City. Based on the questionnaire results, we made a showroom using "my DIY" and made it available for public viewing.



Fukka-chan's room
(From left) Fukaya City's mascot Fukka-chan, Leopalace21's signature squirrel Leopal-kun

Main Activities and Targets the CSR Committee Oversees

Main Activities	SDGs	Restatement as ISO26000 Core Subjects	FY2017 Targets	FY2017 Results	Self-assessments	FY2018 Targets
Implement cleanup campaigns		7. Community involvement	No. of cleanup events at construction sites 5 participants per site	5.19 persons per site	○	5 persons per site
			No. of companywide cleanup campaigns held: 4 times Total no. of participants: A total of 3,780 persons	4 times A total of 3,037 persons	○	3 times
Donation	800,000 yen		500,035 yen	×	650,000 yen	
"Leo Miles" donated	760 point packages		1,020 point packages	◎	1,100 point packages	
	1,600,000 yen		1,736,986 yen	○	2,000,000 yen	
Sports promotion					Event organization: 3 Sponsor: 3	New

◎: Attainment above 120% ○: Attainment below 120% but above 100% △: Attainment below 100% but above 70% ×: Attainment below 70%

3 Sports Promotion

The Company supports many pro athletes through provision of our facilities and aims to contribute to society with sports promotions that advance competitive athletic sports through our sponsorships. We are sponsors of golf tournaments in Guam and the ASEAN region, Ultra Marathon on Iki Island in Nagasaki Prefecture, the Japan national swimming team of the Japan Swimming Federation, and the Japan Weightlifting Association. In addition, we have newly signed a contract with Fukuoka SoftBank HAWKS Corp. to become a team sponsor for the 2018 season.



Baseball player, Mr. Yuki Yanagita (Fukuoka SoftBank Hawks), Eisei Miyama, President and CEO



Iki Ultra Marathon



Golfer Paul Peterson, Champion of Leoplace21 Myanmar Open 2018

Basic CSR Action Policy

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 CO₂ 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. 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.

Examples of Our Initiatives

1 Reducing Our Environmental Impact via Business Activities

We are working to reduce the environmental footprint of the Company's business activities. In fiscal 2017, like in fiscal 2016, we implemented a "Warm Biz" and "Cool Biz" dress code for winter

and summer as well as 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.

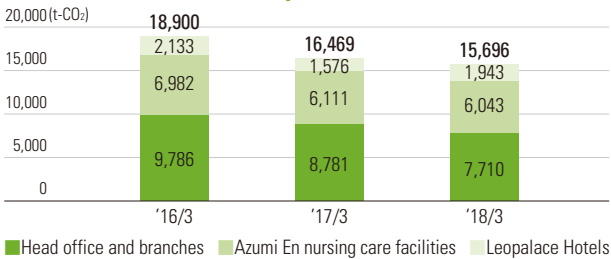
2 CO₂ Emissions (Scope 1, 2, 3)

We consider environmental impact monitoring to be essential for environmental conservation activities. In fiscal 2017, we calculated CO₂ emissions from electricity and gas use as well as CO₂ emissions from driving gasoline vehicles. We also started disclosing

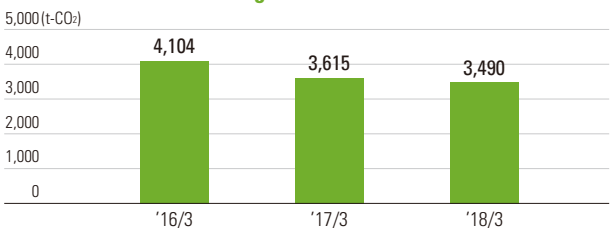
CO₂ emissions for Scope 3, given the importance of understanding the CO₂ amounts emitted in upstream and downstream business activities in order to identify processes requiring environmental conservation efforts.

With regard to the Company's business activities, CO₂ emissions from electricity and gas use at rental housing are high, and therefore, providing energy-saving rental housing is an area in which the Company can make the most contribution to reducing our environmental impact. Monitoring has further revealed that the Company has succeeded in lowering CO₂ emissions in Scopes 1 and 2 (electricity and gas use and gasoline use) and Scope 3 over the past 3 years.

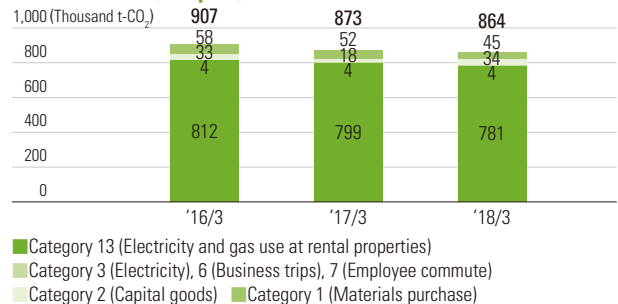
CO₂ Emissions from Electricity and Gas Use



CO₂ Emissions from Driving Gasoline Vehicles



CO₂ Emissions (Scope 3)



Main Activities and Targets the CSR Committee Oversees

Main Activities	SDGs	Restatement as ISO26000 Core Subjects	FY2017 Targets		FY2017 Results	Self-assessments	FY2018 Targets
Contribute to CO ₂ reduction by solar power generation		4.Environment	Amount of reduction	23,000 t-CO ₂	24,590 t-CO ₂	○	23,000 t-CO₂
Collect PET bottle caps and make donations for vaccines			PET bottle cap	1,600,000 caps	1,221,360 caps	△	1,400,000 caps
			CO ₂ reduction	12,600 kg	9,618 kg		11,025 kg
			Polio vaccine	For 2,000 people	For 1,527 people		For 1,750 people
Develop ZEH rental housing that contributes to low-carbon society						New	Acquire ZEH certification for participating properties
Develop IoT that can contribute to the environment					New	Develop 2 items	
Reduce CO ₂ emissions					New	5% reduction from FY2016	

◎: Attainment above 120% ○: Attainment below 120% but above 100% △: Attainment below 100% but above 70% ×: Attainment below 70%

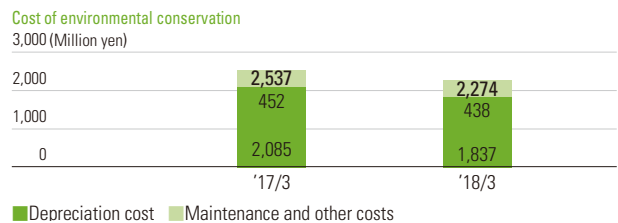
3 Environmental Accounting

The Company makes active efforts to reduce its environmental impact through solar power generation. The right figure illustrates the results of applying our solar power generation to environmental accounting.

CO₂ emissions were reduced by 24,590t, equivalent to the amount of CO₂ absorbed per year by about 2 million Japanese cedar trees (assumes a 40-year life span for Japanese cedar trees) based on the preliminary calculations of the Forestry Agency. In terms of economic performance, surplus was achieved following on from the previous fiscal year.

Environmental Accounting (Related to Solar Power Generation)

Economic impact (revenue from electricity sale)	3,008 million yen	3,039 million yen
Eco impact	24,343t-CO₂ reduction	24,590t-CO₂ reduction



4 Contributing to a Low-Carbon Society by Building ZEH Housing

The Company's subsidiary Morizou Co., Ltd. offers "100-Year of Homes" made of kiso-hinoki, a premium precious wood. Morizou homes have industry-leading insulation and airtightness, and achieve high-energy efficiency by adopting designs that make the most use of the blessings of natural light and wind. Aiming to build a low-carbon recycling society to solve global warming issues, we will install energy creation facilities such as solar power systems with the goal of increasing the adoption of Zero

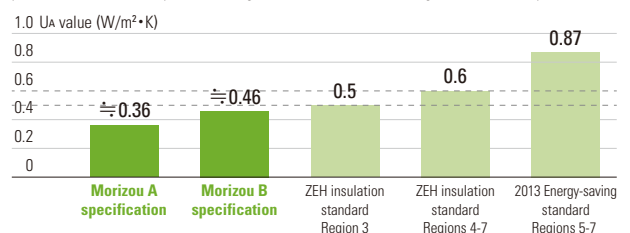
Energy Home (ZEH*) to 50% by 2020. We will continue to develop eco-friendly homes to enable people to live economically and comfortably and to contribute to the creation of forests that protect the finite natural environment.

* Net zero energy house: House with zero net primary energy consumption per year



Performance Comparison of Morizou Homes and Various Standards

The insulation standard of a home is set forth as a region-specific U_a value indicating the insulation performance of the envelope of a building. The smaller the value, the higher the insulation performance.



* Morizou makes homes not based on pre-determined plans but with freedom of choice. Therefore, the insulation performance (U_a value) varies slightly by layout and specification.

Ten-Year Consolidated Financial Highlights

For the years ended March 31				
	'09/3 FY2008	'10/3 FY2009	'11/3 FY2010	'12/3 FY2011
Net sales	¥ 733,235	¥ 620,376	¥ 483,537	¥ 458,220
Leasing Business	334,560	342,316	355,752	379,091
Construction Business (current Development Business)	359,154	237,062	107,821	62,913
Elderly Care Business	7,952	8,812	7,785	8,845
Hotels & Resort Business	5,610	6,734	6,491	6,228
Other Businesses	25,956	25,451	5,686	1,142
Cost of sales	589,833	570,749	448,392	403,572
Selling, general and administrative expenses	93,244	79,354	59,605	51,278
Operating income (loss)	50,156	(29,727)	(24,460)	3,369
Leasing Business	(1,538)	(47,875)	(30,865)	4,052
Construction Business (current Development Business)	70,112	29,744	11,888	4,290
Elderly Care Business	(1,538)	(1,994)	(1,508)	(855)
Hotels & Resort Business	(805)	(1,324)	(1,973)	(1,663)
Other Businesses Adjustments	(16,072)	(8,278)	(2,002)	(2,454)
EBITDA (Operating income + depreciation)	55,939	(23,432)	(18,009)	9,416
Recurring income (loss)	46,785	(33,831)	(32,662)	1,133
Net income (loss)	9,951	(79,075)	(41,742)	372
At year-end:				
Total assets	¥ 467,300	¥ 396,511	¥ 298,274	¥ 264,783
Net assets	146,442	70,979	32,187	31,761
Interest-bearing debt	44,188	61,318	43,858	51,654
Cash flow:				
Cash flow from operating	¥ 62,843	¥ (12,990)	¥ (28,337)	¥ (3,174)
Cash flow from investing	(10,048)	(8,889)	13,143	(3,537)
Cash flow from financing	(33,885)	15,281	(15,890)	7,245
Amounts per share: (Yen)				
Net assets	¥ 967.40	¥ 466.76	¥ 190.84	¥ 187.50
Net income (loss)	63.54	(521.91)	(266.48)	2.21
Cash dividend	30.00	—	—	—
Ratio:				
Units under management	506,742	551,773	571,656	556,207
Average annual occupancy rate (%)	88.51	82.25	80.09	81.16
Orders received (Millions of yen)	337,883	250,247	80,338	50,019
Equity ratio (%)	31.3	17.9	10.8	12.0
Return on equity (ROE) (%)	6.4	(72.8)	(81.0)	1.2
Return on assets (ROA) (%)	9.7	(7.8)	(9.4)	0.4
Payout ratio (%)	47.2	—	—	—
Debt/equity ratio (%)	0.3	0.9	1.4	1.6
Number of employees	9,926	8,582	7,114	6,165

*Attendant with changes in accounting policies at subsidiaries in the Leasing Business, consolidated accounts reported in the past have been retroactively revised, and historical data for past fiscal years shown here reflects these retroactive revisions.

(Notes) 1. U.S. dollar amounts are translated from yen at the rate of ¥106.24 = U.S. \$1, the approximate rate prevailing at March 31, 2018.

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

3. Return on assets (ROA) = Recurring 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."

6. The numbers for fiscal 2016 (year ended March 31, 2017) and fiscal 2017 (year ended March 31, 2018) are displayed under new business segments. New segment of "Hotels & Resort/Other Businesses/Adjustments" is used for "Hotels & Resort Business" in the relevant fiscal years.

Reorganized Business Portfolio

Reorganized into Four Businesses, from Five Previously

We reorganized our business portfolio so as to respond swiftly to customer needs and changes in the business environment. The reorganization has enabled swift decision-making, and opened the way for us to build a structure where we can improve both social value and our corporate value.

Until Fiscal 2016 (Year ended March 31, 2017)

Leasing Business	<ul style="list-style-type: none"> Corporate housing management & rental housing brokerage Rental payment guarantees International business
Construction Business	<ul style="list-style-type: none"> Custom-built homes
Elderly Care Business	<ul style="list-style-type: none"> Elderly care business
Hotels & Resort Business	<ul style="list-style-type: none"> Hotels and resort business Travel agency services
Others	<ul style="list-style-type: none"> Small-amount, short-term insurance Solar power generation Clerical services agency Real estate development

(Millions of yen)						(Thousands of U.S. dollars)	
	'13/3 FY2012	'14/3 FY2013	'15/3 FY2014	'16/3 FY2015	'17/3 FY2015	'18/3 FY2017	'18/3 FY2017
	¥ 454,285	¥ 470,883	¥ 483,247	¥ 511,513	¥ 520,488	¥ 530,840	\$ 4,996,613
	383,637	388,562	399,375	410,641	421,342	435,537	4,099,566
	53,369	63,135	61,312	74,160	80,321	76,587	720,889
	9,482	10,171	10,608	10,798	11,536	12,807	120,547
	6,657	7,571	8,951	11,427	7,287	5,908	55,610
	1,137	1,442	2,999	4,485	—	—	—
	396,508	401,510	407,433	422,604	427,820	434,762	4,092,265
	50,299	55,906	60,992	67,823	69,769	73,147	688,515
	7,477	13,467	14,822	21,085	22,898	22,930	215,832
	8,750	15,364	20,590	22,848	23,009	26,062	245,312
	2,748	2,951	211	3,340	5,786	3,663	34,483
	(742)	(610)	(606)	(1,354)	(1,667)	(1,596)	(15,024)
	(1,005)	(1,118)	(1,289)	(697)	(4,230)	(5,199)	(48,939)
	(2,272)	(3,119)	(4,084)	(3,051)	—	—	—
	13,161	19,460	22,558	30,700	32,235	34,656	326,213
	11,154	11,368	13,483	19,909	22,355	22,354	210,413
	13,398	15,730	15,175	19,631	20,401	14,819	139,490
	¥ 261,649	¥ 288,165	¥ 308,882	¥ 327,609	¥ 337,828	¥ 337,257	\$ 3,174,490
	56,145	103,354	124,928	144,865	158,870	159,438	1,500,740
	49,026	37,227	44,487	50,824	49,918	53,829	506,682
	¥ 6,069	¥ 15,584	¥ 15,715	¥ 22,104	¥ 27,504	¥ 27,338	\$ 257,329
	(6)	(6,929)	(17,550)	(11,087)	(8,653)	(2,336)	(21,996)
	9,148	8,848	1,747	1,374	(14,048)	(18,354)	(172,767)
	¥ 265.32	¥ 393.05	¥ 475.17	¥ 550.94	¥ 603.76	¥ 630.84	\$ 5.94
	74.85	69.38	57.73	74.68	77.61	58.02	0.55
	—	—	—	10.00	22.00	22.00	0.21
	546,204	548,912	554,948	561,961	568,739	570,672	—
	82.94	84.58	86.57	87.95	88.53	90.59	—
	73,006	81,139	87,395	86,439	87,139	75,905	\$ 714,469
	21.5	35.9	40.4	44.2	47.0	47.2	—
	30.5	19.7	13.2	14.6	13.4	9.3	—
	4.2	4.1	4.5	6.3	6.7	6.6	—
	—	—	—	13.4	28.3	37.9	—
	0.9	0.4	0.4	0.4	0.3	0.3	—
	6,277	6,758	7,339	7,846	7,695	7,690	—

From Fiscal 2017 (Year ended March 31, 2018)

- Corporate housing management & rental housing brokerage
- Rental payment guarantees
- International business
- Small-amount, short-term insurance
- Solar power generation

Leasing Business

- Custom-built homes
- Real estate development

Development Business

- Elderly care business

Elderly Care Business

- Hotels and resort business
- Travel agency services
- Clerical agency services

Hotels, Resort and Other Businesses

Reference: Fiscal 2017 (Millions of yen)

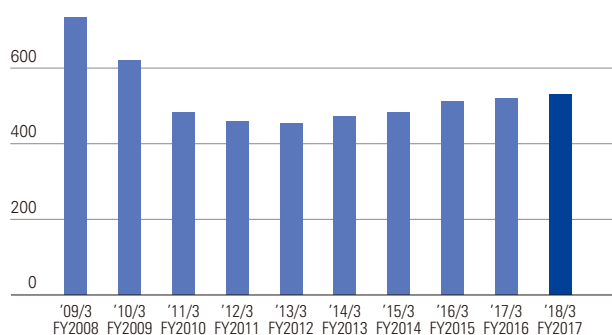
	Net sales	Operating income
Leasing Business	435,537	26,062
Development Business	76,587	3,663
Elderly Care Business	12,807	(1,596)
Hotels, Resort and Other Businesses	5,908	(846)

Consolidated Financial Highlights

Net Sales

↑ **530.8** billion yen
Up 2.0% y/y

(Billions of yen)
800

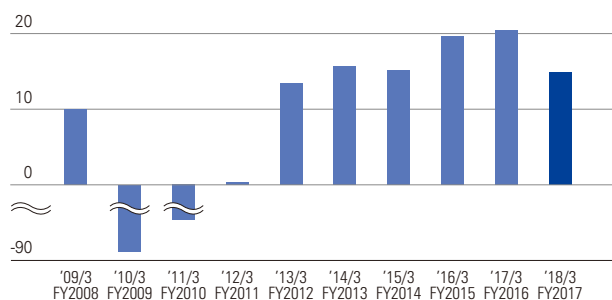


As a result of the fall in occupancy rates, stagnation in rent earnings and the sharp drop in the supply of new apartments due to the global financial crisis triggered by the 2008 collapse of Lehman Brothers, we have pushed through business structural reforms in the fiscal year ended March 2010 in order to control the Construction Business as well as to enhance Leasing Business earnings. Since then, net sales are demonstrating an upward trend, led by the Leasing Business, and the Company has achieved revenue growth for 5 consecutive years.

Net income attributable to shareholders of the parent

↓ **14.8** billion yen
Down 27.4% y/y

(Billions of yen)
30

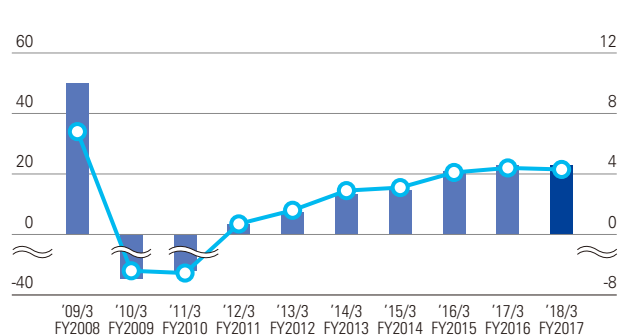


As with operating profit, the earnings of the Leasing Business have deteriorated due to the global financial crisis triggered by the 2008 collapse of Lehman Brothers, which led to the fall into the red for 2 consecutive years ended March 2010 and March 2011. After the progress of business structural reforms, the Company returned to the black in the fiscal year ended March 2012, and has consistently recorded recurring profit growth since then. Profits dropped for the first time in 4 years following an impairment loss recorded as an extraordinary loss in the fiscal year ended March 2018.

Operating Profit (Loss)

↑ **22.9** billion yen
Up 0.1% y/y

(Billions of yen)
80



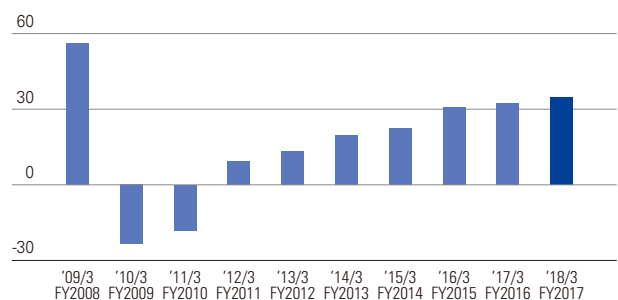
■ Operating profit (loss) (left axis) ○ Operating margin (right axis)

As with net sales, the earnings of the Leasing Business have deteriorated due to the global financial crisis triggered by the 2008 collapse of Lehman Brothers, which led to the fall into the red for 2 consecutive years ended March 2010 and March 2011. After the progress of business structural reforms based on the profits of the Leasing Business, overall profits are continuing to rise steadily for 7 consecutive years since the fiscal year ended March 2012, and in the Leasing Business for 6 consecutive years.

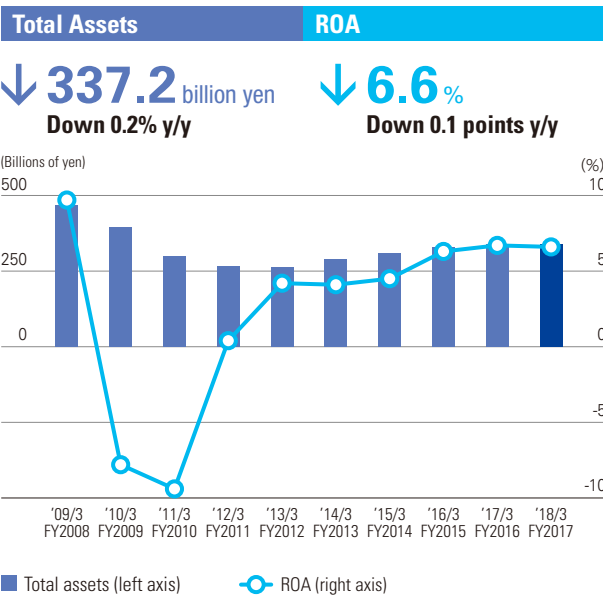
EBITDA (Operating Profit + Depreciation)

↑ **34.7** billion yen
Up 7.5% y/y

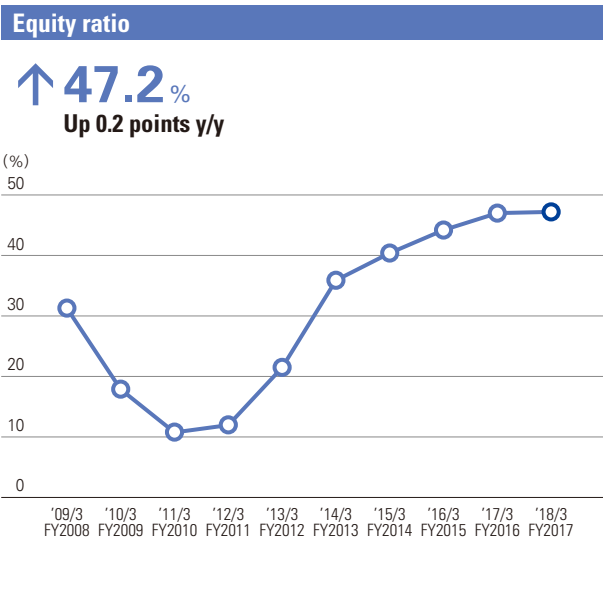
(Billions of yen)
90



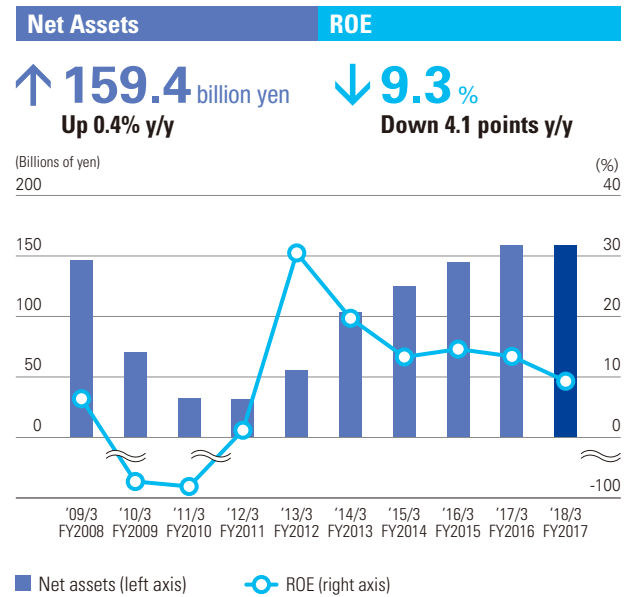
EBITDA, the combination of operating profit and depreciation, has been steadily increasing since the fiscal year ended March 2012. This is attributed to the continuous growth of operating profit resulted from recovery in earnings and to the increase in depreciation and amortization stemmed from the capital investment increase in new businesses such as the serviced apartment business in the ASEAN region. EBITDA increased for 7 consecutive years in the fiscal year ended March 2018.



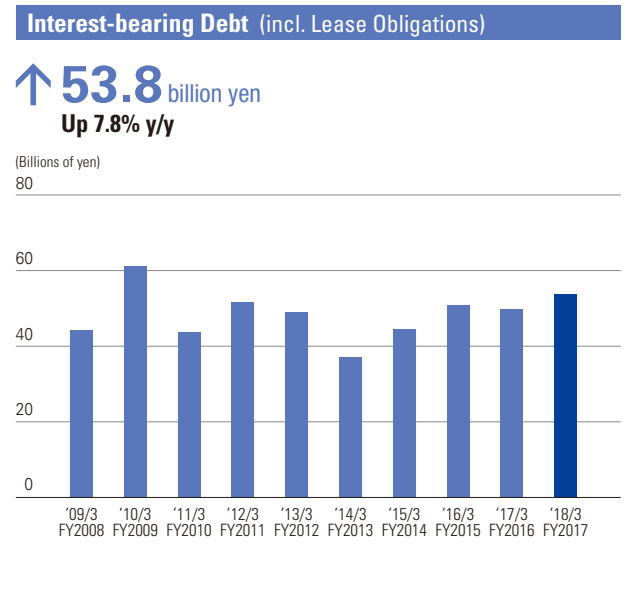
Structural reforms have led to a rapid recovery in ROA since returning to the black in the fiscal year ended March 2012. ROA has shown steady increases in the 5-6% range since the fiscal year ended March 2013, and reached 6.6% in the fiscal year ended March 2018.



Following 2 consecutive years in the red, the equity ratio dropped to 10.8% in the fiscal year ended March 2011. Following the recovery in earnings since then, we have endeavored to raise the equity ratio, and succeeded in ensuring the financial solvency of the business. Having achieved a sufficient level of financial solvency with the equity ratio now at 47.2% as of the fiscal year ended March 2018, we are now looking at implementing a flexible capital policy based on “enhancing capital and asset efficiency.”



In terms of ROE, while structural reforms intended at bolstering the Company’s profit structure succeeded in steadily boosting profits, a compression of interest bearing debt resulted in a decrease in financial leverage. As a result, ROE has been hovering in the 10% bracket since the fiscal year ended March 2014. ROE dropped to 9.3% in the fiscal year ended March 2018 due to a decrease in net earnings spurred on by a temporary increase in impairment loss.



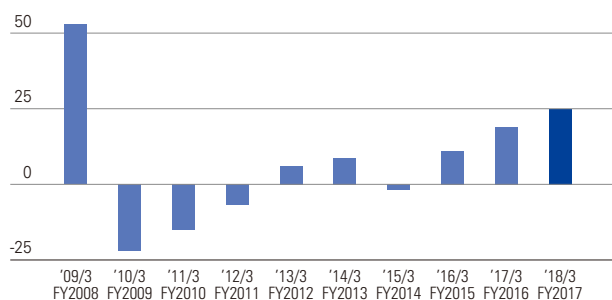
We have focused on reducing and curtailing the debt ratio in consideration of repayment capacity as well as compression of liabilities since interest-bearing debt marked 61.3 billion yen in the fiscal year ended March 2010, the highest record in the last 10 years. These efforts reduced our liabilities to 53.8 billion yen as of the fiscal year ended March 2018. The debt ratio has remained low for 2 consecutive years, hovering at around 0.3 times.

Consolidated Financial Highlights

Free Cash flow

↑ **25.0** billion yen
Up 32.6% y/y

(Billions of yen)
75

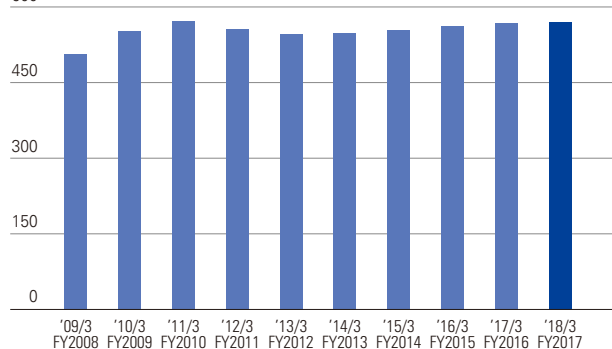


While structural reforms have bolstered earnings and cash flows have increased from operating activities largely stemming from income before income taxes, cash flow spending for capital investment and other investing activities has been curtailed. Income from the sale of fixed assets resulting from a review of held assets, together with promoting the acquisition of fixed assets resulted in free cash flows for the fiscal year ended March 2018 of 25.0 billion yen.

Units under management

↑ **570,672** unit
Up 0.3% y/y

(Thousands of unit)
600

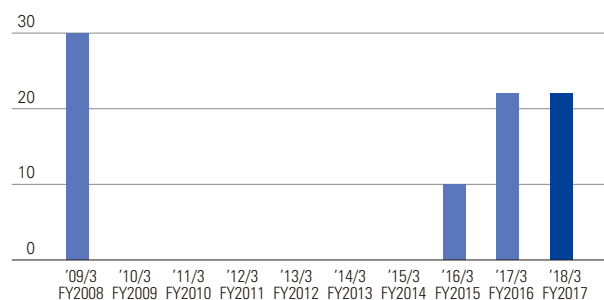


Increasing the number of rooms under management directly strengthens the base of earnings as we regard revenue from the assets we manage in our Leasing Business as core revenue. We will continue to supply apartments in areas where we expect strong tenant demand, concentrating on the three major metro areas where net population inflows continue. While we sold approximately 4,000 Company-held apartment rooms, the number of rooms under management continued to increase slightly in the fiscal year ended March 2018.

Cash Dividend

→ **22.00** yen
No Change

(Yen)
40

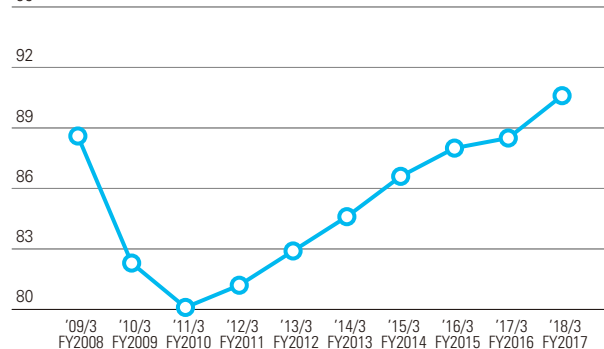


Dividend payments were reinstated in the fiscal year ended March 2016 following 6 consecutive years of omitted payments from when net earnings fell into the red in the fiscal year ended March 2010 until the fiscal year ended March 2015 after the Company had returned to turning a profit. Further, the Company's basic policy towards returning profits to shareholders is maximizing earnings per share, and thus improving shareholder value, through investments and M&As aimed at maximizing the value of the firm over the medium-and-long term and ensuring the redistribution of profits in the form of dividends.

Average annual occupancy rate

↑ **90.6** %
Up 2.1 points y/y

(%)
95

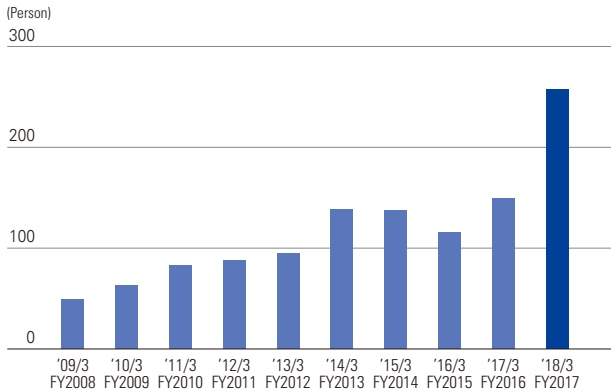


There is a tendency of occupancy rates for rental housing repeating the cycle, to mark the highest in March when students newly enroll in schools and when new grads enter into companies, decrease in April then move up gradually after May. In order to promote long-term occupancy, we have been improving the value of properties and developing the measures which are not affected by the seasonal cycle. Accordingly, the average annual occupancy rate during the fiscal year under review is on an uptrend, showing an increase for 7 consecutive years as of the fiscal year ended March 2018.

Non-financial Highlights

No. of employees on childcare leave

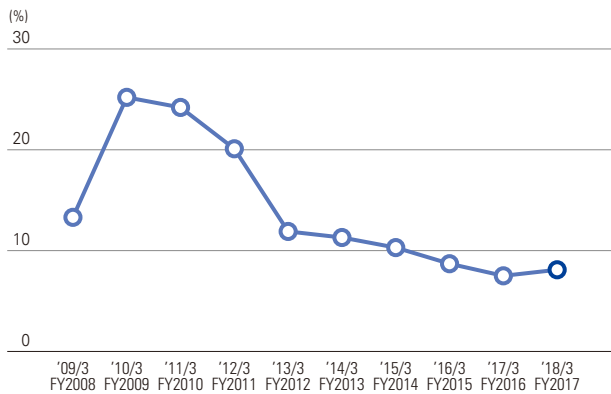
↑ **257** person
Up 72.5% y/y



Currently work-style reform is underway under the guidance of the government, including a wide-sweeping reform of the working styles of both women and men in terms of both their significance and actions taken. To this end, the Company has taken steps towards developing a workplace environment with systems in place to make it easier to request childcare leave, in addition to implementing further considerations for enhancing work-life balance, such as reducing the amount of overtime work, and encouraging a high ratio of paid vacation usage. As a result, we are seeing an increase in the number of employees taking childcare leave, with a notable increase among male employees as well.

Rate of workforce turnover (Based on the employees actually in the office)

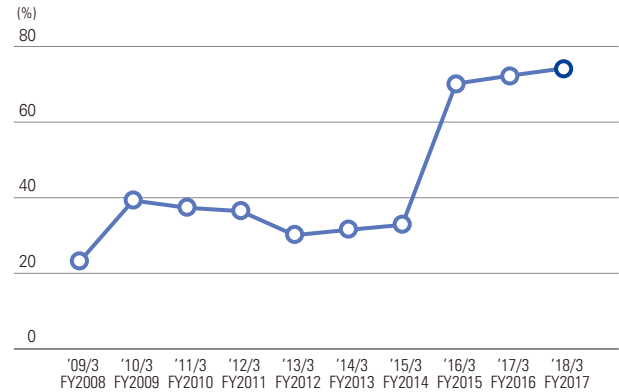
↑ **8.1%**
Up 1.0 points y/y



The Company places utmost importance on "human resources," and implements employee training programs and other measures that facilitate all employees in expressing their diverse individuality and harnessing their capabilities. In addition to this, we aim to build pleasant workplaces where people enjoy work as part of an effort to improve issues with long working hours that are specific to this industry. As a result of these initiatives, we have successfully reduced the employee turnover rate from 13.3% 10 years ago in the fiscal year ended March 2009, to 8.1% in the fiscal year ended March 2018.

Ratio of paid vacation usage

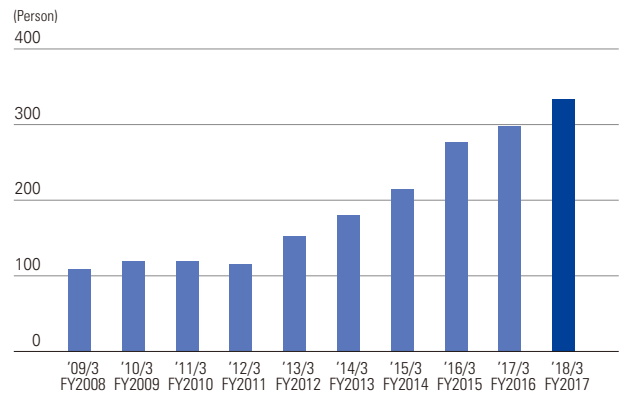
↑ **74.1%**
Up 1.9 points y/y



The dissemination of work-style reform implemented by the Company has caused a shift in employees' sense of value attributed to work, from one that prioritized long working hours to one that emphasizes productivity. With efforts to promote the use of paid vacation time, such as the summer and winter five-day annual vacation plan and the "refresh" three-day vacation plan, which can be used anytime throughout the year, the paid vacation day usage rate has dramatically increased since the fiscal year ended March 2016, and this is the third successive year it stayed above 70%.

No. of employees with foreign citizenship

↑ **334** person
Up 11.7% y/y



The Company sees people from a wide range of backgrounds with diverse perspectives as the main contributors to the creation of new value, and it is these human resources that contribute in a major way to our growth. To achieve this, we are actively hiring foreign nationals in order to secure the personnel needed to achieve the level of diversity required. The number of employees from foreign backgrounds exceeded 300 in the fiscal year ended March 2018, marking a three-fold growth from 10 years ago in the fiscal year ended March 2009.

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Financial Section

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, and corporate earnings.

New housing starts of leased units decreased for the first time in 3 years (down 4.0% year-on-year), due to the saturation in demand for inheritance tax reduction strategies as well as the environmental change in apartment loans. As the number of vacant houses continues to increase and recovery in nationwide demand becomes difficult, achieving stable occupancy rates requires constructing apartments in areas with high demand, in addition to providing high-quality products and services that meet tenants' needs.

Under these conditions, the Leopalace21 Corporation (the "Company") announced the Medium-term Management Plan "Creative Evolution 2020" starting in the fiscal year ended March 31, 2018, aiming to create corporate and new social value with the basic policy of "Supporting continuous growth of core businesses in ways that further increase corporate value while constructing a base for growth areas."

2. Analysis of Business Results

(1) Net Sales

Net sales during the fiscal year under review were 530,840 million yen (up 2.0% year-on-year). In the Leasing Business, net sales was 435,537 million yen (up 3.4% year-on-year), and net sales in the Development Business was 76,587 million yen (down 4.6% year-on-year).

Net Sales by Segment

(Millions of Yen)	FY2016	FY2017	Change
Leasing	421,342	435,537	14,195
Development	80,321	76,587	(3,734)
Elderly Care	11,536	12,807	1,270
Hotels, Resort, & Other Business	7,287	5,908	(1,379)
Total	520,488	530,840	10,351

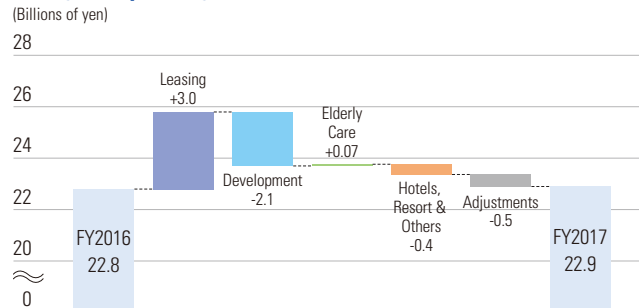
(2) Earnings

Gross profit was 96,077 million yen (up 3.7% year-on-year), operating profit was 22,930 million yen (up 0.1% year-on-year), recurring profit was 22,354 million yen (down 0.0% year-on-year), and net income attributable to shareholders of the parent was 14,819 million yen (down 27.4% year-on-year).

Operating Profit by Segment

(Millions of Yen)	FY2016	FY2017	Change
Leasing	23,009	26,062	3,052
Development	5,786	3,663	(2,123)
Elderly Care	(1,667)	(1,596)	71
Hotels, Resort, & Other Business	(417)	(846)	(428)
Adjustments	(3,812)	(4,353)	(540)
Total	22,898	22,930	31

Change in Operating Profit



(3) Segment Information

Leasing Business

The occupancy rate at the end of the fiscal year was 93.72% (up 2.06 points from the end of last fiscal year) and the average occupancy rate for the fiscal year was 90.59% (up 2.06 points from last fiscal year).

In the Leasing Business, the Company provides added-value services such as "my DIY" (formerly known as "Room Customize") which enable tenants to decorate their rooms, internet service "LEONET," and security system installations in alliance with large security companies. Also, in order to achieve stable occupancy rates, the Company is strengthening sales against corporate customers and increasing support for foreign tenants. In the ASEAN region, the Company develops and manages serviced apartments and offices.

The number of units under management at the end of the fiscal year was 570 thousand (increasing 1 thousand from the end of last fiscal year), and the number of direct offices was 189 (no change). The number of franchise offices was 118 (decreasing 1).

As a result of the above, net sales amounted to 435,537 million yen (up 3.4% year-on-year), and operating profit was 26,062 million yen (up 13.3% year-on-year).

Development Business

Orders received during the fiscal year were 75,905 million yen (down 13.3% from last fiscal year) and the orders received outstanding at the end of the fiscal year stood at 63,966 million yen (down 5.1% from the end of last fiscal year).

In the Development Business, the Company focused on supplying apartments in the 3 metropolitan areas where solid leasing demand is anticipated supported by an increase in population, as well as providing high quality and forefront strategic products. In addition, the Company implemented a new brand attempting to strengthen product competitiveness, expanded construction variations based on "ideal land use," and have begun reconsidering suppliers and product prices to improve profitability.

Also, subsidiary Life Living Co., Ltd. provides development business of condominiums and apartments and subsidiary Morizou Co., Ltd., provides luxury custom-built homes made with Kiso-hinoki.

As a result, net sales came to 76,587 million yen (down 4.6% year-on-year), and operating profit was 3,663 million yen (down 36.7% year-on-year).

Elderly Care Business

Net sales were 12,807 million yen (up 11.0% year-on-year), and operating loss was 1,596 million yen (loss decrease of 71 million yen year-on-year).

Hotels, Resort & Other Business

Net sales in resort facilities in Guam and hotels in Japan, and other businesses including the finance business were 5,908 million yen (down 18.9% year-on-year), and the operating loss was 846 million yen (loss increase of 428 million yen year-on-year).

3. Analysis of Financial Position

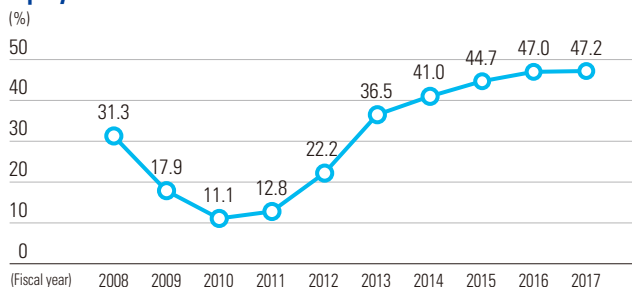
(1) Position of Assets, Liabilities, and Net assets

Total assets at the end of the fiscal year decreased 570 million yen from the end of the previous fiscal year to 337,257 million yen. This was mainly attributable to a decrease of 16,750 million yen in land due to sale of assets, despite an increase of 5,546 million yen in investment securities, 2,376 million yen leased assets (net), and 2,111 million yen in cash and cash equivalents.

Total liabilities decreased 1,139 million yen from the end of the previous fiscal year to 177,819 million yen. This primarily reflected a decrease of 3,966 million yen in bonds, 3,956 million yen in liability for retirement benefits due to the establishment of a retirement benefit trust, 2,902 million yen in accounts payable for completed projects, and 1,601 million yen in accrued income taxes, despite an increase of 5,077 million yen in borrowings, 3,271 million yen in accounts payable-other, and 2,800 million yen in lease obligations.

Net assets increased 568 million yen from the end of the previous fiscal year to 159,438 million yen, due to a recording of 14,819 million yen in net income attributable to shareholders of the parent despite a payment of dividends of 5,675 million yen and share repurchases of 8,000 million yen. The ratio of shareholders' equity to assets rose 0.2 points from the end of the previous fiscal year to 47.2%.

Equity Ratio



(2) Cash Flow Position

Cash flow from operating activities was a net inflow of 27,338 million yen (a decrease of 165 million yen in net inflow from the previous fiscal year). This was mainly due to 15,150 million yen of income before taxes and minority interests, 11,726 million yen of depreciation and amortization, and 7,594 million yen in impairment

loss, despite a decrease of 3,786 million yen in liability for retirement benefits due to the establishment of a retirement benefit trust and income taxes paid of 1,902 million yen.

Cash flow from investing activities was a net outflow of 2,336 million yen (an increase of 6,316 million yen in net inflow from the previous fiscal year). This was primarily due to proceeds from sale of property, plant and equipment of 14,121 million yen and proceeds from withdrawal of time deposits of 5,486 million yen, despite payment for purchase of property, plant and equipment of 11,218 million yen and payment for purchase of investment securities of 5,966 million yen.

Cash flow from financing activities was a net outflow of 18,354 million yen (a decrease of 4,306 million yen in net outflow from the previous fiscal year). This was chiefly due to payment for purchases of treasury stock of 8,000 million yen, payment of dividends of 5,675 million yen, and a repayment of finance lease obligations of 4,953 million yen.

As a result, cash and cash equivalents at the end of the consolidated fiscal year under review stood at 98,246 million yen, an increase of 6,480 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, overseas businesses, mergers and acquisitions, IT, and research and development.

In the Medium-term Management Plan, the Company have set a total return ratio target (50% in the fiscal year ending March 2019), and will aim to distribute profit to shareholders by flexibly repurchasing shares while monitoring share price trends, with proceeds from asset sales.

For the subject fiscal year, the Company plans to pay a year-end dividend of 12 yen. The mid-term dividend was 10 yen, meaning a total of 22 yen, with a dividend payout ratio of 37.9% and a total return ratio of 92.3%.

For the fiscal year 19/3, the Company plans a mid-term dividend of 10 yen, a year-end dividend of 12 yen, with a total of 22 yen.

5. Management Policies, Business Environment, Key Issues to Address

Forward-looking statements in the discussion below are based on judgments by the Company as of the end of the latest consolidated fiscal period.

(1) Management Policies

Under our corporate philosophy of "creating new value," our aims are as follows: 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; and 3) we provide new value throughout society as a leading company within the industry and (seek) to help create a more comfortable and affluent society.

(2) Business Environment and Key Issues to Address

Regarding population trends, a factor affecting the business environment, the total number of households in Japan is expected to decline but single-person households in the productive population (ages 15 to 64), our target cohort, is expected to trend sideways for nearly the next 20 years. Net domestic migration to the 3 major metro regions (inflows exceed outflows) will continue. Moreover, the population over age 65 is expected to reach about 30% by 2025, a threshold where Japan will attain "super-aging society" status.

Although new housing starts of leased units during the fiscal year ended March 2018 decreased 4.0%, new housing starts of leased units for single-person households (under 30m²) is robust and increased 3.1% year-on-year, and we expect apartment construction demand to grow over the medium and long terms as the reduction in the basic deduction for inheritance taxes in the January 2015 tax revision has sharply increased the number of heirs who are subject to inheritance taxes.

Under these circumstances, we devised the Medium-term Management Plan "Creative Evolution 2020," a 3-year plan commencing in fiscal year 2017 premised on a basic policy of "support for continuous growth of core businesses in ways that further increase corporate value while constructing a base for growth areas." Our aim is to create new social value and corporate value through the execution of business strategies spelled out below.

Business Strategies (Create value via cash flow generation)

Core businesses:

Maintain a healthy balance between our apartment supply and apartment management businesses while pursuing concentration and diversification

Growth Strategies:

Move the Elderly Care Business and International Business into profit as they each carve out differing roles in view of the shrinking domestic population

In the Leasing Business, the number of vacant rental units in Japan continues to rise. To retain competitiveness in this environment, we seek to differentiate our products by adding value in many ways such as providing furnished apartments with furniture and home appliances, internet service LEONET, and IoT devices for apartments such as Leo Remocon. We are also investigating a third-way lease contract to accompany our mainstay lease contracts and short-term monthly contracts. The Company is expected to increase hiring as labor markets tighten, and to ensure we capture demand for company-provided housing, we are working to lighten the work load for corporate clients

by providing one-stop service for leasing solutions via specialized corporate sales teams set up to cater to each sector. Moreover, we are moving into the development and operation of serviced apartments and offices in the ASEAN region to benefit from growth, reducing our reliance on declining-population Japan.

In the Development Business (construction contracting and real estate development), we will limit rental housing supply to large cities where there is strong tenant demand for high-quality, high-value-added products and services. At the same time, we will look to diversify our construction order mix to respond to various needs amid a sharp increase in the number of landowners who are subject to inheritance taxes due to the reduction to the basic deduction for inheritance taxes in the January 2015 tax revision.

The Elderly Care Business, which we have designated as a growth business, will strive to improve its earnings power through efforts to optimize its workforce composition with the aim of restarting construction of new nursing care facilities in tandem (with the needs) of an aging society.

Financial Strategies (Create value through balance sheet management)

Introduce ROIC*¹-based management:

Create value through balance sheet management and shift away from profit-focused management, and aim to optimize our capital composition

Rebalance our asset holdings:

Deploy operating cash flows and proceeds from sales of low-efficiency assets into growth investments, actively use these sources of cash to return profits to shareholders

Improve and strengthen distributions to shareholders:

Introduce a total return ratio in an effort to execute policies to return profits to shareholders, including a share repurchase plan

(3) Management Metrics Cited in Management Plan as Targets

The following management metrics are cited in the Medium-term Management Plan as targets for the plan's final fiscal year of fiscal 2019.

Management Metrics	Fiscal 2019
ROIC * ¹	8% -10%
Adjusted ROE * ²	Maintain 12%
Equity Ratio	At least 40%
Adjusted EPS Growth * ³	About 10%

*1 ROIC = Net operating profit after taxes (NOPLAT) ÷ (interest-bearing debt + net assets)

*2 Adjusted ROE = (net income + adjustments for corporate taxes, etc.) ÷ average of start-FY net assets and end-FY net assets

*3 Adjusted EPS growth = (recurring income + goodwill amortization) ÷ issued shares outstanding

Financial Section

Consolidated Balance Sheets

Leopalace21 Corporation and consolidated subsidiaries
March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
ASSETS			
Current assets:			
Cash and cash equivalents (Notes 2-(2), 4, 5-(2), 11-(3))	106,543	104,432	1,002,860
Trade receivables (Note 5-(2))	7,626	6,547	71,786
Accounts receivable for completed projects (Note 5-(2))	1,957	2,355	18,424
Operating loans (Note 5-(2))	389	675	3,669
Securities (Notes 2-(4), 5-(2), 6)	462	121	4,353
Real estate for sale	952	421	8,963
Real estate for sale in process	2,571	1,849	24,205
Payment for construction in progress (Note 2-(14))	458	518	4,311
Raw materials and supplies	528	526	4,979
Prepaid expenses	3,544	2,827	33,359
Deferred tax assets (Notes 2-(20), 10)	8,494	8,636	79,953
Other accounts receivable	1,027	831	9,673
Others	4,249	4,228	39,996
Allowance for doubtful accounts (Notes 2-(11), 5-(2))	(145)	(186)	(1,366)
Total current assets	138,661	133,786	1,305,170
Non-current assets:			
Property, plant and equipment: (Notes 2-(6), 2-(24), 8)			
Buildings and structures (Note 17)	93,363	102,680	878,799
Accumulated depreciation	(50,657)	(60,852)	(476,824)
Net	42,705	41,827	401,975
Machinery, equipment, and vehicles	21,254	21,741	200,062
Accumulated depreciation	(8,707)	(7,535)	(81,956)
Net	12,547	14,206	118,105
Land (Note 17)	63,638	80,388	599,003
Leased assets (Notes 2-(21), 20)	31,839	24,795	299,691
Accumulated depreciation	(15,810)	(11,143)	(148,820)
Net	16,028	13,652	150,870
Construction in progress	5,208	3,911	49,030
Other	10,990	9,770	103,453
Accumulated depreciation	(7,775)	(8,489)	(73,186)
Net	3,215	1,281	30,266
Total property, plant and equipment	143,344	155,267	1,349,251
Intangible fixed assets:			
Goodwill (Note 2-(19))	2,886	3,181	27,166
Others (Note 2-(8))	8,102	8,461	76,264
Total intangible fixed assets	10,988	11,642	103,430
Investments and other assets:			
Investment securities (Notes 2-(4), 5-(2), 6, 11-(3))	17,999	12,453	169,426
Long-term loans (Note 5-(2))	513	516	4,836
Bad debts (Notes 5-(2), 9)	1,264	1,246	11,899
Long-term prepaid expenses (Note 2-(9))	3,831	3,820	36,060
Deferred tax assets (Notes 2-(20), 10)	18,268	17,486	171,953
Others	3,969	3,129	37,362
Allowance for doubtful accounts (Notes 2-(11), 5-(2))	(2,023)	(2,073)	(19,043)
Total investments and other assets	43,823	36,579	412,495
Total non-current assets	198,156	203,489	1,865,177
Deferred assets:			
Bond issuance cost	440	552	4,142
Total deferred assets	440	552	4,142
Total assets (Note 22)	337,257	337,828	3,174,490

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
LIABILITIES AND NET ASSETS			
Current liabilities:			
Electronically recorded obligations—operating	1,451	—	13,658
Accounts payable (Note 5-(2))	4,245	2,826	39,960
Accounts payable for completed projects (Note 5-(2))	7,832	12,186	73,726
Short-term borrowings (Notes 5-(2), 5-(3), 11)	1,210	—	11,389
Current portion of long-term debt (Notes 5-(2), 5-(3), 11)	1,754	1,263	16,513
Bonds due within one year (Notes 5-(2), 5-(3), 11)	3,966	3,966	37,330
Lease obligations (Notes 5-(2), 5-(3), 11)	5,960	4,647	56,100
Accounts payable—other	22,337	19,066	210,257
Accrued income taxes	942	2,544	8,874
Advances received (Note 2-(18))	39,964	40,003	376,173
Customer advances for projects in progress	4,592	5,381	43,226
Reserve for warranty obligations on completed projects (Note 2-(14))	389	412	3,662
Reserve for fulfillment of guarantees (Note 2-(15))	1,158	1,082	10,906
Asset retirement obligations (Note 18)	43	43	410
Others	4,363	4,101	41,076
Total current liabilities	100,212	97,524	943,265
Non-current liabilities:			
Bonds (Notes 5-(2), 5-(3), 11)	12,069	16,035	113,601
Long-term debt (Notes 5-(2), 5-(3), 11)	16,643	13,267	156,662
Lease obligations (Notes 5-(2), 5-(3), 11)	12,226	10,739	115,084
Long-term advances received (Note 2-(18))	15,853	16,614	149,222
Lease/guarantee deposits received	6,989	7,152	65,786
Deferred tax liabilities	122	148	1,157
Provision for Directors' bonuses	10	—	96
Reserve for apartment vacancy loss (Note 2-(13))	3,044	3,183	28,654
Liability for retirement benefit (Notes 2-(12), 12)	7,338	11,295	69,077
Asset retirement obligations (Note 18)	84	77	791
Others	3,224	2,920	30,349
Total non-current liabilities	77,606	81,433	730,484
Total liabilities	177,819	178,958	1,673,750
Net assets			
Shareholders' equity:			
Common stock: (Note 19)			
Authorized: 500,000,000 shares in 2018 and 2017			
Issued: 252,682,515 shares in 2018 and 267,443,915 shares in 2017	75,282	75,282	708,606
Capital surplus	45,235	45,235	425,783
Retained earnings	37,839	39,923	356,167
Treasury stock: 567,420 shares in 2018 and 4,569,520 shares in 2017 (Note 19)	(430)	(3,660)	(4,049)
Total shareholders' equity	157,926	156,779	1,486,508
Accumulated other comprehensive income:			
Net unrealized gains on "other securities" (Note 2-(4))	586	574	5,525
Foreign currency translation adjustments (Note 2-(23))	872	2,027	8,212
Remeasurements of defined benefit plans (Note 12)	(341)	(668)	(3,216)
Total accumulated other comprehensive income	1,117	1,933	10,521
Share subscription rights	284	136	2,676
Non-controlling interests	109	20	1,034
Total net assets	159,438	158,870	1,500,740
Total liabilities and net assets	337,257	337,828	3,174,490

The accompanying notes are an integral part of these statements.

Financial Section

Consolidated Statements of Operations

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net sales (Note 22)	530,840	520,488	4,996,613
Sales from Leasing Business	435,537	421,342	4,099,566
Sales from Development Business	76,587	80,321	720,889
Sales from Other Businesses	18,715	18,824	176,158
Cost of sales	434,762	427,820	4,092,265
Cost of sales from Leasing Business	359,262	351,228	3,381,611
Cost of sales from Development Business	55,201	57,293	519,594
Cost of sales from Other Businesses	20,298	19,297	191,059
Gross profit	96,077	92,668	904,347
Selling, general and administrative expenses	73,147	69,769	688,515
Advertising expenses	4,235	3,816	39,869
Sales commission expense	2,289	2,278	21,553
Transfer to reserve for bad debt	51	39	480
Directors' bonuses	799	742	7,524
Salary and bonuses	33,408	32,469	314,463
Transfer to reserve for Directors' bonuses	10	—	96
Retirement benefit cost	1,844	1,818	17,362
Rent expense	2,769	2,724	26,064
Depreciation and amortization	2,679	1,649	25,221
Taxes and public charges	4,965	4,972	46,740
Other	20,093	19,259	189,137
Operating profit (Note 22)	22,930	22,898	215,832
Non-operating income	674	572	6,348
Interest income	109	80	1,027
Dividend income	162	118	1,525
Valuation gains of investment securities	186	166	1,756
Foreign exchange gain	—	36	—
Other	216	170	2,038
Non-operating expenses	1,250	1,115	11,767
Interest expenses	783	734	7,378
Bond issuance fee	212	241	1,997
Foreign exchange losses	137	—	1,291
Equity in losses of affiliated companies	0	6	9
Other	115	133	1,090
Recurring profit	22,354	22,355	210,413
Extraordinary income	927	408	8,726
Gain on sales of property, plant and equipment	927	408	8,726
Extraordinary losses	8,131	1,142	76,535
Loss on sale of property, plant and equipment	27	314	258
Loss on retirement of property, plant and equipment	112	149	1,058
Impairment loss	7,594	589	71,484
Loss on cancellations of contracts	66	—	627
Loss on compensation for damage	330	—	3,106
Loss on disaster loss	—	88	—
Income before income taxes	15,150	21,622	142,604
Income taxes (Note 2-(20))	337	1,210	3,174
Current	856	3,245	8,063
Refund	—	(3)	—
Deferred	(519)	(2,031)	(4,889)
Net income	14,813	20,411	139,430
Net income attributable to non-controlling interests	(6)	10	(60)
Net income attributable to shareholders of the parent (Note 23)	14,819	20,401	139,490

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net income	14,813	20,411	139,430
Other comprehensive income			
Net unrealized gains on "other securities"	12	139	113
Foreign currency translation adjustments (Note 2-(23))	(1,161)	(1,624)	(10,928)
Remeasurements of defined benefit plans	327	226	3,078
Share of other comprehensive income of entities account for using equity method	6	0	57
Total	(815)	(1,257)	(7,679)
Comprehensive income	13,997	19,153	131,750
Comprehensive income attributable to shareholders of the parent	14,003	19,143	131,810
Comprehensive income attributable to non-controlling interests	(6)	10	(59)

The accompanying notes are an integral part of these statements.

(Note)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net unrealized gains on "other securities"			
Amount accrued in the fiscal year	17	201	163
Rearrangements and adjustments	—	—	—
Amount before tax effects adjustments	17	201	163
Tax effects	(5)	(61)	(50)
Net unrealized gains on "other securities"	12	139	113
Foreign currency translation adjustments (Note 2-(23))			
Amount accrued in the fiscal year	(1,161)	(1,631)	(10,928)
Rearrangements and adjustments	—	6	—
Amount before tax effects adjustments	(1,161)	(1,624)	(10,928)
Tax effects	—	—	—
Foreign currency translation adjustments	(1,161)	(1,624)	(10,928)
Remeasurements of defined benefit plans			
Amount accrued in the fiscal year	(82)	(135)	(772)
Rearrangements and adjustments	258	362	2,430
Amount before tax effects adjustments	176	226	1,658
Tax effects	150	—	1,419
Remeasurements of defined benefit plans	327	226	3,078
Share of other comprehensive income of entities account for using equity method			
Amount accrued in the fiscal year	6	0	57
Total	(815)	(1,257)	(7,679)

Financial Section

Consolidated Statements of Changes in Net Assets

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2018 and 2017

	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 March 31, 2016	75,282	45,235	24,779	(3,660)	141,636	435	3,651	(895)	3,190	18	20	144,865
Dividend of surplus			(5,257)		(5,257)							(5,257)
Net income attributable to shareholders of the parent			20,401		20,401							20,401
Acquisition of treasury stock				(0)	(0)							(0)
Net change of items other than shareholders' equity						139	(1,624)	226	(1,257)	118	(0)	(1,138)
Total change during period	—	—	15,143	(0)	15,143	139	(1,624)	226	(1,257)	118	(0)	14,004
Balance as of March 31, 2017	75,282	45,235	39,923	(3,660)	156,779	574	2,027	(668)	1,933	136	20	158,870
Dividend of surplus			(5,675)		(5,675)							(5,675)
Net income attributable to shareholders of the parent			14,819		14,819							14,819
Acquisition of treasury stock				(8,000)	(8,000)							(8,000)
Disposal of treasury stock		1	—	2	3							3
Retirement of treasury stock		(1)	(11,227)	11,228	—							—
Net change of items other than shareholders' equity						12	(1,154)	327	(815)	147	89	(578)
Total change during period	—	—	(2,083)	3,230	1,146	12	(1,154)	327	(815)	147	89	568
Balance as of March 31, 2018	75,282	45,235	37,839	(430)	157,926	586	872	(341)	1,117	284	109	159,438

	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, 2017	708,606	425,783	375,781	(34,458)	1,475,713	5,411	19,084	(6,295)	18,200	1,288	188	1,495,391
Dividend of surplus			(53,422)		(53,422)							(53,422)
Net income attributable to shareholders of the parent			139,490		139,490							139,490
Acquisition of treasury stock				(75,304)	(75,304)							(75,304)
Disposal of treasury stock		9	—	21	31							31
Retirement of treasury stock		(9)	(105,682)	105,691	—							—
Net change of items other than shareholders' equity						113	(10,871)	3,078	(7,679)	1,388	845	(5,445)
Total change during period	—	—	(19,614)	30,409	10,794	113	(10,871)	3,078	(7,679)	1,388	845	5,349
Balance as of March 31, 2018	708,606	425,783	356,167	(4,049)	1,486,508	5,525	8,212	(3,216)	10,521	2,676	1,034	1,500,740

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Cash flows from operating activities:			
Income before income taxes	15,150	21,622	142,604
Depreciation	11,726	9,336	110,380
Impairment loss	7,594	589	71,484
Loss on disaster	—	88	—
Loss on compensation for damage	330	—	3,106
Amortization of goodwill	522	428	4,918
Increase (decrease) in allowance for doubtful accounts	28	201	268
Increase (decrease) in liability for retirement benefits	(3,786)	1,297	(35,637)
Increase (decrease) in reserve for apartment vacancy loss	(138)	(619)	(1,307)
Interest and dividend income	(271)	(199)	(2,553)
Interest expense	783	734	7,378
Foreign exchange loss (gain)	137	(36)	1,291
Equity in losses (earnings) of affiliated companies	0	6	9
Loss (gain) on valuation of investment securities	(186)	(166)	(1,756)
Loss (gain) on sale of property, plant and equipment	(899)	(94)	(8,468)
Loss on retirement of property, plant and equipment	112	149	1,058
Decrease (increase) in accounts receivable	(252)	633	(2,372)
Decrease (increase) in real estate for sale in progress	(960)	(139)	(9,041)
Decrease (increase) in payment for construction in progress	60	272	572
Decrease (increase) in long-term prepaid expenses	369	324	3,481
Increase (decrease) in accounts payable	(1,105)	(883)	(10,401)
Increase (decrease) in customer advances for projects in progress	(789)	296	(7,427)
Increase (decrease) in advances received	(823)	(3,141)	(7,752)
Increase (decrease) in guarantee deposits received	(159)	(407)	(1,503)
Increase (decrease) in accrued consumption taxes	934	(6)	8,791
Others	1,220	1,473	11,491
Subtotal	29,600	31,760	278,617
Interest and dividends received	355	273	3,350
Interest paid	(714)	(690)	(6,729)
Income taxes paid	(1,902)	(3,839)	(17,908)
Net cash provided by operating activities	27,338	27,504	257,329

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Cash flows from investing activities:			
Payment for purchase of property, plant and equipment	(11,218)	(4,318)	(105,594)
Proceeds from sale of property, plant and equipment	14,121	16,744	132,916
Payment for purchase of intangible assets	(818)	(959)	(7,703)
Payment for purchase of investment securities	(5,966)	(2,761)	(56,159)
Proceeds from sale of investment securities	22	14	209
Payment for purchase of shares in subsidiaries (Note 25-(8))	(401)	(5,402)	(3,777)
Payment for loans	(8)	(22)	(80)
Proceeds from collection of loans	14	22	140
Payments for purchase of time deposits	(1,500)	(11,878)	(14,118)
Proceeds from withdrawal of time deposits	5,486	1,200	51,641
Others	(2,068)	(1,292)	(19,470)
Net cash provided by (used in) investing activities	(2,336)	(8,653)	(21,996)
Cash flows from financing activities:			
Proceeds from short-term borrowings	2,455	200	23,113
Repayment of short-term borrowings	(1,250)	(265)	(11,765)
Proceeds from long-term debt	4,303	235	40,507
Repayment of long-term debt	(1,268)	(1,423)	(11,936)
Repayment of finance lease obligations	(4,953)	(3,212)	(46,623)
Payment for redemption of bonds	(3,966)	(4,326)	(37,330)
Payment for purchases of treasury stock	(8,000)	(0)	(75,304)
Dividends paid to non-controlling interests	(3)	—	(28)
Proceeds from exercise of stock options	2	—	23
Cash dividends paid	(5,675)	(5,257)	(53,422)
Net cash provided by (used in) financing activities	(18,354)	(14,048)	(172,767)
Effect of exchange rate changes on cash and cash equivalents	(166)	137	(1,563)
Net increase (decrease) in cash and cash equivalents	6,480	4,940	61,000
Cash and cash equivalents at beginning of year	91,766	86,826	863,763
Cash and cash equivalents at end of year (Note 4)	98,246	91,766	924,763

The accompanying notes are an integral part of these statements.

Financial Section

Notes to Consolidated Financial Statements

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2018 and 2017

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.

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, 2018, which was 106.24 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

Names of significant subsidiaries (25 in total)

Leopalace Leasing Corporation

Plaza Guarantee Co., Ltd.

Leopalace Power Corporation

Leopalace Energy Corporation

ASUKA SSI

Enplus Inc.

Leopalace21 Business Consulting (Shanghai) Co., Ltd.

LEOPALACE21 VIETNAM CO., LTD.

Leopalace21 (Thailand) CO., LTD.

Leopalace21 (Cambodia) Co., Ltd.

LEOPALACE21 PHILIPPINES INC.

PT. Leopalace Duasatu Realty

Leopalace21 Singapore Pte. Ltd.

Life Living Co., Ltd.

Morizou Co., Ltd.

Azu Life Care Co., Ltd.

Leopalace Guam Corporation

WING MATE CO., LTD.

Leopalace Smile Co., Ltd.

The accompanying consolidated financial statements as of March 31, 2018 include the accounts of the Company and its 25 (21 as of March 31, 2017) subsidiaries (together, the "Companies"). Of these 25 subsidiaries, Enplus Inc., ASPENN INVESTMENTS PTE. LTD., and

International Commercial Warehousing Services Co., Ltd. have been included in the scope of consolidation because their shares were acquired in the consolidated fiscal year under review. 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 method. Investments in 1 affiliate (1 as of March 31, 2017) have been included for the year ended March 31, 2018. 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.

The balance sheet date of Leopalace Guam Corporation, Leopalace Guam Distributing Corporation, and 14 other subsidiaries is December 31, and Morizou Co., Ltd. is February 28. Since the difference between the Company's fiscal year end is less than three months, 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.

(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

Real estate for sale and real estate for sale in process are primarily stated at cost (reflecting write down due to decline in profitability) determined by the specific identification method.

Payments for construction in progress are primarily stated at cost determined by the specific identification method.

Raw materials and supplies are primarily stated at cost (reflecting write down due to decline in profitability) determined by the last purchase price 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 hedged items

Hedging instrument	Interest rate swaps
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Hedged items	Long-term debt
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(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, and building accessories and structures obtained on or after April 1, 2016, 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) Bond issuance costs

Bond issuance costs are amortized evenly until maturity.

(11) 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.

(12) 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 a straight-line basis.

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. 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.

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.

Certain consolidated subsidiaries have adopted a simplified method of calculation with liability for retirement benefits and retirement benefits expense. Under this simplified method, retirement benefit obligation is deemed to be equal to the amount which would be

required to pay if all eligible employees voluntarily retired at the end of the fiscal year.

(13) 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.

(14) 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.

(15) Reserve for fulfillment of guarantees

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

(16) Reserve for Directors' compensation

The estimated amount of bonus payments relevant to the consolidated fiscal year is provided to cover the payment of bonuses to directors.

(17) 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, 2018, 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.

(18) 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.

(19) 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.

(20) 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.

(21) Leases

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

(22) 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.

(23) 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.

(24) 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 335 million yen (\$3,156 thousand) and 345 million yen as of March 31, 2018 and 2017, respectively.

(25) 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. The nondeductible portion of consumption taxes on the purchase of assets is recorded as long-term prepaid expenses and amortized evenly over 5 years.

(26) Loss on cancellations of contracts

Tenant rent guarantee contracts were cancelled due to rental assets being sold, and the Company paid for the period not yet elapsed and the amount was recorded under loss on cancellations of contracts in the fiscal year ended March 2018.

(27) Compensation for damage

The Company compensated removal costs of buried objects in land sold in the past, and the amount was recorded as compensation for damage in the fiscal year ended March 2018.

(28) Loss on disaster

Rental apartments owned by the Company were damaged by the Kumamoto earthquake in 2016, and restoration costs were recorded under disaster loss in the fiscal year ended March 2017.

(29) 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 stock 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**(Unapplied Accounting Standards, etc.)**

- Accounting Standard for Revenue Recognition (ASBJ Statement No.29 issued on March 30, 2018 by Accounting Standards Board of Japan)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Statement No.30 issued on March 30, 2018 by Accounting Standards Board of Japan)

(1) Summary

The International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) jointly developed the converged accounting standards for revenue recognition and announced "Revenue from Contracts with Customers" (IFRS 15 in IASB and Topic 606 in FASB) in May 2014. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018 and Topic 606 is effective for annual reporting periods beginning on or after December 15, 2017. Accounting Standards Board of Japan (ASBJ) then developed and announced ASBJ Statement No.29 and ASBJ Guidance No.30 to progress with the change.

ASBJ developed the accounting standards for revenue recognition by adopting the basic rules in IFRS 15, for the basic policy that is to be consistent with IFRS 15 and to take advantage of the financial compatibility with IFRS 15. Additionally, considering the accounting practices that Japan has carried out so far, substitutive treatments have been supplemented the new standard without affecting the financial comparability.

(2) Effective date

The new standards will be effective from the beginning of the fiscal year ended in March, 2022.

(3) Impact of the application of the relevant accounting standards

The impact of the application of Accounting Standard for Revenue Recognition on consolidated financial statements is currently being evaluated.

**Changes in presentation
(Consolidated Balance Sheets)**

"Accrued expenses," which was presented as a separate item in "Current Liabilities" in the previous consolidated balance sheets, is included in "Others" in current consolidated balance sheets, due to a lack of materiality in terms of monetary amounts. Reclassification is implemented to the consolidate items of previous fiscal year to reflect this change in presentation.

As a result, 1 million yen, which was presented as "Accrued expenses" in "Current Liabilities" in the previous consolidated balance sheet, has been reclassified to "Others" for the previous fiscal year in the current consolidated balance sheet.

(Consolidated Statements of Operations)

As presented in "(1) Overview of Reportable Segments" in "22. Segment Information," "Net sales" and "Cost of sales" are presented in "Leasing Business," "Development Business" and "Other Businesses" instead of "Leasing Business," "Construction Business" and "Other Businesses." Reclassification is implemented to the consolidate items of previous fiscal year to reflect this change in presentation.

As a result, 416,594 million yen, 74,566 million yen and 29,327 million yen, which were presented as "Net sales" from "Leasing Business," "Construction Business" and "Other Businesses" in the previous consolidated statements of operations, have been reclassified to "Net sales" from "Leasing Business," "Development Business" and "Other Businesses," amounting to 421,342 million yen, 80,321 million yen, and 18,824 million yen, respectively for the previous fiscal year.

In addition, 349,112 million yen, 52,800 million yen and 25,907 million yen, which were presented as "Cost of sales" from "Leasing Business," "Construction Business" and "Other Businesses" in the previous consolidated statements of operations, have been reclassified to the "Cost of sales" from "Leasing Business," "Development Business" and "Other Businesses" amounting to 351,228 million yen, 57,293 million yen, and 19,297 million yen respectively for the previous fiscal year.

"Gain from amortization of deposits payable," which was presented as a separate item in "Non-operating income" in the previous consolidated statements of operations, is included in "Others" in the current consolidated statements of operations, due to a lack of materiality in terms of monetary amounts. Reclassification is implemented to the consolidate items of the previous fiscal year to reflect this change in presentation.

As a result, 21 million yen, which was presented as "Gain from amortization of deposits payable" in "Non-operating income" in the

previous consolidated statements of operations, has been reclassified to "Others" for the previous fiscal year in the current consolidated statements of operations.

"Commission fee," which was presented as a separate item in "Non-operating expenses" in the previous consolidated statements of operations, is included in "Others" in current consolidated statements of operations, due to a lack of materiality in terms of monetary amounts. Reclassification is implemented to the consolidate items of previous fiscal year to reflect this change in presentation.

As a result, 46 million yen, which was presented as "Commission fee" in "Non-operating expense" in the previous consolidated statements of operations, has been reclassified to "Others" for the previous fiscal year in the current consolidated statements of operations.

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
	2018	2017	2018
Cash and cash equivalents in the consolidated balance sheets	106,543	104,432	1,002,860
Time deposits with original maturities of more than three months	(8,297)	(12,666)	(78,096)
Cash and cash equivalents in the consolidated statements of cash flows	98,246	91,766	924,763

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 planned capital investments. 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 and loans outstanding 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 or capital alliance, and those securities are exposed to market risk and credit risk associated with the issuers.

Almost all electronically recorded obligations, accounts pay-

able, 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 14 years subsequent to the 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, hedged 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

(Consolidated Statements of Cash Flows)

"Increase (decrease) in liability for retirement benefits," which was included in "Other" in "Cash flows from operating activities" in the previous consolidated statements of cash flows, is presented as a separate item, starting from the current fiscal year, to reflect its increased materiality in terms of monetary amounts. Reclassification is implemented to the consolidate items of previous fiscal year to reflect this change in presentation.

As a result, 2,770 million yen, which was presented as "Other" in "Cash flows from operating activities" in the previous consolidated statement of cash flows, has been reclassified as "Increase (decrease) in liability for retirement benefits" and "Other," amounting to 1,297 million yen and 1,473 million yen, respectively for the previous fiscal year in the current consolidated statements of operations.

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 creditworthy financial institutions in Japan, and therefore it does not assume the risk of counter-

party 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 value on the consolidated balance sheet and fair value of financial instruments as of March 31, 2018 and 2017 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, 2018	Millions of yen		
	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	106,543	106,543	—
(2) Trade receivables and accounts receivable for completed projects	9,584	9,584	—
(3) Securities and investment securities	4,018	4,032	13
(4) Operating loans	389		
Allowance for doubtful accounts (*1)	(43)		
Net	346	410	64
(5) Long-term loans	513		
Allowance for doubtful accounts (*1)	(96)		
Net	417	417	—
(6) Bad debts	1,264		
Allowance for doubtful accounts (*1)	(1,253)		
Net	10	10	—
Total assets	120,920	120,998	78
(1) Electronically recorded obligations	1,451	1,451	—
(2) Accounts payable and accounts payable for completed projects	12,078	12,078	—
(3) Short-term borrowings	1,210	1,210	—
(4) Bonds (*2)	16,035	16,063	28
(5) Long-term debt (*2)	18,398	18,531	133
(6) Lease obligations	18,186	18,218	32
Total liabilities	67,359	67,552	193
Derivative transactions	—	—	—

March 31, 2017	Millions of yen		
	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	104,432	104,432	—
(2) Trade receivables and accounts receivable for completed projects	8,903	8,903	—
(3) Securities and investment securities	3,777	3,798	20
(4) Operating loans	675		
Allowance for doubtful accounts (*1)	(95)		
Net	580	720	140
(5) Long-term loans	516		
Allowance for doubtful accounts (*1)	(97)		
Net	419	419	—
(6) Bad debts	1,246		
Allowance for doubtful accounts (*1)	(1,246)		
Net	—	—	—
Total assets	118,112	118,273	161
(1) Accounts payable and accounts payable for completed projects	15,012	15,012	—
(2) Short-term borrowings	—	—	—
(3) Bonds (*2)	20,001	20,041	40
(4) Long-term debt (*2)	14,530	14,610	79
(5) Lease obligations	15,386	15,548	162
Total liabilities	64,931	65,212	281
Derivative transactions	—	—	—

March 31, 2018	Thousands of U.S. dollars		
	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	1,002,860	1,002,860	—
(2) Trade receivables and accounts receivable for completed projects	90,211	90,211	—
(3) Securities and investment securities	37,823	37,954	131
(4) Operating loans	3,669		
Allowance for doubtful accounts (*1)	(410)		
Net	3,259	3,862	603
(5) Long-term loans	4,836		
Allowance for doubtful accounts (*1)	(907)		
Net	3,928	3,928	—
(6) Bad debts	11,899		
Allowance for doubtful accounts (*1)	(11,796)		
Net	102	102	—
Total assets	1,138,185	1,138,920	734
(1) Electronically recorded obligations	13,658	13,658	—
(2) Accounts payable and accounts payable for completed projects	113,686	113,686	—
(3) Short-term borrowings	11,389	11,389	—
(4) Bonds (*2)	150,931	151,199	267
(5) Long-term debt (*2)	173,175	174,430	1,254
(6) Lease obligations	171,185	171,487	302
Total liabilities	634,027	635,851	1,824
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, 2018 and 2017, bonds due within one year of 3,966 million yen (\$37,330 thousand for 2018) and 3,966 million yen, and current portion of long-term debt of 1,754 million yen (\$16,513 thousand for 2018) and 1,263 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

Electronically recorded obligations

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
	2018	2017	2018
Unlisted shares	4,595	4,566	43,255
Unlisted bonds (subordinate corporate bonds)	6,424	824	60,469
Subordinate beneficiary rights of loans and accounts receivable in trust	875	879	8,238
Contributions to limited investment partnerships	2,549	2,526	23,994
Total	14,444	8,796	135,957

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, 2018	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	106,543	—	—	—
Trade receivables and accounts receivable for completed projects	9,584	—	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1) Government and municipal bonds	420	800	100	—
(2) Corporate bonds	—	—	—	—
Other securities with maturities				
(1) Government and municipal bonds	40	1,002	—	—
(2) Bonds (Corporate bonds)	—	5,600	—	824
(3) Others	—	—	—	875
Operating loans	122	213	33	19
Long-term loans	9	32	12	459
Bad debts	—	10	—	1,253
Total	116,720	7,658	146	3,431

March 31, 2017	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	104,432	—	—	—
Trade receivables and accounts receivable for completed projects	8,903	—	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1) Government and municipal bonds	50	1,020	300	—
(2) Corporate bonds	—	—	—	—
Other securities with maturities				
(1) Government and municipal bonds	71	1,042	—	—
(2) Bonds (Corporate bonds)	—	—	—	824
(3) Others	—	—	—	879
Operating loans	165	429	56	23
Long-term loans	10	32	13	459
Bad debts	—	—	—	1,246
Total	113,631	2,524	370	3,433

March 31, 2018	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	1,002,860	—	—	—
Trade receivables and accounts receivable for completed projects	90,211	—	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1) Government and municipal bonds	3,953	7,530	941	—
(2) Corporate bonds	—	—	—	—
Other securities with maturities				
(1) Government and municipal bonds	376	9,431	—	—
(2) Bonds (Corporate bonds)	—	52,710	—	7,758
(3) Others	—	—	—	8,238
Operating loans	1,152	2,012	316	187
Long-term loans	92	302	118	4,322
Bad debts	—	102	—	11,796
Total	1,098,646	72,090	1,376	32,303

(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, 2018	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	1,210	—	—	—	—	—
Bonds	3,966	3,966	3,066	3,066	1,971	—
Long-term debt	1,754	1,640	1,501	1,475	1,424	10,602
Lease obligations	5,960	4,966	3,911	2,664	683	—
Total	12,890	10,573	8,478	7,206	4,079	10,602

March 31, 2017	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
Bonds	3,966	3,966	3,966	3,066	3,066	1,971
Long-term debt	1,263	1,205	1,098	995	967	9,000
Lease obligations	4,647	4,327	3,299	2,208	903	—
Total	9,876	9,498	8,364	6,270	4,937	10,971

March 31, 2018	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	11,389	—	—	—	—	—
Bonds	37,330	37,330	28,859	28,859	18,552	—
Long-term debt	16,513	15,440	14,129	13,889	13,408	99,794
Lease obligations	56,100	46,749	36,818	25,082	6,434	—
Total	121,333	99,520	79,807	67,830	38,395	99,794

6. Securities

(1) At March 31, 2018 and 2017, information with respect to held-to-maturity debt securities for which market prices were available was summarized as follows:

March 31, 2018	Millions of yen		
	Consolidated balance sheet amount	Market value	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Government and municipal bonds	1,334	1,348	13
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	1,334	1,348	13
Securities whose consolidated balance sheet amount does not exceed their acquisition cost:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	—	—	—
Total	1,334	1,348	13

March 31, 2017	Millions of yen		
	Consolidated balance sheet amount	Market value	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Government and municipal bonds	1,393	1,414	20
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	1,393	1,414	20
Securities whose consolidated balance sheet amount does not exceed their acquisition cost:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	—	—	—
Total	1,393	1,414	20

March 31, 2018	Thousands of U.S. dollars		
	Consolidated balance sheet amount	Market value	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Government and municipal bonds	12,565	12,696	131
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	12,565	12,696	131
Securities whose consolidated balance sheet amount does not exceed their acquisition cost:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	—	—	—
Total	12,565	12,696	131

(2) Investment securities classified as other securities as of March 31, 2018 and 2017 were as follows:

March 31, 2018	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Stock	1,314	460	854
Bonds:			
Government and municipal bonds	1,006	992	13
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	2,321	1,452	868
Securities whose consolidated balance sheet amount does not exceed their acquisition cost:			
Stock	323	346	(22)
Bonds:			
Government and municipal bonds	38	38	(0)
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	362	384	(22)
Total	2,683	1,837	846

March 31, 2017	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Stock	1,265	460	805
Bonds:			
Government and municipal bonds	1,080	1,056	23
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	2,345	1,516	828
Securities whose consolidated balance sheet amount does not exceed their acquisition cost:			
Stock	—	—	—
Bonds:			
Government and municipal bonds	38	38	(0)
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	38	38	(0)
Total	2,383	1,555	828

March 31, 2018	Thousands of U.S. dollars		
	Consolidated balance sheet amount	Acquisition cost	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Stock	12,377	4,330	8,047
Bonds:			
Government and municipal bonds	9,471	9,343	128
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	21,849	13,673	8,175
Securities whose consolidated balance sheet amount does not exceed their acquisition cost:			
Stock	3,049	3,260	(210)
Bonds:			
Government and municipal bonds	358	360	(1)
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	3,408	3,620	(212)
Total	25,257	17,293	7,963

(Note)

March 31, 2018

4,595 million yen (\$43,255 thousand) of non-listed shares, 6,424 million yen (\$60,469 thousand) of non-listed company bonds (subordinate corporate bonds), 875 million yen (\$8,238 thousand) of subordinate beneficiary rights to loans and money in trust, and 2,549 million yen (\$23,994 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, 2017

4,566 million yen of non-listed shares, 824 million yen of non-listed company bonds (subordinate corporate bonds), 879 million yen of subordinate beneficiary rights to loans and money in trust, and 2,526 million yen 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.

(3) Proceeds from sales of other securities and gain or loss on these sales for the years ended March 31, 2018 and 2017 were summarized as follows:

March 31, 2018

None

March 31, 2017

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
	2018	2017	2018
Investment securities (stocks)	68	63	643
Of which, investment in joint venture	68	63	643

7. Derivative Transactions

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

March 31, 2018

None

March 31, 2017

None

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

March 31, 2018

Hedge accounting method	Type of transaction	Major hedged item	Contract value, etc.	
			Millions of yen	Thousands of U.S. dollars
Exceptional accounting treatment for interest rate swaps	Interest rate swaps, floating received rate and fixed paid rate	Long-term debt	8	78

Contract value, etc. lasting longer than one year		Fair value
Millions of yen	Thousands of U.S. dollars	
—	—	(Note)

(Note)

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, 2017

Hedge accounting method	Type of transaction	Major hedged item	Contract value, etc.
			Millions of yen
Exceptional accounting treatment for interest rate swaps	Interest rate swaps, floating received rate and fixed paid rate	Long-term debt	58

Contract value, etc. lasting longer than one year	Fair value
Millions of yen	
8	(Note)

(Note)

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
	2018	2017	2018
Residential properties for rent	34,549	54,299	325,204
Domestic hotels	13,707	10,913	129,027
Head office and branches	29,004	26,582	273,013
Leopalace Resort Manenggon Hills Guam	26,426	26,193	233,861
Leopalace Power (solar power systems)	13,088	14,879	123,202

(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
	2018	2017	2018
Machinery, equipment, and vehicles	155	155	1,459

(3) The Companies recognized impairment loss on the following asset groups for the years ended March 31, 2018 and 2017:

March 31, 2018

Purpose	Category	Location	Impairment loss	
			Millions of yen	Thousands of U.S. dollars
Rental assets (Apartment buildings and others, 319 units)	Buildings and Structures	Minami-ku, Kyoto, etc.	587	5,533
	Land		6,848	64,463
Rental assets (Furniture and appliances equipped in apartments)	Leased assets, etc.		118	1,113
Idle assets (1 land)	Land	Higashi Kagawa-shi, Kagawa	39	373
Total			7,594	71,484

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 rental assets planned to be sold, and rental assets and idle assets whose profitability seriously decreased to recoverable amounts and recognized

the reduced values as impairment losses.

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 3.9%, while net realizable value in sale was determined based on publicly appraised value.

March 31, 2017

Purpose	Category	Location	Impairment loss
			Millions of yen
Rental assets (Apartment buildings and others, 30 units)	Buildings and Structures	Ohita-shi, Ohita, etc.	131
	Land		458
Total			589

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 rental assets planned to be sold and 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.

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 3.9%, 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, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Claims in the process of bankruptcy	1,039	1,050	9,789
Bad debts	97	73	914
Others	127	121	1,195
Total	1,264	1,246	11,899

10. Income Taxes

(1) Significant components of deferred tax assets and liabilities as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Loss carried forward for tax purposes	34,435	33,800	324,124
Impairment loss	14,762	21,012	138,954
Liability for retirement benefit	3,779	3,458	35,577
Bonuses payable	1,598	1,536	15,042
Reserve for apartment vacancy loss	932	980	8,774
Advances received	722	702	6,796
Allowance for doubtful accounts	668	695	6,295
Elimination of unrealized gain	650	815	6,123
Loss on devaluation of property, plant and equipment	589	1,164	5,545
Asset adjustments	537	769	5,060
Excess amortization on software	443	332	4,177
Reserve for fulfillment of guarantees	400	374	3,773
Advances from customers for rent income	359	445	3,379
Deposits received	307	324	2,896
Other payable	288	259	2,712
Loss on devaluation of real estate for sale	237	358	2,237
Accrued enterprise tax	150	291	1,412
Asset retirement obligations	136	136	1,280
Reserve for warranty obligations on completed project	117	125	1,109
Sales promotion cost	96	110	905
Others	618	543	5,823
Sub total	61,832	68,239	582,003
Less: valuation allowance	(34,747)	(41,772)	(327,064)
Total deferred tax assets	27,084	26,467	254,939
Deferred tax liabilities:			
Reserve for special depreciation	(157)	(203)	(1,486)
Net unrealized gain on other securities	(259)	(253)	(2,438)
Fixed asset retirement expenses	(28)	(35)	(263)
Total deferred tax liabilities	(445)	(492)	(4,188)
Net deferred tax assets	26,639	25,974	250,750

(2) Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the years ended March 31, 2018 and 2017 were as follows:

	2018	2017
Normal effective statutory tax rate	30.9%	30.9%
Adjustments:		
Effect from decrease in valuation reserve	(37.9)	(29.8)
Entertainment and other expenses not deductible for income tax purposes	7.5	4.6
Per capital portion of inhabitants taxes	1.6	1.1
Tax deduction based on Tax Credits for Salary Growth	(0.1)	(1.1)
Others	0.2	(0.1)
Actual effective tax rate	2.2	5.6

11. Short-term Borrowings and Long-term Debt

(1) Short-term borrowings, long-term debt and lease obligations at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Short-term borrowings	1,210	—	11,389
Current portion of long-term debt, with average interest rate of 1.40%	1,754	1,263	16,513
Current portion of lease obligations, with average interest rate of 3.34%	5,960	4,647	56,100
Long-term debt, due 2019 to 2031, with average interest rate of 1.51%	16,643	13,267	156,662
Long-term lease obligations, due 2019 to 2022, with average interest rate of 2.85%	12,226	10,739	115,084
Total	37,794	29,917	355,750

(Note)

The average interest rates above were calculated in weighted average in terms of the fiscal year-end balance of the borrowings and debts. Please note, however, that the current portion of lease obligations and lease obligations (net of the current portion) were recorded in the consolidated balance sheet in the amount before deducting the interest portion from total lease liabilities 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	1,640	1,501	1,475	1,424
Lease obligations	4,966	3,911	2,664	683

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	15,440	14,129	13,889	13,408
Lease obligations	46,749	36,818	25,082	6,434

(3) Assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and cash equivalents	17	17	160
Others (intangible fixed assets)	669	—	6,297
Investment securities	55	55	518
Others (investments and other assets)	131	—	1,239
Total	872	72	8,216

(4) Liabilities with collateral at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current portion of long-term debt	27	—	262
Long-term debt	704	—	6,626
Total	731	—	6,889

(Note)

Of the assets pledged as collateral, cash and cash equivalents and investment securities are pledged as collateral for investees of consolidated subsidiaries and lenders of housing loans by clients, and there are no liabilities with collateral.

(5) Securities and investment securities which have been deposited with the Legal Affairs Bureau at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deposit for operation stipulated in Building Lots and Buildings Transaction Business Act	40	45	376
Deposit for housing construction warranty	1,104	1,045	10,400
Deposit for housing defect warranty	109	109	1,028
Advanced payment certificate in accordance with Payment and Settlement Regulations	628	628	5,911

(6) Bonds at March 31, 2018 and 2017 consisted of the following:

Company name	Name of bond	Issuance date	Millions of yen		Thousands of U.S. dollars
			2018	2017	2018
Leopalace21 Corporation	13th unsecured straight bond	October 31, 2014	1,800 (900)	2,700 (900)	16,942 (8,471)
Leopalace21 Corporation	14th unsecured straight bond	September 30, 2015	7,735 (1,666)	9,401 (1,666)	72,806 (15,681)
Leopalace21 Corporation	15th unsecured straight bond	September 30, 2015	6,500 (1,400)	7,900 (1,400)	61,182 (13,177)
Total	—	—	16,035 (3,966)	20,001 (3,966)	150,931 (37,330)

(Note) Figures in parentheses represent the current portion.

Company name	Name of bond	Interest rate (%)	Collateral	Date of maturity
Leopalace21 Corporation	13th unsecured straight bond	0.20	None	October 31, 2019
Leopalace21 Corporation	14th unsecured straight bond	0.13	None	September 30, 2022
Leopalace21 Corporation	15th unsecured straight bond	0.63	None	September 30, 2022

(7) The amounts of bonds maturity in 5 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
3,966	3,966	3,066	3,066	1,971

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
37,330	37,330	28,859	28,859	18,552

12. Retirement Benefit Plans

(1) Outline of retirement benefit plans

The Companies have an unfunded defined benefit plan and defined contribution plan to provide for employees' retirement benefits. The defined benefit plan is a lump-sum retirement distribution plan (unfunded, but certain plans are funded as the Companies have adopted a retirement benefit trust for the lump-sum retirement distribution plan), and the amounts of retirement benefits are provided mainly based on accumulated points by reference to job

level and length of service.

Also, retirement allowances may be paid with a premium for retired employees.

Certain consolidated subsidiaries have adopted a simplified method of calculation with liability for retirement benefits and retirement benefits expense which have been included in accounting for defined benefit plans since the amounts are immaterial.

(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
	2018	2017	2018
Beginning balance of retirement benefit obligations	11,295	10,224	106,321
Service cost	1,359	1,252	12,797
Interest cost	55	45	520
Actuarial gains and losses accrued	82	135	772
Retirement benefits paid	(459)	(363)	(4,322)
Others	5	—	51
Closing balance of retirement benefit obligations	12,338	11,295	116,140

(b) List of adjustments between the balances of pension assets at the beginning and end of year were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Beginning balance of pension assets	—	—	—
Securities contribution to retirement benefits trust	5,000	—	47,063
Closing balance of pension assets	5,000	—	47,063

(c) 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
	2018	2017	2018
Funded retirement benefit obligations	12,338	—	116,140
Pension assets	(5,000)	—	(47,063)
	7,338	—	69,077
Unfunded retirement benefit obligations	—	11,295	—
Net amount of the liabilities and assets posted in the consolidated balance sheet	7,338	11,295	69,077
Liability for retirement benefit	7,338	11,295	69,077
Net amount of the liabilities and assets posted in the consolidated balance sheet	7,338	11,295	69,077

(d) Retirement benefit expenses and breakdown amounts were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	1,359	1,252	12,797
Interest cost	55	45	520
Amortization of actuarial gain or loss	258	362	2,430
Retirement benefit expenses related to the defined benefit program	1,673	1,660	15,748

(e) 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
	2018	2017	2018
Actuarial gains/losses	(176)	(226)	(1,658)
Total	(176)	(226)	(1,658)

(f) 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
	2018	2017	2018
Unrecognized actuarial gains/losses	492	668	4,636
Total	492	668	4,636

(g) Matters concerning pension assets were as follows:**(1) Major components of pension assets**

	2018	2017
Cash and cash equivalents	100%	—%
Total	100%	—%

(Note) Total of pension assets is equal to the securities contribution to retirement benefits trust from the lump-sum retirement distribution plan.

(2) Method of determining the long-term expected rate of return

The long-term expected rate of return on pension assets is determined considering the allocation of the pension assets expected currently and in the future and the long-term rates of return which are expected currently and in the future from the various components of the pension assets.

(h) Main calculation basis for actuarial assumptions were as follows (shown as weighted average):

	2018	2017
Discount rate	0.03 – 0.97%	0.03 – 0.89%
Expected long-term rate of return on pension assets	3.17%	—

(3) Defined contribution plan

The necessary contribution amount for the defined contribution plan was 557 million yen (\$5,246 thousand) and 503 million yen for the year ended March 31, 2018 and 2017, respectively.

13. Stock Options**(1) Stock option expenses recorded relating to stock options:**

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Selling, general and administrative expenses	128	118	1,214

(2) Outline of stock options and activities are as follows:**(a) Outline of stock options:**

	2009 Stock Option	2016 Stock Option	2017 Stock Option
Title and number of grantees	Executive officers (excluding Directors) and employees of Leopalace21 Corporation, and Directors and employees of significant subsidiaries 33 people	8 Directors (excluding outside Directors) and 12 executive officers of Leopalace21 Corporation	8 Directors (excluding outside Directors) and 15 executive officers of Leopalace21 Corporation, and 9 Directors of subsidiaries
Type and number of stock options	Common stock: 71,000 shares	Common stock: 252,700 shares	Common stock: 282,800 shares
Grant date	August 17, 2009	August 18, 2016	September 14, 2017
Vesting conditions	Continuous services from the grant date (August 17, 2009) to the end of vesting period (August 17, 2011)	No applicable vesting conditions are specified	No applicable vesting conditions are specified
Vesting period	From August 17, 2009 to August 17, 2011	No applicable period of service is specified	No applicable period of service is specified
Exercise period	From August 18, 2011 to June 27, 2019	From August 19, 2016 to August 18, 2046	From September 15, 2017 to September 14, 2047

(Note) Reported by converting to the number of shares

(b) Stock option transactions:

Number of stock options as of the fiscal year ended March 31, 2018 are reported by converting to the number of shares.

Number of stock options:

	2009 Stock Option	2016 Stock Option	2017 Stock Option
Non-vested (number of shares)			
Previous fiscal year-end	—	—	—
Granted	—	—	282,800
Forfeited	—	—	—
Vested	—	—	282,800
Outstanding	—	—	—
Vested (number of shares)			
Previous fiscal year-end	65,000	252,700	—
Vested	—	—	282,800
Exercised	3,000	—	—
Forfeited	—	—	—
Outstanding	62,000	252,700	282,800

Price information (yen):

	2009 Stock Option	2016 Stock Option	2017 Stock Option
Exercise price	826	1	1
Average stock price at exercise	856	—	—
Fair value at the grant date	277	547	528

(3) Estimate method of fair value of stock options:

2017 Stock options granted in the fiscal year ended March 31, 2018 were valued using the Black-Scholes option pricing model and the assumptions were as follows:

	2017 Stock Option
Expected volatility (Note 1)	55.693%
Expected life of option (Note 2)	15 years
Expected dividends (Note 3)	22 yen per share
Risk-free interest rate (Note 4)	0.299%

- (Notes)
1. Estimated based on the actual stock prices in a period of 15 years from September 2002 to September 2017.
 2. The expected life of option could not be estimated rationally due to an insufficient amount of data. Therefore, it was estimated assuming that the options are exercised at the middle point of the exercise period.
 3. Based on actual dividends for the fiscal year ended March 31, 2018.
 4. Yield of the Japanese government bond, corresponding to period of the expected life of option.

(4) Estimate method of the number of stock options vested:

Due to the difficulty in rationally estimating the actual number of stock options that will be forfeited in the future, the actual number of forfeited stock options is adopted in the estimate.

14. Gain on Sale of Non-current Assets

Gain on sale of non-current assets for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Buildings and structures	915	328	8,620
Machinery, equipment, and vehicles	9	4	88
Land	—	74	—
Other (Property, plant, and equipment)	1	1	18
Total	927	408	8,726

15. Loss on Sale of Non-current Assets

Loss on sale of non-current assets for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Buildings and structures	—	48	—
Machinery, equipment, and vehicles	—	0	—
Land	27	259	257
Construction in progress	—	2	—
Others (Property, plant and equipment)	0	3	0
Total	27	314	258

16. Loss on Retirement of Non-current Assets

Loss on disposal of non-current assets for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Buildings and structures	82	82	773
Construction in progress	—	4	—
Others (Property, plant and equipment)	30	2	284
Others (Intangible assets)	—	60	—
Total	112	149	1,058

17. Rental Properties

The Company possesses rental apartments in major cities and regions throughout Japan. Some subsidiaries possess rental residences and offices, and develop and possess serviced apartments. For the years ended March 31, 2018 and 2017, income arising from these rental properties were 2,773 million yen (\$26,103 thousand)

and 4,152 million yen, and impairment losses were 7,476 million yen (\$70,371 thousand) and 589 million yen, respectively.

Furthermore, the changes in book value of rental properties during the year ended March 31, 2018 and 2017, and the fair value as of March 31, 2018 and 2017 were as follows:

March 31, 2018

Millions of yen			
Balance as of April 1, 2017	Increase/(Decrease)	Balance as of March 31, 2018	Fair value as of March 31, 2018
61,745	(16,975)	44,769	49,516

March 31, 2017

Millions of yen			
Balance as of April 1, 2016	Increase/(Decrease)	Balance as of March 31, 2017	Fair value as of March 31, 2017
64,159	(2,413)	61,745	63,987

March 31, 2018

Thousands of U.S. dollars			
Balance as of April 1, 2017	Increase/(Decrease)	Balance as of March 31, 2018	Fair value as of March 31, 2018
581,189	(159,787)	421,401	466,079

- (Notes)
1. Book values recorded on the consolidated balance sheets were the amount after deducting accumulated depreciation and accumulated impairment loss from acquisition cost.
 2. For the years ended March 31, 2018 and 2017, the increase was mainly due to investments in serviced apartments of the ASEAN region in 1,942 million yen (\$18,283 thousand) and 649 million yen, and the main decreases was the sale of rental properties in 12,739 million yen (\$119,908 thousand) and 1,652 million yen and impairment losses in 7,476 million yen (\$70,371 thousand) and 589 million yen, respectively.
 3. Fair value as of the end of the current consolidated fiscal year end is calculated by the Company mainly based on "Real-estate appraisal standards."

18. Asset Retirement Obligations

Disclosure is omitted due to immateriality in the consolidated financial statements.

19. Supplemental Information to the Statement of Changes in Net Assets

Shares issued and treasury stocks for the year ended March 31, 2018 were as follows:

Type of shares	Shares			
	April 1, 2017	Increase	Decrease	March 31, 2018
Shares issued				
Common stock (Note 1)	267,443,915	—	14,761,400	252,682,515
Total	267,443,915	—	14,761,400	252,682,515
Treasury stock				
Common stock (Notes 2, 3)	4,569,920	10,761,900	14,764,400	567,420
Total	4,569,920	10,761,900	14,764,400	567,420

- (Notes)
1. Decrease in common stock issued of 14,761 thousand shares is due to the retirement of treasury stock resolved at the meeting of Board of Directors.
 2. Increase in treasury stock of 10,761 thousand shares is due to the acquisition of treasury stock of 10,761 thousand shares resolved at the meeting of Board of Directors, accompanied with 0 thousand shares of purchase of shares less than one unit.
 3. Decrease in treasury stock of 14,764 thousand shares is due to the retirement of treasury stock of 14,761 thousand shares and exercise of stock options of 3 thousand shares.

Stock acquisition rights (SAR) and own share options for the year ended March 31, 2018 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, 2018	
		April 1, 2017	Increase	Decrease	March 31, 2018	Millions of yen	Thousands of U.S. dollars
SARs as stock option	—	—	—	—	—	284	2,676
Total	—	—	—	—	—	284	2,676

Matters concerning dividends for the year ended March 31, 2018 were as follows:

(1) Dividends paid:

(Resolution)	Class of shares	Total amount of dividends	
		Millions of yen	Thousands of U.S. dollars
June 29, 2017 General shareholders' meeting	Common stock	3,154	29,692
November 10, 2017 Board of Directors' Meeting	Common stock	2,521	23,730

Source of dividend	Dividends per share		Record date	Effective date
	Yen	U.S. dollars		
Retained earnings	12	0.11	March 31, 2017	June 30, 2017
Retained earnings	10	0.09	September 30, 2017	December 11, 2017

(2) Dividends with record dates in the current consolidated year but effective dates in the next year:

(Resolution)	Class of shares	Total amount of dividends	
		Millions of yen	Thousands of U.S. dollars
June 28, 2018 General shareholders' meeting	Common stock	3,025	28,476

Source of dividend	Dividends per share		Record date	Effective date
	Yen	U.S. dollars		
Retained earnings	12	0.11	March 31, 2018	June 29, 2018

Shares issued and treasury stocks for the year ended March 31, 2017 were as follows:

Type of shares	April 1, 2016	Shares		
		Increase	Decrease	March 31, 2017
Shares issued				
Common stock	267,443,915	—	—	267,443,915
Total	267,443,915	—	—	267,443,915
Treasury stock				
Common stock	4,569,520	400	—	4,569,920
Total	4,569,520	400	—	4,569,920

(Note) Increase in treasury stock of 400 shares is due to the purchase of shares less than one unit.

Stock acquisition rights (SAR) and own share options for the year ended March 31, 2017 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, 2017 Millions of yen
		April 1, 2016	Increase	Decrease	March 31, 2017	
SARs as stock option	—	—	—	—	—	136
Total	—	—	—	—	—	136

Matters concerning dividends for the year ended March 31, 2017 were as follows:

(1) Dividends paid:

(Resolution)	Class of shares	Total amount of dividends
		Millions of yen
June 29, 2016 General shareholders' meeting	Common stock	2,628
November 4, 2016 Board of Directors' Meeting	Common stock	2,628

Source of dividend	Dividends per share	Record date	Effective date
	Yen		
Retained earnings	10	March 31, 2016	June 30, 2016
Retained earnings	10	September 30, 2016	December 12, 2016

(2) Dividends with record dates in the current consolidated year but effective dates in the next year:

(Resolution)	Class of shares	Total amount of dividends
		Millions of yen
June 29, 2017 General shareholders' meeting	Common stock	3,154

Source of dividend	Dividends per share	Record date	Effective date
	Yen		
Retained earnings	12	March 31, 2017	June 30, 2017

20. Leases

(1) Finance lease transactions

The Company primarily lease furniture and electronic appliances to apartments for their leasing business. Leased assets are depreciated in 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, 2018 and 2017 were as follows:

March 31, 2018	Millions of yen		
	Future lease payments	Prepaid lease payments	Differences
Due within one year	236,656 (236,522)	1,126 (1,126)	235,529 (235,395)
Due after one year	119,977 (119,764)	2,218 (2,218)	117,759 (117,546)
Total	356,633 (356,286)	3,344 (3,344)	353,289 (352,942)

March 31, 2017	Millions of yen		
	Future lease payments	Prepaid lease payments	Differences
Due within one year	238,120 (237,983)	1,144 (1,144)	236,975 (236,839)
Due after one year	155,147 (154,864)	2,569 (2,569)	152,577 (152,294)
Total	393,267 (392,848)	3,714 (3,714)	389,552 (389,133)

March 31, 2018	Thousands of U.S. dollars		
	Future lease payments	Prepaid lease payments	Differences
Due within one year	2,227,562 (2,226,299)	10,603 (10,603)	2,216,958 (2,215,696)
Due after one year	1,129,305 (1,127,304)	20,878 (20,878)	1,108,427 (1,106,425)
Total	3,356,867 (3,353,603)	31,481 (31,481)	3,325,386 (3,322,122)

Future minimum lease payments fixed under master lease agreements in leasing business are shown in parentheses.

21. Guaranteed Obligations

Guaranteed obligations as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Guaranteed obligations to financial institutions for customers who have a home mortgage	589	734	5,549
Guaranteed obligations to financial institutions for customers who have a membership loan	3	3	34
Total	593	737	5,583

22. Segment Information

(1) Overview of Reportable Segments

The Company's 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.

Effective from the current consolidated fiscal year, reportable segments were changed from four segments comprising the Leasing Business, Construction Business, Elderly Care Business and Hotels & Resort Business, to the Leasing Business, Development Business, Elderly Care Business and Hotels, Resort and Other Businesses.

This change in reportable segments was the result of realignment of business areas according to the new medium-term management plan.

The Leasing Business operations comprise the leasing and management of apartment buildings and other properties, repair work, broadband internet service, rent obligation guarantee, the

company residence agency business, solar power generation business, and small-amount short-term insurance business and others. The Development Business operations comprise the construction subcontracting of apartments, detached houses and development of condominiums and others. The Elderly Care Business operates elderly care facilities. The Hotels, Resort and Other Business operates hotels and resort facilities etc.

Segment information for the previous consolidated fiscal year is restated based on the changed reportable segments.

(2) Calculation Method for Sales, Profits and Losses, Assets, and other Items by Reportable Segment

The accounting methods for reportable segments are in accordance to accounting policies adopted in the preparation of consolidated financial statements. The reportable segment profits (losses) represent operating profits (losses). 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, 2018 and 2017 were as follows:

March 31, 2018	Reportable segment					Segment Total	Adjustments	Consolidated Total
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort, & Other Business	Millions of yen			
Sales								
Sales to customers	435,537	76,587	12,807	5,908	530,840	—	530,840	
Inter-segment sales and transfers	131	65	—	3,541	3,738	(3,738)	—	
Total	435,669	76,652	12,807	9,449	534,578	(3,738)	530,840	
Segment profit (loss)	26,062	3,663	(1,596)	(846)	27,283	(4,353)	22,930	
Segment assets	112,516	19,572	3,553	56,808	192,450	144,807	337,257	
Other items								
Depreciation	7,946	195	106	1,278	9,526	2,199	11,726	
Increase in property, plant, and equipment, and intangible assets	14,207	117	93	5,369	19,787	637	20,424	

(Notes) 1. Breakdown of adjustments was as follows:

Segment profit (loss)

	Millions of yen	Thousands of U.S. dollars
Inter-segment eliminations	(243)	(2,295)
Corporate expenses*	(4,109)	(38,678)
Total	(4,353)	(40,974)

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

Adjustments in segment assets (144,807 million yen, \$1,363,022 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 (637 million yen, \$5,997 thousand) consist of capital expenditures which do not belong to reportable segments.

2. Segment profit (loss) is adjusted to operating profit on the consolidated statements of operations.

March 31, 2017	Reportable segment					Segment Total	Adjustments	Consolidated Total
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort, & Other Business	Millions of yen			
Sales								
Sales to customers	421,342	80,321	11,536	7,287	520,488	—	520,488	
Inter-segment sales and transfers	32	610	—	3,230	3,872	(3,872)	—	
Total	421,374	80,931	11,536	10,517	524,361	(3,872)	520,488	
Segment profit (loss)	23,009	5,786	(1,667)	(417)	26,711	(3,812)	22,898	
Segment assets	121,642	20,834	2,918	54,915	200,310	137,517	337,828	
Other items								
Depreciation	6,484	184	81	1,377	8,129	1,207	9,336	
Increase in property, plant, and equipment, and intangible assets	9,171	87	123	2,790	12,173	1,568	13,741	

(Notes) 1. Breakdown of adjustments was as follows:

Segment profit (loss)

	Millions of yen
Inter-segment eliminations	(277)
Corporate expenses*	(3,535)
Total	(3,812)

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

Adjustments in segment assets (137,517 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 (1,568 million yen) consist of capital expenditures which do not belong to reportable segments.

2. Segment profit (loss) is adjusted to operating profit on the consolidated statements of operations.

March 31, 2018	Thousands of U.S. dollars						Adjustments	Consolidated Total
	Reportable segment					Segment Total		
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort, & Other Business				
Sales								
Sales to customers	4,099,566	720,889	120,547	55,610	4,996,613	—	4,996,613	
Inter-segment sales and transfers	1,239	618	—	33,330	35,188	(35,188)	—	
Total	4,100,805	721,507	120,547	88,940	5,031,802	(35,188)	4,996,613	
Segment profit (loss)	245,312	34,483	(15,024)	(7,964)	256,807	(40,974)	215,832	
Segment assets	1,059,078	184,229	33,444	534,716	1,811,468	1,363,022	3,174,490	
Other items								
Depreciation	74,794	1,843	1,000	12,035	89,673	20,707	110,381	
Increase in property, plant, and equipment, and intangible assets	133,726	1,106	875	50,542	186,251	5,997	192,248	

Related information

1. Products and services

Information concerning products and services has been omitted, since similar information is reported in "22. 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, 2018

Millions of yen					
Japan	Trust territory of U.S.A. Guam	Kingdom of Thailand	Kingdom of Cambodia	Other	Total
113,867	26,426	1,231	1,645	172	143,344

March 31, 2017

Millions of yen					
Japan	Trust territory of U.S.A. Guam	Kingdom of Thailand	Kingdom of Cambodia	Other	Total
127,111	26,193	1,200	656	104	155,267

March 31, 2018

Thousands of U.S. dollars					
Japan	Trust territory of U.S.A. Guam	Kingdom of Thailand	Kingdom of Cambodia	Other	Total
1,071,797	248,745	11,594	15,489	1,624	1,349,251

3. Major customers

Information concerning sales to major customers has been omitted, since no sales to any particular customer exceed 10% of sales reported in the consolidated statement of operations.

Information concerning impairment loss on non-current assets by reportable segments

March 31, 2018

Millions of yen						
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort & Other Business	Adjustments	Consolidated total
Impairment loss	7,554	—	—	—	39	7,594

March 31, 2017

Millions of yen						
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort & Other Business	Adjustments	Consolidated total
Impairment loss	589	—	—	—	—	589

March 31, 2018

Thousands of U.S. dollars						
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort & Other Business	Adjustments	Consolidated total
Impairment loss	71,110	—	—	—	373	71,484

Information concerning goodwill amortization and unamortized balance by reportable segments

March 31, 2018

Millions of yen						
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort & Other Business	Adjustments	Consolidated total
Goodwill amortization	7	515	—	—	—	522
Balance	219	2,666	—	—	—	2,886

March 31, 2017

Millions of yen						
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort & Other Business	Adjustments	Consolidated total
Goodwill amortization	—	428	—	—	—	428
Balance	—	3,181	—	—	—	3,181

March 31, 2018

	Thousands of U.S. dollar					Consolidated total
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort & Other Business	Adjustments	
Goodwill amortization	70	4,847	—	—	—	4,918
Balance	2,068	25,097	—	—	—	27,166

Information concerning gain on negative goodwill by reportable segments

For the years ended March 31, 2018 and 2017

Not applicable.

23. 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, 2018 and 2017.

	Yen		U.S. dollars
	2018	2017	2018
Net assets	630.84	603.76	5.94
Net income attributable to shareholders of the parent			
Basic	58.02	77.61	0.55
Diluted	57.93	77.56	0.55

(2) Basis of computation of basic and diluted net income per share for the years ended March 31, 2018 and 2017 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Basic net income per share			
Net income attributable to shareholders of the parent	14,819	20,401	139,490
Amount not attributable to common stock	—	—	—
Net income attributable to common stock	14,819	20,401	139,490
Basic weighted-average shares during the year (Thousands of shares)	255,412	262,874	255,412
Diluted net income per share			
Net income attributable to shareholders of the parent	—	—	—
Increase in the number of common stock (Thousands of shares)	406	156	406
Dilutive securities without dilutive effects and excluded from calculation of diluted net income per share	New stock acquisition rights (620)	New stock acquisition rights (650)	

24. Related Party Transactions

The following tables set forth related party transactions for the years ended March 31, 2018 and 2017.

For the year ended March 31, 2018

(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	245	Prepaid expenses	—	—

- (Notes) 1. Consumption taxes were not included in amounts.
 2. Conditions on leasing the apartments are the same as those on transactions with third parties.
 3. Toshiko Miyoshi is a close relative of Tadahiro Miyama, Director of the Company.

For the year ended March 31, 2017**(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			
Directors and close relatives	Toshiko Miyoshi	—	—	—	—	Leasing of land and building

Attribute	Name	Transaction	Transaction amount	Account	Balance
			Millions of yen		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 on leasing the apartments are the same as those on transactions with third parties.
 3. Toshiko Miyoshi is a close relative of Tadahiro Miyama, Director of the Company.

25. Business Combinations**Business Combination through Acquisitions****(1) Outline of the business combination:**

(a) Name of the acquired company and its business activities:

Name of the acquired company	Enplus Inc.
Business activities	Management of serviced apartments for foreigners, brokerage of residences, relocation management business (total management service related to international personnel relocation)

(b) Major reasons for the business combination:

The International Business is positioned as a strategic growth business in the Company's medium-term management plan. The acquisition of Enplus Inc., aiming to expand international and domestic businesses, will solve the human resource problems in Japanese companies' accelerating globalization as well as that in the establishment of foreign companies' Japan branches.

(c) Effective date of the business combination:

October 2, 2017

(d) Legal structure of the business combination:

Stock acquisition

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

No change

(f) Percentage of voting rights acquired by Leopalace21:

66.7%

(g) Completion of acquisition

Leopalace21 completed the acquisition of Enplus Inc. through stock acquisition with cash considerations.

(2) Period of business performances of the acquired company to be included in the Consolidated Statements of Operations in the fiscal year ended March 2018:

From November 1, 2017 to December 31, 2017

(3) Acquisition cost of the acquired company and its details:

	Millions of yen	Thousands of U.S. dollars
Consideration for the acquisition (cash)	354	3,332
Acquisition cost	354	3,332

(4) Main contents of acquisition-related costs:

	Millions of yen	Thousands of U.S. dollars
Advisory cost, etc.	4	39

(5) Amount, creation, method and period of goodwill amortization:

(a) Amount of goodwill:

	Millions of yen	Thousands of U.S. dollars
Goodwill	190	1,789

(b) Creation of goodwill:

It was primarily based on a reasonable estimation of future earning power expected from the expansion of relocation management business of Enplus Inc.

(c) Method and period of goodwill amortization:

Straight-line method (5 years)

(6) Assets and liabilities absorbed at the date of combination:

	Millions of yen	Thousands of U.S. dollars
Current assets	436	4,110
Non-current assets	145	1,370
Total assets	582	5,481
Current liabilities	258	2,429
Long-term liabilities	78	738
Total liabilities	336	3,167

(7) Estimated amount of impact on the consolidated statements of operations for the fiscal year ended March 2018 based on the assumption that the business combination was completed on the first day of the consolidated fiscal year under review, as well as the calculation method thereof:

	Millions of yen	Thousands of U.S. dollars
Net sales	1,054	9,921
Operating profit (loss)	(30)	(286)
Recurring income (loss)	(48)	(454)
Net income (loss) attributable to shareholders of the parent	(73)	(690)

(Calculation method for the estimated amount)

The estimated amount of impact is the difference between net sales and profit/loss information calculated based on the assumption that the business combination was completed on the first day of the consolidated fiscal year under review and the net sales and profit/loss information presented in the consolidated statements

of operations of the acquiring company at the date of acquisition. In addition, the amortized amount has been calculated based on the assumption that the goodwill recognized when the business combination was completed had been generated on the first day of the consolidated fiscal year under review. Non-audited.

(8) Breakdown of major assets and liabilities of Enplus Inc.

The breakdown of major assets and liabilities of Enplus Inc. as of the beginning of the consolidation as well as net of cash acquired are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	436	4,110
Non-current assets	145	1,370
Goodwill	190	1,789
Current liabilities	(258)	(2,429)
Long-term liabilities	(78)	(738)
Non-controlling interests	(81)	(771)
Acquisition cost	354	3,332
Cash and cash equivalents	(309)	(2,911)
Balance: acquisitions of businesses-net of cash acquired	44	420

Business Combination through Acquisitions

(1) Outline of the business combination:

(a) Name of the acquired company and its business activities:

Name of the acquired company	ASPENN INVESTMENTS PTE.LTD. Plus, International Commercial Warehousing Services Co.,Ltd., a subsidiary of the acquired company became a subsidiary of the Company, accompanied with the acquisitions
Business activities	Real estate business (management of income-producing properties for investment)

(b) Major reasons for the business combination:

To strengthen the revenue base by acquiring income-producing investment properties

(c) Effective date of the business combination:

November 1, 2017

(d) Legal structure of the business combination:

Stock acquisition

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

No change

(f) Percentage of voting rights acquired by Leopalace21:

95.0%

(g) Completion of acquisition

Leopalace21 Singapore Pte. Ltd., a consolidated subsidiary of Leopalace21, completed the acquisition of ASPENN INVESTMENTS PTE. LTD. through stock acquisition with cash considerations.

(2) Period of business performances of the acquired company to be included in the Consolidated Statements of Operations in the fiscal year ended March 2018:

From November 1, 2017 to December 31, 2017

(3) Acquisition cost of the acquired company and its details:

	Millions of yen	Thousands of U.S. dollars
Consideration for the acquisition (cash)	356	3,356
Acquisition cost	356	3,356

(4) Main contents of acquisition-related costs:

	Millions of yen	Thousands of U.S. dollars
Advisory cost, etc.	20	190

(5) Amount, creation, method and period of goodwill amortization:

(a) Amount of goodwill:

	Millions of yen	Thousands of U.S. dollars
Goodwill	35	336

(b) Creation of goodwill:

It was primarily based on a reasonable estimation of future earning power expected from the business expansion of ASPENN INVESTMENTS PTE.LTD.

(c) Method and period of goodwill amortization:

Straight-line method (5 years)

(6) Assets and liabilities absorbed at the date of combination:

	Millions of yen	Thousands of U.S. dollars
Current assets	123	1,158
Non-current assets	929	8,751
Total assets	1,052	9,910
Current liabilities	10	95
Long-term liabilities	710	6,690
Total liabilities	720	6,785

(7) Estimated amount of impact on the consolidated statements of operations for the fiscal year ended March 2018 based on the assumption that the business combination was completed on the first day of the consolidated fiscal year under review, as well as the calculation method thereof:

	Millions of yen	Thousands of U.S. dollars
Net sales	47	443
Operating profit (loss)	(32)	(303)
Recurring income (loss)	(32)	(303)
Net income (loss) attributable to shareholders of the parent	(30)	(290)

(Calculation method for the estimated amount)

The estimated amount of impact is the difference between net sales and profit/loss information calculated based on the assumption that the business combination was completed on the first day of the consolidated fiscal year under review and the net sales and profit/loss information presented in the consolidated statements

of operations of the acquiring company at the date of acquisition. In addition, the amortized amount has been calculated based on the assumption that the goodwill recognized when the business combination was completed had been generated on the first day of the consolidated fiscal year under review. Non-audited.

(8) Breakdown of major assets and liabilities of ASPENN INVESTMENTS PTE.LTD. and International Commercial Warehousing Services Co.,Ltd.

The breakdown of major assets and liabilities of ASPENN INVESTMENTS PTE.LTD. and International Commercial Warehousing Services Co.,Ltd. as of the beginning of the consolidation as well as net of cash acquired are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	123	1,158
Non-current assets	929	8,751
Goodwill	35	336
Current liabilities	(10)	(95)
Long-term liabilities	(710)	(6,690)
Foreign currency translation adjustments	5	53
Non-controlling interests	(16)	(158)
Acquisition cost	356	3,356
Cash and cash equivalents	(29)	(274)
Balance: acquisitions of businesses-net of cash acquired	327	3,082

26. Other

The following tables set forth quarterly information for the year ended March 31, 2018.

(Cumulative period)	First quarter	Second quarter	Third quarter	Full-year
Net sales (Millions of yen)	128,450	258,740	385,521	530,840
Income before income taxes (Millions of yen)	(570)	6,319	11,954	15,150
Net income attributable to shareholders of the parent (Millions of yen)	5,559	9,488	12,863	14,819
Net income per share (yen)	21.19	36.68	50.15	58.02

(Accounting period)	First quarter	Second quarter	Third quarter	Full-year
Net income per share (yen)	21.19	15.40	13.39	7.76

(Cumulative period)	First quarter	Second quarter	Third quarter	Full-year
Net sales (Thousands of U.S. dollars)	1,209,062	2,435,432	3,628,775	4,996,613
Income before income taxes (Thousands of U.S. dollars)	(5,367)	59,478	112,521	142,604
Net income attributable to shareholders of the parent (Thousands of U.S. dollars)	52,332	89,308	121,083	139,490
Net income per share (U.S. dollars)	0.20	0.35	0.47	0.55

(Accounting period)	First quarter	Second quarter	Third quarter	Full-year
Net income per share (U.S. dollars)	0.20	0.14	0.13	0.07

27. Subsequent Events

Not applicable

28. Contingent Liabilities

(1) The Company announced on April 27, 2018 that there were partly discrepancies between construction drawings on notice of verification of building construction and the actual construction of apartment series "Gold Nail" and "New Gold Nail" ("subject properties"), developed by Leopalace21 between 1994 and 1995.

The Company also announced that all subject properties will be investigated and repair works to be carried out on all properties with discrepancies with construction drawings on notice of verification of building construction, in consideration of the responsibilities as a construction company.

Going forward, the Company will promptly arrange the schedule for the investigation of subject properties with owners and occupants and repair works to be carried out sequentially from the completion of investigation of subject properties.

Also, the Company will undertake investigations in addition to ordinary periodic inspections of all Leopalace series other than the subject properties, and will make timely and appropriate responses.

(2) The Company announced on May 29, 2018 that a part of apartments constructed by the Company during 1996 and 2009, is suspected of violating the Building Standard Law. The Company also announced that all apartments of 37,853 buildings developed by Leopalace21 will be investigated and repair works to be carried out.

Going forward, the Company will arrange the investigation of all apartments of 37,853 buildings and repair works to be carried out sequentially from the completion of investigation of all apartments with the problems.

There is a possibility that repair costs will arise due to the matter of (1) and (2) above, and this could impact the future financial position and operating results of the Company, but it is difficult to rationally estimate the amount at this moment as the Company just started the investigation of individual properties.



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 SHEETS as at March 31, 2018, 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, 2018, 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, 2018 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 Jaiyo LLC

July 13, 2018
Tokyo, Japan

Data Compilation

External Environment

<Number of New Housing Starts>

In the year ended March 2018, the number of new housing starts decreased for the first time in 3 years. Rental housing starts also declined for the first time in 3 years, falling by 4.0% year on year to 410,355 units. Starts of rental units less than 30 square meters aimed mainly at single-person households remained robust, rising 3.1% year on year to 78,796 units.

	(1,000 units)		
	FY2015	FY2016	FY2017
Rental units	384	427	410
Of which, rental units under 30m ²	61	76	79
Other	537	547	536
Total	921	974	946

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 2025 due to the nation's trends of aging population and low fertility rate. On the other hand, the number of single-person households, including in our target cohort of the productive population (aged 15–64), are expected to continue to increase.

	(1,000 households)						
	2005	2010	2015	2020 (forecast)	2025 (forecast)	2030 (forecast)	2035 (forecast)
Single-person households	14,457	16,785	18,418	19,342	19,960	20,254	20,233
Of which, under 25	2,178	2,060	2,021	2,009	1,879	1,781	1,681
Of which, age 25-34	2,971	2,999	2,987	2,830	2,795	2,705	2,558
Of which, age 35-64	5,444	6,745	7,157	7,479	7,774	7,809	7,577
Of which, age 65 or older	3,865	4,980	6,253	7,025	7,512	7,959	8,418
Married couples	9,637	10,269	10,758	11,101	11,203	11,138	10,960
Married couples with children	14,646	14,474	14,342	14,134	13,693	13,118	12,465
Single-parent with children	4,112	4,535	4,770	5,020	5,137	5,141	5,074
Others	6,212	5,779	5,044	4,510	4,123	3,833	3,583
Total	49,063	51,842	53,332	54,107	54,116	53,484	52,315

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 regional areas. The number of vacant properties in Japan available for rent or sale stands at 4,600,000 units, or one in five homes, according to the most recent Housing and Land Survey, published in fiscal 2013, and is becoming a social problem.

	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	4,600
Tenancy (1,000 units)	12,951	14,015	15,691	16,730	17,166	17,770	18,519
Ratio of vacant dwellings (%)	12.4	14.3	14.3	17.4	18.8	20.1	19.9

Source: Housing and Land Survey, the Ministry of Internal Affairs and Communications

Leasing Business Data

<Apartment Rooms under Management>

As of March 31, 2018, apartments under management—the earnings foundation for our Leasing Business—numbered 570,672, rising for the fifth consecutive year. The proportion of our portfolio located in our focus regions of Kanto (Tokyo metro area and Kita-Kanto), Chubu, and Kinki remained high at around 70%.

	(Rooms)		
	FY2015	FY2016	FY2017
Hokkaido	14,132	14,088	13,932
Tohoku	34,843	35,270	35,434
Kita-Kanto	40,381	40,553	40,321
Tokyo metro area	161,756	165,590	168,313
Hokuriku-Koshinetsu	40,643	40,639	40,095
Chubu	87,711	88,086	87,916
Kinki	79,790	80,715	80,362
Chugoku	38,439	38,798	38,945
Shikoku	14,535	14,671	14,671
Kyushu-Okinawa	49,731	50,329	50,683
Total	561,961	568,739	570,672

<Leases by Contract Type>

We are strengthening our marketing efforts aimed at corporations, where we can expect stable, long-term income. As of March 31, 2018, the number of corporate contracts for apartments stood at 309,062 units, up 5.2% from a year earlier. The composition ratio was 57.8%, accounted for more than 50% of our lease portfolio for the fifth consecutive year.

	FY2015		FY2016		FY2017	
	Units	%	Units	%	Units	%
Corporations	277,261	54.5	293,824	56.4	309,062	57.8
Individuals	183,008	36.0	180,617	34.6	178,643	33.4
Students	48,451	9.5	46,857	9.0	47,142	8.8
Total	508,720	100.0	521,298	100.0	534,847	100.0

<Average Annual Occupancy Rate>

Similar to the year-end occupancy rate, the average annual occupancy rate is on a recovery path. The average annual occupancy rate in the year under review was 90.6%, rising for the seventh consecutive year. The primary reason was the trend towards longer occupancy periods due to factors such as the success of measures for increasing property value.

	FY2015	FY2016	FY2017
Average annual occupancy rate	88.0	88.5	90.6

<Fiscal Yearend Occupancy Rates by Region>

Japan has now emerged from the recession following the global financial crisis. As of March 31, 2018, our overall occupancy rate was 93.7%, up 2.0 points from a year earlier. The occupancy rate exceeded 90% in all regions, except Hokkaido.

	End-FY2015	End-FY2016	End-FY2017
Hokkaido	81.8	84.7	87.1
Tohoku	94.4	94.1	94.5
Kita-Kanto	85.5	87.2	90.7
Tokyo metro area	92.8	92.6	94.2
Hokuriku-Koshinetsu	88.3	90.0	92.7
Chubu	89.1	91.1	94.5
Kinki	90.6	91.3	93.8
Chugoku	92.5	93.8	93.1
Shikoku	87.0	89.9	91.8
Kyushu-Okinawa	90.7	93.9	96.1
Total	90.5	91.7	93.7

<Number of Leasing Sales Offices and Sales Personnel>

The Leasing Business is forging ahead with building a network balanced between directly managed leasing sales offices and franchisee-run offices. We continue to optimize our sales force, which totaled 1,546 people as of March 31, 2018, down 2.7% year on year.

	FY2015	FY2016	FY2017
No. of lease sales offices	319	308	307
Of which, Leopalace Centers	189	189	189
Of which, Leopalace Partners (franchisees)	130	119	118
No. of leasing sales personnel	1,606	1,589	1,546

	FY2015	FY2016	FY2017
Security systems installed (cumulative, rooms)	256,900	279,609	296,564
Security cameras installed (cumulative, buildings)	7,848	10,223	12,778
Services centers, no. of incoming calls	576,764	530,804	515,750
Of which, inquiries	412,947	373,062	361,678
Of which, maintenance related	129,614	125,734	121,672
Of which, complaints or claims	34,203	32,008	32,400
Tenant response rates from Internet (new contracts only)	57,556	45,673	45,971

Development Business Data

<Orders>

(Millions of yen)

In fiscal 2017, orders stood at 75,905 million yen due to the impacts of measures for curbing apartment orders. By building category, however, orders were strong for stores and buildings with commercial space, increasing 147.3% year on year to 1,390 million yen.

	FY2015	FY2016	FY2017
Building categories			
Apartments	77,004	79,424	69,712
Elderly care facilities	2,872	2,377	706
Stores & commercial space	2,040	562	1,390
Custom-built homes*	4,502	4,763	4,097
Solar power systems	18	13	0
Total	86,439	87,139	75,905

*Subsidiary Morizou

<Apartments Completions>

(Buildings)

The number of apartment buildings completed declined 14.6% year on year, to 566 in fiscal 2017. Of these, completions of mainstay 2-story models decreased, but we enjoyed an increase in completions of buildings with 3 and 4 stories, where demand is high in urban areas. Together, 3- and 4-story buildings accounted for around 30% of our total completions.

	FY2015	FY2016	FY2017
Two stories	513	485	376
Three stories	125	154	160
Four stories or more	47	24	30
Total	685	663	566

<Apartment Completions by Region>

(Buildings)

The number of apartment completions is declining in Tohoku, Kita-Kanto, Tokyo metro area, Hokuriku-Koshinetsu, Kinki, Chugoku, and Shikoku due to the impacts of measures for curbing orders.

	FY2015	FY2016	FY2017
Tohoku	46	27	20
Kita Kanto	20	21	13
Tokyo metro area	342	366	317
Hokuriku-Koshinetsu	5	5	1
Chubu	57	42	43
Kinki	98	101	79
Chugoku	39	33	32
Shikoku	7	9	2
Kyushu-Okinawa	71	59	59
Total	685	663	566

<Sales Offices Accepting Construction Orders, Sales Personnel>

The long-term outlook is for demand for apartment construction to decline nationwide. In this environment, our strategy is to concentrate our sales offices and personnel in regions where strong demand can be expected.

	FY2015	FY2016	FY2017
Sales offices responsible for construction orders (offices)	60	60	60
Sales personnel responsible for construction orders (personnel)	616	566	530

Elderly Care Business Data

<Number of Facilities>

The Elderly Care Business has expanded its network of facilities, mainly in the Tokyo metropolitan area. Positioning this segment as a growth business, we are further expanding the network, including the Chubu region, with a focus on facilities offering day services and short stays.

	(Facilities)		
	FY2015	FY2016	FY2017
Fee-based homes	21	21	21
Day services, Short stays	44	53	60
Group homes	2	2	2
Total	67	76	83

<Utilization Rate>

The utilization rate at fee-based homes for seniors and group homes remained high at about 90%. In this business, we are focusing on temporary-type offerings, notably day services and short stays. The utilization rate improved for both.

	(Utilization rate, %)		
	FY2015	FY2016	FY2017
Day services	66.3	72.5	72.8
Short stays	92.3	87.6	90.2
Fee-based homes & group homes	92.4	93.0	88.8

Hotels and Resort Business Data

<Leopalace Resort Guam>

Leopalace Resort Guam, a resort operated in Guam, continues to improve profitability through efforts to encourage usage by the Company's stakeholders, including corporate clients.

	2015	2016	2017
No. of visitors to Guam* (thousands)	1,409	1,536	1,544
No. of visitors to Leopalace Resort Country Club (users)	52,000	50,000	47,000
No. of stakeholder visitors (people who stayed, recreational facility users)	44,000	47,000 (30.0% of the total)	55,000 (53.4% of the total)

*Data on the number of visitors to Guam, Guam Visitors Bureau (a government agency)

	(Utilization rate, %)		
	2015	2016	2017
Leopalace Resort Guam	60.2	55.9	50.7
Westin Resort Guam	82.6	—	—

* We sold Westin Resort Guam in April 2016.

<Leopalace Hotels>

Leopalace21 operates business hotels across Japan. We encourage usage of these hotels by stakeholders, including corporate clients on business trips.

(Utilization rate, %)	FY2015	FY2016	FY2017
Asahikawa**	79.1	75.0	—
Sapporo	87.9	90.4	83.6
Sendai	78.0	78.1	77.8
Niigata*	62.9	—	—
Nagoya	80.5	80.9	79.6
Okayama**	73.3	75.9	—
Hakata	94.2	94.8	94.9
No. of stakeholder stays (persons)	11,648	11,168 (7.1% of the total)	11,788 (8.6% of the total)

* Hotel Leopalace Niigata was sold in July 2015.

** Hotel Leopalace Asahikawa and Okayama was sold in August 2016.

Social Key Performance Indicators

The Company engages in the respective CSR initiatives under the leadership of the CSR Committee chaired by the CSR officer, working together with divisions and departments. Meeting 4 times a year, the CSR Committee receives reports on the progress of the initiatives that comport with the five themes of the Basic CSR Action Policy, based on the quarterly quantitative targets set by each division and department, and moves initiatives to the next phase of the PDCA cycle. Key topics and KPIs are approved by the CSR Committee, and these are periodically reported to the Board of Directors. Furthermore, this year, the CSR Executive Committee was newly established as a superior body of the CSR Committee. It meets twice a year to establish CSR policies, set medium- to long-term targets, as well as approve and check the progress of yearly plans.

<Governance>

	FY2015	FY2016	FY2017
Outside directors	2	3	3
Female directors	1	1	1
Officer compensation (millions of yen)	347	455	655
Directors (excludes outside directors)	280	370	563
Audit & Supervisory Board members (excludes outside ASB members)	32	31	19
Outside directors and ASB members	34	54	71

<Employee Composition (Parent company)>

	FY2015			FY2016			FY2017		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
No. of employees	6,413	4,491	1,922	6,541	4,551	1,990	6,494	4,509	1,985
No. of career-track employees	5,961	4,274	1,687	6,086	4,335	1,751	5,998	4,265	1,733
No. of temporary hires	452	217	235	455	216	239	496	244	252
Average age	35 years, 11 months	36 years, 11 months	33 years, 7 months	36 years, 3 months	37 years, 4 months	33 years, 10 months	36 years, 11 months	38 years, 0 months	34 years, 5 months
Average cumulative years of service	7 years, 9 months	8 years, 11 months	5 years, 0 months	8 years, 3 months	9 years, 5 months	5 years, 6 months	8 years, 11 months	10 years, 2 months	6 years, 1 months

<Work-life Balance (Parent company)>

	FY2015			FY2016			FY2017		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
Comparison of total working hours	184.2			178.4			176.7		
Overtime work hours	22.4			20.0			18.2		
No. of employees on short work-hours schedules	128	4	124	154	5	149	188	12	176
No. of employees on childcare leave	116	3	113	149	5	144	257	80	177
Ratio of paid vacation usage	70.1%	64.2%	85.1%	72.2%	68.4%	81.7%	74.1%	70.6%	82.5%
Rate of workforce turnover	8.0%	6.5%	11.5%	7.1%	5.4%	10.9%	8.1%	6.3%	12.2%
Ratio of new hires	10.7%	14.8%	6.7%	7.5%	7.0%	7.9%	12.5%	14.6%	10.3%

<Diversity (Consolidated (excluding Guam), Parent company + Leopalace Smile for disabled employees)>

	FY2015			FY2016			FY2017		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
No. of disabled employees (average annual rate)	148.0			158.6			159.7		
% of disabled employees (average annual rate)	2.05%			2.14%			2.17%		
No. of mandatory retirees that have been rehired*	28	26	2	27	25	2	22	19	3
No. of employees with foreign citizenship	275	107	168	299	108	191	334	124	210
No. of foreign managers	19	16	3	19	14	5	20	15	5
Number of people employed	1,081	511	570	915	436	479	722	327	395
Employment ratio (gender ratio)	100.0%	47.3%	52.7%	100.0%	47.7%	52.3%	100.0%	45.3%	54.7%
No. of managers	1,538	1,463	75	1,622	1,535	87	1,707	1,603	104
Ratio of managers (gender ratio)	100.0%	95.1%	4.9%	100.0%	94.6%	5.4%	100.0%	93.9%	6.1%

*Employees who reach the mandatory retirement age can be rehired on a different contract.

<Support for Employees Seeking to Obtain Qualifications>

	FY2015	FY2016	FY2017
No. using support for obtaining qualifications	490	1,003	742
No. using support system for obtaining specified qualifications	364	875	651
No. in program for language skills improvement	21	21	16
No. awarded a bonus for obtaining Takken qualification	54	56	75

*"Takuchi tatemono torihiki shi" or "Takken": This qualification recognizes those who passed a test on Japanese building lots and transactions law.

<Certified Employees (as of March 2018)>

Real estate broker	747
Rental property manager	375
General insurance solicitor (basic course/fire insurance course)	1,282
Architect (first-class, second-class)	446
Building construction management engineer (1st Grade, 2nd Grade)	360
Certified skilled worker of financial planning (1st Grade, 2nd Grade)	224
Land surveyor	35
Care worker	556
Care manager	189
Home care worker	373

<Labor Safety and Health>

	FY2015	FY2016	FY2017
No. of labor accidents	28	37	44
Accidents requiring time off work	8	16	3
Accidents not requiring time off work	20	21	41

<Stakeholder Communication Initiatives>

	FY2015	FY2016	FY2017
No. of owner meetings	257	231	424
No. of IR events (meetings for individual investors, etc.)	19	21	22
Career-support activity programs	31	28	35

<Community Contributions>

	FY2015	FY2016	FY2017
No. of cleanup campaign participants	14,239	14,143	14,013
Of which, in vicinity of existing properties	3,598	1,939	3,037
Of which, in vicinity of construction sites	10,641	12,204	10,976
Total sum of donations (thousands of yen)	2,577	2,509	2,378
No. joining observation tours and OTJ training at Leopalace Smile*	571	571	444

* 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.

<Efforts to Reduce our Environmental Impact>

	FY2015	FY2016	FY2017
CO ₂ emissions from electricity and gas use (t-CO ₂)	18,900	16,469	15,696
Head office and branches	9,786	8,781	7,710
Azumi En nursing care facilities	6,982	6,111	6,043
Leopalace hotels	2,133	1,576	1,943
CO ₂ emissions from vehicle gasoline (t-CO ₂)	4,104	3,615	3,490
Scope 3 CO ₂ emissions (t-CO ₂)	907,727	873,167	864,448
Category 13 (electricity and gas use by rental housing)	812,091	798,946	781,102
Category 3 (electricity-related)			
Category 6 (business travel)	3,926	4,337	4,409
Category 7 (employee commuting)			
Category 2 (capital goods)	33,249	17,892	34,127
Category 1 (purchased materials)	58,462	51,992	44,810
No. of buildings with solar power systems	12,964	12,987	12,995
No. of buildings with systems installed by LP21 Group	4,493	4,495	4,494
Solar power generation capacity (kW)	182,070	182,443	182,591
Capacity of systems installed by LP21 Group (kW)	67,060	67,100	67,100
CO ₂ reduction via solar power generation (t-CO ₂)	54,927	55,040	55,084
Reduction via systems installed by LP21 Group (t-CO ₂)	20,231	24,343	24,590

**Independent Assurance Statement**

June 13, 2018

Mr. Eisai Miyama
President and CEO
Leopalace21 Corporation

1. Purpose

We, Sustainability Accounting Co., Ltd., have been engaged by Leopalace21 Corporation (hereinafter "the Company") to provide limited assurance on the Company's CO₂ emissions from electricity & gas use and vehicle gasoline, which are 15,696t-CO₂ (Scope1,2) and 3,490t-CO₂ (Scope1), respectively. For CO₂ emissions reduction through Leopalace21's solar power generation recorded in environmental accounting is 24,590t-CO₂. These data ("the Environmental performance data") are disclosed in the Company's Annual Report 2018. The purpose of this task is to carry out our assurance procedures and express our conclusion on whether the Environmental performance data was 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 Profile

Corporate Data

(As of March 31, 2018)

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 yen

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:

7,690 (consolidated basis)
6,494 (non-consolidated basis)

Members of Board of Directors and Auditors

(As of June 28, 2018)

Directors

President and CEO	Eisei Miyama
Director	Tadahiro Miyama
Director	Yuzuru Sekiya
Director	Hiroshi Takeda
Director	Kazuto Tajiri
Director	Hiroyuki Harada
Director	Bunya Miyao
Director	Hiromi Ito
Director (Outside)	Tadashi Kodama
Director (Outside)	Tetsuji Taya
Director (Outside)	Yoshiko Sasao

Audit & Supervisory Board Members

Standing Audit & Supervisory Board Member	Atsunori Nasu
Standing Audit & Supervisory Board Member (Outside)	Jiro Yoshino
Audit & Supervisory Board Member (Outside)	Masahiko Nakamura
Audit & Supervisory Board Member (Outside)	Takao Yuhara

Major Shareholders (Top10)

(As of March 31, 2018)

Shareholders	Thousands of Shares	Percentage of Outstanding Shares
1 Japan Trustee Services Bank, Ltd. (Trust Account)	39,202	15.54%
2 The Master Trust Bank of Japan, Ltd. (Trust Account)	10,056	3.98%
3 THE BANK OF NEW YORK MELLON SA/NV 10	7,279	2.88%
4 STATE STREET BANK AND TRUST COMPANY	6,825	2.70%
5 Stockholding Association for Leopalace21's Business Connection	5,592	2.21%
6 THE BANK OF NEW YORK MELLON 140040	5,166	2.04%
7 THE BANK OF NEW YORK MELLON 140044	4,896	1.94%
8 STATE STREET BANK AND TRUST COMPANY 505223	4,755	1.88%
9 TAIYO HANEI FUND, L. P.	4,719	1.87%
10 STATE STREET BANK AND TRUST CLIENT OMNIBUS ACCOUNT OM02 505002	4,184	1.65%

Note1: 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)	38,367 thousand shares
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,793 thousand shares

Note2: The above shareholding ratios are calculated excluding treasury stock.

Stock Information

(As of March 31, 2018)

Number of Shares:

Authorized: 500,000,000
Outstanding: 252,682,515

Number of Shareholders:

44,404

Listing:

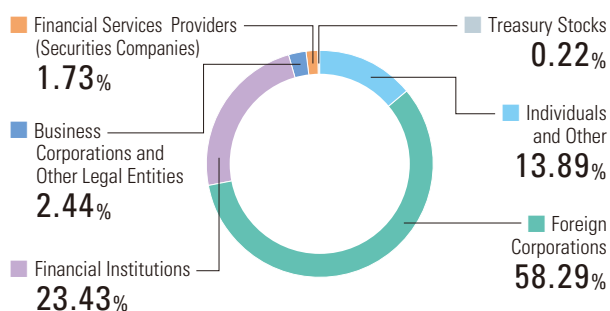
First Section of the Tokyo Stock Exchange
(Security code: 8848)

Transfer Agent:

Mitsubishi UFJ Trust and Banking Corporation

Shareholder Composition

(As of March 31, 2018)

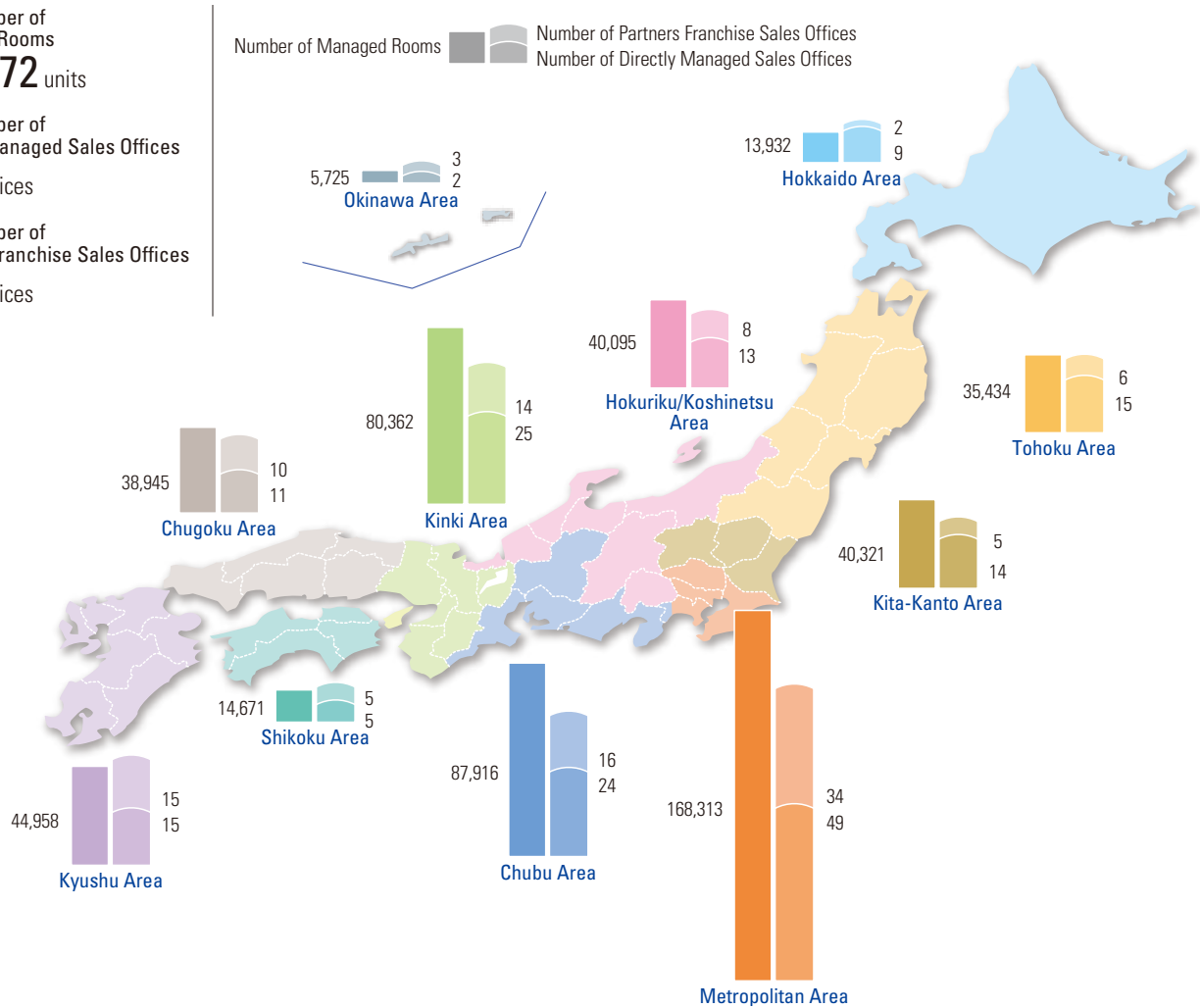


Number of Apartment Rooms under Management and Domestic Leasing Sales Offices by Area (As of March 31, 2018)

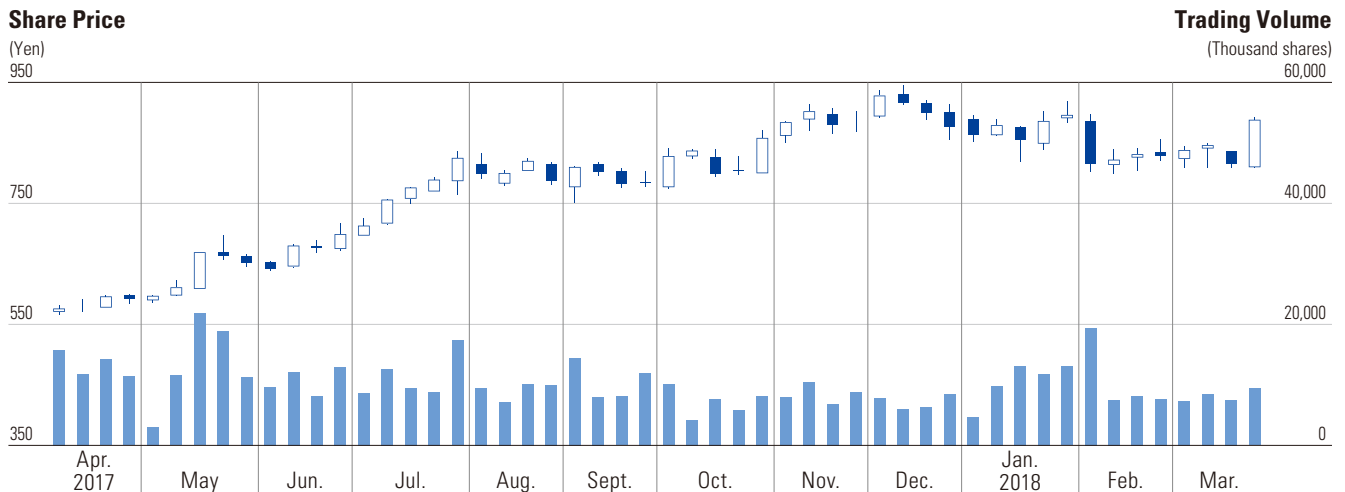
Total Number of Managed Rooms
570,672 units

Total Number of Directly Managed Sales Offices
182 offices

Total Number of Partners Franchise Sales Offices
118 offices



Share Price and Trading Volume (As of March 31, 2018)



Leopalace21 Corporation

2-54-11 Honcho, Nakano-ku, Tokyo 164-8622, Japan

TEL: +81-3-5350-0001 (Main Line)

<http://eg.leopalace21.com/>

