Integrated Report 2019

For the fiscal year ended March 31, 2019

Leopalace21 Corporation

To Our Stakeholders

Driven by our unwavering resolve, we are wholly committed to rectifying the issue of construction defects so that we may regain the trust of all our stakeholders and once again provide safe housing to tenants and property owners as soon as possible.

We offer our deepest apologies to tenants, owners, and all other stakeholders for the serious distress and inconvenience caused by construction defects in our apartments identified in the fiscal year ended March 31, 2019.

I would also like to apologize for the serious impact on our financial results and share price as a result of these construction defects. All officers and employees of the Leopalace21 Group are united in resolving this series of problems as soon as possible with the aim of ensuring that tenants can live in our apartments with peace of mind.

We will step up our efforts on reforming our corporate culture in order to realize the basic policy of increasing value for society as a whole, as set out in our mission statement. Moreover, legal compliance is an issue that warrants our utmost attention with respect to business execution. That is why we will continue to drive home a compliance-first policy throughout the Company by regularly distributing messages to employees, strengthening compliance training, and introducing personnel evaluations based on the approach to compliance practice.

In addition, as already announced publicly, we have formulated the following five measures with the aim of preventing reoccurrence: (1) drastically reforming our corporate culture; (2) rebuilding our compliance and risk management systems; (3) reviewing our construction business framework; (4) adopting measures that prevent defects; and (5) adopting measures that enable early detection and swift action. Various matters will be addressed, including dialogue with stakeholders, employee training, reviewing Compliance Committee operations, and guaranteeing quality based on appropriate construction supervision and execution management. We consider these recurrence-prevention measures to be the top priority for management right now and they will be implemented swiftly so we can set about establishing a robust framework.

We also recently revamped our management structure in order to execute the aforementioned measures. We now seek to quickly resolve the problem of construction defects and achieve an open style of management that is attentive to the opinions of our stakeholders.

We look forward to your continued support and understanding.

September 2019
Bunya Miyao
President and CEO

Contents

Promoting Reform of

For Regaining the Trust

Cover 2 To Our Stakeholders
04 Profile
06 Report on Construction Defects
18 Toward a Stronger Corporate Governance System
20 Corporate Governance System and Initiatives
22 Corporate Governance Dialogue
28 Compliance
30 Risk Management
32 Directors and Audit & Supervisory Board Members

Initiatives toward Regeneration

34 CEO Message
38 Initiatives for Strengthening Relationships with Existing Owners
40 Improving Satisfaction among Foreign National Tenants
42 Business Overview
- 42 At a Glance
- 44 Leasing Business
- 46 Development Business
- 48 Elderly Care Business
- 49 Hotels, Resort and Other Businesses





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, 2018 through March 31, 2019 (fiscal year 2018). 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, we focus on explaining the reasons behind construction defects in some of our apartments, our measures for preventing recurrence, and our initiatives aimed at creating a new Leopalace21. We hope this report helps readers gain a better understanding of the Company.

Our Corporate Culture

Initiatives for Strengthening Management Foundation

50 Leopalace21's ESG Management
52 Basic CSR Action Policy
- 52 Providing High-Quality Services and Supporting Affluent Living
- 54 Creating Pleasant Work Environments and Developing Diverse Human Resources
- 56 Contributing to Local Communities
- 58 Creating an Environmentally Friendly Society
- 60 Engaging in Sound, Constructive Communication with Stakeholders

Data Compilation

62 Ten-Year Consolidated Financial Highlights
64 Consolidated Financial Highlights
67 Non-financial Highlights
68 Financial Section
116 Leopalace21 Data Compilation
122 Corporate Profile

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.

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.

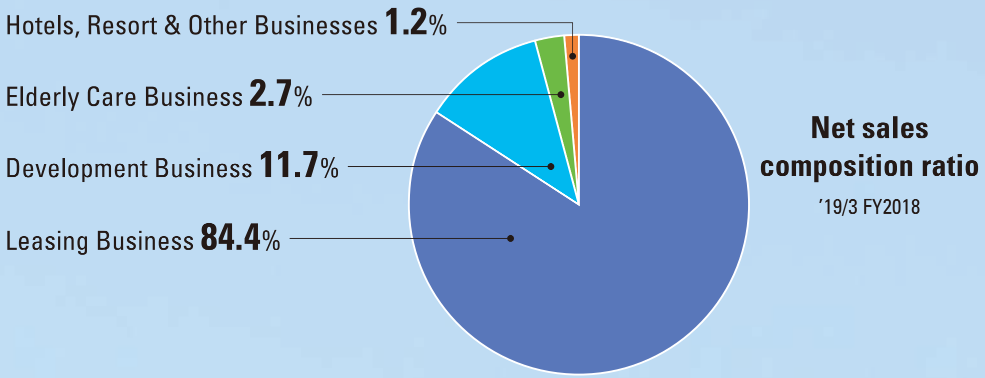
3. We provide new value throughout society as a leading company within the industry, to help create a more comfortable and affluent society.

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

Report on Construction Defects

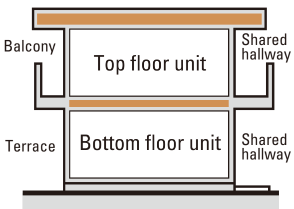
Outline of construction defects related to parting walls, etc.

The defects found in the properties constructed by Leopalace21, as announced on and after April 27, 2018, may be classified into the following four broad categories (1. construction defects related to parting walls in attics and other areas, 2. non-compliance of exterior walls with specifications, 3. non-compliance of parting walls with specifications, and 4. non-compliance of ceilings with specifications). The need for and method of tenants to vacate the properties and the duration of the repair work vary by the nature of the property defect.

1. Construction defects related to parting walls in attics and other areas	2. Non-compliance of exterior walls with specifications	3. Non-compliance of parting walls with specifications	4. Non-compliance of ceilings with specifications
Outline of defect			
• Issues related to defects in which parting walls were not constructed in attics or spaces above the ceilings	• Issues related to defects in which exterior walls did not comply with the specifications certified by the Minister of Land, Infrastructure, Transport and Tourism stated in the construction design documents	• Issues related to defects in which materials different from those stated in the construction design documents were used as insulation materials in parting walls • Issues related to defects in which the parting walls of fire-resistant buildings did not comply with the fire-resistant structure specifications certified by the Minister of Land, Infrastructure, Transport and Tourism	• Issues related to defects in which the construction finish of ceilings did not comply with the specifications of the Ministry of Land, Infrastructure, Transport and Tourism Notice stated in the construction design documents
Necessary measures			
• Determine the repair method upon consulting with the property owners and specified administrative agencies • Some property series can be repaired from outside the unit, while some property series must be repaired one unit at a time*	• Determine the repair method upon consulting with the property owners and specified administrative agencies, and help tenants move to another property or find temporary housing	• Determine the repair method upon consulting with the property owners and specified administrative agencies, and help tenants move to another property or find temporary housing	• Due to poor fire-resistance performance, we are in the process of helping tenants move to another property quickly • Of the 4,456 tenants occupying properties managed by Leopalace21, about 93.9% have already moved to another property or have set move-in dates (as of September 30)

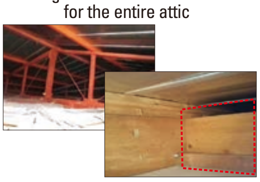
Conceptual diagram (sample)

1. Construction defects related to parting walls in attics and other areas

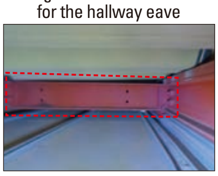


[Example]

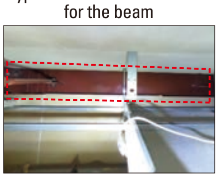
Parting walls are not constructed for the entire attic



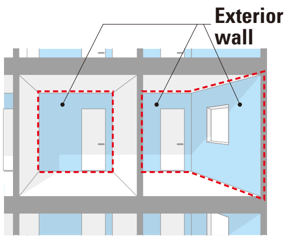
Parting wall is not constructed for the hallway eave



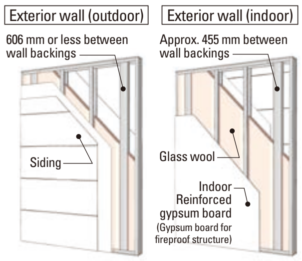
Gypsum board is not installed for the beam



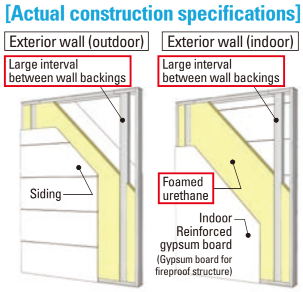
2. Non-compliance of exterior walls with specifications



[Specifications in construction design documents]

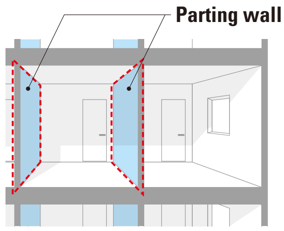


[Actual construction specifications]

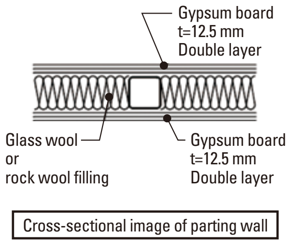


Box outlined in red indicates area not in compliance with Minister's certification

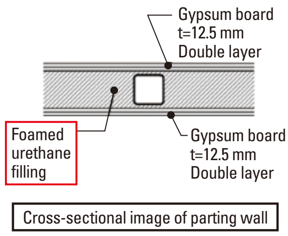
3. Non-compliance of parting walls with specifications



[Specifications in construction design documents]

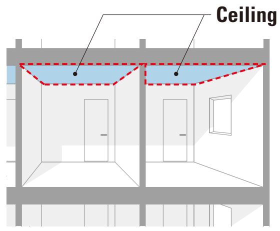


[Actual construction specifications]

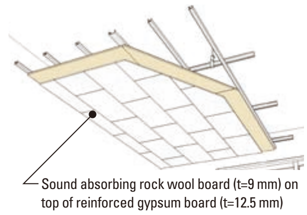


Box outlined in red indicates area not in compliance with Notice specifications

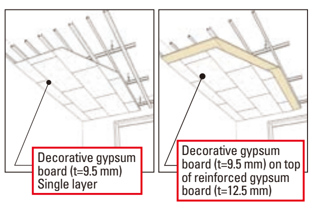
4. Non-compliance of ceilings with specifications



[Specifications in construction design documents]



[Actual construction specifications]



Box outlined in red indicates area not in compliance with Notice specifications

* For example, properties of the Nail series can be repaired by entering the attic from outside the unit, whereas properties of the 6 series must be repaired one unit at a time.

Causes and Background

The External Investigation Committee chaired by Mr. Tetsuo Ito, attorney at law (of Nishimura & Asahi), was established on March 18, 2019, and investigations have been conducted. In response to the investigation by the External Investigation Committee and the results of the investigation, the Company considers that the fundamental causes of the construction defects related to parting walls and others can be summarized into the following three points.

Corporate culture in which employees focus on the intentions of the top management and neglect legal compliance	Lack of compliance with laws and regulations including the Building Standards Act	Inadequate construction management system and construction supervision system
• The corporate culture was such that the Design Department, the Quality Department, etc. were unable to voice their opinions to the top management, and employees' minds were constantly focused on the intentions of the top management • For the rapid commercialization of products, it was considered tolerated to give less importance to compliance of laws and regulations • The corporate culture was such that employees were expected to prioritize the management policy of the top management, ahead of legal compliance and construction quality	• It was incorrectly interpreted that the construction of parting walls was unnecessary for the attics of the Nail series • For the construction application, construction certification documents were created that differed from the actual construction • Panels with foamed urethane filling were used even though it could have been recognized that they did not comply with the Minister's certification • Neglected to verify compliance with laws when developing new products • Did not take seriously specified administrative agencies' indications regarding compliance with laws and regulations after the introduction of new products	• Construction management depended on self-inspections • Most of the architects were not involved in construction supervision • Inadequate construction management system, including insufficient process inspections due to shortage of qualified engineers with license • Inadequate construction supervision system, including negligence of on-site construction supervision by architects

The following points are noted in detail in the Final Report of the External Investigation Committee as the "overall and essential causes and background." Leopalace21 takes them seriously as the fundamental causes of the problem of the construction defects related to parting walls and others.

Amid the tough business environment at the time when the Company took actions ahead of a mature planning, top priority was given to overcoming the financial crisis and expanding the construction subcontracting business.

The Company ran things on its way with the leadership of too much authoritative top management.

There was low level of compliance awareness with laws and regulations related to construction and poor sensitivity to legal risks, as well as lack a sense of ownership in quality assurance.

Measures to Prevent Recurrence (Announced on May 29, 2019)

1. Fundamental reform of the corporate culture

Leopalace21 will fundamentally reform the corporate culture, with the aim of encouraging our officers and employees to take the perspective of customers such as owners and tenants, and to realize that the Company's social significance lies in providing value that our customers appreciate. In order to restore customer trust that we have lost due to the construction defects related to parting walls and others, and to materialize the fundamental reform, we will carry out the following measures.

Development of customer-oriented corporate culture

Address the fundamental causes and take measures to prevent the recurrence of the construction defects related to parting walls and others with a sense of urgency instead of overcoming the problem as an occurrence in the past

Encourage our officers and employees to reaffirm the importance of providing value that customers appreciate

- Repeatedly use all available opportunities, such as notifications, meetings, and trainings, to make officers and employees aware of the importance

Establishment of compliance-first policy

Periodic dissemination of messages concerning the compliance-first policy

- On January 21, 2019, a message was sent to officers and employees about our compliance-first management policy
- Top management will continue to use all available opportunities to send a strong message about the compliance-first policy

Examination of introduction of the performance rating system, including adherence to compliance

- Value highly adherence to compliance-first policy
- Consider introduction of multi-directional personnel rating system

  Consider introduction of a multi-directional personnel rating system, including subordinates' rating of superiors of their compliance with laws and regulations and rating by other departments

Realization of corporate culture reform through dialogue with stakeholders

Promote active dialogue among management and employees

- Boost dialogues between management and employees by increasing their frequency and duration
- Communicate the will of management to employees
- Incorporate employee suggestions into business operation

Implement employee awareness surveys

- Periodically survey employee awareness, including level of compliance awareness
- Review the content of compliance training on the basis of the survey results

Promote dialogue with stakeholders and visualize results of the dialogue
(Implement stakeholder engagement measures)

- Promote and expand dialogue with stakeholders
- Reflect information and points of improvement obtained from dialogues in business operation

Periodically report the implementation

Development of a system for reporting violation of laws and regulations

Notification and full conformity to the reporting rules

- As per our compliance regulations, officers and employees of the Leopalace21 Group must report or consult in cases of compliance violations or suspicion Officers and employees are informed that they will be subject to disciplinary measures if they fail to report, according to employee rules and regulations

Notification and full application of the internal reporting system

- Notify employees of the system, explain its use, and describe cases of non-compliance incidents
- Ensure employees fully understand the leniency system
- Train the people in charge at the internal reporting contact point
- Acquire authentication for the internal reporting system

Carrying out training for corporate culture reform

Training to prevent the root causes and recurrence of the construction defects of parting walls

- Carry out training on the causes and recurrence prevention measures so that all officers and employees understand the essentials
- Repeatedly carry out training and seek to firmly establish the recurrence prevention measures not to forget the lessons learned from construction defects problem

Carry out training

- Training based on organizational hierarchy
- Job specific training

Revising the personnel management system

Revise the personnel management system (enhance job rotation)

- More actively transfer personnel between departments and consider revising the personnel management system so that employees gain a deeper understanding of the work performed at other departments and the organization shares information internally

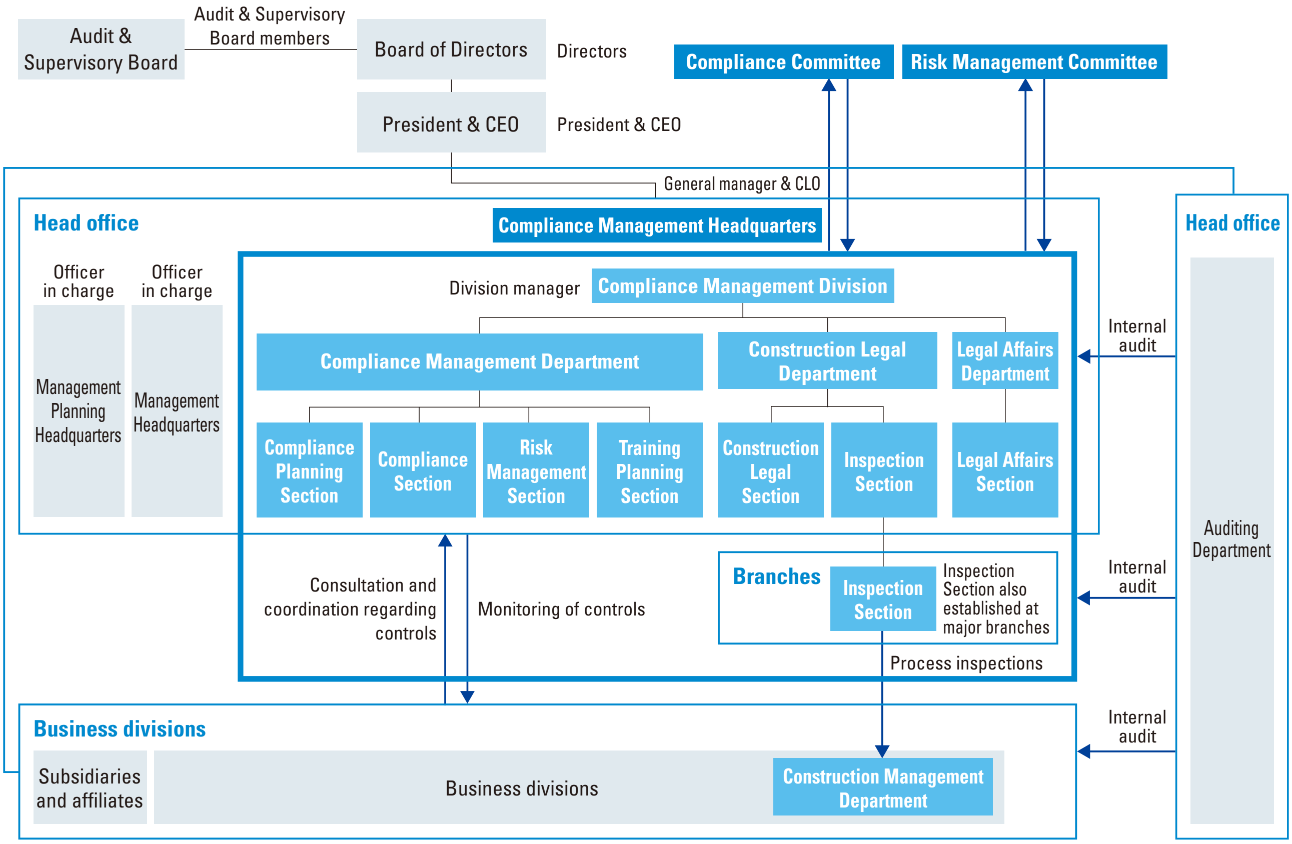
status to the Compliance Committee

2. Restructuring of the system for managing compliance and risk

1 Establishment of the Compliance Management Headquarters

On April 1, 2019, Leopalace21 established the Compliance Management Headquarters, in order to fundamentally revise and rebuild a solid compliance system for the Group.

Compliance and Risk Management System



2 Establishment of the Construction Legal Department in the Compliance Management Division to examine compliance for new products and other matters outside the business divisions

The Construction Legal Department, independent from the Construction Subcontracting Business Division, was established in the Compliance Management Division on February 7, 2019 to examine compliance with laws and regulations.

Construction Legal Section

- Conduct legal checks and approve new businesses and new products/services related to construction operation
- Check contracts and others related to construction operation
- Provide legal consultations and supports related to construction operation
- Help adapt to legal revisions related to construction operation
- Check and help make improvements to quality and safety of existing construction operation

Inspection Section

- Establish and implement inspection items for construction operation
- Recommend remedies and provide guidance, advice, and follow-up based on inspection results

3 Improving the operation of the Compliance Committee

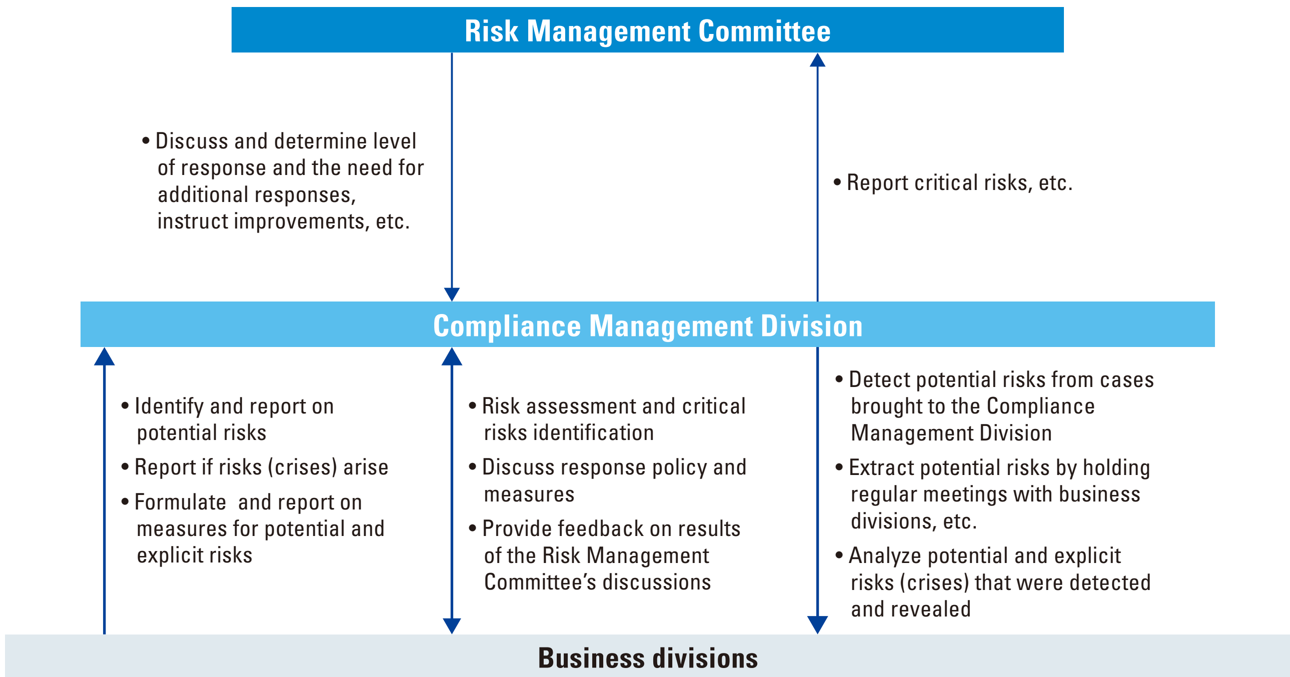
On April 22, 2019, we clarified that the Company's Compliance Committee is the highest authority in the compliance system of the entire Leopalace21 Group. We revised the content of deliberation and the membership of the Committee to provide expert opinions and promote active discussions on compliance violations.

Compliance Committee

- It is the highest authority in the compliance system of the entire Leopalace21 Group.
- The content of deliberation and the membership of the Committee have been revised to provide expert opinions and promote active discussions on compliance violations.
- An outside directors has been appointed to chair the Compliance Committee to strengthen its function of monitoring and checking the business execution. We expect to strengthen the Compliance Committee's authority so that it can instruct departments to suspend execution of operations in cases where they are in clear violation of laws and regulations.
- Information on the status of the activities of the Compliance Committee is communicated inside and outside the Company to ensure the transparency.

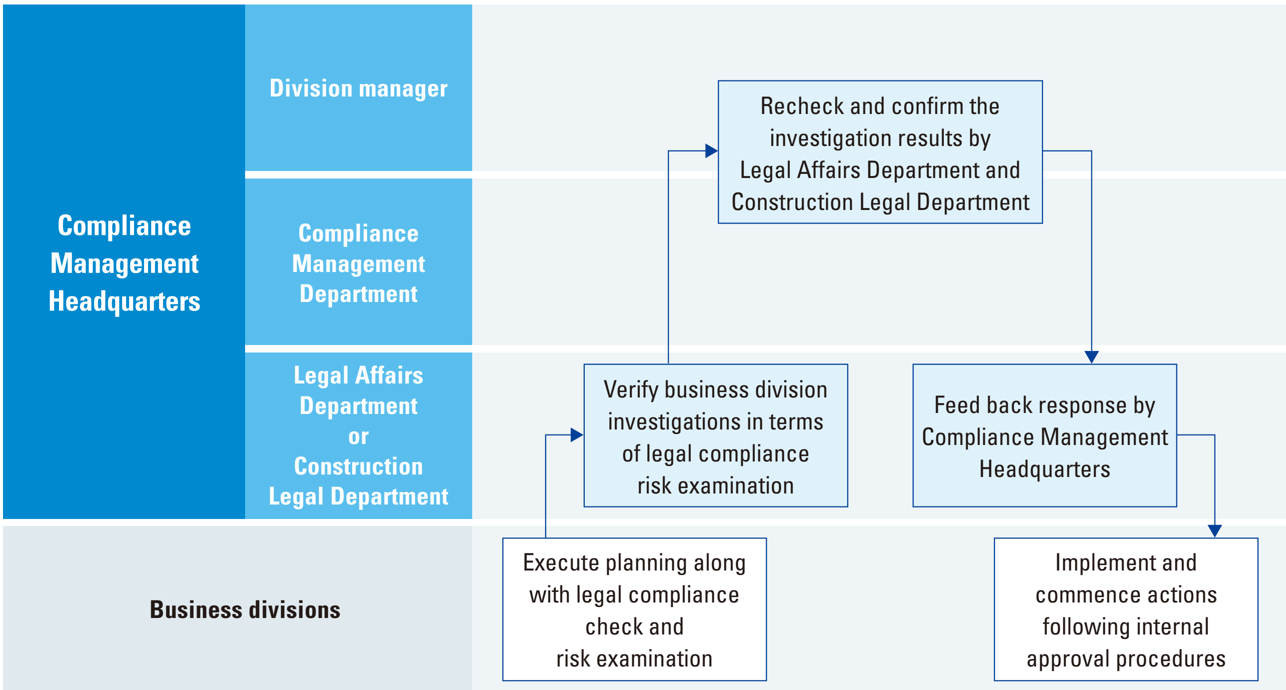
4 Improving the risk management method

We have positioned the Risk Management Committee as an agency that cross-sectionally manages and supervises risk in the entire Company. It will actively identify the potential risks of each business division as well as conduct effective risk management and crisis response in line with risk severity.



5 Verification of compliance with applicable laws and regulations at the start of new businesses and the change of business content

In the past, internal procedures did not necessarily require checks on compliance with laws and regulations by the Compliance Management Division in cases of carrying out new businesses or making changes to the content of businesses. However, to ensure that they are in compliance with laws and regulations, the Corporate Management Division will verify compliance as follows.



6 Revising the system of assigning persons in charge of compliance

We will revise the system of assigning persons in charge of compliance and consider clarifying their position in the personnel system, upon enhancing their authority and responsibilities. We will also hold meetings among persons in charge of compliance in each region, and consider having the persons take initiatives in creating departmental compliance system.

Who are persons in charge of compliance?

In order to swiftly detect compliance violations, persons in charge of compliance have the role of increasing awareness of compliance measures and reporting violations of laws and regulations if they are found. Primarily managers of the branches are appointed.

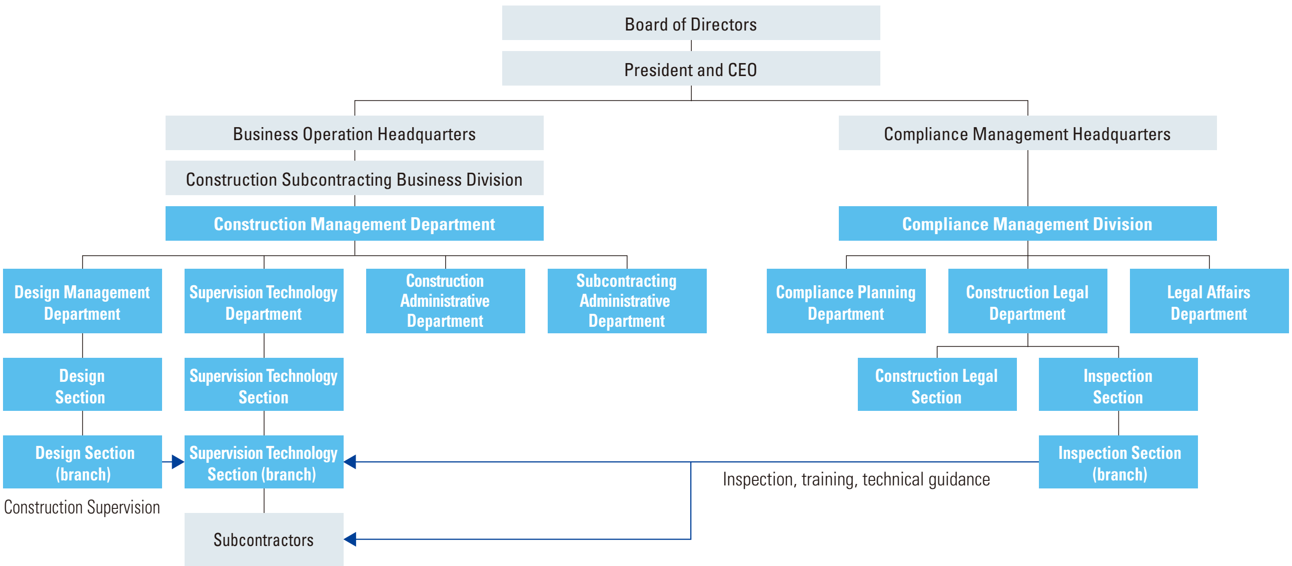
7 Revising the method of response to cases where non-compliance is suspected

To ensure appropriate reports about violations of laws and regulations, we will review the reporting route and employees are disciplined in the absence of such a report. In cases of suspected violations of laws and regulations with regard to existing products, services, and operations, the Compliance Committee will have the authority to suspend operations.

3. Revision of the construction business framework

Revision of the construction business framework

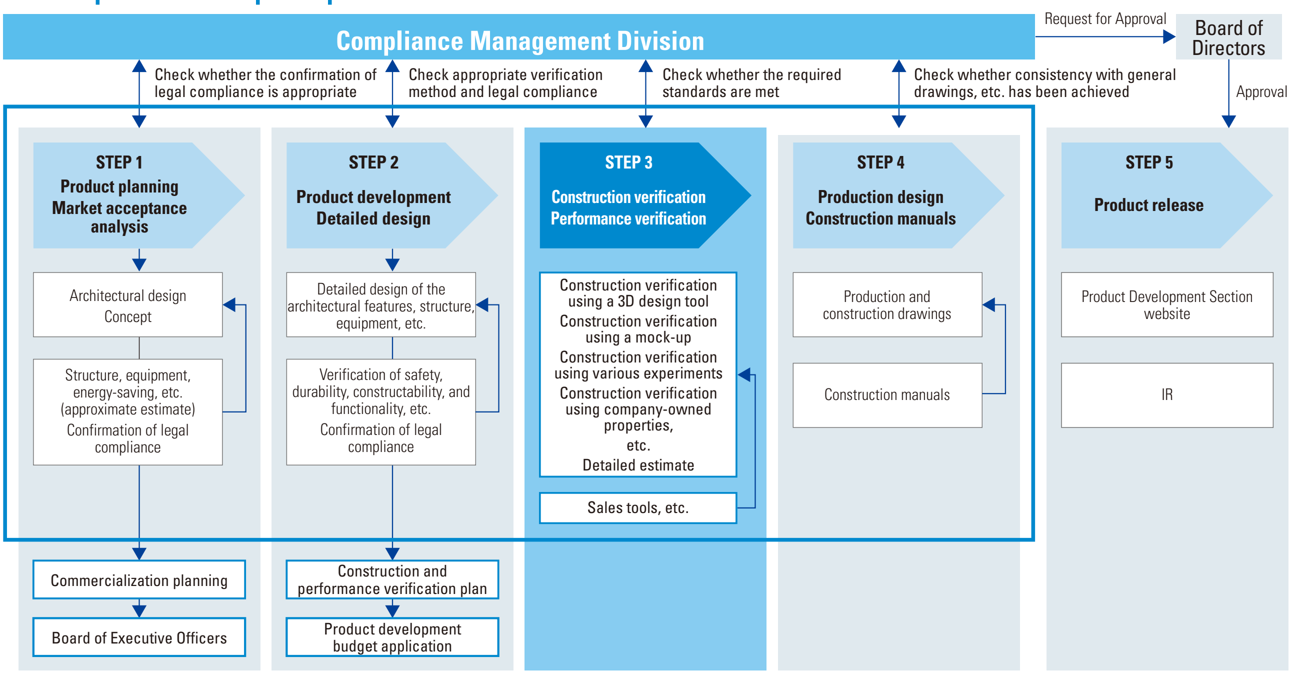
The Construction Management Department used to have the functions of inspection, training and others. However, we reviewed the construction business framework, and established the Construction Legal Department within the Compliance Management Division, which conducts inspections, provides training, and offers technical guidance to business divisions. Furthermore, they are responsible for monitoring control activities in business divisions.



1 Improvement of processes for the development of new products and other things

Lack of documented rules on the organizational responsibility for examining legal compliance and lack of consistency in various drawings at the time of new product development resulted in the construction defects of parting walls and other deficiencies. For this reason, when developing new products (including version and material changes), we have decided to subdivide the new product development processes for detailed examination including compliance with laws and regulations.

Revised product development process



* In cases of changing the design, use materials, and certified and notice specifications after the product release, it shall be approved by the Compliance Management Division, followed by consent and approval in accordance with the approval rules.

Introduction of Building Information Modeling (BIM)

Previously, in the creation of general drawings (the collective term for structure lists, finish schedules, detailed floor plans, expansion plans, fixtures lists, and detailed section drawings), there was a possibility of discrepancies arising during the respective processes because creation and revisions were done for individual two-dimensional drawing data. We have decided that in the future, we will introduce Building Information Modeling (BIM). By creating virtual three-dimensional models (digital models) using a computer from the initial design phase, and by automatically creating floor plans, expansion plans, elevation plans, and finish schedules at the same time, we can avoid discrepancies at all times, thus ensure consistency as a benefit of the centralized way of maintaining data.

Before change

In case when BIM is not used

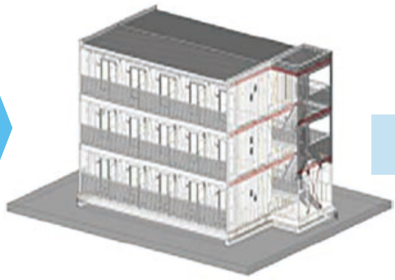
Creation of simple plans, etc. → Specific floor plans, elevation plans, expansion plans, cross-sections, etc. → Perspective drawings and details → Finalization

Change → Manual amendment of drawings

After change

In case when BIM is used

Creation of a 3D digital model in the initial phase



Automation

Structure lists	Finish schedules
Detailed floor plans	Detailed section drawings
Expansion plans	Fixtures lists

Other advantages

Advantage 1	Advantage 2	Advantage 3	Advantage 4	Advantage 5
• Interference areas, etc. can be visible • Drawings automatically reflect amendments	• Easy to communicate 3D images to customers	• Smooth communication with construction companies • Calculating the quantities of the materials is easy	• Enables analysis of the environment, etc.	• Facilitates confirmation of the maintenance and repair history over time

2 Reviewing of the system for checks at the time of making drawings for confirmation application

Previously, for drawings for confirmation application and construction drawings, it was required that each drawing be checked for consistency and compliance with laws and regulations. However, sufficient time for checking was not secured in reality. In the future, time for checking consistency and legal compliance in the design process will be scheduled beforehand, in order to ensure complete verification.

Drawings for confirmation application	Structure lists, finish schedules, detailed floor plans, expansion plans, fixtures lists, etc.
Construction drawings	Beam joint number drawings, wall panel layout drawings, ALC panel layout drawings, etc.

[Before change]

Dates for checking drawing consistency and legal compliance were not included in the schedule of the design process, and sufficient time for checking was not secured

[After change]

Complete verification by scheduling the following check dates in the design process

- **Date for checking consistency of each drawing**
- **Date for checking compliance with laws and regulations**

3 Implementation of appropriate construction supervision by reviewing the construction supervision system

One of the causes for construction defects related to parting walls and other deficiencies was that architects were hardly involved in construction supervision. In order to properly conduct construction supervision in accordance with the Act on Architects and Building Engineers, we will make the construction supervision system stricter.

Change construction supervision from 5 processes to 8 processes using on-site inspection in the 8 important processes (from April 2019)

[Before change]

- Ground improvement and other things
- Foundation (layout)
- **Foundation (reinforcement and anchors)**
- **Foundation (concrete)**
- **Framework-raising (interim inspection (1))**
- Fire-resistant coating
- **Carpentry interim (interim inspection (2): parting walls)**
- **Completion of construction work**

* The fire-resistant coating is for fire-resistant structures only

[After change]

- **Ground improvement and other things**
- **Foundation (layout)**
- **Foundation (reinforcement and anchors)**
- **Foundation (concrete)**
- **Framework-raising (interim inspection (1))**
- **Fire-resistant coating**
- **Carpentry interim (interim inspection (2): parting walls)**
- **Completion of construction work**

* Fire-resistant structures: 8 processes; semi-fire-resistant structures: 7 processes

We will properly conduct construction supervision and construction management by incorporating construction supervision dates and voluntary inspection dates in the construction management process, which were not integral parts of the process.

Construction management process

[Before change]

Start construction of the main foundation	yyyy/mm/dd
Finish construction of the main foundation	yyyy/mm/dd

[After change]

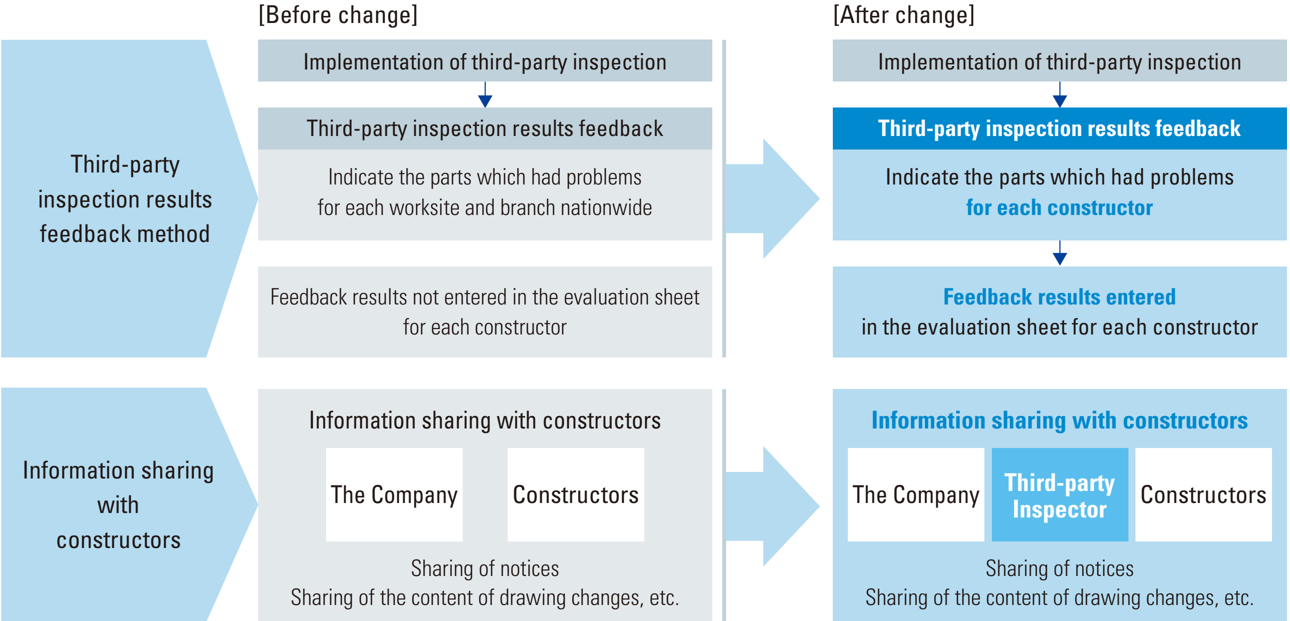
Start construction of the main foundation	yyyy/mm/dd
Layout verification voluntary inspection (1)	**yyyy/mm/dd**
Layout verification voluntary inspection (2)	**yyyy/mm/dd**
Inspection by Inspection Section for layout verification	**yyyy/mm/dd**
Construction supervision by an architect	**yyyy/mm/dd**
⋮	
Finish construction of the main foundation	yyyy/mm/dd

4 Assurance of construction quality by implementing appropriate construction management

We now employ a sufficient number of engineers (qualified engineers with license and technical supervisors) to ensure proper construction, and use an IT system which helps optimum engineer assignment per building. We previously had inspections conducted by a third party for the reinforcement inspection, framework-raising inspection, waterproof inspection, and parting wall inspection, and we will also have fire-resistant coating inspections conducted by a third party.

Foundation work	**Reinforcement inspection**	Confirmation of foundation reinforcement, sleeve reinforcement, concrete cover, and rod-to-rod dimensions	Constructor →	Supervision Technology Section →	Third-party inspection
Framework assembly	**Framework-raising inspection**	Confirmation of the foundation, building frame (leveling and verticality test, bolting, rust prevention, etc.), and roof	Constructor →	Supervision Technology Section →	Third-party inspection
Waterproofing work	**Waterproof inspection**	Confirmation of the waterproof paper, the waterproofing of the wall-penetrating parts, and the waterproof treatment of the vertical section of the foundation	Constructor →	Supervision Technology Section →	Third-party inspection
Coating work	**Added** **Fire-resistant coating inspection**	Confirmation of the fire-resistant coating spraying status (fire-resistant structures only)	Constructor →	Supervision Technology Section →	Third-party inspection (Implemented in August 2019)
Parting walls work	**Added** **Parting wall inspection**	Parting wall completion status (this must be before ceiling hanger and joist construction)	Constructor →	Supervision Technology Section →	Third-party inspection (Implemented in July 2018)

Constructor capability assessment and selection for ordering have been carried out in order to secure on-time construction completion and proper building quality by the method of implementing constructor-specific evaluation worksheet. Third-party inspectors will newly get involved for the assessment focusing on the aspect of constructor's workmanship in terms of construction defects by part of the building and defect rate. The inspector's assessment result is fed back to respective constructors in the evaluation sheet and is utilized to train the constructors for improving the construction quality. The third-party inspector will be invited to join periodic meetings between the Company and constructors to share notices and changes in construction drawings.



5 Implementation of inspections by the Construction Legal Department of the Compliance Management Division

We will enhance the inspection system by having the Construction Legal Department of the Compliance Management Division implement the following inspections to realize the systematic and effective construction management and construction supervision in light of the recent fact that the existing system did not properly work.

Inspections by the Construction Legal Department of the Compliance Management Division

Implementation of inspections concerning construction supervision

- The Construction Legal Department of the Compliance Management Division will conduct inspections of construction supervision operations and the document storage concerning buildings whose construction is underway or completed

Comprehensive inspections through triple-check function

- To check whether construction management is properly conducted, voluntary inspections were conducted by constructors and by own people in charge of construction (recorded in photographs)
- In the future, the Construction Legal Department of the Compliance Management Division will inspect whether construction is conducted in accordance with the construction manuals and design documents, as well as keep records of the inspections including photographs

Appropriate process management for assuring quality

- In the event that the Construction Legal Department finds any anomalies in construction management and construction supervision, the department will instruct to redo the voluntary inspections and revise the construction timelines

6 Implementation of training by the Construction Legal Department of the Compliance Management Division

The Construction Legal Department has decided to conduct training on the design intentions of products and the importance of construction quality and construction supervision, targeting the internal people in charge and the people in charge in the constructors.

	Previously	Improvement measures
Target of the training	Internal people in charge	Internal people in charge and people in charge in the constructors
When training is held	As and when needed	**Once a year for overall training** (In addition, implementation of joint training with the responsible people in each branch and the head office staff, on an ad hoc basis)
Training content	Construction supervision flow Construction supervision guidelines	**Design intentions of products** Explain the design intentions behind construction drawings and construction manuals, etc. based on the Building Standards Act (reference to the legal requirements) **Review construction supervision and construction management** Confirm do's and don'ts based on the actual state of construction supervision and construction management every six months Learn the construction supervision guidelines at operating worksites

Additional measures for preventing recurrence (announced on July 31, 2019)

Measures for preventing defects

1. Securing personnel appropriate for the workload and building a workable operation structure
2. Information provision to constructors
3. Efforts for the realization of appropriate construction management
4. Establishing procedures ensuring that the departments in charge of product development should be attentive to the Minister's certification and that the constructors should comprehend the written specifications

Measures to enable early detection and early response

1. Building a system of collecting and verifying risk information
2. Recording the preparers of important documents, such as drawings and clarifying approval procedures
3. Clarifying storage and management rules for important documents

Toward a Stronger Corporate Governance System

Management Structure Overhaul

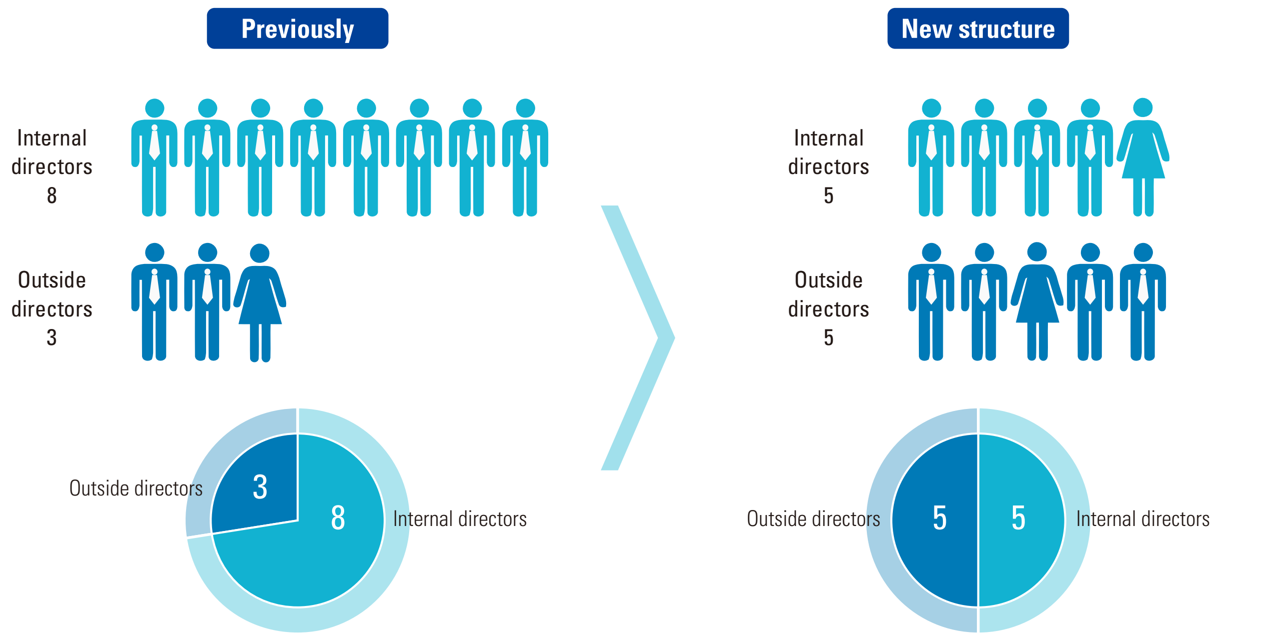
Board of Directors

The Board of Directors views the problem of construction defects in parting walls to be an extremely serious matter. It therefore made the decision to overhaul the Company's management structure with the goal of regaining stakeholder trust undermined by this event and getting earnings back on track as soon as possible. With the exception of newly appointed President Bunya Miyao, seven of the eight internal directors stepped down at the conclusion of the General Meeting of Shareholders held in June 2019.

The Board of Directors hitherto comprised 11 members—eight internal directors and three outside directors. Now however, our focus is on enhancing the oversight functions of management and we therefore raised the number of outside directors to five so that the Board has an even split of internal and outside directors. This will allow the Board to acquire objective advice concerning decision making and should serve to strengthen management oversight functions.

The Board of Directors meets once a month and also flexibly convenes meetings as necessary to make important management decisions, monitor how business is being carried out, and supervise the execution of duties by directors.

In addition, the Audit & Supervisory Board (ASB) comprises four members, three of which are outside auditors. The ASB focuses on strengthening the oversight of execution of duties by directors. A system is in place to enhance the effectiveness of audits in accordance with the ASB's audit plan by checking the status of business operations and attendance at important meetings (Board meetings in particular), as well as through appropriate collaboration with the Auditing Department, accounting auditors, and outside directors.



Furthering dialogue with employees

At Leopalace21, we have thus far held regional small meetings periodically at different locations across Japan so that employees and the management team can exchange opinions and engage in dialogue. We are now organizing these meetings more frequently and providing more time for discussion in an effort to further stimulate dialogue.

During regional small meetings, employees hear explanations from management about Company policies as well as progress reports on the construction defects issue. They also actively discuss issues specific to their region and the compliance-first approach by taking part in group discussions.

Furthermore, in July we started offering a suggestion box service through which employees can directly propose ideas to the management team. The ideas submitted by employees are discussed among internal directors, outside directors, and executive officers and then reflected in business operations.

Compliance Committee

We deeply regret not having in place a system capable of examining the legal compliance of newly developed products—the root cause of construction defects in our parting walls and other things. We are now making a start on reforming our corporate culture and we are also taking steps to embed a compliance-first approach into our business.

We have hitherto endeavored to reinforce the Group's compliance framework by establishing a Corporate Ethics Charter, an internal reporting system, and also a Compliance Committee to serve as an advisory body to the Board of Directors. However, from the standpoint of systematically ensuring that we adhere to a compliance-first approach, we decided to rebuild our compliance and risk management system.

As part of this overhaul, we clearly specified that from April 2019 the Compliance Committee would be the highest body in the Group's compliance framework. And after reviewing who should sit on this Committee and what kind of issues it should be addressing, we put in place a system that encourages active debate and the presentation of expert opinions concerning mainly compliance violations.

The President and CEO previously served as chair of the Compliance Committee, but in rebuilding our compliance system, we decided to appoint one of our outside directors to fulfil this role. The other members of the Committee comprise external experts such as lawyers. As a measure for strengthening governance, the Committee draws up compliance policy plans, including education and training sessions and the improvement and enhancement of information management systems. It also beefs up monitoring systems and strives to identify and improve problem areas.

Furthermore, in order to establish a system under which compliance initiatives are proactively carried out on the ground, each department appoints a person to take charge of compliance matters.

Up ahead, we will continue to communicate information internally and externally regarding the initiatives of the Compliance Committee for the purpose of ensuring transparency.

Regional small meetings are held nationwide and facilitate employee-management dialogue.


Osaka


Saitama


Sendai

Corporate Governance System and Initiatives

Basic Approach to Corporate Governance

The Leopalace21 Group considers developing and strengthening corporate governance to be one of our most important management issues. With this in mind, we are working to develop management frameworks, structures, and systems that will allow us to engage in appropriate and speedy decision making, strengthen our monitoring and oversight functions of decision making, establish compliance systems, improve and reinforce internal control systems, and build healthy relationships with stakeholders.

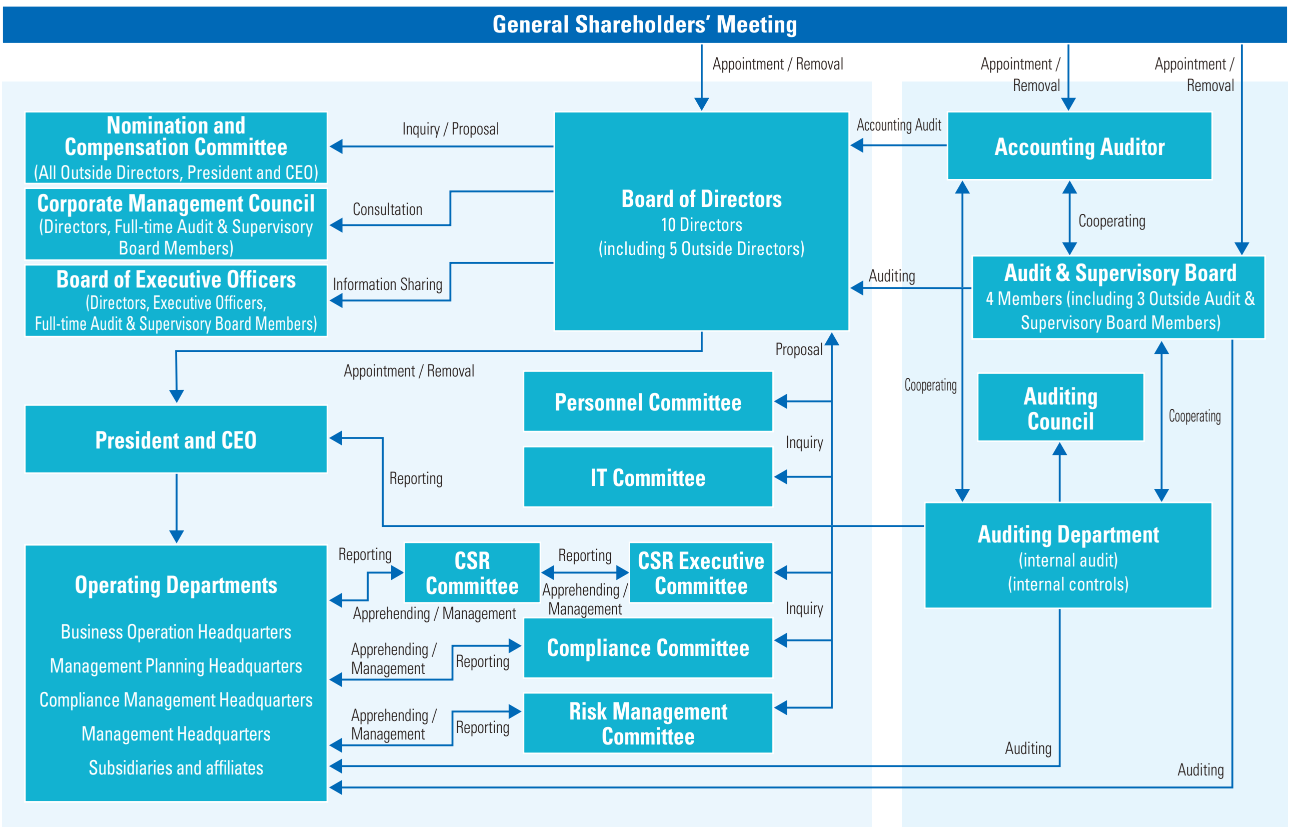
To facilitate even faster management decision making and smoother business execution by the Board of Directors, both the Corporate Management Council and the Executive Board have been established to convene meetings prior to Board of Director meetings. The former discusses important matters related to overall business execution, while the purpose of the latter is to share information about Company management. In this way, we aim to strengthen collaboration so that business execution proceeds smoothly. Moreover, a number of meeting bodies discuss key management issues and offer their recommendations to the Board of Directors so the Board can thoroughly examine them. Those bodies include the Nomination and Compensation Committee, Risk Management Committee, Compliance Committee, Personnel Committee, IT Committee, CSR Executive Committee, and CSR Committee.

We employ a system comprising four headquarters to execute business: (1) the Business Operation Headquarters oversee business execution and collaboration; (2) the Management Planning Headquarters are tasked with management strategy formulation and supervision and also boost collaboration in business divisions; (3) the Management Headquarters support business administration; and (4) the Compliance Management Headquarters are responsible for the development and oversight of our compliance system.

We also recognize that improving our capabilities to oversee business operations is a key management issue. That is why we have in place the Audit & Supervisory Board to monitor business execution of directors, set up the Auditing Department to perform internal audits, and appointed outside directors, through which we strive to enhance management oversight functions.

Under these systems, we will take steps to clarify the scope of responsibilities and authority and make every effort to further strengthen our corporate governance.

As of July 1, 2019



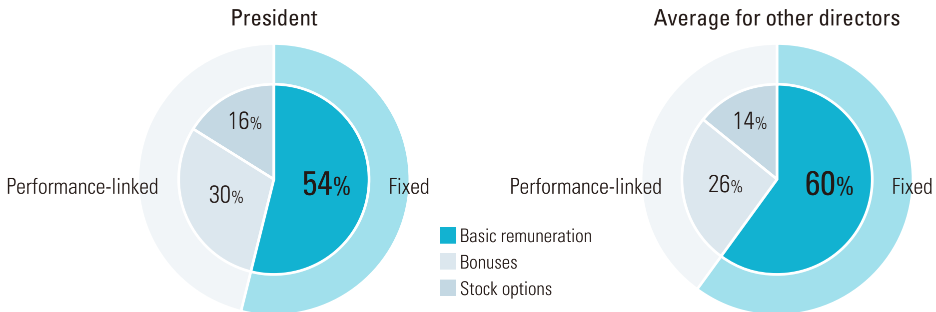
Board Members' Compensation

The Company's compensation of directors is designed to motivate directors to execute their duties to the fullest in order to achieve management plans and enhance corporate value over the medium- to long-term. Compensation has four components: (1) basic remuneration (fixed compensation); (2) stock options designed to boost medium- to long-term Company earnings and corporate value by sharing the advantages and disadvantages of stock price fluctuations with shareholders; (3) annual incentive bonuses on the attainment of fiscal-year management targets; and (4) medium-term incentive bonuses on the attainment of Medium-term Management Plan. Each form of compensation is 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 from fiscal 2017. The ratio now stands at 54:46 for the President and an average of 60:40 for the other directors.

The compensation of individual directors is deliberated and decided on by the Nomination and Compensation Committee to ensure appropriateness in fulfilling the aforementioned objectives. This Committee comprises the Company's outside directors and the President and CEO. Outside Director Tadashi Kodama currently serves as chair.

In order to make no secret of the responsibility of the management team with respect to the problem of construction defects, we made the decision to reduce the amount of basic remuneration paid to directors, Audit & Supervisory Board members, and executive officers from May 2019 through March 2020 based on the results of an objective examination carried out by outside directors that sit on the Nomination and Compensation Committee. Remuneration was reduced by 60% for the representative director, 45%–55% for the other internal directors, 35% for full-time Audit & Supervisory Board members, and 35%–45% for executive officers. Also, no stock options nor annual incentive bonuses will be paid for fiscal 2019.

Composition of board members' compensation



*1 Amount of stock option compensation based on weighting at the time of May 2017 revision to the board members' compensation system
*2 Medium-term incentive bonuses not included

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

(Millions of yen)

Category	Total remuneration	Total remuneration, etc. across categories				No. of relevant positions
		Fixed compensation	Performance-linked compensation	Stock options	Bonuses	
Directors (excludes outside directors)	495	321	—	52	121	9
Audit & Supervisory Board members (excludes outside Audit & Supervisory Board members)	19	19	—	—	—	1
Outside directors/Audit & Supervisory Board members	80	80	—	—	—	6

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

Corporate Governance Dialogue

Toward a new Leopalace21

Eisuke Nagatomo
Representative Director,
EN Associates Co., Ltd.

Bunya Miyao
President & CEO, Leopalace21

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

Our President Bunya Miyao, Outside Director Mr. Tadashi Kodama, and Mr. Eisuke Nagatamo—the latter of which possesses a wealth of knowledge of capital markets, corporate governance, and risk management—sat down to discuss how the Company should go about transforming itself by heeding the lessons of the recent problem of construction defects.

Progress on addressing the issue of construction defects

Miyao: We are currently investigating more than 39,000 buildings together with external architects, while the results of the assessments are also being examined by a third party. As part of this process, we have increased the number of people needed to carry out the investigations from an initial 210 to 4,000 (both internal and external, as of Sep 2019). However, since February of this year we have needed to once again investigate ceilings, room parting walls, and exterior walls because a number of other potentially illegal defects—separate to the parting wall construction deficiencies—were newly identified. Progress on rectifying the problems for repair works has therefore been delayed, but we have mostly completed our inquiry into the approximately 15,000 high-priority buildings that we considered to be at high risk of having construction defects. Together with the other 24,000 or so buildings, our investigations are now 90% complete (as of Sep 2019).

Meanwhile, we are preparing documents containing the assessment results and information about repair works for each property so that we can have the appropriateness of our repair methods and other matters checked by the approximately 480 specified administrative agencies in charge of the areas where our properties are located. The fact that our delayed investigations and repair works have caused much inconvenience and concern to many people is something that weighs heavily on my mind.

Compliance-first initiatives

Kodama: In January of this year ahead of the final report of the external investigation committee, we announced a "compliance-first" management policy and we are currently considering a performance appraisal system for proactively evaluating how the employees follow this policy. That said, the identification of other law violations, namely discrepancies in heat insulation material in building walls and ceiling construction defects, prompted us to discuss how we could overhaul the Company's management structure in order to regain the trust of stakeholders. As a result, we redesigned the management framework so that it will now be subject to stricter external examination. That involved tweaking the internal-external balance of the Board of Directors by reducing the number of internal directors by three and adding two more outside directors.

We also established the Compliance Management Headquarters, which are independent of our business divisions, and appointed the general manager as our CLO (Chief Legal Officer). Furthermore, we made the decision to appoint an outside director to the chair of the Compliance Committee. I believe these changes will vastly improve the quality, volume, and speed of information that we, as outside directors, are able to acquire.

In terms of structure, I think these reforms have now given us a necessary and sufficient framework. Now it all hinges on how we put our heart and soul into it and whether we can make it function effectively. In fact, we cannot solve everything in a single day—I think we must persistently address our issues in a step-by-step manner.

And even though we have had an internal reporting system in place, this time it failed to serve its purpose. Why was this so? Considering that the construction defects can be traced back to more than 20 years ago, the attitude that "it has nothing to do with me" might have spread throughout the Company. Or maybe employees do not properly understand how the system works? If that is the case, then we definitely cannot realize substantive reforms no matter how many systems we put in place. I believe it is vital that we entrench a compliance-first approach by having all employees carry a sense of ownership.

Nagatomo: The Company must first follow up on tenants and owners. Foremostly, it should generously allocate its managerial resources into conducting in-depth investigations and carrying out repair works in order to regain their trust. Not only must President Miyao, as leader of the management team, take the initiative to sincerely explain the Company's progress on those tasks, it is important that all officers and employees work together on implementing initiatives for reform. In particular, I think the members of the management team must focus on gaining an understanding of the actual situation for themselves by visiting sites and listening to the opinions of employees. After all, companies cannot exist without their employees. Each and every employee serves as the Company's backbone, rather than simply being cogs in a bigger cogwheel. Based on this awareness, it's times like these when all employees can band together to overcome a crisis, which is also the very thing that strengthens relationships of trust among officers and employees. No matter what system you put in place, it will end up being a pie in the sky unless your human resources—the driving force—trust each other and share the same ambitions. At the same time, every officer or employee must bear in mind that their individual actions can have an influence on the Company's reputation.

Given that the confidence placed in Leopalace21 by society at large has now been damaged, from a sustainable management point of view, a sincere response to external

Eisuke Nagatomo — Profile

Having held major positions during his career, including Senior Executive Officer of the Tokyo Stock Exchange, Inc., member of the Financial Services Agency's Business Accounting Council, and Director of the Financial Accounting Standards Foundation, Mr. Nagatomo is well-versed in finance, accounting, corporate governance, and risk management. He currently manages the consultancy firm EN Associates Co., Ltd. and serves as an outside member of the Audit & Supervisory Board for Nidec Corporation.

stakeholders by all employees is essential, irrespective of when these problems arose or whichever department was involved. Genuine reform comes from where employees stand in the shoes of tenants or owners and transform corporate culture to the one under which employees take the gratitude and smiles of customers as their own enjoyment at day-to-day work. I think that's something that can cultivate a sense of ownership among all employees. And of course, ensuring sustainability should be the primary objective.

As for compliance and risk management system designed to prevent a reoccurrence of such issues, the key point is how fast critical information from all branches and offices in Japan and overseas can reach the central management team. On top of this, a framework must be in place that lets all officers, including outside directors, know about and share risk information so they can quickly formulate countermeasures. In other words, the absolute requirement is a system that facilitates the smooth flow of (1) information collection and analysis, (2) information sharing, and (3) actual response. And so that the steps taken to prevent reoccurrence do not end up being just stopgap measures, I think you have to make sure that everyone in the Company really understands the intent and significance of those measures.

In addition, employees tend to view on-site audits as fault-finding missions. They therefore become defensive and are reluctant to release information. It's vital that auditors aim to communicate smoothly with employees in the field so they know that auditors are essentially the eyes and ears of the President and that their job is to solve on-site operational concerns in order to make the Company even better.

Miyao: As Mr. Nagatomo has emphasized, even the investigation report of the external investigation committee initially pointed out the need for a radical reform of our corporate culture. This is the result of the Company which became acclimatized to a vertically organized top-down structure and I seriously take to heart the fact that our cross-checking functionality was mostly ineffective because there was little interest in what was going on in other departments. So now the management team, including myself, is intent on attending each regional small meeting to directly meet with our employees in the field and to ensure all employees understand the importance of a customer-oriented mindset and compliance-first approach.

Nagatomo: In corporate brand management, you should constantly be aware of whether or not your actions are of value to the customer. In other words, you should aim to be the company indispensable to its customers. You can always find an answer in the field, where your customers are. Neglecting the field site is the biggest risk for management, which is why a style of management that is always integrated at a customer level is necessary. Accordingly, and even though I have said this already, the management team, which includes both internal and outside officers, must actively meet with employees in the field and hear what they have to say.

Another thing to keep in mind is the need to check whether management's messages are getting through to employees correctly. The top-down transmission of information quite often results in the misunderstanding of the real intention of the message and only empty words are conveyed, just like a telephone game. Simply believing that the message gets through is not good enough. This might be why we tend to see more corporate scandals these days. I think managers must be vigilant in their efforts to speak directly to their employees. This is the most important aspect in sharing business ethics.

Kodama: As outside directors, we totally agree about the importance of on-site dialogue and the five of us split up and attend all of the regional small meetings. At these meetings, not only do we stress the compliance-first policy, but we do reward employees for their hard work by squarely focusing on those efforts go unnoticed, and ask that they do not forget to take pride in their work even during these tough times. We also request outside Audit & Supervisory Board members to engage in dialogue with employees when they visit to conduct audits.

Nagatomo: I get the impression that both of you, along with all the other officers, are making every effort to actively talk to employees on the ground. I also think it would be a good idea to strengthen dialogue with a system that further expands on the opinions exchanged at regional small meetings. I think this could be a way to solve a lot of the various on-site concerns and problems, not just those related to compliance. I often hear that stronger cross-sectional collaboration has meant a company no longer needs to outsource a certain operation, or that labor shortage problems were ameliorated by encouraging efficient personnel placement. By listening to employees on the ground and having the management team act as a go-between to facilitate cross-company interaction, I think sectionalism should gradually disappear.

Following up on tenants and owners

Miyao: We pioneered the market with one-room type units equipped with furniture and electrical appliances and we currently have 570,000 such rooms under management nationwide. As a long-term management partner, we enjoy a relationship with the owners of these units—so much so that I think we are both indispensable to each other, like the two wheels on an axle. For this reason, we have hitherto held owner briefing sessions throughout Japan every quarter. At these sessions, business division managers used to report on our management policies and financial results and also share information and exchange opinions with owners.

Currently however, all members of the management team, including myself, are attending owner briefing sessions right across Japan to explain the situation. At these meetings many owners strongly encourage us to engage in sustainable management so that we can properly offer our support during the long-term period (20-30 years) of managing apartments. As such, I'm acutely aware of the significance of our responsibility to all apartment owners.

We are also making sure that we provide conscientious explanations to tenants, especially regarding safety. That said, around 60% of our apartments are utilized as company-leased housing or dormitories under corporate contracts, so for these properties we are making every effort to listen to the opinions and grievances of tenants indirectly when we visit the contracting companies to explain the situation to their human resources or general affairs departments.

Kodama: While it's difficult for outside directors to get the opportunity to speak directly with owners and tenants mainly owing to our independence, we instead have the chance every month to go through all the submissions delivered to the suggestion box as well as the issues that come through the internal reporting system. We also periodically check whether any unnoticed risk information is lurking in the enquiries submitted to the call centers.

Corporate governance trends

Nagatomo: I would also like to add something else regarding my views on compliance within a corporate governance framework. The term “compliance” is generally interpreted as the act of obeying the law, but this fails to capture the essence of the term. It should be interpreted as “complying with another’s wish” to reflect the etymology of the word. In the case of Leopalace21, “another” therefore refers to not only tenants and owners, but also shareholders, business partners, employees, society, and all other stakeholders. Compliance should be viewed as a form of management that meets the expectations of all stakeholders with sincerity rather than the simple perspective of adherence to laws and regulations. Companies in which this policy is well-entrenched and understood by all officers and employees naturally possess a high level of integrity and are much vaunted in society. In turn, employees carry out their duties positively with a sense of pride, thereby enhancing the corporate value of the company.

Corporate value is generated from the significance of existence in the presence of integrity. Investment practices focused on the evaluation factors of ESG (environment, social, and governance) are currently sweeping the world. But in the capital markets, the environmental and social factors make no sense if they are disconnected from long-term economic value. Based on this thinking, the governance factor is what keeps corporate activities in order. In fact, G shouldn’t be even talked about in the same sentence as E and S. In other words, the direction a company takes should “comply with another’s wish,” or put differently, its management philosophy becomes anchored to good governance. As a result, in addition to shaping such a framework, it is key that a company shares its values, which is where its main focus should lie.

Right now, corporate governance in the US is at a major turning point. The hitherto shareholder-first approach to governance is now giving way to the idea of stakeholders first. Hence, a new era is dawning in which the old Japanese style of governance known as *sanpo-yoshi* (three-way satisfaction) will likely gain favor. This certainly reflects the notion of “complying with another’s wish” and you could say that it is a sign of the capital markets beginning to favorably assess companies based on the idea that they are of benefit to society.

When I deliver lectures about governance, I often like to draw a comparison to the knight’s code of chivalry. That is, “be without fear in the face of your enemies” (risk taking), “be brave and upright that God may love thee” (integrity), “speak the truth always, even if it leads to your death” (information disclosure), and “safeguard the helpless and do no wrong” (justice and fairness). These oaths are a useful reference in the sense that they bespeak the values that corporate governance ought to represent, such as an ethical norm, approach to risk taking, and having integrity.

Miyao: Our mission statement proclaims a policy of increasing value for society as a whole. But when looking at the problems at hand, these words come under fire as being superficial, to which we have no words of reply. Our mission statement is the premise of all our actions and we must consider its words on every occasion. There is no doubt that we must do more than just communicate this simple message—we must make an effort to consider its meaning with all employees in various roles and come to have a shared recognition. This is the starting point of a sense of ownership that both of you regard as important. In reforming our corporate culture, we must constantly ask ourselves what is the purpose of the Company I work for, how do I relate to the Company’s *raison d’être* (existential value), and what can I do on a personal level? I think making our Company a corporate group which is always conscious of these questions will lead to a genuine reform of corporate governance.

Expectations of capital markets

Nagatomo: No progress will be made on resolving the current problem simply by meeting the criteria of the specified administrative agencies and completing the repair works from a sense of obligation. Not only the capital markets, but society at large expects Leopalace21 to learn a lot from this series of construction defects and lower its downside risks in the future. It also wants to see the Company engage in sound risk taking for the next stage of growth. In other words, the market is keen to see the Company strengthen its sustainability and start to move forward stronger than ever before. Conversely, if the Company keeps caught in a negative mindset, the motivation of its employees will gradually deteriorate. To avoid this scenario, I think management should keep its sights set on building a new Leopalace21 and share the idea that an honest approach is now required if such a dream is to be realized.

Kodama: The Company does business with nearly 28,000 land owners, while individual customers and many corporate customers use our apartments. For this reason, I think we must keep a positive outlook that everything we do now is for the future of the Company and in that sense, our on-site employees currently guaranteeing the quality of every single building with integrity deserve our full support.

Miyao: I feel that all of our stakeholders, along with the capital markets, would like us to disclose a roadmap outlining how we intend to resolve the issue of construction defects and get earnings back on track. Housing is indispensable to people's livelihoods and under normal circumstances in this market, Leopalace21—which pioneered unique one-room type units—should be seizing the numerous opportunities afforded by an aging population and other changes of the times. But our priorities right now are removing everything that harms the organization, so it is extremely irritating and disappointing to be unable to provide a detailed roadmap at this stage.

On the basis of our careful investigations, we will allocate all of our managerial resources towards resolving the problems as quickly as possible. All officers and employees are working together and doing their best to provide a highly probable future outlook for our stakeholders at the earliest possible time.

Compliance

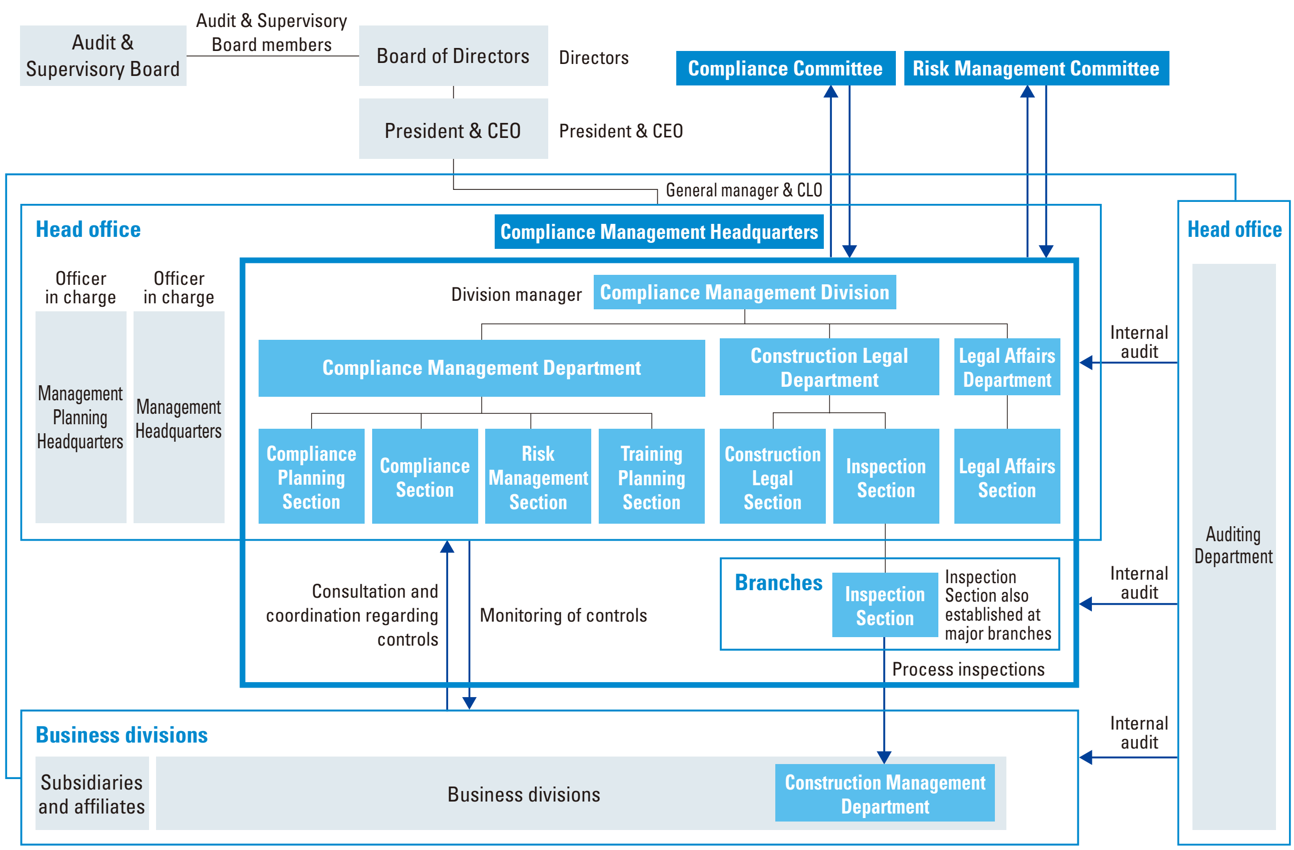
Establishment of Compliance Management Division

In February 2019 we established a Compliance Management Division for the purpose of drastically overhauling the Leopalace21 Group's compliance system and replacing it with a more robust structure.

The Compliance Management Division is comprised of the Compliance Management Department, the Construction Legal Department, and the Legal Affairs Department. It is mainly tasked with drastically overhauling the Group's compliance and risk management system, planning and drafting new frameworks, building and operating information management systems, and validating legal compliance of the Group's new businesses, services, and products.

In order to further strengthen our compliance and risk management system, the Compliance Management Headquarters was established to oversee the operations of the Compliance Management Division in April 2019. The general manager of the Compliance Management Headquarters was also appointed Chief Legal Officer (CLO).

Compliance and Risk Management System



Reviewing Compliance Committee Operations

As part of our review into how the Leopalace21 Group's Compliance Committee functions and operates, we recently specified that the Committee would now be the highest body within the Group's compliance framework.

Furthermore, we made the decision to appoint an outside director to serve as chair of the Compliance Committee with the goal of strengthening check-and-balance functions of the Company's executive organs.

Message from the Chair of the Compliance Committee

We are currently weathering a storm that was caused by our Company's corporate culture; namely, the disregard of compliance and the mismatch of information between the management team and customer-facing employees. Of the multitude of companies in Japan, we are experiencing firsthand the notion that sustained growth is unachievable if we do not recognize the importance of corporate governance and compliance. Following the collapse of Lehman Brothers and the ensuing global financial crisis, we certainly made a conscious effort to bolster our governance and compliance practices, but it has become clear that it did little to change our corporate culture. Hence, we now need to construct an even more advanced compliance system. Our biggest mission is to ensure that each and every employee is on board with our compliance-first approach.

Tetsuji Taya
Chair of Compliance Committee

Message from the General Manager of the Compliance Management Headquarters

The final report of the external investigation committee regarding the problem of construction defects stressed that the Company has been conscious of not rocking the boat. As general manager of the Compliance Management Headquarters, I believe my most important duty is to eradicate this corporate culture of not exposing risks. Obeying the law is the minimum standard for a corporate citizen and considering that we have lost the trust of our stakeholders, we cannot be content with simply upholding this minimum standard—we must aim to be accepted by society and contribute value. So how can we achieve sound and sustainable corporate management? A more open corporate culture generated by the free and open-minded exchange of opinions and a switch from a top-down to a bottom-up approach. The management team must endeavor to identify potential risks in the field, while employees should not be afraid to report any bad news to their managers immediately. As such, we will make every effort to foster a sense of ethics and responsibility among all employees, show respect for the personalities of employees, and nurture human capital that respects diverse values.

Mayumi Hayashima
General Manager of Compliance Management Headquarters and Chief Legal Officer

Risk Management

Risk Management

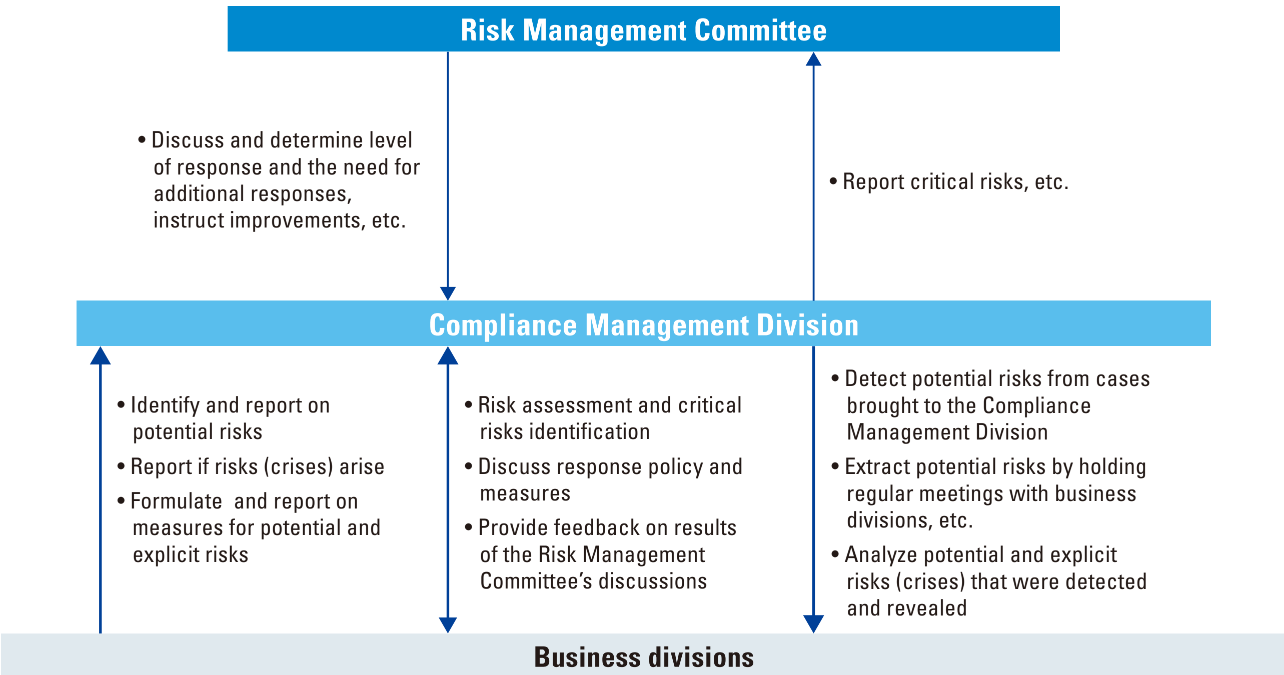
In order to grasp and manage Company-wide risks and strengthen our risk management framework, we have put in place a Risk Management Committee as an advisory body to the Board of Directors. The President and CEO serves as chair of this Committee, while the general managers of the Management Planning Headquarters and the Compliance Management Headquarters serve as vice-chairs. Other members of the Committee comprise external experts such as lawyers. The Committee not only monitors risk management status, but also plans and implements training sessions and works to mitigate or prevent risks from materializing.

The Risk Management Committee regularly meets once a month and whenever the chair determines that an extraordinary meeting is required. Furthermore, the general manager of the Compliance Management Headquarters reports on the status of risk management to the Board of Directors on a quarterly basis.

Review of Risk Management Methods

Currently, the Risk Management Committee mainly responds to risk events that have already materialized, but going forward, its role will be to carry out cross-sectional management and monitoring of Company-wide risks. We therefore decided that in addition to dealing with risk events that have already occurred, the Committee will identify potential risks and then discuss and examine the effectiveness of countermeasures and the level of action required.

We also decided to proactively identify potential risks in the Company's business divisions by screening issues that employees have escalated to the Compliance Management Division and by holding regular meetings with each business division. In this way, we can carry out effective risk management and crisis response practices depending on the severity of risk.



Message from the Officer in charge of Risk Management

The strengthening of corporate governance is absolutely necessary for maintaining our competitive advantage, but its importance is usually talked about only when earnings have slumped or a scandal breaks. Unfortunately, that's exactly what has happened to Leopalace21. The recent construction defects issue has made us realize once again how important corporate governance is. At Leopalace21, we position risk management at the very center of corporate governance. In order to grasp and manage Company-wide risks, we have put in place a Risk Management Committee as an advisory body to the Board of Directors not only to conduct risk management, but also to mitigate risks or prevent them from occurring at all. The Tokyo Stock Exchange's Principles of Corporate Governance for Listed Companies state that "...to effectively protect the rights and interests of all these interested parties, the transparency of corporate activities must be secured through the timely and accurate disclosure of information." As Risk Management Officer, my duty is to ensure timely information disclosure to not only our shareholders, but all of our stakeholders, including owners, tenants, and employees, so that we might once again earn their trust. This is a declaration of our commitment.

Seishi Okamoto

Risk Management Officer

Higher-Level Risk Analysis and Assessment

As part of our efforts to strengthen our compliance and risk management system, we are further developing our risk review agenda so we can identify and evaluate potential risks, not just risks that have already materialized. We intend to take our risk assessments to the next level by not just responding to risks after the fact, but actually preventing them from occurring. This stems from our deep remorse of the recent construction defects issue, which made us acutely aware of the need to change how we recognize and respond to risk.

In the Leopalace21 Group, we define risk as a factor that can cause unexpected losses and possibly damage the Group's capital position. In accordance with our risk management regulations, we report on and manage the following six types of risk: strategy risk, credit risk, market risk, liquidity risk, operational risk, and reputational risk.

And when identifying risks we employ the following four processes: (1) examining the factors that hinder the achievement of goals; (2) recognizing the gap between our vision and the current situation; (3) recognizing the risks that could arise from changes in the business environment; and (4) utilizing past case examples at Leopalace21 and other companies.

In October 2019, the management team came together to start identifying risk as part of a risk management training session. We plan to hold another management training session in January 2020 during which we will carry out risk analyses and assessments and share information.

We have been criticized for ignoring the interests of society and stakeholders and engaging in self-righteous business activity. The influential business thinker Peter Drucker coined the phrase "*culture eats strategy for breakfast*" to suggest that corporate culture is far more important than business strategy. And even if you come up with a strategy, it is worthless unless carried out. We believe risk management to be similar, which is we think reforming the Company's underlying corporate culture is so important.

Directors and Audit & Supervisory Board Members

Directors (As of June 30, 2019)

President and CEO
GM of Business Operation Headquaters

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
Apr. 2018 Director and Managing Executive Officer
Representative in charge of Management Planning and Investor Relations, Management Planning Department
May 2019 President and CEO (current)
Jun. 2019 GM of Business Operation Headquaters (current)

Director, Managing Executive Officer, Chief of Emergency Headquarters for Construction Defects

Shigeru Ashida

Apr. 1988 Joined Leopalace21 Corporation
Nov. 2003 Deputy Manager of the Financial Department
Apr. 2010 General Manager of the Management Planning Department
May 2012 General Manager of Business Operation Headquarters
Apr. 2013 Administrative Officer
May 2014 Executive Officer
Jun. 2019 Managing Executive Officer (current)
Chief of Emergency Headquarters for Construction Defects (current)

Director, Managing Executive Officer,
GM of Management Headquarters

Katsuhiko Nanameki

Apr. 1984 Joined The Kyowa Bank, Ltd. (now Resona Bank, Ltd.)
Apr. 2004 General Manager of Kitakogane Branch, Resona Bank, Ltd.
Oct. 2006 General Manager of Senjyu Branch, Resona Bank, Ltd.
Oct. 2009 General Manager of the 1st Corporate Division in Katsushika Area, Resona Bank, Ltd.
Apr. 2013 Seconded to Leopalac21 Corporation, General Manager of the Financial Department
Apr. 2014 Joined Leopalace21 Corporation, General Manager of the Financial Department
Apr. 2015 Administrative Officer
Apr. 2016 Executive Officer
Jun. 2019 Managing Executive Officer (current)
GM of Management Headquarters (current)

Director, Managing Executive Officer,
GM of Management Planning Headquarters

Seishi Okamoto

Apr. 1986 Joined The Sumitomo Bank, Ltd. (now Sumitomo Mitsui Banking Corporation)
Oct. 2006 Deputy Manager of Tohoku Corporate Division, Sumitomo Mitsui Banking Corporation
Apr. 2012 General Manager of Koiwa Corporate Division, Sumitomo Mitsui Banking Corporation
Apr. 2014 General Manager of Retail Review Department, Sumitomo Mitsui Banking Corporation
Apr. 2018 Assistant to Director of Head Office, Sumitomo Mitsui Banking Corporation
Seconded to Sumitomo Mitsui Debt Collection Company
Jun. 2018 Joined Sumitomo Mitsui Debt Collection Company Director
Jun. 2019 Joined Leopalace21 Corporation
Managing Executive Officer (current)
GM of Management Planning Headquarters (current)

Director, Executive Officer, GM of Compliance Management Headquarters, CLO* *CLO: Chief Legal Officer

Mayumi Hayashima

Apr. 1996 Joined Leopalace21 Corporation
Apr. 2009 Leasing Business Division, Leasing Business the 3rd Sales Department, Deputy Manager of East Japan Corporate Division
Jul. 2010 Leasing Business Division, General Manager of East Japan the 2nd Corporate Division
Apr. 2014 GM of Corporate Business Promotion Headquater
Apr. 2015 Administrative Officer
Apr. 2018 Executive Officer (current)
Jun. 2019 GM of Compliance Management Headquarters, CLO (current)

Outside Director

Tadashi Kodama

Apr. 1970 Joined The Dai-Tokyo Fire & Marine Insurance Co., Ltd. (now Aioi Nissay Dowa 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)

Outside Director

Tetsuji Taya

Apr. 1987 Joined The Fuji Bank, Limited (now Mizuho Bank, Ltd.)
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)

Outside Director

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 and Representative Director, 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. (now HITOWA Social Works Co., Ltd.)
Jun. 2019 Managing Executive Officer (Responsible for Work Style Reform), JDC Corporation (current)

Outside Director
Yoshitaka Murakami

Apr. 1972 Joined Ministry of Finance
Jul. 1993 Management and Co-ordination Assistant Regional Commissioner, Tokyo Regional Taxation Bureau
Jul. 1998 Large Enterprise Examination and Criminal Investigation Deputy Commissioner, National Tax Agency
Jun. 2000 Taxation Deputy Commissioner, National Tax Agency
Jun. 2003 First Deputy Commissioner, National Tax Agency
Oct. 2005 Senior Executive Officer, East Nippon Expressway Company Limited
Jun. 2011 Full-time Audit & Supervisory Board Member, Credit Saison Co., Ltd.
Jun. 2019 Outside Director, Leopalace21 Corporation (current)

Outside Director
Hisafumi Koga

Apr. 1971 Joined Kyodo News
Jun. 2007 Administrative Officer, General Manager of the Management Planning Department and General Manager of the President's Office, Kyodo News
Jun. 2010 Director and Senior Vice President, Kyodo News
Jun. 2011 President and CEO, Kyodo News
Jun. 2014 Counselor, Kyodo News
Mar. 2016 Executive Chairman, Kyodo Public Relations Co., Ltd. (currrent)
Jun. 2019 Outside Director, Leopalace21 Corporation (current)

Audit & Supervisory Board Members (As of June 30, 2019)

Full-time 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
Jul. 2010 General Manager of Area Strategies Department
Apr. 2012 General Manager of Auditing Department
Nov. 2015 Audit & Supervisory Board Member, Morizou Co., Ltd. (current)
Jun. 2016 Full-time Audit & Supervisory Board Member, Leopalace21 Corporation (current)

Full-time Audit & Supervisory Board Member (Outside)
Jiro Yoshino

Apr. 1978 Joined The Dai-Tokyo Fire & Marine Insurance Co., Ltd. (now Aioi Nissay Dowa Insurance Co., Ltd.)
Apr. 2012 Managing Executive Officer, Aioi Nissay Dowa Insurance Co., Ltd. Executive Officer, MS&AD Insurance Group Holdings, Inc.
Jun. 2013 Full-time Audit & Supervisory Board Member, MS&AD Insurance Group Holdings, Inc.
Jun. 2017 Full-time 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 Auditor, KAMEDA SEIKA CO., LTD. (current)
Jun. 2015 Audit & Supervisory Board Member, Leopalace21 Corporation (current)
Dec. 2015 Audit & Supervisory Board Member, T.HASEGAWA CO., LTD. (current)

CEO Message

In allocating all available managerial resources to resolve the problem of construction defects as soon as possible, we aim to make a fresh start under the banner of a new Leopalace21.

Bunya Miyao
President and CEO

Introduction

Leopalace21 is known for its one-room type units equipped with furniture and electrical appliances and approximately 60% of these properties are leased by corporate customers. We take pride in having been able to supply the rental market with important social infrastructure to mainly meet the demand for corporate housing. However, in the light of our construction defects in violation of the Building Standards Act, we deeply regret not being able to fully live up to the expectations of our stakeholders, such as the safety of tenants and the confidence of property owners.

My critical mission now is to resolve the construction defects issue as soon as possible. In our mainstay Leasing Business, we have currently halted the recruitment of new tenants for properties subject to top-priority investigations and we are allocating all of our managerial resources to ongoing investigations and repair works. As a result, occupancy rates and profits have seen a decline for some time, but I am committed to producing a recovery as soon as possible. I will also devote myself wholeheartedly to the establishment of a new compliance framework.

What is Leopalace21's *raison d'être* (reason for existence)? In other words, what is the purpose of our existence in society? We intend to go back to the starting point and reconfirm with all employees the importance of carrying on a business that contributes to society by supplying and managing rental housing to meet customers' needs.

Summary of earnings

In consolidated results for fiscal year ended March 31, 2019, net sales came to 505.2 billion yen (–4.8% YoY). They are owing to the fact that new tenant recruitment was halted for properties subject to top-priority investigations until the completion of investigations and repair works. Operating profit totaled 7.3 billion yen (–67.8% YoY) and recurring profit 7.0 billion yen (–68.4% YoY). We recorded a 68.6 billion yen net loss attributable to shareholders of the parent company as a result of posting a 54.7 billion yen for provision of reserve for losses related to repairs and loss related repairs, a 9.6 billion yen for provision of reserve for apartment vacancy loss, and a 7.5 billion yen of impairment loss on the sale of apartments in extraordinary losses. We deeply apologize once again to all the stakeholders.

An independent external investigation committee looked into the root cause of the construction defects issue. The committee revealed that in the midst of tough business conditions in the early 1990s after Japan's bubble economy burst, (1) the Company's top priority was to recover from the financial difficulties and expand the construction subcontracting business, (2) the company ran things on its way with the leadership of too much authoritative top management, (3) the employees had poor sensitivity to legal risks in the lack of compliance and failed to hold a sense of ownership in quality assurance, and (4) in the construction process control, there were insufficient construction supervision and execution management in place. We took the four-pointed analysis seriously as each point was painfully true.

We are deeply ashamed of not being able to change the top-down approach in the corporate culture, and taking actions ahead of a mature planning which led to insufficient sense of compliance. We regrettably failed to foster the notion of contributing to society, Leopalace21's *raison d'être*.

Assumption of office as President

We were unable to prevent the construction defects problem over years, which was no normative behavior as a construction company dealing with apartment buildings. The fact shows just how vulnerable our internal controls were. In fiscal year ending March 31, 2020, a new management team under my leadership was entrusted with a major role of rebuilding Leopalace21. We were confronted by the collapse of the bubble economy soon after I joined the Company and I played a part in negotiating with financial institutions so that we could overcome the management crisis of excessive liabilities. When we faced financial difficulties triggered by Lehman Brothers, I was placed in charge of corporate planning. At that time, I took the lead to formulate a comprehensive business reconstruction plan. I therefore hope to utilize my in-depth experience in rebuilding the Company and I will put my heart and soul into regaining the trust of our stakeholders and getting earnings back on track as soon as possible.

Taking all possible measures for quality assurance

We ensure quality assurance by investigating a total of 39,085 buildings so that tenants and owners across Japan can have peace of mind. In the investigations, every attention in paid so as not to overlook parting walls defects, the origin of a series of construction deficiencies, and other issues related to the insultation material of the parting walls, exterior wall specifications, and fire-resistant ceilings.

That said, the progress of investigations and repair works are falling behind schedule because the scope of investigations widened depending on the nature of the defects and the cooperation of tenants is also needed. We are therefore allocating all available managerial resources, mainly by increasing the number of dedicated employees, with the goal of resolving the construction defects problem as quickly as possible. Furthermore, because the repair works are being carried out in consultation with the approximately 480 specified administrative agencies across Japan, instead of having uniform measures developed at the Company's head office, we now operate a system under which measures are devised in 16 local centers in charge of respective regions across Japan and the head office approves those measures in terms of legal compliance.

Independent and fair "outside scrutiny" has greatly improved our management oversight function.

Working to prevent reoccurrences

—Rebuilding our governance and compliance system—

In heeding the recommendations of the external investigation committee and not suffering from the same mistakes, we have formulated three main Company-wide recurrence-prevention measures: (1) drastically reforming our corporate culture; (2) rebuilding our compliance and risk management systems; and (3) reviewing our construction business framework.

In particular, we acknowledge that the point made by the committee that our corporate culture has adhered to the policies of our management team rather than legal compliance or construction quality is a serious problem that shakes the foundations of our Company's existence. Our corporate culture should be one that is customer-oriented and compliance-first. Even within the previous management team, the notion was raised that a top-down corporate culture was out of step with the times and that the Company should aspire to adopt a bottom-up approach. In spite of this, our inability to break away from that outdated system was ultimately exposed by the problem of construction defects. Accordingly, the management team took seriously to heart the fact that it was responsible for causing significant losses and as already mentioned, a shake-up of the Board of Directors took place with the number of internal directors being reduced from seven to five. At the same time, we increased the number of outside directors from three to five in an effort to eradicate self-complacency and significantly beef up management oversight with independent and fair outside scrutiny so that we can properly fulfil our corporate responsibilities as a member of society.

Moreover, in order to entrench an enduring compliance-first policy within the organization, we established a new Compliance Management Division to validate the legal compliance of our various businesses and products and also to build and operate information management systems. We then established the Compliance Management Headquarters, a higher level organization with increased internal controlling power and appointed the Headquarters' general manager as Company's CLO (Chief Legal Officer) with a strong authority.

Add to this, we plan to improve compliance on a practical level—something we aim to achieve by providing more opportunities that facilitate mutual understanding through management-employee dialogue, developing an open corporate culture, and enhancing compliance training for each operational process with a focus on which laws need to be applied.

—Reviewing construction business processes—

It was also pointed out by the external investigation committee that in our construction business where the defects problem occurred, not only did we fail to check the legal compliance of new products during their development, execution management was dependent on self-inspections and architects were hardly involved in the construction supervision process. In light of this, we have decided to subdivide operational processes when developing new products, including changes to materials used, and carry out more detailed examinations that also include legal compliance checks. We have also employed a system of incorporating checks at each stage of construction and on-site inspections by architects into the construction management process. Construction cannot proceed to the next stage unless these checks and inspections have been completed. Furthermore, through the reorganization of the Compliance Management Division, we have also put in place a system whereby we carry out inspections and provide technical instructions to the overall construction process, including the parties outside of our business divisions and construction contractors.

—Changing the mindset of officers and employees through dialogue—

In this way we are implementing fundamental measures in line with the recommendations of the external investigation committee to overhaul our organization and structures with the goal of preventing reoccurrences. However, unless they are effective, they will carry little meaning. Of all things, we, as officers and employees of the Company, must change our way of thinking. To begin with, a customer-oriented mindset means not being egocentric. We should be thinking altruistically as much as possible so that this time we can be sure to transform our corporate culture by giving primary consideration to our mission statement of "increasing value for society as a whole," which links to the Company's *raison d'être*. Only when our stakeholders can really feel that we have achieved this will we be able to say with confidence that Leopalace21 has been reborn.

As a first step, all members of the management team, including myself, are currently attending owner briefing sessions in different locations to apologize, explain the situation, and listen directly to the various opinions of property owners. At the same time, we are also actively organizing regional small meetings to encourage dialogue between the management team and employees, which I touched upon above. At these meetings, the opinions of management are put aside so that we can hear what employees on the ground are really thinking because they are the ones that best understand the feelings of owners and tenants. On top of this, we intend to periodically run employee awareness surveys so we can improve the way we verify whether a compliance-first policy has taken root or whether the right kind of corporate culture is being developed.

It has also been pointed out that with the exception of internal recruiting, hardly any personnel movement between departments is one factor behind the decline in the sense of ownership regarding product quality issues among officers and employees and explains why check-and-balance functions did not exist. In response, we will consider reviewing our job rotation policy so that we may enliven the movement of employees between departments, deepen their understanding of knowledge of other departments, and create an organization in which more information is shared.

Earning a higher level of trust

We are Japan's number one provider of social infrastructure centering on one-room type rental housing. As an entity driven by our flexible way of thinking to solve people's housing problems, we have thus far provided services of high added-value that leverage our unique strengths to meet the diversified needs of rental housing.

New rental housing construction starts have declined for the second year running owing to tighter lending criteria for apartment loans and the dropout of demand for strategies to reduce inheritance tax, while the number of vacancies in the rental housing market is increasing. That said, Japan's graying population with fewer children, labor shortages, more foreign tourists, and other changes in the business environment are providing tailwinds for one-room type rental housing in a number of ways. In this business climate, I believe our Company's underlying strength and its potential.

For this reason, we are committed to taking all possible measures to ensure that the construction defect investigations and repair works are completed without issue. We will aim to not only regain the confidence of society we used to have, but also earn a higher level of trust as we make a fresh start under the banner of a new Leopalace21. I kindly ask for the understanding of all our stakeholders.

Bunya Miyao
President and CEO
September 2019

We aim to earn a higher level of trust as we make a fresh start under the banner of a new Leopalace21.

Initiatives for Strengthening Relationships with Existing Owners

Property owner briefing sessions

We periodically hold property owner briefing sessions across Japan in order to facilitate interaction between owners and Leopalace21 employees.

The President and other officers visit each region to attend these sessions and explain in detail the circumstances behind the discovery of the construction defects, how the Company is addressing the concerns of owners and tenants, the investigation progress for all of our apartments, and details of financial results.

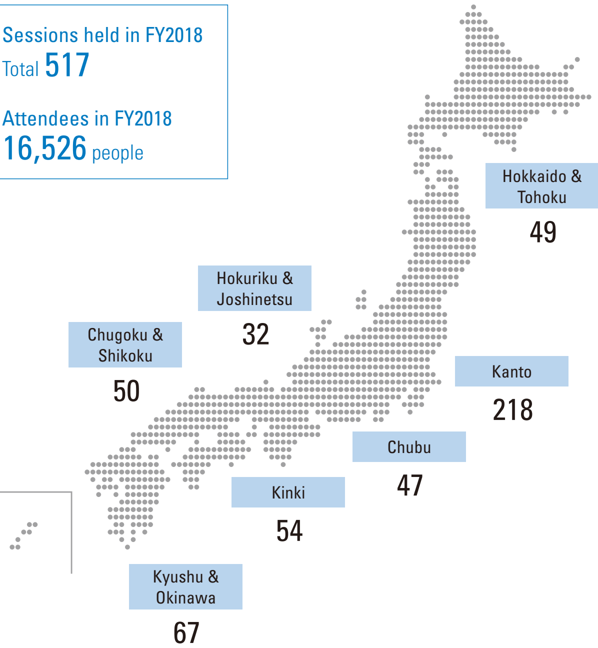
Some 4,200 property owners attended the briefings held throughout Japan in March 2019. We will continue to explain the situation sincerely to property owners at these meetings.

*A total of 517 property owner briefing sessions were held during the period April 2018 to March 2019.

Property owner briefing sessions in FY2018

Sessions held in FY2018
Total 517

Attendees in FY2018
16,526 people



Representative opinions of property owners (partial excerpts from briefing session questionnaires)

Regarding construction defects

- I want to hear sincere explanations until all owners are satisfied. It seems Leopalace21 is now seen as a bad company. I hope it can regain the trust lost.
- I understand the explanations about the buildings, but I'd like to hear more detailed explanations about how Leopalace21 intends to rebuild its brand image.
- I was very concerned after the widespread TV news coverage, but I'm more informed now as it seems Leopalace21 is serious about explaining the situation.

About financial results

- Earnings will suffer up ahead if this scandal lingers on. As an owner it is pointless complaining, but I wonder how the shareholders feel.
- I'd like Leopalace21 to seriously implement measures to prevent a reoccurrence and get earnings back on course. I think making an effort to regain trust is most important.
- I'm concerned earnings will be hit hard as occupancy rates decline due to harmful rumors.

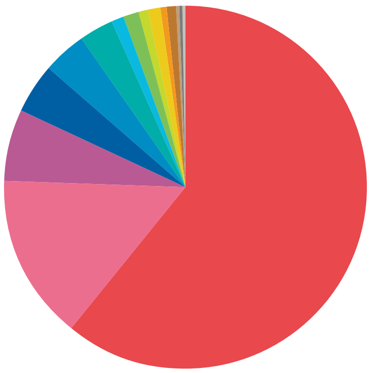
Opinions about management

- Please take responsibility and get Leopalace21 back on its feet.
- For the sake of the tenants and owners, please fulfill your responsibilities properly and wholeheartedly.
- Keep doing a reliable job as before. As owners, we will do our best to help.

Opinions expressed by property owners regarding the problem of construction defects

We regularly organize informal meetings with property owners and we have heard a lot about the doubts and concerns they have regarding the construction defects. Roughly 61% of all the opinions relate to matters in our press releases. They can be broken down to the investigation status and future plans, the impact on management, and accountability. Many opinions concern their insecurity and expectations toward our future management and our approach to responsibility. Going forward, we will endeavor to dispel these concerns and renew relationships of trust.

- Press releases 60.98%
- Company as a whole 14.84%
- Employees 6.39%
- Property owner briefings.......... 4.19%
- Renewal of building lease contracts 4.04%
- Tenant management 3.01%
- Property value improvement measures 1.25%
- Land use 1.18%



- Disaster response 1.03%
- Lease management.......... 0.96%
- Class L services.......... 0.73%
- Hotels & resort.......... 0.66%
- Future Support services 0.29%
- Life-stage Support services 0.22%
- Next generation / business succession.......... 0.22%

Offering proposals to owners of older properties

In today's environment of an increasingly competitive rental housing market, enhancing the value of a rental property in order to attract tenants is crucial. Property owners too face numerous changes when managing apartments over the long term, such as business succession by the next generation. At Leopalace21 we run events and offer consultation services so owners can benefit from the advice of experts like tax accountants.

Our most notable services include Future Support and Life-stage Support. For owners of older properties, we take into consideration factors such as market conditions and building management circumstances and propose various solutions that address not just lease management continuity, but also the concerns of property owners.

	As of March 31, 2019					
	No. of buildings	No. of units under management	Composition ratio	No. of units under contracts	No. of vacancies	Occupancy rate
Less than 5 years old	3,038	37,024	6.44%	36,104	920	97.52%
5-10 years	6,010	85,072	14.80%	77,779	7,293	91.43%
11-15 years	15,398	270,829	47.12%	231,347	39,482	85.42%
16-20 years	8,775	136,607	23.77%	106,580	30,027	78.02%
21-25 years	**2,695**	**35,788**	**6.23%**	**24,113**	**11,675**	**67.38%**
26 years or older	**840**	**9,478**	**1.65%**	**8,795**	**683**	**92.79%**
Total	36,756	574,798	100.00%	484,718	90,080	84.33%

Improving Satisfaction among Foreign National Tenants

The number of foreign workers in Japan continues to increase owing to improvements in employment conditions, the government's support for taking in highly skilled foreign workers and students, and the 2019 enforcement of amendments to the Immigration Control Act. Accordingly, we expect to see an even greater rise in the number of foreign national tenants in Japan up ahead.

At Leopalace21, we intend to strengthen our framework for accepting foreign national tenants and actively provide general living support services.

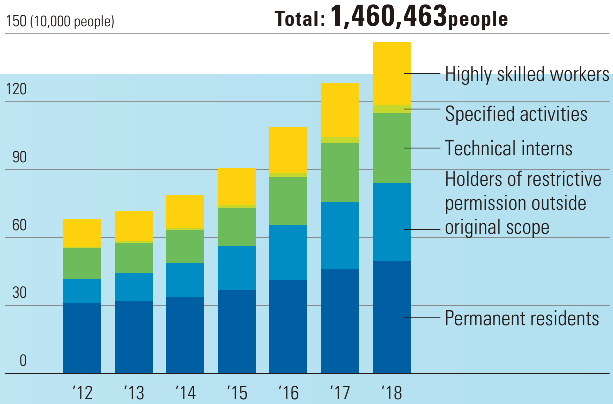
Foreign workers at all-time high for sixth year in a row

The number of foreigners working in Japan continues to rise year on year—in 2018 there were 1,460,463 foreign workers, the highest figure recorded since 2007 when reporting of foreign workers by employers became mandatory.

A breakdown of this figure shows that permanent residents and Japanese descent accounted for 33.9% of all foreign workers, followed by holders of restrictive permission outside original scope (international students) of 23.5%, technical interns (21.1%), and those whose professional or technical skills afford them resident status (19.0%).

By nationality, Chinese accounted for the largest percentage (26.6%) of all foreign workers, followed by Vietnamese (21.7%) and Filipinos (11.2%). The rate of increase in workers from Vietnam over the last few years has been remarkable, as seen by a year-on-year rise of more than 30%. Technical interns make up a large percentage (over 40%) of workers from this country.

Foreign workers hit record high for sixth consecutive year



*Notification of Status to Foreign Workers of the Ministry of Health, Labour and Welfare as of end-October
"Unknown" category omitted

Expected to take in nearly 350,000 foreign workers in next five years following the enforcement of amendments to Immigration Control Act

A new resident status of "Specified Skilled Worker" visa came into effect in April 2019 under the amended Immigration Control Act. This means more foreign workers in not just highly-specialized occupations but manual labor jobs can now be recognized as foreign residents.

The residency status of "Specified Skilled Worker No.1" applies to foreigners possessing skills that require considerable knowledge or experience who have completed up to five years of technical intern training or confirmed by examination to possess such skills and proficiency in the Japanese language. The "Specified Skilled Worker No.2" status applies to people with proficient skills and their status of residence can be renewed every 1–3 years. Up to 345,150 foreigners are expected to enter Japan over the next five years to work in the 14 sectors the No.1 status has been designed for, including nursing care, construction, and agriculture.

Estimated foreign worker influx

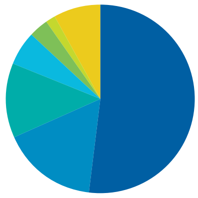
Sector	Number of people
Nursing care	50,000–60,000
Building cleaning	28,000–37,000
Material processing	17,000–21,500
Industrial machinery manufacturing	4,250–5,250
Electrical and electronic information	3,750–4,700
Construction	30,000–40,000
Shipbuilding and ship machinery	10,000–13,000
Automobile maintenance	6,000–7,000
Aviation	1,700–2,200
Accommodation	20,000–22,000
Agriculture	18,000–36,500
Fisheries	7,000–9,000
Food and beverage manufacturing	26,000–34,000
Food services	41,000–53,000
Total	**262,700–345,150**

*Government estimates based on the Notification of Status of Foreign Workers to the Ministry of Health, Labour and Welfare (as of end-Oct 2017)

Call center support in 5 languages, etiquette seminars, networking events

Anchored by the activities of our Global Support Center (GSC) in Shinjuku, we are working to strengthen our framework for accepting foreign national tenants. Major activities include seminars about proper etiquette necessary to live in Japan, hands-on garbage sorting practice and networking events like New Year parties and career support meetings. Through these initiatives we hope to build relationships of trust with tenants and improve their etiquette. We also provide call center support services over the phone in 5 languages of English, Chinese, Korean, Portuguese, and Vietnamese to address any matters tenants wish to discuss.

Visits to GSC by nationality (FY2018)



- Vietnam 52.0%
- China 16.4%
- South Korea............. 12.7%
- Taiwan........................ 5.8%
- English-speaking countries 3.5%
- Nepal.......................... 1.6%
- Other........................... 7.9%

Nationality	Total (people)	YoY
Vietnam	854	+11.3%
China	269	-38.7%
South Korea	209	+104.9%
Taiwan	96	+5.5%
English-speaking countries	57	-40.6%
Nepal	27	+92.9%
Other	130	+56.6%
Total visitors	**1,642**	**+3.1%**

Foreign national employees on the rise

As part of our initiatives on diversity, we are ramping up the employment of a global workforce. As of the end of March 2019, 220 foreign national employees are working at Leopalace21.

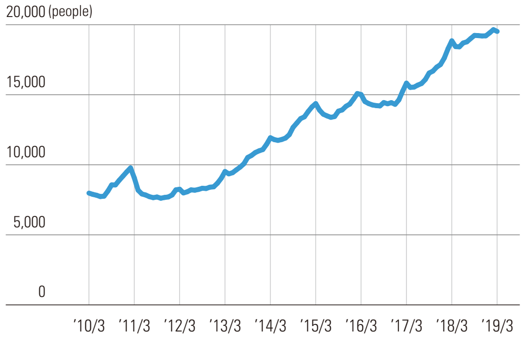
Moreover, with the goal of creating a comfortable working environment in the future, we are currently conducting a workplace environment survey on our foreign national employees. We are also holding round-table discussions on the topic of empowering foreign national employees and hearing directly from them about what they find satisfying or challenging.

Nationality	Leopalace21 Employees			
	Total	Full-time	Contract	Part-time
China	67	61	2	4
South Korea	59	54		5
Vietnam	41	22	14	5
Taiwan	11	11		
Myanmar	13	12		1
Philippines	12		5	7
Nepal	6	6		
North Korea	2	2		
Brazil	5	4		1
Malaysia	2	2		
Sri Lanka	1			1
Peru	1	1		
Total	**220**	**175**	**21**	**24**

Growth in foreign national tenants

Foreign national tenants in Japan are increasing year after year. As of March 2019, the number of foreign nationals leasing an apartment stood at 19,519. The number has more than doubled in ten years. Of this figure, tenants from China account for the largest percentage, followed by Vietnam and other Southeast Asian countries, and then South Korea and Taiwan. Of note is the dramatic increase in Vietnamese tenants, which has risen by more than 120 times over the last 10 years. They therefore account for the majority of tenants from Southeast Asia.

Changes in the number of foreign national tenants



Business Overview
At a Glance

Leasing Business

→44P

Development Business

→46P

Segment Overview

Leasing Business

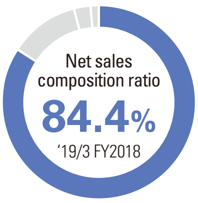
This business is involved in leasing rooms in properties we manage based on our master lease system. One rental agreement we offer allows usage fees to be paid on a monthly basis, the other, the monthly agreement, requires upfront payment of usage fees. We seek to secure tenants using our direct offices, 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.

Development Business

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 entire-building 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.

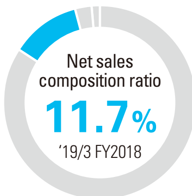
Main Group Companies (Leasing Business)

Leopalace leasing	Corporate housing services
PLAZA Guarantee	Rent guarantee services
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
Enplus Inc. エンプラス株式会社	Relocation management



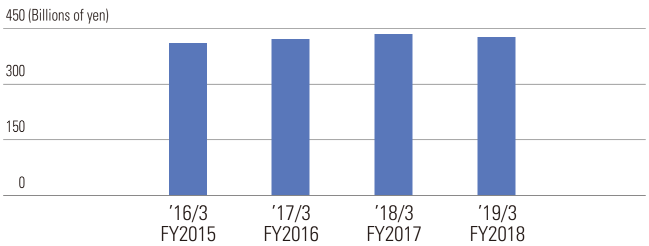
Main Group Companies (Development Business)

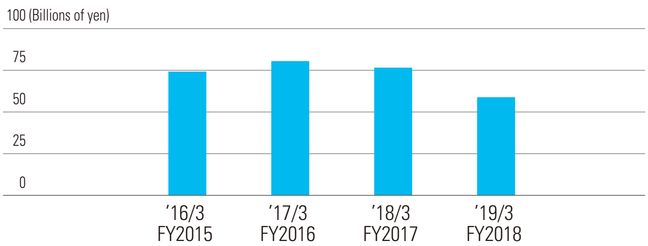
木曽ひのきの家 株式会社もりぞう 戸建注文住宅	Morizou Co., Ltd. Homes made of Kiso hinoki cypress Custom-built homes
LifeLiving	Real estate development



Sales Trend

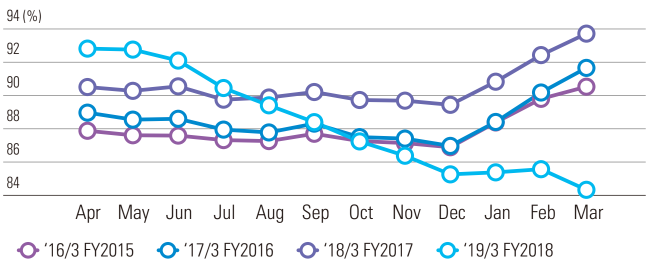
Results of FY2016 (ended March 31, 2017) and after are adjusted to new segments



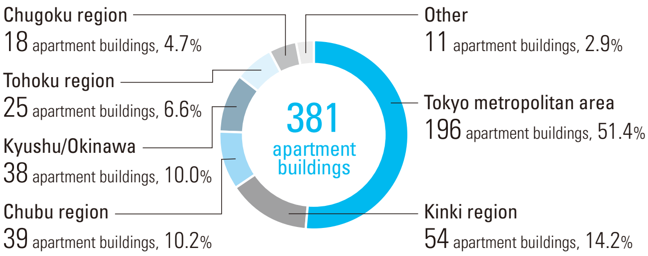


Key Data

Occupancy Rates



Master Lease Apartment Completions (during '19/3 FY2018)



Elderly Care Business

→48P

Hotels, Resort & Other Businesses

→49P

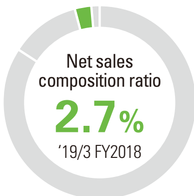
Segment Overview

Under the brand name "Azumi En," our network of community-based nursing care businesses spanned 87 locations mainly in the Kanto region as of March 31, 2019. 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 operations such as day services and short stays for the care receivers to visit and use.

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

アズ・ライフケア
Azu Life Care Co., Ltd.
Elderly care

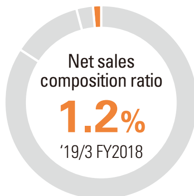


Main Group Companies

Leopalace Guam Corporation
Resort business

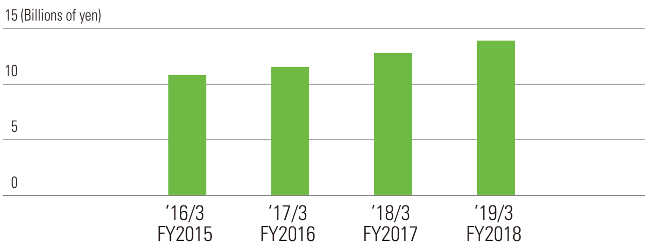
wing mate
Travel agency services

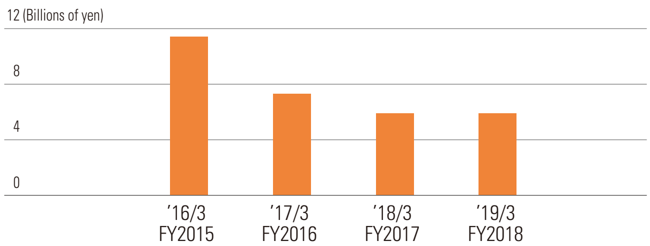
Leopalace Smile
Special subsidiary company



Sales Trend

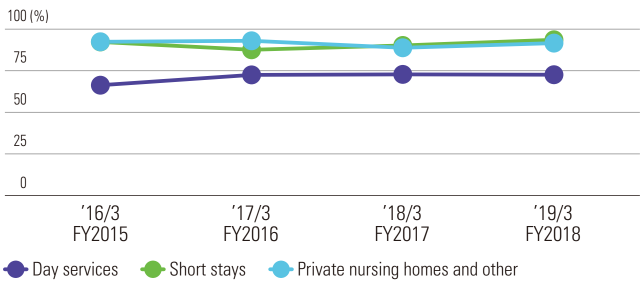
Results of FY2016 (ended March 31, 2017) and after are adjusted to new segments



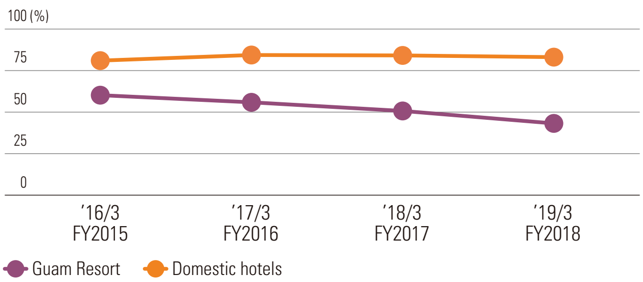


Key Data

Elderly Care Facilities Occupancy Rates (Annual Average)



Guam/Domestic Hotels Occupancy Rates (Annual Average)



Business Overview

Leasing Business




SWOT Analysis

Strengths

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

Weaknesses

- Contracts with individuals sluggish
- Decline in occupancy rates owing to construction defects issue
- Weaker brand power owing to construction defects issue

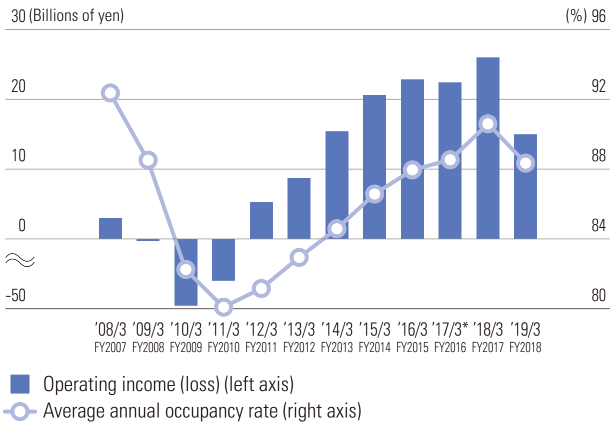
Opportunities

- Working-age population living alone expected to remain unchanged in next 20 years
- Three major metropolitans areas continue to enjoy net population influx
- Increase in corporate recruiting due to labor shortages
- Growing number of Japanese companies entering ASEAN market

Threats

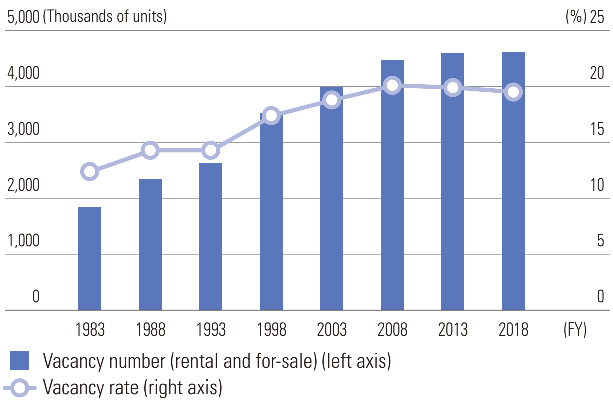
- Declining population
- Consistent increases in rental housing vacancies across Japan
- Geopolitical risks in ASEAN

Operating Income (Loss) and Average Occupancy Rates



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

Rental Housing Vacancy Numbers and Rates (Japan)



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

Performance

Fiscal 2018 net sales in the Leasing Business came to 426,388 million yen (–2.1% YoY) and operating profit totaled 14,987 million yen (–42.5% YoY). Occupancy rates and profit were weakened by the halting of tenant recruitment for properties subject to top-priority investigations in connection with the construction defects issue, despite our efforts to provide extensive added value, such as industry-first computerized lease agreements and security systems in partnership with leading security firms. As a result, the number of units under management at fiscal year-end was 574,798 (+4,126 YoY), the occupancy rate was 84.33% (–9.39 points YoY), and the average annual occupancy rate for the year was 88.34% (–2.25 points YoY).

Business Conditions and Issues

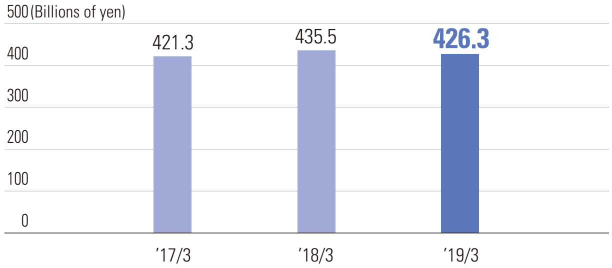
The number of new construction starts in the rental housing market continued to decline from last year due to changes in the business environment, including tighter lending criteria for apartment loans and the dropout of demand for strategies to reduce inheritance tax. The number of construction starts for properties no larger than 30m^2—our target market—also declined for the first time in six years, while the number of vacant houses for rent continues to increase, which suggests that a recovery in nationwide demand is unlikely. In this environment, we believe a differentiation strategy is key; specifically, a concentrated supply of properties in areas where we anticipate high occupancy rates in the future and the provision of value-added services leveraging our unique strengths.
We also recognize that in addition to taking steps to prevent tenant leaving, we must adopt other measures, such as carrying out proper maintenance and management of properties, normalizing rents and subleasing rents based on market rates, and reviewing routine property management tasks.

Progress of measures related to the Medium-term Management Plan (FY2017-FY2019)

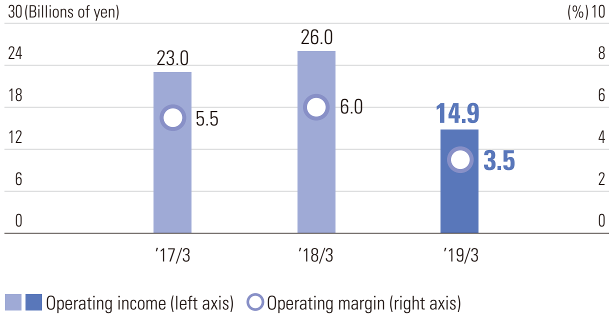
Looking at the Leasing Business environment during the period of our Medium-term Management Plan, despite a decrease in the total number of households, the number of single-person households in our target cohort of the working-age population (aged 15–64) will trend sideways for the next 20 years or so, while the 3 major metropolitan regions of Japan—our target regions—continue to enjoy a net population inflow. In addition, Japan's labor shortage means companies are continuing to hire workers and we therefore expect to see growing demand for dormitories and company residences. In this kind of business environment, we intend to further enhance our presence as a one-stop solutions provider that can meet the varied needs of corporate clients by harnessing our key strength of approximately 570,000 units under management. At the same time, we will encourage long-term tenancies, restrain tenant vacancies, and look to attract foreign students.

We continued to implement initiatives based on this approach in fiscal 2018 and as a result, the number of units under contract by foreign national tenants grew to roughly 35,000, which equates to 7.3% of all units under contract. We intend to further boost the number of foreign national tenants up ahead by expanding our global workforce and providing better living support services to foreigners new to Japan.

Sales



Operating Income / Operating Margin



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 44,951. This fiscal year, we held various contests and aimed to have tenants personalize and form greater attachments to their rooms.

New smartphone app for tenants "&Leo"

We have developed a new smartphone app, &Leo, which combines all the great features of our previous apps LEONET APP and LEO LIFE. This new app lets users view their lease contract information, change various registered information, and even confirm their safety and receive disaster information during times of disaster emergencies. It also offers tenant-only benefits, such as special discounts and recommended services.

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 is provided as standard on all newly constructed residences completed since October 2016. Moreover, Leo Lock, a smart lock key that can lock and unlock the front door using a smartphone, has been provided as standard on properties completed since 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 exceeded 300,000. In June 2017, we acquired the "Excellent Security Rental Apartment" certification.

Security by SECOM

ALways Security OK ALSOK

Business Overview

Development Business

SWOT Analysis

Strengths

- High-quality, high-value-added products (including strong sound insulation)
- Reduced construction costs through industrialization and direct control on construction specialists
- Diversification of constructions, including not only apartments, but also elderly care facilities, buildings with commercial facilities, and custom-built homes

Weaknesses

- Still gathering know-how outside of low-rise apartment buildings
- Inadequate construction management system
- Weaker brand power owing to construction defects issue

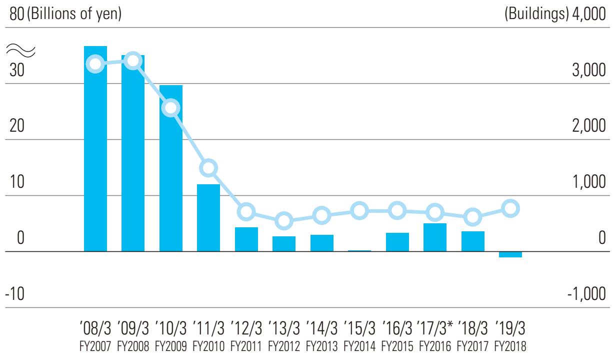
Opportunities

- Major increase in people subject to inheritance tax due to tax revision
- Stable trends in smaller (up to 30m^2) new rental housing construction starts

Threats

- Construction demand peaking toward 2020 Tokyo Olympics and Paralympics with rising construction costs
- Rental property vacancies increasing across Japan

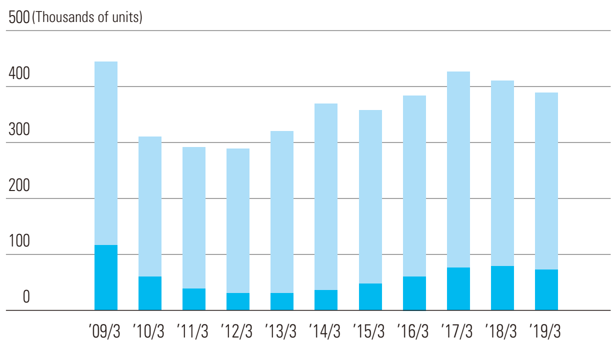
Operating Income, Trend in Building Completions



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



30m^2 or less more than 30m^2

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

Performance

Owing to a downturn in building construction contracts due to the external environment surrounding apartment construction, total orders received in fiscal 2018 in the Development Business amounted to 64,495 million yen (–15.0% YoY) and net sales came to 58,992 million yen (–23.0% YoY) for an operating loss of 995 million yen. We are working to improve profitability by focusing our efforts on winning orders in Japan's 3 major metro areas where we anticipate continued population growth and high occupancy rates in the future, introducing high-quality, cutting-edge strategic products, expanding construction variations to optimize ideal land usage, and reviewing product prices and supply channels. Nevertheless, orders and earnings decreased in fiscal 2018 on the impact of media reports concerning apartment construction and apartment loans.

Business Conditions and Issues

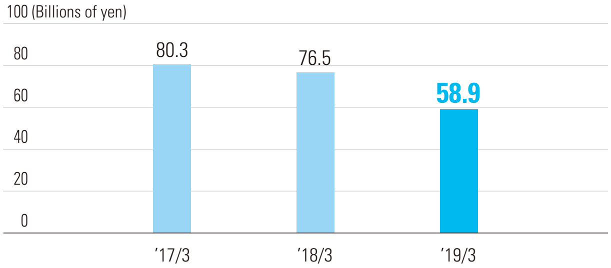
Despite signs of improvements in corporate earnings, employment and income conditions, the environment surrounding the Development Business was unfavorable as a result of media reports concerning apartment construction and apartment loans. New rental housing construction starts declined for the second year running and construction of properties no larger than 30m^2—our area of expertise—also declined for the first time in six years. Japan's rental housing market is currently saturated when assessed at the national level. In this environment, we have stopped taking new orders in fiscal 2019 so that we can focus all of our energy on dealing with the problem of construction defects.

Still, with a view to future growth, we will strive to strengthen product appeal by incorporating the perspectives of tenants into product development, beef up the seismic capacity of our products, and take steps to improve sound insulation and security.

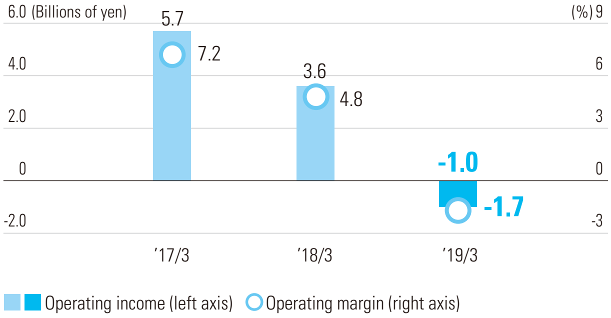
Progress of measures related to the Medium-term Management Plan (FY2017-FY2019)

Looking at the Development Business environment during the period of our Medium-term Management Plan, new rental housing construction starts for properties no larger than 30m^2 declined for the first time in six years and the number of vacant houses for rent continued to consistently increase. As a result, intensification of market competition will be unavoidable, but we will continue to supply high-quality, high value-added products and services in our quest to become the partner of choice among customers. In March 2012 we started accepting non-apartment construction contracts to erect buildings for businesses, such as social welfare facilities and child-care centers. We also engage in business matching with land owners in the field of buildings with commercial facilities. Moreover, with the goal of improving our after-sales services, we organize events at which owners can talk with professionals like external tax accountants and financial planners.

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 impress potential tenants with "admiration" and "sparkle" and invites fresh thinking about living spaces that come with unique added value.

MIRANDA ミランダ

CLEINO

With fine-tuned floor plans, equipment, 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.

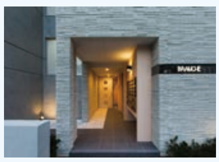
CLEINO クレイノ

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

Strengths

- Operation of 87 facilities in Kanto and Chubu regions
- Addressing various needs, including day service, short stay, and other fee-based nursing homes

Weaknesses

- High labor-cost burden

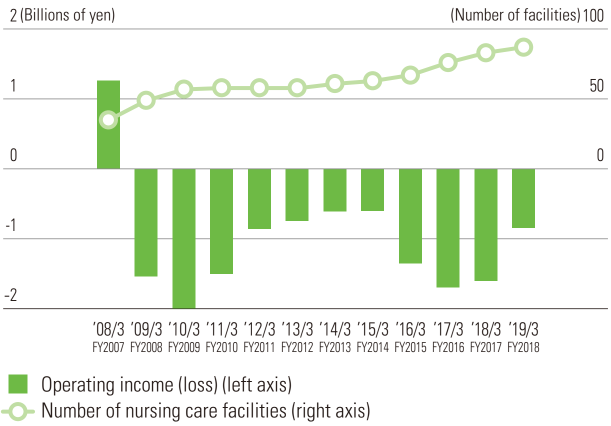
Opportunities

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

Threats

- 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, through which we operate the Azumi En network of nursing care facilities, net sales in fiscal 2018 totaled 13,922 million yen (+8.7% YoY). Occupancy rates remained steady thanks to initiatives aimed at improving customer satisfaction and as a result the operating loss improved by 749 million yen year on year to 846 million yen. In positioning the Elderly Care Business as a growth strategy business, we have expanded our facilities in recent years. As of March 31, 2019, we operated 87 facilities including newly opened four facilities in fiscal 2018.

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 to achieve profitability at an early stage by increasing utilization rates and enhancing operational efficiency.

Key Products and Services

Azumi En

As of March 31, 2019, we managed 87 "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

Strengths

- Business synergies with stakeholders

Weaknesses

- Inadequate marketing to general customers other than stakeholders

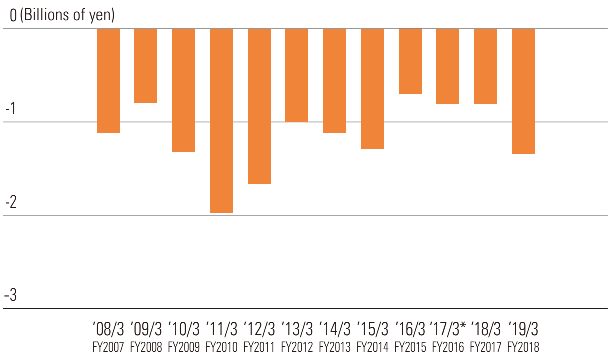
Opportunities

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

Threats

- 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 2018, sales in our Hotels, Resort and Other Businesses amounted to 5,919 million yen, up 0.2% from the previous year, and operating loss was 1,346 million yen, a loss increase of 500 million yen. In October 2017, 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

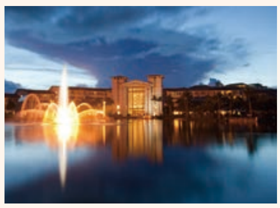
Leopalace Hotels

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 facilities.

*Hotels in Sapporo, Sendai, and Hakata are scheduled to be sold at the end of October, 2019.

Leopalace Resort Guam

Leopalace Resort Guam is fully equipped with sports facilities that meet international standards. Its swimming pool has been certified as a JOC-authorized swimming competition center and its golf courses are certified by the Japan Golf Association to host training camps. Furthermore, the resort's Medallion Rooms have been awarded the highest hotel grade of L by the Japan Travel Bureau.



Initiatives for Strengthening Management Foundation

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.

Social

Basic CSR Action Policy	SDGs to which We Aim to Contribute		
Providing high-quality services and supporting affluent living P52	Goal 10	Reduce inequality within and among countries	10
	Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable	11
	Goal 13	Take urgent action to combat climate change and its impacts	13
Creating pleasant work environments and developing diverse human resources P54	Goal 3	Ensure healthy lives and promote well-being for all at all ages	3
	Goal 5	Achieve gender equality and empower all women and girls	5
	Goal 8	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	8
Contributing to local communities P56	Goal 4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	4
	Goal 10	Reduce inequality within and among countries	10
	Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable	11

Environment

Basic CSR Action Policy	SDGs to which We Aim to Contribute		
Creating an environmentally friendly society P58	Goal 3	Ensure healthy lives and promote well-being for all at all ages	3
	Goal 7	Ensure access to affordable, reliable, sustainable and modern energy for all	7
	Goal 13	Take urgent action to combat climate change and its impacts	13

Governance

- Toward a Stronger Corporate Governance System P18
- Basic Approach to Corporate Governance P20
- Board Members' Compensation P21
- Corporate Governance Dialogue P22
- Compliance P28
- Risk Management P30
- Directors and Audit & Supervisory Board Members P32

Basic CSR Action Policy	SDGs to which We Aim to Contribute		
Engaging in sound, constructive communication with stakeholders P60	Goal 17	Strengthen the means of implementation and revitalize the global partnership for sustainable development	17

Basic CSR Action Policy

Providing High-Quality Services and Supporting Affluent Living

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

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 Launch of Online Tenancy Application System

With the introduction of an online tenancy application system provided by IT firm ITANDI, Inc., we have established a system whereby prospective tenants can apply for any of our rental properties in Japan without having to visit a branch office. The use of an online system for prospective tenants to directly fill out application forms for any of our roughly 570,000 properties under management listed on our website is the largest and first such initiative in the industry. The computerization of application forms shortens input time, prevents errors, and improves operational efficiency. Going forward, we aim to further promote operational efficiency and work on improving customer satisfaction.

Online Tenancy Application System

2 Living Support for Foreign National Tenants

We opened a Global Support Center (GSC Shinjuku*) to provide dedicated in-branch support services to foreign customers currently living in our apartments. Our employees, including 15 foreign national staff members, offer a reassuring and comfortable living environment to foreign customers from the time they become tenants through to the time they leave by providing general living support in their native language. Services include various explanations upon moving in to the apartment and consultation regarding various issues that may arise during their tenancy. We will continue to implement initiatives aimed at maintaining and improving quality of life for foreign tenants.

*We also opened a GSC in Nagoya in June 2019.

Etiquette seminar for foreign tenants

Main Activities and Targets the CSR Committee Oversees

Main Activities	SDGs	Restatement as ISO26000 Core Subjects	FY2018 Targets	FY2018 Results	Self-assessments	FY2019 Targets
Devise and market products that take surroundings into account	11		Security system 6,599 rooms Security camera 1,417 buildings	5,375 rooms 1,009 buildings	△	**4,442 rooms** **920 buildings**
Reduce incoming calls ratio to service centers	11		Incoming call ratio (monthly avg.) vis-à-vis total no. of tenants Below 8.0%	6.40%	◎	**Below 6.0%**
Support schools and students via industry-academia-government cooperation	4, 11	6. Consumer issues	Industry-academia-government partnership planning 18 events	23 events	◎	**12 events**
Install parcel delivery lockers	11, 13		70 locations	87 locations	◎	**50 locations**
Develop support system for rising number of foreign tenants (Global Support Center)	10, 11		Etiquette seminar participants 2,500	1,936	△	**2,600**

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

3 Provision of Housings with High-security Systems

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 310,000 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.

防犯 優良賃貸

MIRANDA ミランダ

CLEINO クレイノ

4 More than 100 PUDO Stations Installed, the Most in the Real Estate Industry

Since 2016 we have continued to install open-type parcel delivery lockers known as PUDO Stations (provided by Packcity Japan). As of December 2018, we had installed these lockers at more than 100 of our properties. More and more people are shopping online but unable to be at home during designated parcel delivery times owing to changing lifestyles. A nearby PUDO Station locker resolves this problem. They are also helping to alleviate the issue of labor shortages at delivery companies. We will continue to install more of these lockers up ahead in an effort to improve customer convenience and find solutions to problems faced by society.

Open-type parcel delivery lockers

Basic CSR Action Policy

Creating Pleasant Work Environments and Developing Diverse Human Resources

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

Our Basic View: Diversifying Work Styles and Human Resources

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 Leopalace21 won women’s empowerment excellence award by the Tokyo Metropolitan Government

The Tokyo Metropolitan Government presents awards to companies, organizations, and individuals in recognition of their efforts to further the empowerment of women with the goal of realizing a society in which all women can lead diverse lifestyles according to their own ambitions and capabilities. Leopalace21 was presented with an award for excellence in the industry category in recognition of our initiatives on supporting a work-life balance and career planning for female employees mainly thanks to the introduction of our so-called “Come Back” rehiring system, which makes it easy for employees who have left the Company due to a major life event to return to work at a later time. We will continue to enhance the work-life balance of female employees with the aim of realizing a society in which women can play more active roles.


平成三十年度
東京都女性活躍推進大賞優秀賞
株式会社レオパレス21殿
貴団体は女性の活躍推進に取り組み
全ての女性が意欲と能力に応じて
多様な生き方が選択できる社会
づくりに尽力されました
その功績は顕著でありますので
これを賞します
平成三十一年二月十六日
東京都知事

2 Leopalace21 selected in top 100 telework pioneers

As a company actively introducing or making use of teleworking, Leopalace21 was selected as one of the top 100 telework pioneers for fiscal 2018 by Japan’s Ministry of Internal Affairs and Communications. We introduced a telework system in 2016 and have since encouraged employees (with the exception of some business divisions) to adopt flexible working styles, whether it be mobile working or remotely working from home. As a result, the number of overtime hours worked by Leopalace21 employees has declined for the third straight year. We will continue to actively implement this initiative with the aim of creating a pleasant working environment.

TW100
Telework Pioneer

3 Launch of 11-hour minimum work-interval system

We have introduced a work-interval system mainly to protect the health of our employees and ensure a proper work-life balance. The Japanese government has set a target of getting at least 10 percent of companies to launch a work-interval system by 2020, a policy that we were quick to throw our support behind. We decided on an interval period of at least 11 hours, in line with the standard of similar systems already widely implemented in Europe. Under our system, employees that fail to rest for at least 11 hours on 10 or more days in the month can voluntarily meet with an occupational physician and receive guidance. Over the longer term, this interval period will become mandatory and help to encourage work-style reforms by further reducing the number of overtime hours worked.

Main Activities and Targets the CSR Committee Oversees

Main Activities	SDGs	Restatement as ISO26000 Core Subjects	FY2018 Targets		FY2018 Results	Self-assessments	FY2019 Targets
Accommodate diverse working styles	8	2. Human rights 3. Labor practices	Paid vacation day usage rate	70%	76.80%	○	**70%**
Planned human resources development	8		No. of training participants	A total of 3,441 persons	2,322 persons	×	**1,090 persons**
Hire diverse human resources	8		Disabled employee ratio	2.20%	2.23%	○	**2.20%**
Diversity forum	5		Held	4 times	4 times	○	**2 times**
Health forum	3		Held	2 times	2 times	○	**Finish**

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

4 Promoting the use of paternity leave

Owing to our "Welcome Baby Registration System" and other schemes that encourage employees to take paternity leave, 30% of male employees whose spouse gave birth during the period October 1, 2016 through September 30, 2017 started taking paternity leave before October 1, 2018. This is well above the government's target of 13% by the year 2020. Our goal up ahead is to boost employee motivation and productivity by creating a workplace environment in which individual employees can fully unleash their capabilities and potential.

*In recognition of these initiatives, Leopalace21 has been accredited with the "Platinum Kurumin" certification for achieving a paternity leave ratio of equal to or more than 13%.

5 Selected as a 2019 outstanding health and productivity management organization (White 500) for third year running with maximum 5-star rating

As a frontrunner in healthcare-focused management and based on our health and productivity management declaration, we actively promote a healthcare-focused management strategy because we believe the mental and physical health of each and every employee to be the driving force behind innovation. Accordingly, our initiatives have been recognized for the third year running with our selection in the White 500 as an organization having outstanding health and productivity management.

2019
健康経営優良法人
Health and productivity
ホワイト500

6 Healthcare-focused management initiatives

In 2018 we newly created a Healthcare Promotion Office and implemented measures aimed at preventing lifestyle diseases. For example, we have raised awareness about the importance of exercise and encouraged employees to participate in club activities or commute to work wearing sneakers. We have also implemented group specified healthcare guidance sessions. Moreover, we are also actively taking steps to improve our workplace environment with the use of stress checks. We will step up our efforts on healthcare-focused management with the goal of reducing the number of smokers in the Company, lowering the rate of obesity to 25% (26.9% last year), raising the percentage of employees exercising regularly to 65% (63.9% last year), lowering the percentage of mental health sufferers to 0.5% (0.7% last year), and boosting readership of Wellness Letter, our in-house newsletter about health and well-being.

7 Launch of mentor program for new employees

In fiscal 2019 we launched a mentor program for new employees. The objectives of this program are to nurture new employees and retain them with the Company through regular meetings with a mentor. Cloud-based tools are utilized for daily self-reflection and support is provided by other employees in order to assist the autonomy of new employees.

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 peace.

Our Basic View: Our Businesses Help Local Communities to Sustain Social Cohesion

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 increased crimes 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 Signing of agreement on creating a society where crime is less likely to occur with Gunma Prefectural Police

In February 2019 we entered into an agreement with the Gunma Prefectural Police regarding the building of a society where crime is less likely to occur. This agreement aims to suppress crime and reduce the number of damages from criminal activities by having both the police and private companies collaborate on keeping watch over the community at large. We are doing our utmost to foster a sense of crime prevention by raising awareness of crime among our rental property tenants in Gunma and having Leopalace21 employees that work in the prefecture attend training sessions.

Signing ceremony

2 Certificate of appreciation from Foundation for MultiMedia Communications

We live in a society where smartphones and the internet are ubiquitous and improving information literacy among children and teaching them how to use the internet safely and securely is a growing concern. Since August 2017, Leopalace21 has attended “e-Net Caravan” instructor accreditation courses hosted by the Foundation for MultiMedia Communications and we actively organize and implement e-Net user education courses. While few instructors actually give lectures even after taking the accreditation course, we have organized more than 30 lecture sessions nationwide and in fiscal 2018 we delivered more than five lectures in the Tohoku region. We will continue to carry out these activities up ahead with the aim of boosting information literacy.

Certificate of gratitude presentation ceremony

Main Activities and Targets the CSR Committee Oversees

Main Activities	SDGs	Restatement as ISO26000 Core Subjects	FY2018 Targets	FY2018 Results	Self-assessments	FY2019 Targets
Implement cleanup campaigns	11	7. Community involvement	No. of cleanup events at construction sites 5 participants per site	4.36 persons per site	△	**5 persons per site**
			Cleanup campaign by property management members 1time	1 time	○	**Number of participating branches 170** **Number of participants 700persons**
Support for UNHCR (UN agency supporting refugees)	10		Donation 650,000 yen	394,349 yen	×	**595,000 yen**
Contributions from property owners	11		"Leo Miles" donated 1,100 point packages	1,091 point packages	△	**950 point packages**
Donations from "volunteer" vending machines	11		Donation 2,000,000 yen	1,824,728 yen	△	**2,000,000 yen**
Sports promotion	4		Event organization: 1 Sponsor: 4	Event organization: 1 Sponsor: 6	○	**Finish**

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

3 Leopalace21's environmental protection activities recognized on Plastics Smart -for Sustainable Ocean- campaign website

In the three years since 2016, a total of 33 of our employees have participated in 10 of the regular Kamo River cleanup hikes. This riverside cleanup event is held four times a year by a volunteer group comprising local Kyoto residents. In 2018, our commitment to participating in this activity was featured on the "Plastics Smart" campaign website. This campaign was launched by Japan's Ministry of the Environment for the purpose of backing collaborative initiatives aimed at resolving the problem of marine plastic waste in the world's oceans organized by individuals, local governments, NGOs, corporations, research institutes, and many other different entities.

We hope to contribute to regional environmental conservation through this initiative in the future.

Plastics Smart campaign website
http://plastics-smart.env.go.jp/en/case/?id=380

Plastics Smart

4 Supporting the 2018 Pink Ribbon Festival

At the 2018 Pink Ribbon Festival—an event promoting the importance of early detection, diagnosis, and treatment of breast cancer—we set up a booth on the day of the Smile Walk in Tokyo, a charity event, to promote awareness and understanding of breast cancer and urge more women to undergo checkups. Since 2016 we have supported the Pink Ribbon Festival and going forward we will continue to take part in activities that contribute to the empowerment of women together with society.

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 CO_2 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 fulfil our responsibility for reducing the 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

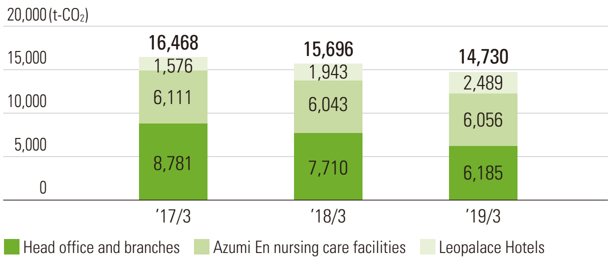
1 Reducing Our Environmental Impact via Business Activities

We are working hard to reduce the environmental footprint of our business activities and in similar fashion to last year we implemented a number of initiatives in fiscal 2018 in order to achieve this goal. For example, we took part in the government's "Warm Biz" and "Cool Biz" campaigns (dressing warmly in winter and dressing down in summer, respectively), participated in the "Eco Green Card" program, recycled waste material, encouraged the use of light motor vehicles, installed LED lighting at our facilities, launched the sale of an environmentally friendly accommodation package at Leopalace Resort Guam, and started using digital copies of materials during meetings.

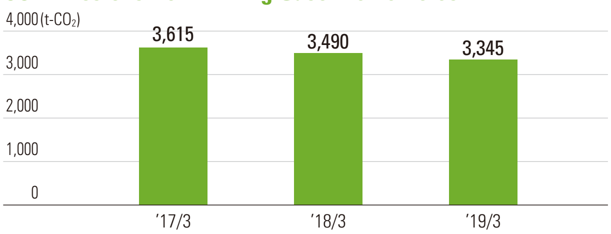
2 CO_2 Emissions (Scope 1, 2, 3)

We consider environmental impact monitoring to be essential for environmental conservation activities. Since fiscal 2017, we have been calculating CO_2 emissions from electricity and gas use as well as CO_2 emissions from driving gasoline vehicles. We also disclose CO_2 emissions for Scope 3, given the importance of understanding the CO_2 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, CO_2 emissions from electricity and gas use at rental housing are large, 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 also succeeded in lowering CO_2 emissions in Scopes 1 and 2 (electricity and gas use and gasoline use) and Scope 3 in the fiscal 2018, continuing from the previous year.

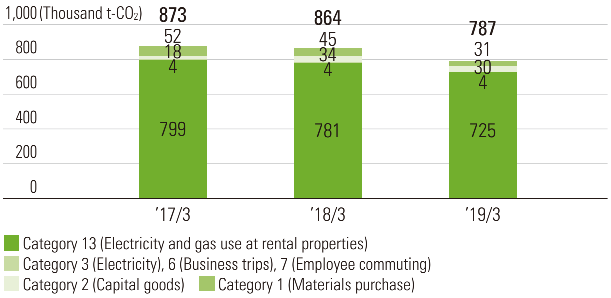
CO_2 Emissions from Electricity and Gas Use



CO_2 Emissions from Driving Gasoline Vehicles



CO_2 Emissions (Scope 3)



Main Activities and Targets the CSR Committee Oversees

Main Activities	SDGs	Restatement as ISO26000 Core Subjects	FY2018 Targets	FY2018 Results	Self-assessments	FY2019 Targets
Contribute to CO_2 reduction by solar power generation*	7		Amount of reduction 23,000 t-CO_2	24,365 t-CO_2	○	**23,000 t-CO_2**
Collect PET bottle caps and make donations for vaccines	3		PET bottle cap 1,400,000 caps CO_2 reduction 11,025 kg Polio vaccine For 1,750 people	1,054,480 caps 8,304 kg For 1,318 people	△	**1,200,000 caps 9,450 kg For 1,500 people**
Develop ZEH (Net Zero Energy House) rental housing that contributes to low-carbon society	13	4. Environment	Acquire ZEH certification for participating properties	ZEH certification Confirmation application submitted	×	**Consideration of airtightness and ZEH for energy saving**
Develop IoT that can contribute to the environment	13		Develop 2 items	Development completed 1 item Under development 2 items Development suspended 1 item	△	**Develop 2 items**
Reduce CO_2 emissions	13		5% reduction from FY2016	10% reduction	◎	**5% reduction from FY2017**

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

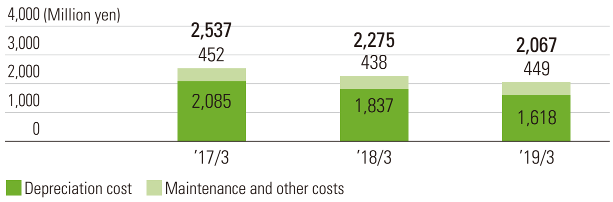
3 Environmental Accounting

The Company makes active efforts to reduce its environmental impact through solar power generation. The right figures illustrate the results of applying our solar power generation to environmental accounting. CO_2 emissions were reduced by 24,365t, equivalent to the amount of CO_2 absorbed per year by about 2 million 40-year-old Japanese cedar trees based on the preliminary calculations of the Forestry Agency.

Environmental Accounting (Related to Solar Power Generation)

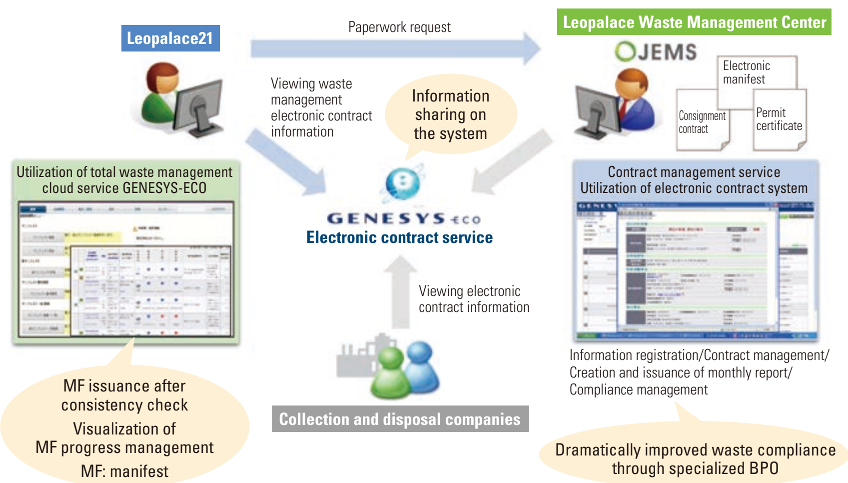
	'17/3	'18/3	'19/3
Economic impact (revenue from electricity sale)	3,008 million yen	3,039 million yen	3,011 million yen
Eco impact	24,343t-CO_2 reduction	24,590t-CO_2 reduction	24,365t-CO_2 reduction

Cost of environmental conservation



4 Introduction of Total Waste Management System at 22 Branches Nationwide

To further promote the proper management of industrial waste generated at new building construction sites, we introduced "GENESYS-ECO", a total waste management system operated by JEMS Inc. Within JEMS we established the Leopalace Waste Management Center as an organization to centrally manage waste disposal consignment agreements. The introduction of this system means that waste disposal business permits, disposal consignment contracts, and electronic manifests can be comprehensively managed using cloud services. Contracts can also be signed electronically. With the establishment of the Leopalace Waste Management Center, we have now constructed a framework to centrally manage the waste disposal consignment agreements that were hitherto managed separately by each branch across Japan. We will continue to make sure we conduct proper management of industrial waste and streamline our operations.



Basic CSR Action Policy

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 that the creation of corporate value over the medium- and long-term and our sustainable growth as an enterprise are 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 and transparent manner to a wide range of stakeholders, including our shareholders. We aim to deliver new value through our corporate activities and continued proactive dialogue with various stakeholders.

Main Activities and Targets the CSR Committee Oversees

Main Activities	SDGs	Restatement as ISO26000 Core Subjects	FY2018 Targets		FY2018 Results	Self-assessments	FY2019 Targets
Build positive relationships with owners	11	7. Community involvement	Property owner briefing sessions	500 times	517 times	○	**520 times**
Offer programs for job-seeking students to support career-development activities	8		No. of events conducted	29 times	35 times	◎	**Finish**
Conduct proactive IR activitie			No. of events conducted for investors and shareholders	22 times	19 times	△	**4 times**

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

Timely and appropriate information disclosure

In order to accurately communicate management information and enhance understanding of and interest in our business activities and management practices, the Leopalace21 Group makes every effort to disclose information in an honest, timely, and appropriate manner to all stakeholders, including shareholders and investors in Japan and overseas. We also aim to disclose information swiftly and fairly in compliance with the fair disclosure rule prescribed in Japan's Financial Instruments and Exchange Act. Going forward, we will strive to actively disclose information and engage in IR activities and also aim to enhance corporate value by furthering understanding of our Group and establishing relationships of trust.

IR Awards

The Company was awarded the Internet IR Excellence Award for its website granted by Daiwa Investor Relations Co., Ltd. in 2018 for the third consecutive year. We also received the "Silver" score in the Gomez IR Site Ranking 2018 by Morningstar Japan K.K.

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 strategies.

IR activities (April 1, 2018 - March 31, 2019)	No. of times	No. of people/ companies
Results briefing for analysts and institutional investors	2	100 people
Facility tour for analysts and individual investors	2	2 people
Meeting with analysts and institutional investors	173	220 companies
Visit to foreign institutional investors	1	17 companies
Events for investors and shareholders	19	1,580 people

Data Compilation

62 Ten-Year Consolidated Financial Highlights
64 Consolidated Financial Highlights
67 Non-financial Highlights
68 Management's Discussion and Analysis
72 Consolidated Balance Sheets
74 Consolidated Statements of Operations
75 Consolidated Statements of Comprehensive Income
76 Consolidated Statements of Changes in Net Assets
77 Consolidated Statements of Cash Flows
79 Notes to Consolidated Financial Statements
115 Independent Auditor's Report
116 Leopalace21 Data Compilation
122 Corporate Profile

Ten-Year Consolidated Financial Highlights

For the years ended March 31	'10/3 FY2009	'11/3 FY2010	'12/3 FY2011	'13/3 FY2012
Net sales	620,376	483,537	458,220	454,285
Leasing Business	342,316	355,752	379,091	383,637
Construction Business (current Development Business)	237,062	107,821	62,913	53,369
Elderly Care Business	8,812	7,785	8,845	9,482
Hotels & Resort Business	6,734	6,491	6,228	6,657
Other Businesses	25,451	5,686	1,142	1,137
Cost of sales	570,749	448,392	403,572	396,508
Selling, general and administrative expenses	79,354	59,605	51,278	50,299
Operating income (loss)	(29,727)	(24,460)	3,369	7,477
Leasing Business	(47,875)	(30,865)	4,052	8,750
Construction Business (current Development Business)	29,744	11,888	4,290	2,748
Elderly Care Business	(1,994)	(1,508)	(855)	(742)
Hotels & Resort Business	(1,324)	(1,973)	(1,663)	(1,005)
Other Businesses Adjustments	(8,278)	(2,002)	(2,454)	(2,272)
EBITDA (Operating income + depreciation)	(23,432)	(18,009)	9,416	13,161
Recurring income (loss)	(33,831)	(32,662)	1,133	11,154
Net income (loss)	(79,075)	(41,742)	372	13,398
At year-end:				
Total assets	396,511	298,274	264,783	261,649
Net assets	70,979	32,187	31,761	56,145
Interest-bearing debt	61,318	43,858	51,654	49,026
Cash flow:				
Cash flow from operating activities	(12,990)	(28,337)	(3,174)	6,069
Cash flow from investing activities	(8,889)	13,143	(3,537)	(6)
Cash flow from financing activities	15,281	(15,890)	7,245	9,148
Amounts per share: (Yen)				
Net assets	466.76	190.84	187.50	265.32
Net income (loss)	(521.91)	(266.48)	2.21	74.85
Cash dividend	–	–	–	–
Ratio:				
Units under management	551,773	571,656	556,207	546,204
Average annual occupancy rate (%)	82.25	80.09	81.16	82.94
Orders received (Millions of yen)	250,247	80,338	50,019	73,006
Equity ratio (%)	17.9	10.8	12.0	21.5
Return on equity (ROE) (%)	(72.8)	(81.0)	1.2	30.5
Return on assets (ROA) (%)	(7.8)	(9.4)	0.4	4.2
Dividend payout ratio (%)	–	–	–	–
Debt/equity ratio (%)	0.9	1.4	1.6	0.9
Number of employees	8,582	7,114	6,165	6,277

*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.

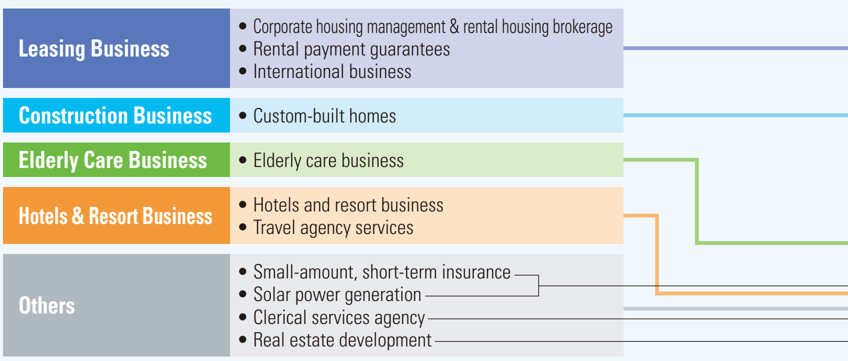
(Notes) 1. U.S. dollar amounts are translated from yen at the rate of ¥110.99 = U.S. $1, the approximate rate prevailing at March 31, 2019.
2. Return on equity (ROE) = Net income/average net assets during the fiscal year x 100
3. Return on assets (ROA) = Recurring income/average total assets during the 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), fiscal 2017 (year ended March 31, 2018), and fiscal 2018 (year ended March 31, 2019) 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)



(Millions of yen)						(Thousands of U.S. dollars)
'14/3 FY2013	'15/3 FY2014	'16/3 FY2015	'17/3 FY2016	'18/3 FY2017	**'19/3 FY2018**	**'19/3 FY2018**
470,883	483,247	511,513	520,488	530,840	**505,223**	**4,551,972**
388,562	399,375	410,641	421,342	435,537	**426,388**	**3,841,687**
63,135	61,312	74,160	80,321	76,587	**58,992**	**531,509**
10,171	10,608	10,798	11,536	12,807	**13,922**	**125,440**
7,571	8,951	11,427	7,287	5,908	**5,919**	**53,334**
1,442	2,999	4,485	–	–	**–**	**–**
401,510	407,433	422,604	427,820	434,762	**428,988**	**3,865,106**
55,906	60,992	67,823	69,769	73,147	**68,844**	**620,280**
13,467	14,822	21,085	22,898	22,930	**7,390**	**66,586**
15,364	20,590	22,848	23,009	26,062	**14,987**	**135,033**
2,951	211	3,340	5,786	3,663	**(995)**	**(8,971)**
(610)	(606)	(1,354)	(1,667)	(1,596)	**(846)**	**(7,627)**
(1,118)	(1,289)	(697)	(4,230)	(5,199)	**(5,754)**	**(51,846)**
(3,119)	(4,084)	(3,051)	–	–	**–**	**–**
19,460	22,558	30,700	32,235	34,656	**20,336**	**183,224**
11,368	13,483	19,909	22,355	22,354	**7,063**	**63,636**
15,730	15,175	19,631	20,401	14,819	**(68,662)**	**(618,633)**
288,165	308,882	327,609	337,828	337,134	**291,790**	**2,628,981**
103,354	124,928	144,865	158,870	159,438	**81,338**	**732,842**
37,227	44,487	50,824	49,918	53,829	**48,047**	**432,900**
15,584	15,715	22,104	27,504	27,338	**(7,212)**	**(64,979)**
(6,929)	(17,550)	(11,087)	(8,653)	(2,336)	**7,379**	**66,485**
8,848	1,747	1,374	(14,048)	(18,354)	**(15,181)**	**(136,779)**
393.05	475.17	550.94	603.76	630.84	**331.87**	**2.99**
69.38	57.73	74.68	77.61	58.02	**(278.58)**	**(2.51)**
–	–	10.00	22.00	22.00	**–**	**–**
548,912	554,948	561,961	568,739	570,672	**574,798**	
84.58	86.57	87.95	88.53	90.59	**88.34**	
81,139	87,395	86,439	87,139	75,905	**64,495**	
35.9	40.4	44.2	47.0	47.2	**27.7**	
19.7	13.2	14.6	13.4	9.3	**(57.2)**	
4.1	4.5	6.3	6.7	6.6	**2.2**	
–	–	13.4	28.3	37.9	**–**	
0.4	0.4	0.4	0.3	0.3	**0.6**	
6,758	7,339	7,846	7,695	7,690	**7,600**	

From Fiscal 2017 (Year ended March 31, 2018)

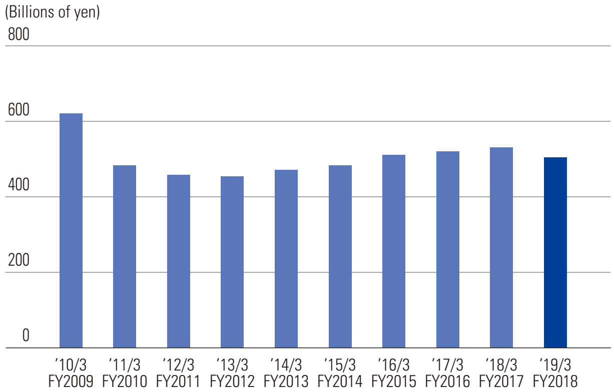
Reference: Fiscal 2018 (Millions of yen)

Business activities	Segment	Net sales	Operating income (loss)
• Corporate housing management & rental housing brokerage • Rental payment guarantees • International business • Small-amount, short-term insurance • Solar power generation	**Leasing Business**	426,388	14,987
• Custom-built homes • Real estate development	**Development Business**	58,992	(995)
• Elderly care business	**Elderly Care Business**	13,922	(846)
• Hotels and resort business • Travel agency services • Clerical agency services	**Hotels, Resort and Other Businesses**	5,919	(5,754)

Consolidated Financial Highlights

Net sales

505.2 billion yen
Down 4.8% y/y

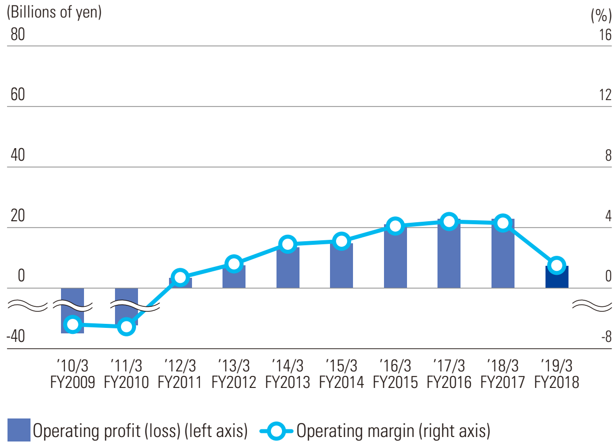


In the fiscal year that ended March 2010 we pushed through structural reforms to rein in Construction Business operations and boost earnings in the Leasing Business mainly in response to a decrease in occupancy rates of our properties, sluggish rent earnings, and a sharp decline in the supply of new apartments, triggered by the global financial crisis. Net sales increased thereafter centering on the Leasing Business and we chalked up five straight years of sales growth. However, sales declined in fiscal 2018 due to the construction defects issue.

Operating profit (loss) / Operating margin

7.3 billion yen
Down 67.8% y/y

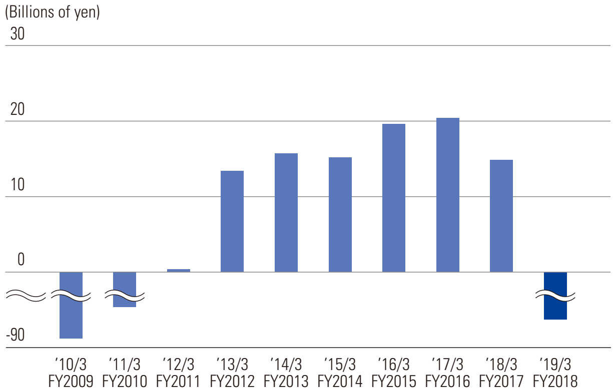
1.5 %
Down 2.9 points y/y



Much like net sales, earnings in the Leasing Business were dented by the impact of the global financial crisis and operating profit fell into the red for two years in a row in fiscal 2009 and 2010. Operating profit gradually recovered thanks to progress made on Companywide structural reforms driven by profits in the Leasing Business, and we recorded seven straight years of operating profit growth from fiscal 2011. However, operating profit declined in fiscal 2018 due to the construction defects issue.

Net income attributable to shareholders of the parent

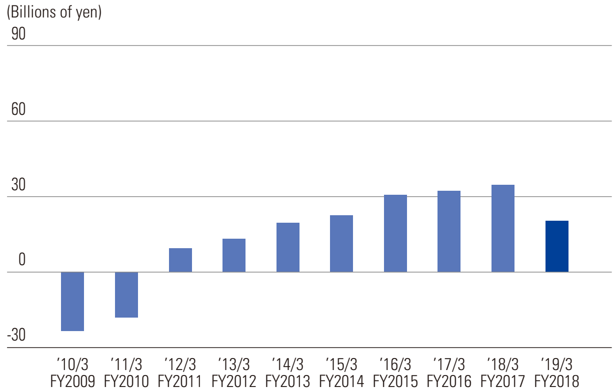
-68.6 billion yen
14.8 billion yen in fiscal 2017



Just like operating profit, earnings in the Leasing Business were dented by the impact of the global financial crisis and net profit attributable to owners of the parent fell into the red for two years in a row in fiscal 2009 and 2010. Net profit returned to the black in fiscal 2011 and continued to increase thereafter as progress was made on Companywide structural reforms, but then declined in fiscal 2017 after we booked an impairment loss and again in fiscal 2018 due to the construction defects issue.

EBITDA (Operating profit + depreciation)

20.3 billion yen
Down 41.3% y/y

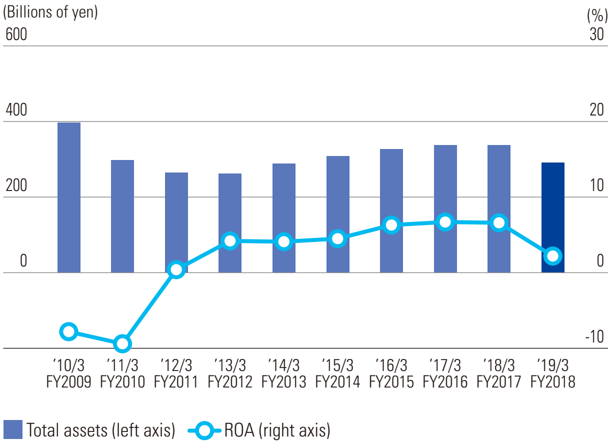


EBITDA—mainly the combination of operating profit and depreciation—steadily increased from fiscal 2011 owing to sustained operating profit growth on an earnings recovery and higher depreciation and amortization stemming from increased capital investments in new businesses in the last few years, including serviced apartments in the ASEAN region. However, EBITDA declined in fiscal 2018 due to the construction defects issue.

Total assets / ROA

291.7 billion yen
Down 13.5% y/y

2.2 %
Down 4.4 points y/y

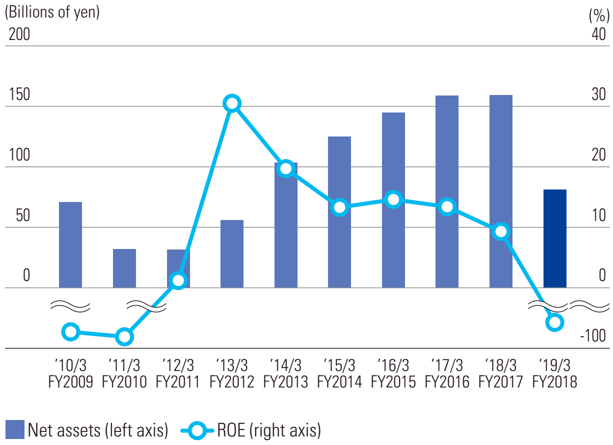


ROA recovered rapidly after returning to the black in fiscal 2011 thanks to the impact of structural reforms. It roughly trended in the 5%–6% range from fiscal 2012 onwards, climbing to 6.6% in fiscal 2017, but then declined to 2.2% in fiscal 2018 owing to the problem of construction defects.

Net assets / ROE

81.3 billion yen
Down 49.0% y/y

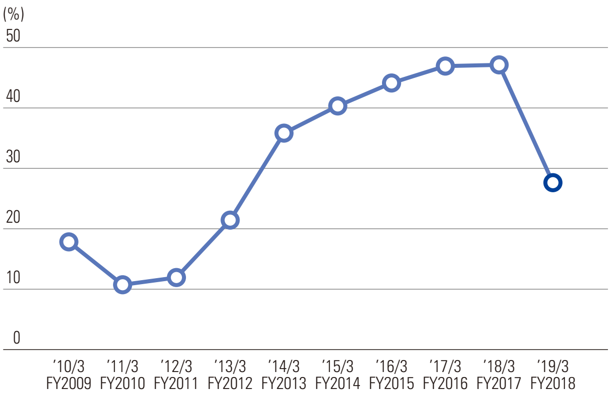
-57.2 %
Down 66.5 points y/y



While earnings have been steadily boosted by a more robust profit structure thanks to structural reforms, reduced interest-bearing debt has continued to place a squeeze on our financial leverage. As a result, ROE hovered in the 10% range from fiscal 2013 but then dipped to 9.3% in fiscal 2017 as a result of a one-off increase in impairment losses. It then fell to –57.2% in fiscal 2018 owing to the problem of construction defects.

Equity ratio

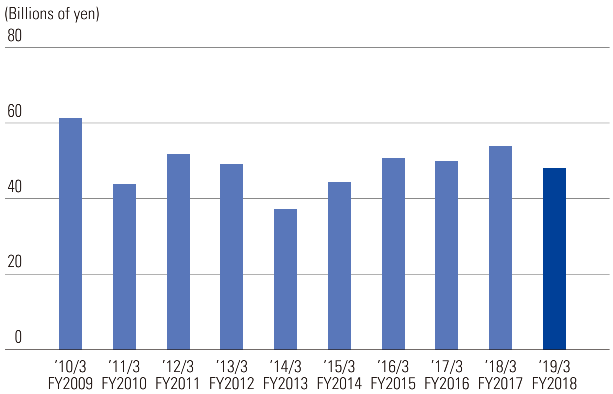
27.7 %
Down 19.5 points y/y



When earnings remained in the red for the second straight year in fiscal 2010, the equity ratio had slumped as far as 10.8%. In step with the earnings recovery since then, however, we have endeavored to raise the equity ratio and achieve financial soundness. Accordingly, it recovered to 47.2% in fiscal 2017, but was dragged back down to 27.7% in fiscal 2018 by the impact of the construction defects issue.

Interest-bearing debt (incl. Lease obligations)

48.0 billion yen
Down 10.7% y/y

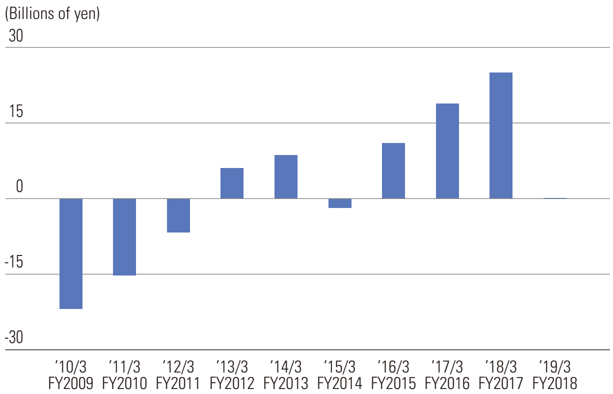


We have focused on reducing and curtailing the debt ratio in consideration of repayment capacity as well as compression of liabilities since interest-bearing debt marked 61.3 billion yen in the fiscal year ended March 2010, the highest record in the last 10 years. These efforts reduced our liabilities to 48.0 billion yen as of the fiscal year ended March 2019. The debt ratio has remained low, hovering at around 0.6 times.

Free cash flow

↓ 0.1 billion yen

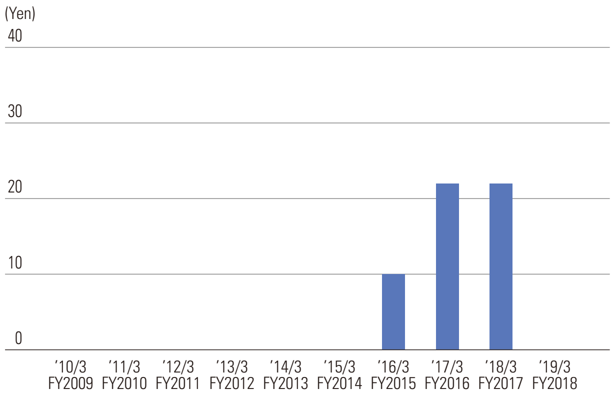
Down 99.3% y/y



While structural reforms have helped improve earnings and increase cash flows from operating activities mainly in the form of net income before tax adjustments, we have curtailed the outflow of cash used for capital investments and other investing activities. However, free cash flow only came to 100 million yen in fiscal 2018 mainly because of the impact of net cash outflow from operating activities.

Cash dividend per share

↓ 00.00 yen

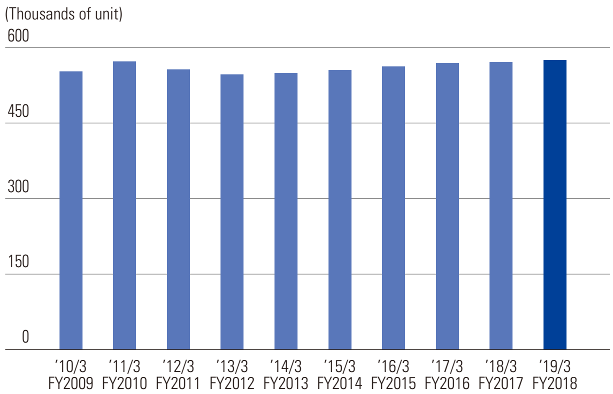


We resumed dividend payments in fiscal 2015 after suspending dividends for six consecutive years from fiscal 2009 when net profit fell into the red until fiscal 2014 even after earnings had returned to the black. The impact of the construction defects issue, however, meant we were forced not to make dividend payments in fiscal 2018.

Units under management

↑ 574,798 unit

Up 0.7% y/y

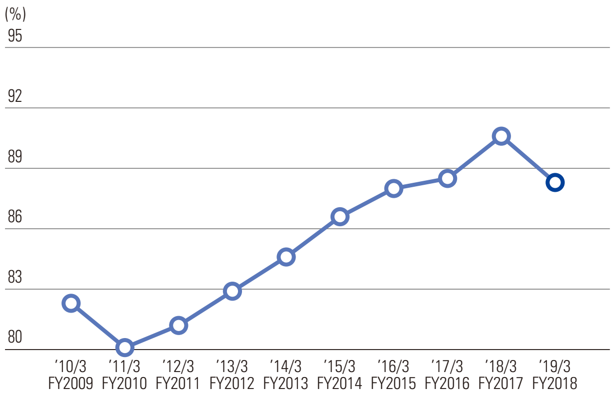


Expanding the number of units under management directly strengthens our earnings base because we consider the recurring income from rental housings in the Leasing Business to be our core source of revenue. We are striving to expand our number of units under management by continuing to supply properties in areas where we expect strong tenant demand. Our primary focus is on Japan's 3 major metro areas where there is ongoing population inflow. In fiscal 2018, we increased our units under management by 4,126 from the previous year to 574,798.

Average annual occupancy rate

↓ 88.3 %

Down 2.3 points y/y

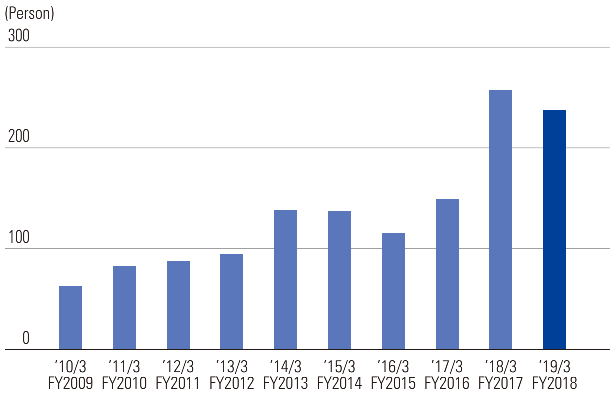


Rental housing occupancy rates tend to peak in March ahead of the new school year and before new company recruits head off to work. Occupancy rates then typically turn down in April, before gradually picking up again. In an effort to encourage long-term tenancy, we have been working to enhance the value of our properties and implementing measures to try to weaken the impact by this seasonal cycle. As a result, the average annual occupancy rate had gradually increased before it was pulled back down in fiscal 2018 by the impact of the construction defects issue.

Non-financial Highlights

No. of employees on childcare leave

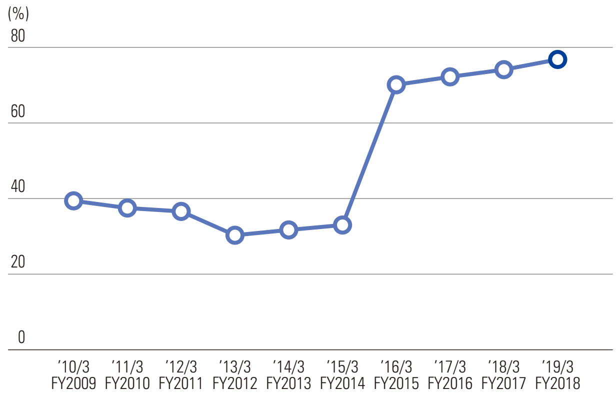
238 person
Down 7.4% y/y



Under the guidance of the Japanese government, work-style reforms for both men and women are gaining momentum. This includes the significance of working styles and associated changes in behavior. To this end, we are taking steps towards developing a workplace environment with systems in place to make it easier for employees to request childcare leave, in addition to considering improvements to work-life balance, such as reducing the amount of overtime work and encouraging increased use of paid holidays. As a result, the number of employees taking leave is increasing year after year, while the number of male employees taking paternity leave is also on the rise.

Ratio of paid leave usage

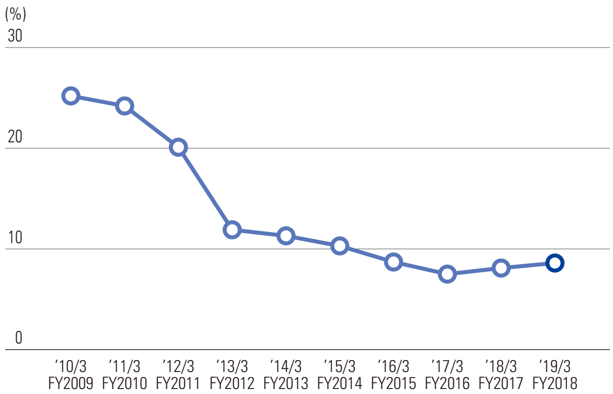
76.8 %
Up 2.7 points y/y



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 leave, such as the summer and winter planned five-day annual leave and the three-day refreshment leave, 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 fourth successive year it stayed above 70%.

Rate of workforce turnover

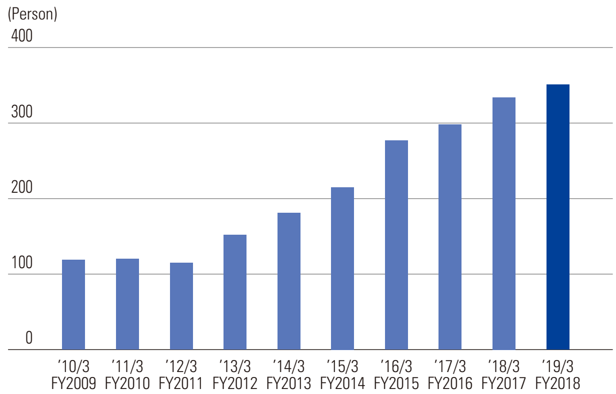
8.6 %
Up 0.5 points y/y



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 25.2% 9 years ago in the fiscal year ended March 2010, to 8.6% in the fiscal year ended March 2019.

No. of employees with foreign citizenship

351 person
Up 5.1% y/y



We believe that a workforce of people from a broad array of backgrounds with diverse values helps create new value and greatly contributes to the Company's growth. We are therefore actively hiring foreign national employees in order to secure the personnel needed to achieve such levels of diversity. The number of non-Japanese employees at Leopalace21 in fiscal 2018 came to 351, which marks a nearly three-fold increase from nine years ago (fiscal 2009).

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 and employment.

New housing starts of leased units decreased two years in a row (down 4.9% year-on-year), due to the saturation in demand for inheritance tax reduction strategies as well as the financial institutions' more cautious loan approval policy in place. 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, Leopalace21 (the "Company") aims to achieve targets of its Medium-term Management Plan "Creative Evolution 2020" by creating corporate value and new social value, under the basic policy of "supporting continuous growth of core businesses in ways that further increase corporate value while constructing a base for growth areas." Also, in order to resolve the problem concerning construction defects as soon as possible, we are marshaling our corporate forces to conduct investigations and repairs.

2. Analysis of Business Results

(1) Net Sales

Company earnings deteriorated as a result of the problem related to construction defects, and consolidated net sales for the subject fiscal year came to 505,223 million yen (down 4.8% year-on-year). In the Leasing Business, net sales was 426,388 million yen (down 2.1% year-on-year), and net sales in the Development Business was 58,992 million yen (down 23.0% year-on-year).

Net Sales by Segment

(Millions of Yen)	FY2017	FY2018	Change
Leasing	435,537	**426,388**	**(9,148)**
Development	76,587	**58,992**	**(17,595)**
Elderly Care	12,807	**13,922**	**1,115**
Hotels, Resort & Other Business	5,908	**5,919**	**11**
Total	530,840	**505,223**	**(25,616)**

(2) Earnings

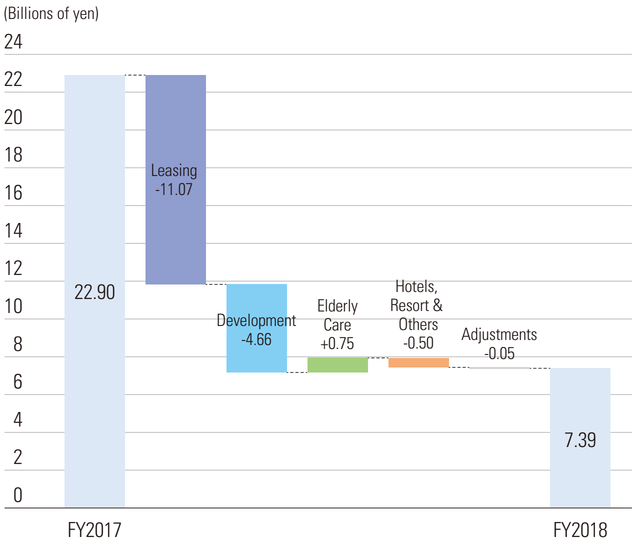
Gross profit was 76,235 million yen (down 20.7% year-on-year), operating profit was 7,390 million yen (down 67.8% year-on-year), recurring profit was 7,063 million yen (down 68.4% year-on-year), and net loss attributable to shareholders of the parent was 68,662 million yen (compared to a net income of 14,819 million yen in the previous fiscal year).

This was due to extraordinary losses of 54,786 million yen recorded as a reserve for repairs and other incidental expenses related to construction defects, 9,684 million yen recorded as a reserve for apartment vacancy loss, as well as 7,560 million yen recorded as an impairment loss for company-owned apartments. Company-owned apartments were sold as part of the financial strategy set in our Medium-term Management Plan.

Operating Profit by Segment

(Millions of Yen)	FY2017	FY2018	Change
Leasing	26,062	**14,987**	**(11,074)**
Development	3,663	**(995)**	**(4,659)**
Elderly Care	(1,596)	**(846)**	**749**
Hotels, Resort & Other Business	(846)	**(1,346)**	**(500)**
Adjustments	(4,353)	**(4,407)**	**(54)**
Total	22,930	**7,390**	**(15,539)**

Change in Operating Profit



(3) Segment Information

Leasing Business

In the Leasing Business, we provide value-added services such as "my DIY," which enables tenants to decorate their rooms, and smart apartments which enable remote control of electrical appliances and door locks. We also offer security systems in alliance with large security companies and the industry's first electronic leasing contract. In addition, to achieve stable occupancy rates, we are strengthening sales towards corporate customers and increasing support for foreign national tenants. In the ASEAN region, we develop and manage serviced apartments and offices.

Since new tenant recruitments on properties subject to top-priority investigations are suspended until investigations and repairs are completed, the occupancy rate at the end of the subject fiscal year dropped to 84.33% (down 9.39 points from the end of the previous fiscal year) and the average occupancy rate was 88.34% (down 2.25 points year-on-year). The number of units under management at the end of the subject fiscal year was 574 thousand (increasing 4 thousand from the end of the previous fiscal year).

As a result, net sales amounted to 426,388 million yen (down 2.1% year-on-year) and operating profit was 14,987 million yen (down 42.5% year-on-year).

Development Business

In the Development Business, we focused on supplying apartments in the three metropolitan areas where solid leasing demand is anticipated supported by an increase in population, while providing high quality and forefront strategic products. In addition, we expanded construction variations to propose ideal land use, and have begun reviewing suppliers and product prices to improve profitability.

Life Living Co., Ltd., a subsidiary of the Company, develops condominiums and apartments and Morizou Co., Ltd., another subsidiary provides luxury custom-built homes made of Kiso-hinoki, Japanese cypress.

As a result of orders becoming sluggish due to intensified competition in the metropolitan areas and changes in the environment of apartment loans, orders received during the subject fiscal year amounted to 64,495 million yen (down 15.0% year-on-year) and orders received outstanding stood at 62,367 million yen (down 2.5% from the end of the previous fiscal year).

As a result, net sales came to 58,992 million yen (down 23.0% year-on-year) and operating loss was 995 million yen (compared to an operating profit of 3,663 million yen in the previous fiscal year).

Elderly Care Business

The profitability of the Elderly Care Business, a strategic growth business, improved due to increases in the occupancy rate of existing facilities, and is steadily transitioning to becoming black in the final year of the Medium-term Management Plan.

Net sales were 13,922 million yen (up 8.7% year-on-year) and operating loss was 846 million yen (an improvement of 749 million yen year-on-year).

Hotels, Resort & Other Business

Net sales of the resort facilities in Guam, hotels in Japan, and other businesses including the finance business were 5,919 million yen (up 0.2% year-on-year) and operating loss was 1,346 million yen (a loss increase of 500 million yen year-on-year).

3. Analysis of Financial Position

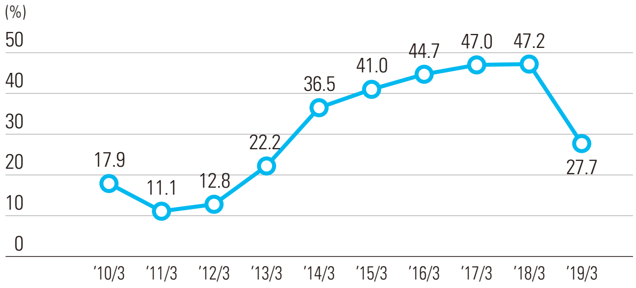
(1) Position of Assets, Liabilities, and Net assets

Total assets at the end of the fiscal year decreased by 45,344 million yen from the end of the previous fiscal year to 291,790 million yen. This was mainly attributable to a decrease of 22,007 million yen in cash and cash equivalents, 14,416 million yen in land due to impairment losses, 4,296 million yen in leased assets (net), 2,989 million yen in deferred tax assets, and 2,163 million yen in buildings and structures (net), despite an increase of 2,982 million yen in real estate for sale in progress and 3,847 million yen in others (net) in non-current assets.

Total liabilities increased by 32,756 million yen from the end of the previous fiscal year to 210,452 million yen. This was mainly due to a recording of 50,707 million yen in reserve for losses related to repairs and 9,684 million yen in reserve for apartment vacancy loss, despite a decrease of 9,313 million yen in short and long-term advances received, 7,415 million yen in accounts payable -other, 4,364 million yen in short and long-term lease obligations, 3,966 million yen in bonds, and 3,117 million yen in accounts payable for completed projects.

Net assets decreased by 78,100 million yen from the end of the previous fiscal year to 81,338 million yen. This was mainly attributable to a recording of 68,662 million yen in net loss attributable to shareholders of the parent, 3,025 million yen in dividend payments, and 4,787 million yen in retirement of treasury shares. The ratio of shareholders' equity to assets dropped by 19.5 points from the end of the previous fiscal year to 27.7%.

Equity Ratio



(2) Cash Flow Position

Cash flow from operating activities was a net outflow of 7,212 million yen (compared to a net inflow of 27,338 million yen in the previous fiscal year). This was mainly due to a loss before taxes and minority interests of 64,840 million yen, a decrease in advances received of 9,311 million yen, a decrease in accounts payable of 8,125 million yen, an increase in real estate for sale in progress of 3,058 million yen, and payment of 2,960 million yen related to repairs, despite depreciation and amortization of 12,945 million yen, impairment loss of 7,560 million yen, an increase in reserve for losses related to repairs of 50,707 million yen, and an increase in reserve for apartment vacancy loss of 9,684 million yen.

Cash flow from investing activities was a net inflow of 7,379 million yen (compared to a net outflow of 2,336 million yen in the previous fiscal year). This was mainly due to proceeds from sale of property, plant and equipment of 10,059 million yen and proceeds from withdrawal of time deposits of 8,126 million yen, despite payment for purchase of property, plant and equipment of 7,718 million yen and payment for deposit of fixed deposits of 1,500 million yen.

Cash flow from financing activities was a net outflow of 15,181 million yen (a decrease of 3,173 million yen in net outflow from the previous fiscal year). This was mainly due to payment for share buybacks of 5,012 million yen, dividend payments of 3,025 million yen, repayment of finance lease obligations of 5,640 million yen, and repayment of debt and redemption of bonds of 1,383 million yen (after deducting proceeds from debt).

As a result, cash and cash equivalents at the end of the subject fiscal year stood at 83,019 million yen, a decrease of 15,227 million yen from the end of the previous fiscal year.

4. 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 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 twenty years. Net domestic migration to the three major metro regions (inflows exceed outflows) will continue. Furthermore, the population aged 65 or over is expected to reach about 30% by 2025, and Japan will face various pressing challenges of "super-aging society."

The number of new construction starts in the rental housing market continued to decline from last year due to changes in the business environment, including tighter lending criteria for apartment loans and the dropout of demand for strategies to reduce inheritance tax.

Under these circumstances, we continue to carry out the Medium-term Management Plan "Creative Evolution 2020," a three-year plan commenced 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:

Make the Elderly Care Business and International Business turn into profitability 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 have developed a new smartphone app, &Leo, which provides tenants greater usability in viewing their lease contract information, change various registered information, and even confirming their safety and receive disaster information during times of disaster emergencies. It also offers tenant-only benefits, such as special discounts and recommended services.

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 concentrate on rental housing supply in 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 offering mix to cater for various needs by the landowners.

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*-based management:

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

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

Rebalance our asset holdings:

Review asset holdings with a view to enhancing asset and capital efficiency

Improve and strengthen distributions to shareholders:

Improve the business performance by overcoming the serious financial impact as a result of construction defects and by realizing fundamental reform in order to achieve appropriate shareholder return.

Financial Section

Consolidated Balance Sheets

Leopalace21 Corporation and consolidated subsidiaries
March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
ASSETS			
Current assets:			
Cash and cash equivalents (Notes 3-(2), 5, 6-(2), 12-(3))	84,536	106,543	761,657
Trade receivables (Note 6-(2))	6,908	7,626	62,242
Accounts receivable for completed projects (Note 6-(2))	1,709	1,957	15,400
Operating loans (Note 6-(2))	256	389	2,311
Securities (Notes 3-(4), 6-(2), 7, 12-(5))	1,254	462	11,305
Real estate for sale	1,027	952	9,260
Real estate for sale in process	5,554	2,571	50,042
Payment for construction in progress (Note 3-(14))	680	458	6,131
Raw materials and supplies	565	528	5,097
Prepaid expenses	2,952	3,544	26,599
Other accounts receivable	1,198	1,027	10,797
Others	4,255	4,249	38,345
Allowance for doubtful accounts (Notes 3-(10), 6-(2), 11-(1))	(142)	(145)	(1,285)
Total current assets	110,757	130,167	997,906
Non-current assets:			
Property, plant and equipment: (Notes 3-(6), 3-(24), 9, 15, 26-(3))			
Buildings and structures (Notes 3-(6), 12-(3), 15, 16, 17 21)	88,833	93,363	800,378
Accumulated depreciation	(48,291)	(50,657)	(435,101)
Net	40,542	42,705	365,276
Machinery, equipment, and vehicles	21,414	21,254	192,940
Accumulated depreciation	(10,228)	(8,707)	(92,159)
Net	11,185	12,547	100,780
Land (Notes 9-(3), 16, 17)	49,221	63,638	443,478
Leased assets (Notes 3-(21), 9-(3), 24)	32,178	31,839	289,925
Accumulated depreciation	(20,446)	(15,810)	(184,219)
Net	11,732	16,028	105,706
Construction in progress	3,470	5,208	31,268
Other	15,283	10,990	137,702
Accumulated depreciation	(8,220)	(7,775)	(74,066)
Net	7,062	3,215	63,636
Total property, plant and equipment	123,215	143,344	1,110,147
Intangible fixed assets:			
Goodwill (Notes 3-(19), 26)	2,324	2,886	20,942
Others (Note 3-(7), 12-(3))	7,250	8,102	65,329
Total intangible fixed assets	9,575	10,988	86,271
Investments and other assets:			
Investment securities (Notes 3-(4), 6-(1), 6-(2), 7, 12-(3),12-(5))	16,903	17,999	152,295
Long-term loans (Note 6-(2))	501	513	4,521
Bad debts (Notes 6-(2), 10)	214	1,264	1,935
Long-term prepaid expenses (Note 3-(8), 3-(25))	3,252	3,831	29,305
Deferred tax assets (Notes 3-(20), 4-(4), 11-(1))	23,650	26,639	213,082
Others	4,333	3,969	39,042
Allowance for doubtful accounts (Notes 3-(10), 6-(2), 11-(1))	(941)	(2,023)	(8,480)
Total investments and other assets	47,914	52,194	431,703
Total non-current assets	180,705	206,527	1,628,122
Deferred assets:			
Bond issuance cost	327	440	2,952
Total deferred assets	327	440	2,952
Total assets (Note 26)	291,790	337,134	2,628,981

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
LIABILITIES AND NET ASSETS			
Current liabilities:			
Electronically recorded obligations - operating	897	1,451	8,085
Accounts payable (Note 6-(2))	4,037	4,245	36,376
Accounts payable for completed projects (Note 6-(2))	4,715	7,832	42,483
Short-term borrowings (Notes 6-(2), 6-(3), 12)	1,070	1,210	9,640
Current portion of long-term debt (Note 12)	2,768	1,754	24,943
Bonds due within one year (Note 6-(2))	3,966	3,966	35,732
Lease obligations (Notes 6-(2), 6-(3), 12)	5,320	5,960	47,934
Accounts payable-other	14,922	22,337	134,448
Accrued income taxes	798	942	7,192
Advances received (Notes 3-(18), 11-(1))	34,635	39,964	312,056
Customer advances for projects in progress	3,651	4,592	32,901
Reserve for warranty obligations on completed projects (Notes 3-(14),11-(1))	347	389	3,129
Reserve for fulfillment of guarantees (Notes 3-(15), 11-(1))	1,138	1,158	10,260
Reserve for losses related to repairs	50,707	—	456,861
Reserve for apartment vacancy loss (short-term)	8,826	—	79,522
Asset retirement obligations (Notes 11-(1), 22)	44	43	403
Others	3,919	4,363	35,311
Total current liabilities	141,765	100,212	1,277,281
Non-current liabilities:			
Bonds (Notes 6-(2), 6-(3), 12)	8,103	12,069	73,006
Long-term debt(Notes 6-(2), 6-(3), 8-(2), 12)	18,318	16,643	165,043
Lease obligations (Notes 6-(2), 6-(3), 12)	8,501	12,226	76,599
Long-term advances received (Note 3-(18))	11,869	15,853	106,945
Lease/guarantee deposits received	6,599	6,989	59,461
Deferred tax liabilities	5	—	46
Provision for Directors' bonuses	—	10	—
Reserve for apartment vacancy loss (Notes 3-(12), 4-(5), 11-(1))	3,902	3,044	35,161
Liability for retirement benefit	8,213	7,338	74,006
Asset retirement obligations (Notes 11-(1), 22)	86	84	779
Others	3,086	3,224	27,807
Total non-current liabilities	68,687	77,483	618,857
Total liabilities	210,452	177,696	1,896,138
Net assets			
Shareholders' equity:			
Common stock: (Note 23) Authorized: 500,000,000 shares in 2019 and 2018 Issued: 244,882,515 shares in 2019 and 252,682,515 shares in2018	75,282	75,282	678,280
Capital surplus	45,148	45,235	406,780
Retained earnings	(38,635)	37,839	(348,100)
Treasury stock: 1,067,510 shares in 2019 and 567,420 shares in 2018 (Note 23)	(655)	(430)	(5,903)
Total shareholders' equity	81,140	157,926	731,057
Accumulated other comprehensive income:			
Net unrealized gains on other securities (Notes 3-(4),11-(1))	280	586	2,524
Foreign currency translation adjustments (Note 3-(23))	(176)	872	(1,593)
Remeasurements of defined benefit plans (Note 13)	(327)	(341)	(2,952)
Total accumulated other comprehensive income	(224)	1,117	(2,021)
Share subscription rights	404	284	3,647
Non-controlling interests	17	109	159
Total net assets	81,338	159,438	732,842
Total liabilities and net assets	291,790	337,134	2,628,981

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Net sales (Note 26)	505,223	530,840	4,551,972
Sales from Leasing Business	426,388	435,537	3,841,687
Sales from Development Business	58,992	76,587	531,509
Sales from Other Businesses	19,842	18,715	178,775
Cost of sales	428,988	434,762	3,865,106
Cost of sales from Leasing Business	363,651	359,262	3,276,436
Cost of sales from Development Business	44,597	55,201	401,811
Cost of sales from Other Businesses	20,739	20,298	186,858
Gross profit	76,235	96,077	686,866
Selling, general and administrative expenses	68,844	73,147	620,280
Advertising expenses	3,008	4,235	27,109
Sales commission expense	1,978	2,289	17,827
Transfer to reserve for bad debt	112	51	1,016
Directors' bonuses	997	799	8,983
Salary and bonuses	30,134	33,408	271,509
Transfer to reserve for Directors' bonuses	(10)	10	(92)
Retirement benefit cost	1,809	1,844	16,305
Rent expense	2,727	2,769	24,576
Depreciation and amortization	2,731	2,679	24,607
Taxes and public charges	5,221	4,965	47,046
Other	20,132	20,093	181,390
Operating profit (Note 26)	7,390	22,930	66,586
Non-operating income	891	674	8,030
Interest income	113	109	1,020
Dividend income	172	162	1,554
Valuation gains of investment securities	185	186	1,671
Foreign exchange gain	148	—	1,338
Share of profit of entities accounted for using equity method	1	—	10
Other	270	216	2,435
Non-operating expenses	1,218	1,250	10,980
Interest expenses	748	783	6,740
Bond issuance cost	191	212	1,726
Foreign exchange losses	—	137	—
Share of loss of entities accounted for using equity method	—	0	—
Other	278	115	2,513
Recurring profit	7,063	22,354	63,636
Extraordinary income	245	927	2,212
Gain on sales of property, plant and equipment	245	927	2,212
Extraordinary losses (Notes 16, 17)	72,148	8,131	650,049
Loss on sale of property, plant and equipment	0	27	3
Loss on retirement of property, plant and equipment	117	112	1,057
Impairment loss	7,560	7,594	68,119
Provision of Reserve for losses related to repairs	50,707	—	456,861
Loss related to repairs	4,079	—	36,752
Provision of Reserve for apartment vacancy loss	9,684	—	87,255
Loss on cancellations of contracts	—	66	—
Loss on compensation for damage	—	330	—
Income before income taxes	(64,840)	15,150	(584,199)
Income taxes (Note 3-(20))	3,880	337	34,958
Current	756	856	6,811
Deferred	3,124	(519)	28,147
Net income	(68,720)	14,813	(619,158)
Net income attributable to non-controlling interests	(58)	(6)	(525)
Net income attributable to shareholders of the parent (Note 27)	(68,662)	14,819	(618,633)

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	**2019**
Net income	**(68,720)**	14,813	**(619,158)**
Other comprehensive income			
Net unrealized gains on other securities	**(306)**	12	**(2,764)**
Foreign currency translation adjustments (Note 3-(22))	**(1,045)**	(1,161)	**(9,418)**
Remeasurements of defined benefit plans	**14**	327	**126**
Share of other comprehensive income of entities account for using equity method	**(4)**	6	**(41)**
Total	**(1,342)**	(815)	**(12,097)**
Comprehensive income	**(70,063)**	13,997	**(631,255)**
Comprehensive income attributable to shareholders of the parent	**(70,004)**	14,003	**(630,725)**
Comprehensive income attributable to non-controlling interests	**(58)**	(6)	**(530)**

The accompanying notes are an integral part of these statements.

(Note)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	**2019**
Net unrealized gains on other securities			
Amount accrued in the fiscal year	**(442)**	17	**(3,984)**
Rearrangements and adjustments	**—**	—	**—**
Amount before tax effects adjustments	**(442)**	17	**(3,984)**
Tax effects	**135**	(5)	**1,220**
Net unrealized gains on other securities	**(306)**	12	**(2,764)**
Foreign currency translation adjustments (Note 3-(23))			
Amount accrued in the fiscal year	**(1,045)**	(1,161)	**(9,418)**
Rearrangements and adjustments	**—**	—	**—**
Amount before tax effects adjustments	**(1,045)**	(1,161)	**(9,418)**
Tax effects	**—**	—	**—**
Foreign currency translation adjustments	**(1,045)**	(1,161)	**(9,418)**
Remeasurements of defined benefit plans			
Amount accrued in the fiscal year	**(216)**	(82)	**(1,953)**
Rearrangements and adjustments	**237**	258	**2,135**
Amount before tax effects adjustments	**20**	176	**182**
Tax effects	**(6)**	150	**(55)**
Remeasurements of defined benefit plans	**14**	327	**126**
Share of other comprehensive income of entities account for using equity method			
Amount accrued in the fiscal year	**(4)**	6	**(41)**
Total	**(1,342)**	(815)	**(12,097)**

Financial Section

Consolidated Statements of Changes in Net Assets

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2019 and 2018

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income						
	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	Share Subscription rights	Non-controlling interests	Total net assets
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
Dividend of surplus			**(3,025)**		**(3,025)**							**(3,025)**
Net income attributable to shareholders of the parent			**(68,662)**		**(68,662)**							**(68,662)**
Acquisition of treasury stock				**(5.012)**	**(5,012)**							**(5,012)**
Retirement of treasury stock			**(4,787)**	**4,787**	**—**							**—**
Change in share of parent from transactions with non-controlling interests		**(86)**			**(86)**							**(86)**
Net change of items other than shareholders' equity						**(306)**	**(1,049)**	**14**	**(1,342)**	**120**	**(92)**	**(1,313)**
Total change during period	**—**	**(86)**	**(76,474)**	**(225)**	**(76,786)**	**(306)**	**(1,049)**	**14**	**(1,342)**	**120**	**(92)**	**(78,100)**
Balance as of March 31, 2019	**75,282**	**45,148**	**(38,635)**	**(655)**	**81,140**	**280**	**(176)**	**(327)**	**(224)**	**404**	**17**	**81,338**

	Thousands of U.S. dollars (Note 1)											
	Shareholders' equity					Accumulated other comprehensive income						
	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	Share Subscription rights	Non-controlling interests	Total net assets
Balance as of March 31, 2018	678,280	407,561	340,924	(3,876)	1,422,890	5,288	7,861	(3,078)	10,070	2,562	989	1,436,513
Dividend of surplus			**(27,258)**		**(27,258)**							**(27,258)**
Net income attributable to shareholders of the parent			**(618,633)**		**(618,633)**							**(613,633)**
Acquisition of treasury stock				**(45,160)**	**(45,160)**							**(45,160)**
Retirement of treasury stock			**(43,133)**	**43,133**	**—**							**—**
Change in share of parent from transactions with non-controlling interests		**(781)**			**(781)**							**(781)**
Net change of items other than shareholders' equity						**(2,764)**	**(9,454)**	**126**	**(12,092)**	**1,084**	**(830)**	**(11,837)**
Total change during period	**—**	**(781)**	**(689,025)**	**(2,027)**	**(691,833)**	**(2,764)**	**(9,454)**	**126**	**(12,092)**	**1,084**	**(830)**	**(703,671)**
Balance as of March 31, 2019	**678,280**	**406,780**	**(348,100)**	**(5,903)**	**731,057**	**2,524**	**(1,593)**	**(2,952)**	**(2,021)**	**3,647**	**159**	**732,842**

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	**2019**
Cash flows from operating activities:			
Income before income taxes	**(64,840)**	15,150	**(584,199)**
Depreciation	**12,945**	11,726	**116,637**
Impairment loss	**7,560**	7,594	**68,119**
Loss related to repairs	**4,079**	—	**36,752**
Loss on compensation for damage	**—**	330	**—**
Amortization of goodwill	**560**	522	**5,048**
Increase (decrease) in allowance for doubtful accounts	**(1,105)**	28	**(9,955)**
Increase (decrease) in liability for retirement benefits	**895**	(3,786)	**8,068**
Increase (decrease) in reserve for apartment vacancy loss	**9,684**	(138)	**87,255**
Increase (decrease) in reserve for losses related to repairs	**50,707**	—	**456,861**
Interest and dividend income	**(285)**	(271)	**(2,574)**
Interest expense	**748**	783	**6,740**
Foreign exchange loss (gain)	**(148)**	137	**(1,338)**
Share of loss (profit) of entities accounted for using equity method	**(1)**	0	**(10)**
Loss (gain) on valuation of investment securities	**(185)**	(186)	**(1,671)**
Loss (gain) on sale of property, plant and equipment	**(245)**	(899)	**(2,209)**
Loss on retirement of property, plant and equipment	**117**	112	**1,057**
Decrease (increase) in accounts receivable	**1,310**	(252)	**11,805**
Decrease (increase) in real estate for sale in progress	**(3,058)**	(960)	**(27,553)**
Decrease (increase) in payment for construction in progress	**(222)**	60	**(2,005)**
Decrease (increase) in long-term prepaid expenses	**571**	369	**5,147**
Increase (decrease) in accounts payable	**(8,125)**	(1,105)	**(73,206)**
Increase (decrease) in customer advances for projects in progress	**(940)**	(789)	**(8,475)**
Increase (decrease) in advances received	**(9,311)**	(823)	**(83,898)**
Increase (decrease) in guarantee deposits received	**(372)**	(159)	**(3,355)**
Increase (decrease) in accrued consumption taxes	**(890)**	934	**(8,022)**
Others	**(2,612)**	1,220	**(23,541)**
Subtotal	**(3,166)**	29,600	**(28,525)**
Interest and dividends received	**465**	355	**4,191**
Interest paid	**(749)**	(714)	**(6,755)**
Reserve for losses related to repairs paid	**(2,960)**	—	**(26,672)**
Income taxes paid	**(800)**	(1,902)	**(7,216)**
Net cash provided by operating activities	**(7,212)**	27,338	**(64,979)**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	**2019**
Cash flows from investing activities:			
Payment for purchase of property, plant and equipment	**(7,718)**	(11,218)	**(69,538)**
Proceeds from sale of property, plant and equipment	**10,059**	14,121	**90,635**
Payment for purchase of intangible assets	**(1,083)**	(818)	**(9,765)**
Payment for purchase of investment securities	**(231)**	(5,966)	**(2,085)**
Proceeds from sale of investment securities	**21**	22	**194**
Payment for purchase of shares in subsidiaries	**—**	(401)	**—**
Payment for loans	**(1)**	(8)	**(15)**
Proceeds from collection of loans	**14**	14	**132**
Payments for purchase of time deposits	**(1,500)**	(1,500)	**(13,514)**
Proceeds from withdrawal of time deposits	**8,126**	5,486	**73,217**
Others	**(308)**	(2,068)	**(2,776)**
Net cash provided by (used in) investing activities	**7,379**	(2,336)	**66,485**
Cash flows from financing activities:			
Proceeds from short-term borrowings	**1,070**	2,455	**9,640**
Repayment of short-term borrowings	**(50)**	(1,250)	**(450)**
Proceeds from long-term debt	**3,960**	4,303	**35,678**
Repayment of long-term debt	**(2,397)**	(1,268)	**(21,597)**
Repayment of finance lease obligations	**(5,640)**	(4,953)	**(50,818)**
Payment for redemption of bonds	**(3,966)**	(3,966)	**(35,732)**
Payment for purchases of treasury stock	**(5,012)**	(8,000)	**(45,160)**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	**(112)**	—	**(1,009)**
Dividends paid to non-controlling interests	**(8)**	(3)	**(72)**
Proceeds from exercise of stock options	**—**	2	**—**
Cash dividends paid	**(3,025)**	(5,675)	**(27,258)**
Net cash provided by (used in) financing activities	**(15,181)**	(18,354)	**(136,779)**
Effect of exchange rate changes on cash and cash equivalents	**(213)**	(166)	**(1,924)**
Net increase (decrease) in cash and cash equivalents	**(15,227)**	6,480	**(137,198)**
Cash and cash equivalents at beginning of year	**98,246**	91,766	**885,187**
Cash and cash equivalents at end of year (Note 5)	**83,019**	98,246	**747,988**

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, 2019 and 2018

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 of Financial Instruments and Exchange Act of Japan, 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 prepared solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2019, which was 110.99 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. Going concern assumption

There are no issues applicable to the going concern assumption.

3. Summary of Significant Accounting Policies

(1) Consolidation

Names of significant subsidiaries (26 in total)
Leopalace Leasing Corporation
Plaza Guarantee Co., Ltd.
Leopalace Power Corporation
Leopalace Energy Corporation
ASUKA SSI
Enplus Inc.
Leopalace Trust Co.,LTD
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.

Among the subsidiaries listed above, Leopalace Trust Co.,LTD is newly consolidated in the current fiscal year, considering its materiality.

The accompanying consolidated financial statements as of March 31, 2019 include the accounts of the Company and its 26 (25 as of March 31, 2018) subsidiaries and one associated company Woori & Leo PMC Co., Ltd. in equity method (together, "the Companies"). Associated companies over which the Company exercises significant influence in terms of the operating and financial policies have been included in the consolidated financial statements in equity method. Investments in one associate (1 as of March 31, 2018) have been included for the year ended March 31, 2019. All significant intercompany balances and transactions have been eliminated.

The balance sheet dates of Leopalace Guam Corporation, Leopalace Guam Distributing Corporation, and 14 other subsidiaries are all the same for being December 31. For the consolidated entities whose fiscal year ends different from that of the Company but within 3 months, their financial results are used in the preparation of consolidated financial statements. When significant transactions occur to those subsidiaries between their fiscal year ends and the Company's fiscal year end, those transactions are necessarily adjusted to consolidate. Additionally, MORIZOU Co., Ltd. a consolidated subsidiary whose balance sheet date was the end of February, the financial statement results of which have been applied in the consolidated financial statements after necessary adjustments in previous periods. From the current fiscal year, the balance sheet date of MORIZOU Co., Ltd. has been changed to March 31. Because of this change, the 13-month period from March 1, 2018 to March 31, 2019 has been consolidated by adjusting through the consolidated statements of income.

(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 and maturities of generally three months or less as 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 (presented in net book value less write-down when profitability declines) determined by the specific identification method.

Costs on construction contracts in progress are primarily stated at cost determined by the specific identification method.

Raw materials and supplies are primarily stated at cost (presented in net book value less write-down when profitability declines) 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 values are stated at fair value at the end of the fiscal year of each consolidated companies. Other securities without available fair values are stated at cost by the moving-average method.

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

Investments in silent partnership are reported in 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 value

2. Derivative transactions are accounted in using hedge accounting.
   (a) Hedge accounting method
   The interest rate swaps that meet criteria are recognized and included in interest expense or income.

   (b) Hedging instrument and hedged items
   - Hedging instrument Interest rate swaps
   - Hedged items Long-term debt

   (c) Hedge policy
   Interest rate swaps are utilized as a hedge against possible future interest rate increases, in amounts within the liability being hedged.

   (d) Method used to evaluate the effectiveness of the hedge
   As of the consolidated balance sheet date, evaluation on effectiveness of interest rate swaps that meet special accounting treatment criteria is omitted.

(6) Property, plant and equipment (except for leased assets)
Property, plant and equipment for rent of the Company and domestic consolidated subsidiaries are stated at cost. Depreciation is computed generally on the straight-line basis. The useful lives are principally from 22 to 47 years for buildings and structures for rent.

Property, plant and equipment other than above of the Company and domestic consolidated subsidiaries are stated at cost. Depreciation is computed generally by the declining-balance method. However, buildings (excluding facilities attached to buildings) obtained on or after April 1, 1998, and facilities attached to buildings and structures obtained on or after April 1, 2016, are depreciated by the straight-line method. The useful lives are 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 useful lives are principally from 20 to 40 years for buildings and structures and from 3 to 5 years for tools, furniture and fixtures.

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

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

(9) Bond issuance cost
Bond issuance costs are amortized evenly until maturity.

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

(11) Liability for retirement benefit
In conjunction with the calculation of retirement benefit obligations, the method for attributing projected retirement benefits for the period up to the current fiscal end 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. Unrecognized actuarial gains/losses are posted after tax effects, as the cumulative amount of adjustments attributed to accumulated 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 retire at the end of the fiscal year.

(12) Reserve for apartment vacancy loss
Reserve for vacancy losses on apartment units managed under master lease agreements is calculated according to the projected loss that could incur during a reasonably estimable period to prepare for the risk of increasing 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 business division of the Company.

(13) Reserve for losses related to repairs
To reserve for the losses related to repairs, an estimated amount of provision is recorded based on the defect rate, etc.

(14) Reserve for warranty obligations on completed projects
Reserve for warranty obligations on completed projects is accrued 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 reserve 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 accrued 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, 2019, while the completed contract method is applied to other constructions. Progress rate of construction is estimated based on the method of the ratio of actual cost incurred to total estimated 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) Leased assets
Leased assets 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 spot 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 spot 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 reclassified into foreign currency translation adjustments and non-controlling interests.

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

Capitalized interests included in carrying value of property, plant and equipment were 329 million yen ($2,964 thousand) as of March 31, 2019.

(25) Consumption taxes
National and local consumption taxes are basically excluded from transaction amount. However, transaction amounts of Asuka SSI, a consolidated subsidiary, include 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) 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.

4. 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 ending 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.

(4) Changes in presentation

The "Partial Amendments to the Accounting Standard for Tax Effects Accounting" (ASBJ No. 28, February 16, 2018; hereinafter, "Partial Amendments to the Tax Effects Accounting Standard") is applied from the beginning of the current fiscal year. The deferred tax assets are presented in the category of investments and other assets, the deferred tax liabilities are reclassified to the category of non-current liabilities, and the tax effects accounting notes have been changed to reflect the reclassification.

As a result, deferred tax assets under current assets decreased by 8,494 million yen and deferred tax assets under investments and other assets increased by 8,494 million yen in the consolidated balance sheets for the previous fiscal year.

The amount of deferred tax assets and deferred tax liabilities of the same taxpayer have been offset, therefore the total assets have decreased by 122 million yen compared to the amount before the change.

In addition, in the note to the tax effect accounting, reflection of "Accounting Standard for Tax Effect Accounting" stated in "Note 8 (excluding the total amount of valuation allowance)" and "Note 9", which are stipulated in Paragraphs 3 to 5 of the Partial Amendments to the Tax Effect Accounting Standard, have been added.

However, the details related to the previous consolidated fiscal year are not prepared in accordance with the transitional treatment stipulated in Paragraph 7 of the Partial Amendments to the Tax Effect Accounting Standard.

(5) Reserve for apartment vacancy loss

Previously, all reserve for apartment vacancy loss was recorded in non-current liabilities due to the inability to accurately calculate the amount to be used within one year. However, due to the impact of the construction defect issue, the reserve is recorded as current liabilities because it is expected to be used within one year.
The provision for apartment vacancy loss was previously included in the cost of sales of the leasing business, but in the current consolidated fiscal year, occupancy rate is expected to decline and loss will be incurred due to the suspension of tenants offering in the wake of the construction defect issue. The loss is recorded as an extraordinary loss because it is a temporary and large-scale loss that does not occur in ordinary business activities.

5. 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
	2019	2018	**2019**
Cash and cash equivalents in the consolidated balance sheets	**84,536**	106,543	**761,657**
Time deposits with original maturities of more than three months	**(1,517)**	(8,297)	**(13,668)**
Cash and cash equivalents in the consolidated statements of cash flows	**83,019**	98,246	**747,988**

6. 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 secured 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 payable, and accounts payable for completed projects which are operating liabilities are scheduled to be paid within one year.

Loans payable, corporate bonds, and lease obligations related to finance lease transactions are mainly for the purpose of raising funds necessary for investment in facilities, and the longest repayment date is 13 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 “3. (5) Derivative financial instruments and hedge accounting”.

(c) Risk management for financial instruments

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

Regarding securities and investment securities, the Company periodically investigates and understands the share price and the financial condition of the share issuing organization. In addition, for items other than held-to-maturity securities, the Company considers the relationship with the trading partner companies and constantly re-evaluates its holdings.

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

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

(d) Supplementary explanations on fair value of financial instruments

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

Fair value of financial instruments whose 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 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, 2019 and 2018 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, 2019	Millions of yen		
	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	**84,536**	**84,536**	**—**
(2) Trade receivables and accounts receivable for completed projects	**8,617**	**8,617**	**—**
(3) Securities and investment securities	**3,518**	**3,534**	**16**
(4) Operating loans	**256**		
Allowance for doubtful accounts *(i)	**(27)**		
Net	**229**	**269**	**39**
(5) Long-term loans	**501**		
Allowance for doubtful accounts *(i)	**(91)**		
Net	**409**	**409**	**—**
(6) Bad debts	**214**		
Allowance for doubtful accounts *(i)	**(214)**		
Net	**—**	**—**	**—**
Total	**97,311**	**97,367**	**55**
(1) Electronically recorded obligations	**897**	**897**	**—**
(2) Accounts payable and accounts payable for completed projects	**8,752**	**8,752**	**—**
(3) Short-term borrowings	**1,070**	**1,070**	**—**
(4) Bonds *(ii)	**12,069**	**12,102**	**33**
(5) Long-term debt *(ii)	**21,086**	**21,309**	**222**
(6) Lease obligations	**13,821**	**13,669**	**(152)**
Total	**57,697**	**57,801**	**103**

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 *(i)	(43)		
Net	346	410	64
(5) Long-term loans	513		
Allowance for doubtful accounts *(i)	(96)		
Net	417	417	—
(6) Bad debts	1,264		
Allowance for doubtful accounts *(i)	(1,253)		
Net	10	10	—
Total	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 *(ii)	16,035	16,063	28
(5) Long-term debt *(ii)	18,398	18,531	133
(6) Lease obligations	18,186	18,218	32
Total	67,359	67,552	193
Derivative transactions	—	—	—

March 31, 2019	Thousands of U.S. dollars		
	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	761,657	761,657	—
(2) Trade receivables and accounts receivable for completed projects	77,643	77,643	—
(3) Securities and investment securities	31,696	31,843	146
(4) Operating loans	2,311		
Allowance for doubtful accounts *(i)	(243)		
Net	2,067	2,424	356
(5) Long-term loans	4,521		
Allowance for doubtful accounts *(i)	(827)		
Net	3,693	3,693	—
(6) Bad debts	1,935		
Allowance for doubtful accounts *(i)	(1,935)		
Net	—	—	—
Total	876,758	877,261	503
(1) Electronically recorded obligations	8,085	8,085	—
(2) Accounts payable and accounts payable for completed projects	78,860	78,860	—
(3) Short-term borrowings	9,640	9,640	—
(4) Bonds *(ii)	108,739	109,042	303
(5) Long-term debt *(ii)	189,987	191,992	2,005
(6) Lease obligations	124,533	123,159	(1,373)
Total	519,845	520,780	935

*Notes:

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

(ii) As of March 31, 2019 and 2018, bonds due within one year of 3,966 million yen ($35,732 thousand for 2019) and 3,966 million yen, and current portion of long-term debt of 2,768 million yen ($24,943 thousand for 2019) and 1,754million 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 "7. 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,

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 "8. Derivative Transactions".

(b) Financial instruments whose fair values appear to be extremely difficult to recognize

Item	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Unlisted shares	**4,510**	4,507	**40,637**
Unconsolidated subsidiaries and associates	**70**	88	**631**
Unlisted bonds (subordinate corporate bonds)	**6,424**	6,424	**57,881**
Subordinate beneficiary rights to loans and accounts receivable in trust	**870**	875	**7,846**
Investments in silent partnership	**2,764**	2,549	**24,907**
Total	**14,640**	14,444	**131,904**

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, 2019	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	**84,536**	—	—	—
Trade receivables and accounts receivable for completed projects	**8,617**	—	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1) Government and municipal bonds	**400**	**400**	**500**	—
(2) Corporate bonds	—	—	—	—
Other securities with maturities				
(1) Government and municipal bonds	**852**	**150**	—	—
(2) Bonds (Corporate bonds)	—	**5,600**	—	**824**
(3) Others	—	—	—	**870**
Operating loans	**109**	**104**	**26**	**16**
Long-term loans	**11**	**23**	**16**	**451**
Bad debts	—	—	—	**214**
Total	**94,526**	**6,277**	**542**	**2,377**

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, 2019	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	**761,657**	—	—	—
Trade receivables and accounts receivable for completed projects	**77,643**	—	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1) Government and municipal bonds	**3,603**	**3,603**	**4,504**	—
(2) Corporate bonds	—	—	—	—
Other securities with maturities				
(1) Government and municipal bonds	**7,676**	**1,351**	—	—
(2) Bonds (Corporate bonds)	—	**50,454**	—	**7,426**
(3) Others	—	—	—	**7,846**
Operating loans	**985**	**944**	**236**	**144**
Long-term loans	**101**	**207**	**148**	**4,063**
Bad debts	—	—	—	**1,935**
Total	**851,667**	**56,562**	**4,889**	**21,417**

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

March 31, 2019	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	**1,070**	**—**	**—**	**—**	**—**	**—**
Bonds	**3,966**	**3,066**	**3,066**	**1,971**	**—**	**—**
Long-term debt	**2,768**	**2,660**	**2,639**	**2,438**	**1,396**	**9,182**
Lease obligations	**5,320**	**4,267**	**3,029**	**1,060**	**144**	**—**
Total	**13,124**	**9,993**	**8,735**	**5,469**	**1,541**	**9,182**

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, 2019	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	**9,640**	**—**	**—**	**—**	**—**	**—**
Bonds	**35,732**	**27,624**	**27,624**	**17,758**	**—**	**—**
Long-term debt	**24,943**	**23,969**	**23,785**	**21,968**	**12,585**	**82,734**
Lease obligations	**47,934**	**38,445**	**27,297**	**9,555**	**1,300**	**—**
Total	**118,251**	**90,039**	**78,706**	**49,282**	**13,886**	**82,734**

7. Securities

(1) On March 31, 2019 and 2018, information with respect to held-to-maturity debt securities for which market prices are available is summarized as follows:

March 31, 2019	Millions of yen		
	Consolidated balance sheet amount	Fair value	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Government and municipal bonds	**1,309**	**1,325**	**16**
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	**1,309**	**1,325**	**16**
Securities whose consolidated balance sheet amount does not exceed their acquisition cost:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	—	—	—
Total	**1,309**	**1,325**	**16**

March 31, 2018	Millions of yen		
	Consolidated balance sheet amount	Fair 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, 2019	Thousands of U.S. dollars		
	Consolidated balance sheet amount	Fair value	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Government and municipal bonds	**11,797**	**11,944**	**146**
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	**11,797**	**11,944**	**146**
Securities whose consolidated balance sheet amount does not exceed their acquisition cost:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	—	—	—
Total	**11,797**	**11,944**	**146**

(2) Investment securities classified as other securities as of March 31, 2019 and 2018 are as follows:

March 31, 2019	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Stock	**862**	**460**	**402**
Bonds:			
Government and municipal bonds	**965**	**959**	**6**
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	**1,827**	**1,419**	**408**
Securities whose consolidated balance sheet amount does not exceed their acquisition cost:			
Stock	**342**	**347**	**(4)**
Bonds:			
Government and municipal bonds	**38**	**38**	**(0)**
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	**380**	**385**	**(4)**
Total	**2,208**	**1,804**	**403**

Note:
March 31, 2019
4,510 million yen of unlisted shares, 70 million yen of unconsolidated subsidiary shares and associates, 6,424 million yen of unlisted bonds (subordinate corporate bonds), 870million yen of subordinate beneficiary rights to loans and account receivable in trust, and 2,764 million yen of investments in silent partnership, are not included in the other securities given above, because they have no fair value and assigning them fair market prices is recognized to be extremely difficult. The Company acquired the unlisted bonds (subordinate corporate bonds) and the subordinate beneficiary rights to loans and accounts receivable in trust, as a result of the securitization of non-recourse apartment loans that financial institutions had loaned to clients as funds for paying construction charges to the Company.

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

Note:
March 31, 2018
4,507 million yen of unlisted shares, 88 million yen of unconsolidated subsidiary shares and associates, 6,424 million yen of unlisted bonds (subordinate corporate bonds), 875 million yen of subordinate beneficiary rights to loans and accounts receivable in trust, and 2,549 million yen of investments in silent partnership, are not included in the other securities given above, because they have no fair value and assigning them fair market prices is recognized to be extremely difficult. The Company acquired the unlisted bonds (subordinate corporate bonds) and the subordinate beneficiary rights to loans and accounts receivable in trust, as a result of the securitization of non-recourse apartment loans that financial institutions had loaned to clients as funds for paying construction charges to the Company.

March 31, 2019	Thousands of U.S. dollars		
	Consolidated balance sheet amount	Acquisition cost	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Stock	**7,770**	**4,144**	**3,626**
Bonds:			
Government and municipal bonds	**8,697**	**8,642**	**55**
Corporate bonds	**—**	**—**	**—**
Others	**—**	**—**	**—**
Others	**—**	**—**	**—**
Subtotal	**16,468**	**12,787**	**3,681**
Securities whose consolidated balance sheet amount does not exceed their acquisition cost:			
Stock	**3,087**	**3,129**	**(42)**
Bonds:			
Government and municipal bonds	**343**	**346**	**(3)**
Corporate bonds	**—**	**—**	**—**
Others	**—**	**—**	**—**
Others	**—**	**—**	**—**
Subtotal	**3,430**	**3,476**	**(45)**
Total	**19,899**	**16,263**	**3,635**

Note:
March 31, 2019
$40,637 thousand of unlisted shares, $631 thousand of unconsolidated subsidiary shares and associates, $57,881 thousand of unlisted bonds (subordinate corporate bonds), $7,846 thousand of subordinate beneficiary rights to loans and accounts receivable in trust, and $24,907 thousand of investments in silent partnership, are not included in the other securities given above, because they have no fair value and assigning them fair market prices is recognized to be extremely difficult. The Company acquired the unlisted bonds (subordinate corporate bonds) and the subordinate beneficiary rights to loans and accounts receivable in trust, as a result of the securitization of non-recourse apartment loans that financial institutions had loaned to clients as funds for paying construction charges to the Company.

(3) Proceeds from sales of other securities and gain or loss on these sales for the years ended March 31, 2019 and 2018 are summarized as follows:

March 31, 2019
None

March 31, 2018
None

(4) Investment in associates included in investment securities of the consolidated balance sheet is as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Investment securities (stocks)	**70**	88	**631**
Of which, investment in joint venture	**70**	68	**631**

8. Derivative Transactions

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

March 31, 2019

None

March 31, 2018

None

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

March 31, 2019

None

March 31, 2018

Hedge accounting method	Type of transaction	Major hedged item	Contract value, etc.	Contract value, etc. lasting longer than one year	Fair value
			Millions of yen	Millions of yen	
Exceptional accounting treatment for interest rate swaps	Interest rate swaps, floating received rate and fixed paid rate	Long-term debt	8	—	—*

*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.

9. Main Properties

(1) Breakdown of major plants, properties, and equipment are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Residential properties for rent	**17,134**	34,549	**154,376**
Domestic hotels	**13,034**	13,707	**117,434**
Head office and branches	**28,760**	29,004	**259,130**
Leopalace Resort Manenggon Hills Guam	**26,632**	26,426	**239,950**
Leopalace Power (solar power systems)	**10,088**	13,088	**90,892**

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Machinery, equipment, and vehicles	**155**	155	**1,396**

(3) The Companies recognize impairment loss on the following asset groups for the years ended March 31, 2019 and 2018:

March 31, 2019

Purpose	Category	Location	Impairment loss	
			Millions of yen	Thousands of U.S. dollars
Rental assets (Apartment buildings and others, 113 units)	Buildings and Structures	Odawara-shi, Kanagawa etc.	**938**	**8,457**
	Land		**6,621**	**59,661**
Total			**7,560**	**68,119**

The Companies recognize each property in domestic rental assets as a unit, and group the overseas assets by managerial accounting segmentation.

The Companies wrote down book value of rental assets planned to be sold to recoverable amount and recognized the reduced values as impairment losses.

Recoverable amount of rental assets are measured in net realizable value.

March 31, 2018

Purpose	Category	Location	Impairment loss
			Millions of yen
Rental assets (Apartment buildings and others, 319 units)	Buildings and Structures	Minami-ku, Kyoto, etc.	587
	Land		6,848
Rental assets (Furniture and appliances equipped in apartments)	Leased assets, etc.		118
Inactive non-current assets (one land)	Land	Higashi Kagawa-shi, Kagawa	39
Total			7,594

The Companies recognize each property in domestic rental assets as a unit, and the group overseas assets by managerial accounting segmentation.

The Companies wrote down book value of rental assets planned to be sold, rental assets whose profitability seriously declined and inactive non-current assets to recoverable amount and recognized the reduced values as impairment losses.

Recoverable amount of rental assets are measured in the higher of their values in use or their net realizable values. Value in use is computed by discounting its future cash flows at 3.9%, while net realizable value is determined based on publicly appraised value.

10. Bad Debts

Bad debts are claims as stipulated under Article 32, Paragraph 1, and Item 10 of the Regulation concerning Financial Statements. Bad debts on March 31, 2019 and 2018 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Claims in the process of bankruptcy	**—**	1,039	**—**
Bad debts	**70**	97	**636**
Others	**144**	127	**1,299**
Total	**214**	1,264	**1,935**

11. Income Taxes

(1) Significant components of deferred tax assets and liabilities as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Deferred tax assets:			
Loss carried forward for tax purposes *(ii)	**33.935**	34,435	**305,754**
Reserve for losses related to repairs	**15,526**	—	**139,890**
Impairment loss	**7,294**	14,762	**65,724**
Retirement benefit liability	**4,096**	3,779	**36,907**
Reserve for apartment vacancy loss	**3,897**	932	**35,116**
Accrued bonuses	**775**	1,598	**6,984**
Advances received	**601**	722	**5,422**
Elimination of unrealized gain	**573**	650	**5,167**
Allowance for doubtful accounts	**494**	668	**4,457**
Excess amortization on software	**463**	443	**4,179**
Reserve for fulfillment of guarantees	**393**	400	**3,549**
Asset adjustments	**307**	537	**2,768**
Advances from customers	**253**	359	**2,285**
Deposits received	**239**	307	**2,160**
Loss on valuation of real estate for sale	**188**	237	**1,697**
Asset retirement obligations	**139**	136	**1,259**
Accounts payable - other	**110**	288	**997**
Reserve for warranty obligations on completed project	**105**	117	**951**
Accrued enterprise tax	**99**	150	**894**
Loss on valuation of property, plant and equipment	**57**	589	**519**
Sales promotion cost	**55**	96	**498**
Others	**605**	618	**5,453**
Sub total	**70,216**	61,832	**632,641**
Valuation allowance for tax loss carryforwards *(ii)	**(23,985)**	—	**(216,103)**
Valuation allowance for deductible temporary differences	**(22,324)**	—	**(201,136)**
Less: valuation allowance *(i)	**(46,309)**	(34,747)	**(417,240)**
Total deferred tax assets	**23,907**	27,084	**215,400**
Deferred tax liabilities:			
Reserve for special depreciation	**(112)**	(157)	**(1,011)**
Net unrealized gain on other securities	**(123)**	(259)	**(1,114)**
Fixed asset retirement expenses	**(26)**	(28)	**(238)**
Total deferred tax liabilities	**(262)**	(445)	**(2,364)**
Net deferred tax assets	**23,644**	26,639	**213,036**

*Notes:

(i) The valuation allowance increases by 11,562 million yen from the previous fiscal year. The main increases are 14,187 million yen which derives from the temporary differences due to the reserve for losses related to the repairs induced by the parting walls and other construction defect issues and 12,274 million yen in valuation allowance for loss carryforwards due to a decline in taxable income from the next fiscal year. The main decreases are 3,979 million yen due to tax recognition of impairment losses for prior years related to the Company-owned properties sold by the Company in a lump sum, and 10,312 million yen due to a decrease in the effective statutory tax rate of consolidated subsidiary Leopalace Guam Corporation from 34% to 21%.

(ii) Loss carryforwards for tax purposes and deferred tax assets carried forward by due date.

March 31, 2019	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	Total
Tax loss carryforwards *(i)	**4,715**	**7,200**	**4,599**	**640**	**881**	**15,899**	**33,935**
Valuation allowance	**(4,715)**	**(4,499)**	**(2,289)**	**(640)**	**(826)**	**(11,013)**	**(23,985)**
Deferred tax asset	**—**	**2,700**	**2,309**	**—**	**54**	**4,885**	**9,950 *(ii)**

March 31, 2019	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	Total
Tax loss carryforwards *(i)	**42,481**	**64,870**	**41,436**	**5,766**	**7,937**	**143,247**	**305,748**
Valuation allowance	**(42,481)**	**(40,535)**	**(20,623)**	**(5,766)**	**(7,442)**	**(99,225)**	**(216,100)**
Deferred tax asset	**—**	**24,326**	**20,803**	**—**	**486**	**44,012**	**89,647 *(ii)**

*Notes:

(i) Tax loss carryforwards are calculated by multiplying the statutory tax rate.

(ii) Deferred tax assets of 9,950 million are recorded for tax loss carryforwards of 33,935 million (the amount multiplied by the statutory tax rate).The Company does not recognize a valuation allowance for such tax loss carryforwards to the extent that it is deemed recoverable based on projected future taxable income.

(2) Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the years ended March 31, 2019 and 2018 are as follows:

	2019	2018
Effective statutory tax rate	—	30.9%
Adjustments:		
Effect from decrease in valuation reserve	—	(37.9%)
Entertainment and other expenses not deductible for income tax purposes	—	7.5%
Per capital portion of inhabitants taxes	—	1.6%
Tax deduction based on Tax Credits for Salary Growth	—	(0.1%)
Others	—	0.2%
Actual effective tax rate	—	2.2%

Note:

It is not applicable because of negative taxable income of the current fiscal year.

12. Short-term Borrowings and Long-term Debt

(1) Short-term borrowings, long-term debt and lease obligations on March 31, 2019 and 2018 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Short-term borrowings	**1,070**	1,210	**9,640**
Current portion of long-term debt, with average interest rate of 0.94%	**2,768**	1,754	**24,943**
Current portion of lease obligations, with average interest rate of 3.04%	**5,320**	5,960	**47,934**
Long-term debt, due 2019 to 2031, with average interest rate of 1.39%	**18,318**	16,643	**165,043**
Long-term lease obligations, due 2019 to 2022, with average interest rate of 2.69%	**8,501**	12,226	**76,599**
Total	**35,978**	37,794	**324,160**

Note:
The average interest rates above are 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) are 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 fiscal year ended March 31, 2019 are 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	**2,660**	**2,639**	**2,438**	**1,396**
Lease obligations	**4,267**	**3,029**	**1,060**	**144**

	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	**23,969**	**23,785**	**21,968**	**12,585**
Lease obligations	**38,445**	**27,297**	**9,555**	**1,300**

(3) Assets pledged as collateral for short-term borrowings and long-term debt on March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Cash and cash equivalents	**105**	17	**952**
Buildings and structures	**63**	—	**570**
Machinery, equipment, and vehicles	**113**	—	**1,019**
Others	**767**	669	**6,919**
Investment securities	**55**	55	**496**
Others (investments and other assets)	**116**	131	**1,047**
Total	**1,221**	872	**11,003**

(4) Liabilities with collateral at March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Current portion of long-term debt	79	27	720
Long-term debt	714	704	6,433
Total	793	731	7,153

Note:
Within the assets pledged as collateral, cash and cash equivalents and investment securities are pledged as collateral for investees of consolidated subsidiaries and lenders of client's housing loans, and there are no liabilities with collateral.

(5) Securities and investment securities which have been deposited with the Legal Affairs Bureau on March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deposit for housing construction warranty	1,122	1,104	10,110
Advanced payment certificate in accordance with Payment Services Act	628	628	5,658
Deposit for operation stipulated in Building Lots and Buildings Transaction Business Act	136	98	1,226
Deposit for business security under the Insurance Business Act	120	120	1,083
Deposit for housing defect warranty	109	109	983
Guarantee deposits based on the Trust Business Act	25	—	225
Others	4	2	38

(6) Bond balances on March 31, 2019 and 2018 consist of the following:

			Millions of yen		Thousands of U.S. dollars
Company name	Name of bond	Issuance date	2019	2018	2019
Leopalace21 Corporation	13th unsecured straight bond	October 31, 2014	900 (900)	1,800 (900)	8,108 (8,108)
Leopalace21 Corporation	14th unsecured straight bond	September 30, 2015	6,069 (1,666)	7,735 (1,666)	54,680 (15,010)
Leopalace21 Corporation	15th unsecured straight bond	September 30, 2015	5,100 (1,400)	6,500 (1,400)	45,950 (12,613)
Total	—	—	12,069 (3,966)	16,035 (3,966)	108,739 (35,732)

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	0.21	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 amount of bonds maturity in 5 years from the consolidated balance sheet date are 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	3,066	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
35,732	27,624	27,624	17,758	—

13. Retirement Benefit Plans

(1) Outline of retirement benefit plans

The Companies have an unfunded defined benefit pension plan and a defined contribution pension 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 in 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 in calculating the liability for retirement benefits and retirement benefit liabilities expense. Since the amounts are immaterial, it is included in following notes based on the general rule.

(2) Defined benefit pension plan

(a) List of adjustments between the balances of retirement benefit obligations at the beginning and end of year are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Beginning balance of retirement benefit obligations	**12,338**	11,295	**111,170**
Service cost	**1,401**	1,359	**12,623**
Interest cost	**63**	55	**574**
Actuarial gains and losses accrued	**59**	82	**538**
Retirement benefits paid	**(648)**	(459)	**(5,838)**
Others	**—**	5	**—**
Closing balance of retirement benefit obligations	**13,215**	12,338	**119,067**

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Beginning balance of pension assets	**5,000**	—	**45,049**
Expected return on plan assets	**158**	—	**1,428**
Actuarial gains and losses accrued	**(157)**	—	**(1,415)**
Securities contribution to retirement benefits trust	**—**	5,000	**—**
Closing balance of pension assets	**5,001**	5,000	**45,061**

(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 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Funded retirement benefit obligations	**13,215**	12,338	**119,067**
Pension assets	**(5,001)**	(5,000)	**(45,061)**
	8,213	7,338	**74,006**
Unfunded retirement benefit obligations	**—**	—	**—**
Net amount of the liabilities and assets posted in the consolidated balance sheet	**8,213**	7,338	**74,006**
Liability for retirement benefit	**8,213**	7,338	**74,006**
Net amount of the liabilities and assets posted in the consolidated balance sheet	**8,213**	7,338	**74,006**

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Service cost	**1,401**	1,359	**12,623**
Interest cost	**63**	55	**574**
Expected return on plan assets	**(158)**	—	**(1,428)**
Amortization of actuarial gain or loss	**237**	258	**2,135**
Retirement benefit expenses related to the defined benefit plan	**1,543**	1,673	**13,905**

(e) Items posted as the remeasurements of defined benefit plans (before tax effects) are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Actuarial gains/losses	**(20)**	(176)	**(182)**
Total	**(20)**	(176)	**(182)**

(f) Cumulative items posted as the remeasurements of defined benefit plans (before tax effects) are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Unrecognized actuarial gains/losses	**472**	492	**4,255**
Total	**472**	492	**4,255**

(g) Matters concerning pension assets are as follows:

(1) Major components of pension assets

	2019	2018
Bonds	**92%**	—
Shares	**6%**	—
Cash and cash equivalents	**—**	100%
Others	**2%**	—
Total	**100%**	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 expected long-term 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 are as follows (shown as weighted average):

	2019	2018
Discount rate	**0.03 – 0.97%**	0.03 – 0.97%
Expected long-term rate of return on pension assets	**2.17%**	3.17%

(3) Defined contribution pension plan

The necessary contribution amount for the defined contribution plan was 597 million yen ($5,387 thousand) and 557 million yen for the year ended March 31, 2019 and 2018, respectively.

14. Stock Options

(1) Stock option expenses recorded relating to stock options:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Selling, general and administrative expenses	**100**	128	**901**

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

(a) Outline of stock options:

	2009 Stock Option	2016 Stock Option	2017 Stock Option	2018 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	8 Directors (excluding outside Directors) and 16 executive officers of Leopalace21 Corporation, and 15 Directors of subsidiaries
Type and number of stock options*	Common stock: 71,000 shares	Common stock: 252,700 shares	Common stock: 282,800 shares	Common stock: 348,000 shares
Grant date	August 17, 2009	August 18, 2016	September 14, 2017	September 14, 2018
Vesting conditions	Continuous services from the grant date (August 17, 2009) to the end of vesting period (August 17, 2011)	Not applicable vesting conditions are specified	Not applicable vesting conditions are specified	Not applicable vesting conditions are specified
Vesting period	From August 17, 2009 to August 17, 2011	Not applicable period of service is specified	Not applicable period of service is specified	Not 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	From September 15, 2018 to September 14, 2048

* 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, 2019 are reported by converting to the number of shares.

Number of stock options:

	2009 Stock Option	2016 Stock Option	2017 Stock Option	2018 Stock Option
Non-vested (number of shares)				
Previous fiscal year-end	—	—	—	—
Granted	—	—	—	348,000
Forfeited	—	—	—	—
Vested	—	—	—	348,000
Outstanding	—	—	—	—
Vested (number of shares)				
Previous fiscal year-end	62,000	252,700	282,800	—
Vested	—	—	—	348,000
Exercised	—	—	—	—
Forfeited	—	—	—	—
Outstanding	62,000	252,700	282,800	348,000

Price information (yen):

	2009 Stock Option	2016 Stock Option	2017 Stock Option	2018 Stock Option
Exercise price	826	1	1	1
Average stock price at exercise	—	—	—	—
Fair value at the grant date	277	547	528	332

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

2018 stock options granted in the fiscal year ended March 31, 2019 are valued using the Black-Scholes option pricing model and the assumptions are as follows:

	2018 Stock Option
Expected volatility *(i)	54.561%
Expected life of option *(ii)	15 years
Expected dividends *(iii)	22 yen per share
Risk-free interest rate *(iv)	0.365%

Notes:

(i) Estimated based on the actual stock prices in a period of 15 years from September 2003 to September 2018.

(ii) The expected life of option could not be estimated rationally due to insufficient data. Therefore, it was estimated assuming that the options are exercised at the middle point of the exercise period.

(iii) Based on actual dividends for the fiscal year ended March 31, 2018.

(iv) 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.

15. Gain on Sale of Non-current Assets

Gain on sale of non-current assets for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Buildings and structures	242	915	2,184
Machinery, equipment, and vehicles	2	9	26
Other (Property, plant, and equipment)	0	1	0
Total	245	927	2,212

16. Loss on Sale of Non-current Assets

Loss on sale of non-current assets for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Buildings and structures	0	—	0
Machinery, equipment, and vehicles	0	—	0
Land	0	27	0
Others (Property, plant and equipment)	0	0	0
Total	0	27	0

17. Loss on Retirement of Non-current Assets

Loss on disposal of non-current assets for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Buildings and structures	82	82	744
Construction in progress	0	—	0
Land	3	—	28
Others (Property, plant and equipment)	9	30	87
Others (Intangible assets)	21	—	196
Total	117	112	1,057

18. Loss related to repairs

Repair costs and incidental expenses are incurred as repair work to the defect properties constructed by the Company. Loss related to repairs is recorded from the current fiscal year.

19. 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 only in the fiscal year ended March 2018.

20. Loss on 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 only in the fiscal year ended March 2018.

21. Rental Properties

The Companies possess rental apartments in major cities and regions throughout Japan. Some subsidiaries possess rental residences and office buildings, in addition they develop and possess serviced apartments. For the years ended March 31, 2019 and 2018, income arising from these rental properties are 1,902 million yen ($17,145 thousand) and 2,773 million yen, and impairment losses are 7,560 million yen ($68,114 thousand) and 7,476 million yen, respectively.

Furthermore, the changes in book value of rental properties during the year ended March 31, 2019 and 2018, and the fair value as of March 31, 2019 and 2018 are as follows:

March 31, 2019

Millions of yen			
Balance as of April 1, 2018	Increase/(Decrease)	Balance as of March 31, 2019	Fair value as of March 31, 2019
44,769	**(17,732)**	**27,036**	**33,760**

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, 2019

Thousands of U.S. dollars			
Balance as of April 1, 2018	Increase/(Decrease)	Balance as of March 31, 2019	Fair value as of March 31, 2019
403,367	**(159,770)**	**243,596**	**304,179**

Note:

(i) Book values recorded on the consolidated balance sheets are the amount after deducting accumulated depreciation and accumulated impairment loss from acquisition cost.

(ii) For the years ended March 31, 2019 and 2018, the main decreases are due to the sale of rental properties in 9,556 million yen ($86,104 thousand) and 12,739 million yen, and impairment losses in 7,560 million yen ($68,114 thousand) and 7,476 million yen, respectively.

(iii) Fair value as of the end of the current consolidated fiscal year is calculated by the Company mainly based on "Real-estate appraisal standards".

22. Asset Retirement Obligations

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

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

(1) Main changes in net assets for the year ended March 31, 2019

(a) Shares issued and treasury stocks for the year ended March 31, 2019 are as follows:

	Shares			
Type of shares	April 1, 2018	Increase	Decrease	March 31, 2019
Shares issued				
Common stock *(i)	252,682,515	—	7,800,000	244,882,515
Total	252,682,515	—	7,800,000	244,882,515
Treasury stock				
Common stock *(ii),(iii)	567,420	8,300,090	7,800,000	1,067,510
Total	567,420	8,300,090	7,800,000	1,067,510

*Notes:

(i) The 7,800 thousand shares decrease in common stock issued is due to the retirement of treasury stock resolved at the meeting of Board of Directors.

(ii) The 8,300 thousand shares increase in treasury stock is due to the 8,300 thousand shares acquisition resolved at the meeting of Board of Directors, accompanied with the purchase of 0 thousand shares less than one unit.

(iii) The 7,800 thousand shares decrease in treasury stock is due to the retirement of treasury stock.

(b) Stock acquisition rights (SAR) and treasury share acquisition rights for the year ended March 31, 2019 are as follows:

Type	Class of shares issued upon exercise of SARs	Number of shares issued upon exercise of SARs				Outstanding as of March 31, 2019	
		April 1, 2018	Increase	Decrease	March 31, 2019	Millions of yen	Thousands of U.S. dollars
SARs as stock option	—	—	—	—	—	**404**	**3,647**
Total	—	—	—	—	—	**404**	**3,647**

(c) Matters concerning dividends for the year ended March 31, 2019 are as follows:

- Dividends paid:

Resolution	Class of shares	Total amount of dividends		Dividends per share		Record date	Effective date
		Millions of yen	Thousands of U.S. dollars	Yen	U.S.dollars		
June 28, 2018 General shareholders' meeting	Common stock	**3,025**	**27,258**	**12**	**0.10**	March 1, 2018	June 29, 2018

- There are no dividends with record dates in the current consolidated year but with effective dates in the next year:

(2) Main changes in net assets for the year ended March 31, 2018

(a) Shares issued and treasury stocks for the year ended March 31, 2018 are as follows:

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

*Notes:

(i) The 14,761 thousand shares decrease in common stock issued is due to the retirement of treasury stock resolved at the meeting of Board of Directors.

(ii) The 10,761 thousand shares increase in treasury stock is due to the 10,761 thousand shares acquisition resolved at the meeting of Board of Directors, accompanied with the purchase of 0 thousand shares less than one unit.

(iii) The 14,764 thousand shares decrease in treasury stock is due to the retirement of treasury stock.

(b) Stock acquisition rights (SAR) and treasury stock acquisition rights for the year ended March 31, 2018 are 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
SARs as stock option	—	—	—	—	—	284
Total	—	—	—	—	—	284

(c) Matters concerning dividends for the year ended March 31, 2018 are as follows:

- Dividends paid:

Resolution	Class of shares	Total amount of dividends Millions of yen	Dividends per share Yen	Record date	Effective date
June 29, 2017 General shareholders' meeting	Common stock	3,154	12	March 31, 2017	June 30, 2017
November 10, 2017 Board of Directors' meeting	Common stock	2,521	10	September 30, 2017	December 11, 2017

- Dividends with record dates in the current consolidated year but with effective dates in the next year:

Resolution	Class of shares	Total amount of dividends Millions of yen	Source of dividend	Dividends per share Yen	Record date	Effective date
June 28, 2018 General shareholders' meeting	Common stock	3,025	Retained earnings	12	March 31, 2018	June 29, 2018

24. Leased assets

(1) Finance lease transactions

The Company primarily leases furniture and electronic appliances to apartments in 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, 2019 and 2018 are as follows:

	Millions of yen		
March 31, 2019	Future lease payments	Prepaid lease payments	Differences
Due within one year	**235,191** **(234,998)**	**1,032** **(1,032)**	**234,159** **(233,965)**
Due after one year	**99,333** **(98,866)**	**1,740** **(1,740)**	**97,593** **(97,125)**
Total	**334,525** **(333,864)**	**2,773** **(2,773)**	**331,752** **(331,091)**

	Millions of yen		
March 31, 2018	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)

	Thousands of U.S. dollars		
March 31, 2019	Future lease payments	Prepaid lease payments	Differences
Due within one year	**2,119,037** **(2,117,295)**	**9,306** **(9,306)**	**2,109,731** **(2,107,989)**
Due after one year	**894,978** **(890,765)**	**15,681** **(15,681)**	**879,297** **(875,084)**
Total	**3,014,016** **(3,008,061)**	**24,987** **(24,987)**	**2,989,028** **(2,983,073)**

Note:

Future minimum lease payments fixed under master lease agreements in leasing business are shown in parentheses.

25. Guarantee Obligations

Guaranteed obligations as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Guarantee obligations to financial institutions for customers who have a home mortgage	**505**	589	**4,554**
Guarantee obligations to financial institutions for customers who have a membership loan	**3**	3	**33**
Total	**509**	593	**4,587**

26. 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.

The Company comprises four segments, the Leasing Business, Development Business, Elderly Care Business and Hotels, Resort and Other Businesses.

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.

(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, 2019 and 2018 are as follows:

	Millions of yen						
	Reportable segment						
March 31, 2019	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort, & Other Business	Segment Total	Adjustments	Consolidated Total
Sales							
Sales to customers	**426,388**	**58,992**	**13,922**	**5,919**	**505,223**	**—**	**505,223**
Inter-segment sales and transfers	**226**	**1**	**—**	**3,632**	**3,859**	**(3,859)**	**—**
Total	**426,615**	**58,993**	**13,922**	**9,551**	**509,083**	**(3,859)**	**505,223**
Segment profit (loss)	**14,987**	**(995)**	**(846)**	**(1,346)**	**11,798**	**(4,407)**	**7,390**
Segment assets	**96,770**	**25,854**	**3,587**	**55,274**	**181,487**	**110,303**	**291,790**
Other items							
Depreciation	**8,940**	**219**	**104**	**1,480**	**10,745**	**2,200**	**12,945**
Increase in property, plant, and equipment, and intangible assets	**7,068**	**154**	**40**	**1,614**	**8,878**	**909**	**9,788**

Notes:
(i) Breakdown of adjustments is as follows:
Segment profit (loss)

	Millions of yen	Thousands of U.S. dollars
Inter-segment eliminations	**(166)**	**(1,503)**
Corporate expenses*	**(4,240)**	**(38,208)**
Total	**(4,407)**	**(39,711)**

*Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.
Adjustments in segment assets (110,303 million yen, $991,875 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 (909 million yen, $8,198 thousand) consist of capital expenditures which do not belong to reportable segments.
(ii) Segment profit (loss) is adjusted to operating profit on the consolidated statements of operations.

March 31, 2018	Millions of yen						
	Reportable segment					Adjustments	Consolidated Total
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort, & Other Business	Segment Total		
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	112,393	19,572	3,553	56,808	192,327	144,807	337,134
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:
(i) Breakdown of adjustments is as follows:
Segment profit (loss)

	Millions of yen
Inter-segment eliminations	(243)
Corporate expenses*	(4,109)
Total	(4,353)

*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) 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) consist of capital expenditures which do not belong to reportable segments.
(ii) Segment profit (loss) is adjusted to operating profit on the consolidated statements of operations.

March 31, 2019	Thousands of U.S. dollars						
	Reportable segment					Adjustments	Consolidated Total
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort, & Other Business	Segment Total		
Sales							
Sales to customers	**3,841,687**	**531,509**	**125,440**	**53,334**	**4,551,972**	**—**	**4,551,972**
Inter-segment sales and transfers	**2,037**	**13**	**—**	**32,724**	**34,775**	**(34,775)**	**—**
Total	**3,843,725**	**531,523**	**125,440**	**86,059**	**4,586,748**	**(34,775)**	**4,551,972**
Segment profit (loss)	**135,033**	**(8,971)**	**(7,627)**	**(12,134)**	**106,298**	**(39,711)**	**66,586**
Segment assets	**871,886**	**232,946**	**32,324**	**498,009**	**1,635,166**	**993,815**	**2,628,981**
Other items							
Depreciation	**80,551**	**1,978**	**942**	**13,341**	**96,813**	**19,824**	**116,637**
Increase in property, plant, and equipment, and intangible assets	**63,688**	**1,394**	**367**	**14,545**	**79,995**	**8,198**	**88,193**

Related information

1. Products and services

Information concerning products and services is omitted, since similar information is reported in "26. Segment Information".

2. Geographic area

(1) Sales

Information concerning sales by geographic area is 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, 2019

Millions of yen					
Japan	Trust territory of U.S.A. Guam	Kingdom of Thailand	Kingdom of Cambodia	Other	Total
93,654	**26,632**	**1,170**	**1,555**	**202**	**123,215**

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, 2019

Thousands of U.S. dollars					
Japan	Trust territory of U.S.A. Guam	Kingdom of Thailand	Kingdom of Cambodia	Other	Total
843,809	**239,954**	**10,541**	**14,018**	**1,822**	**1,110,147**

3. Major customers

Information concerning sales to major customers is 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, 2019

	Millions of yen					
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort, & Other Business	Adjustments	Consolidated total
Impairment loss	**7,560**	—	—	—	—	**7,560**

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, 2019

	Thousands of U.S. dollars					
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort & Other Business	Adjustments	Consolidated total
Impairment loss	**68,119**	—	—	—	—	**68,119**

Information concerning goodwill amortization and unamortized balance by reportable segments

March 31, 2019

	Millions of yen					
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort, & Other Business	Adjustments	Consolidated total
Goodwill amortization	**45**	**515**	—	—	—	**560**
Balance	**173**	**2,151**	—	—	—	**2,324**

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, 2019

	Thousands of U.S. dollar					
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort, & Other Business	Adjustments	Consolidated total
Goodwill amortization	**407**	**4,640**	—	—	—	**5,048**
Balance	**1,559**	**19,382**	—	—	—	**20,942**

Information concerning gain on negative goodwill by reportable segments

For the years ended March 31, 2019 and 2018

Not applicable.

27. 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, 2019 and 2018.

	Yen		U.S. dollars
	2019	2018	**2019**
Net assets	**331.87**	630.84	**2.99**
Net income attributable to shareholders of the parent			
Basic	**(278.58)**	58.02	**(2.50)**
Diluted	**—**	57.93	**—**

(2) Basis of computation of basic and diluted net income per share for the years ended March 31, 2019 and 2018 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Basic net income (loss) per share			
Net income (loss) attributable to shareholders of the parent	**(68,662)**	14,819	**(618,633)**
Amount not attributable to common stock	**—**	—	**—**
Net income (loss) attributable to common stock	**(68,662)**	14,819	**(618,633)**
Basic weighted-average shares during the year (Thousands of shares)	**246,473**	255,412	**2,220**
Diluted net income per share			
Net income attributable to shareholders of the parent	**—**	—	**—**
Increase in the number of common stock (Thousands of shares)	**—**	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 (620)	**—**

28. Related Party Transactions

The following tables set forth related party transactions for the years ended March 31, 2019 and 2018.

For the year ended March 31, 2019

(a) Unconsolidated subsidiaries and associates

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	Kei Ishida	—	—	—	—	—	Real estate brokerage, etc.
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	Kei Ishida	Leasing brokerage commissions	**17**	**160**	Accounts payable	**0**	**0**
Directors and close relatives	Toshiko Miyoshi	Leasing of apartments	**26**	**234**	—	**—**	**—**

Notes:
(i) Consumption taxes are not included in amounts.
(ii) Conditions on real estate brokerage and leasing of land and building are the same as those on transactions with third parties.
(iii) Kei Ishida is a close relative of Eisei Miyama, Director of the Company.
(iv) Toshiko Miyoshi is a close relative of Tadahiro Miyama, Director of the Company.
(v) Both Eisei Miyama and Tadahiro Miyama retired as Directors at the Ordinary General Meeting of Shareholders held on June 27, 2019.

For the year ended March 31, 2018

(a) Unconsolidated subsidiaries and associates

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:
(i) Consumption taxes were not included in amounts.
(ii) Conditions on leasing the apartments are the same as those on transactions with third parties.
(iii) Toshiko Miyoshi is a close relative of Tadahiro Miyama, Director of the Company.

29. Business Combinations

Business Combination under common control

(1) Acquisition of additional shares of a subsidiary:

(a) Name of the acquired company and its business activities:

Name of the acquired company	Enplus Inc.
Business activities	Relocation management business

(b) Effective date of the business combination:
March 28, 2019

(c) Legal structure of the business combination:
Stock acquisition from non-controlling interests

(d) Name of the company subsequent to the business combination
No change

(e) Other Summary of Transactions:
The percentage of voting rights of the additional shares acquired was 31.6%, and the percentage of voting rights held by the Company was 98.3%.The purpose of this acquisition is to speed up decision-making and accelerate the synergy effect by enhancing the Company's control over the Company's shares. For this purpose, the Company accepts the acquisition of shares from non-controlling shareholders.

(2) Accounting method:

Based on the "Accounting Standard for Business Combination" and "Guidance on Accounting Standard for Business Combinations and Business Divestitures", the transactions are categorized as transactions with non-controlling interest shareholders under common control.

(3) Additional acquisition of subsidiary's shares:

Acquisition cost of the acquired company and its details

	Millions of yen	Thousands of U.S. dollars
Consideration for the acquisition (cash)	**112**	**1,009**
Acquisition cost	**112**	**1,009**

(4) Changes in the Company's equity related to transactions with non-controlling interests

Major factors affecting capital surplus:

Additional acquisition of shares of consolidated subsidiaries

	Millions of yen	Thousands of U.S. dollars
Amount of capital surplus decreased by transactions with non-controlling interests	**86**	**781**

30. Other

The following tables set forth quarterly information for the year ended March 31, 2019.

Cumulative period	First quarter	Second quarter	Third quarter	Full-year
Net sales (Millions of yen)	**129,268**	**255,479**	**376,366**	**505,233**
Income before income taxes (Millions of yen)	**(881)**	**(7,611)**	**(44,608)**	**(64,840)**
Net income attributable to shareholders of the parent (Millions of yen)	**(957)**	**(5,819)**	**(43,989)**	**(68,662)**
Net income per share (yen)	**(3.80)**	**(23.36)**	**(177.85)**	**(278.58)**

Accounting period	First quarter	Second quarter	Third quarter	Full-year
Net income per share (yen)	**(3.80)**	**(19.75)**	**(156.55)**	**(101.19)**

Cumulative period	First quarter	Second quarter	Third quarter	Full-year
Net sales (Thousands of U.S. dollars)	**1,164,690**	**2,301,820**	**3,390,995**	**4,551,972**
Income before income taxes (Thousands of U.S. dollars)	**(7,940)**	**(68,579)**	**(401,913)**	**(584,199)**
Net income attributable to shareholders of the parent (Thousands of U.S. dollars)	**(8,625)**	**(52,434)**	**(396,341)**	**(618,633)**
Net income per share (dollars)	**(0.03)**	**(0.21)**	**(1.60)**	**(2.51)**

Accounting period	First quarter	Second quarter	Third quarter	Full-year
Net income per share (dollars)	**(0.03)**	**(0.18)**	**(1.41)**	**(0.91)**

31. Subsequent Events

Not applicable

32. Contingent Liabilities

On April 27, 2018, the Company announced that there were partial discrepancies between construction certificate documents and the actual construction of apartment series “Gold Nail” and “New Gold Nail” (hereinafter referred to as the “Nail Series”), constructed by Leopalace21 between 1994 and 1995.

The Company also declared that the Company would take responsibility for investigating all its product properties and carry out repair work to the properties with defects as the contractor.

In addition, on May 29, 2018, the Company announced that part of its six apartment series, “Gold Residence, New Silver Residence, New Gold Residence, Special Steel Residence, Better Steel Residence, and Con Grazia” (hereinafter referred to as the “6 Series”) constructed from 1996 to 2009, were considered to have the possibility of violation with the Building Standards Law in Japan. The Company also stated that investigation and repair work would be carried out to the properties in question.

For the series other than the “Nail Series” and “6 Series” with top priorities in the investigation, it was confirmed that part of the target properties were in defects due to the inadequate construction supervision.

After that, On February 7, 2019, the Company announced that during the all-building investigation, the parting walls and exterior walls of part of the three collective housing products “Gold Residence, New Gold Residence, and Villa Alta” constructed from 1996 to 2001 were constructed with foamed urethane, rather than glass wool described in the design blueprint. For those properties in defect assumed not conforming to the notification of the Ministry of Land, Infrastructure, Transport and Tourism (hereinafter referred as “MLIT”) nor the statutory specifications stipulated by the Minister of Land, Infrastructure, Transport and Tourism. The Company also affirmed in the announcement that upon reporting to the MLIT, the repair work was to implement to meet the statutory specifications.

In the process of continuing the all-building investigation, it was confirmed that the fire-resistant structures in parting walls of the steel-framed properties constructed by the Company were not conforming to statutory specifications recognized by the Minister of Land, Infrastructure, Transport and Tourism. As a result, while reporting to the MLIT, the repair work to match the statutory specifications was announced to be implemented on May 29, 2019.

In June 2018, the Company launched Emergency Headquarters for Parting Wall Construction Defects, with the President and CEO acting as Chief of Headquarters, uniting the whole company to respond to construction defect issues. The all-building investigation of the properties constructed by the Company is underway. For properties whose defects have been confirmed by the investigation, we are progressively conducting the repair work, while coordinating with the tenants and owners of the properties

Regarding the progress of the repair work, the “Nail Series” has almost completed the repairs and has resumed recruitment. In response to MLIT’s instructions, the Company resolved to continue devoting its utmost efforts to complete. After finishing the investigation of targeted properties in top-priority, series other than targeted properties in top-priority investigations are progressively under investigation. For the repair method and repair work, the Company plans to decide after the negotiation with owners and the specific administrative agency.

As a result of these events, at the end of the current consolidated fiscal year, the Company reasonably estimated the amount of such expenses in accordance with the terms and conditions that differ from properties constructed by the Company, such as the repair method, repair unit price, the necessity and method of tenant’s relocation, and recorded the reserve for losses related to repairs, in order to reserve for the incurrence of repair work costs and incidental expenses related to the defects of properties constructed by the Company (such as the expenses to compensate for the vacancies of other companies’ management properties, the tenant’ relocation, and the investigation)

However, as all-building investigation is ongoing, additional repair work costs and incidental expenses may exceed the reserve for losses related to repairs, if the prerequisites for calculating the reserve for losses related to repairs change.

Accordingly, depending on the investigation, progress of the repair work and so forth from the next fiscal year, there may be an impact on the company’s consolidated financial results due to the additional reserve for losses related to repairs.

Grant Thornton

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, 2019, 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, 2019, and their consolidated financial performance and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter
We draw attention to Note 32 to the consolidated financial statements, which describes the construction defects in part of the apartments constructed by the Company. The company has recorded reserve for losses related to repairs for the incurrence of losses on repair work costs and incidental expenses pertaining to the defects. Depending on the investigation, progress of the repair work and so forth from the next fiscal year, there may be an impact on the company's consolidated financial results due to the additional reserve for losses related to repairs. Our opinion is not qualified in respect of this matter.

Convenience Translation
The United States dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2019 are presented solely for the convenience. Our audit also included the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Grant Thornton Taiyo LLC

October 10, 2019
Tokyo, Japan

Leopalace21 Data Compilation

External Environment

Number of New Housing Starts

In the year ended March 2019, the number of new housing starts increased by 0.7% year on year. Meanwhile, rental housing starts declined following on from the previous year, falling by 5.0% year on year to 390,093 units. Starts of rental units less than 30 square meters aimed mainly at single-person households also declined, falling by 7.5% year on year to 72,862 units.

(1,000 units)

	FY2016	FY2017	FY2018
Rental housing	427	410	**390**
Of which, rental units under 30m^2	76	79	**73**
Other	547	536	**563**
Total	974	946	**953**

Source: New housing starts 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 is expected to continue increasing steadily.

(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 age 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 rural 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 2018, and is becoming a social problem.

	1988	1993	1998	2003	2008	2013	2018
Number of vacant houses for rent or sale (1,000 units)	2,336	2,619	3,520	3,978	4,476	4,600	4,604
Tenancy (1,000 units)	14,015	15,691	16,730	17,166	17,770	18,519	19,065
Ratio of vacant dwellings (%)	14.3	14.3	17.4	18.8	20.1	19.9	19.5

Source: Housing and Land Survey, the Ministry of Internal Affairs and Communications

Leasing Business Data

Apartment Rooms under Management

As of March 31, 2019, apartments under management—the earnings foundation for our Leasing Business—numbered 574,798, rising for the sixth consecutive year. The growth rate in our focus regions of Kanto (Tokyo metro area and Kita-Kanto), Chubu, and Kinki remained high and accounted for around 70% of the total number.

(Rooms)

	FY2016	FY2017	FY2018
Hokkaido	14,088	13,932	**13,909**
Tohoku	35,270	35,434	**35,652**
Kita-Kanto	40,553	40,321	**40,494**
Tokyo metro area	165,590	168,313	**170,358**
Hokuriku-Koshinetsu	40,639	40,095	**40,003**
Chubu	88,086	87,916	**88,194**
Kinki	80,715	80,362	**80,861**
Chugoku	38,798	38,945	**39,208**
Shikoku	14,671	14,671	**14,691**
Kyushu-Okinawa	50,329	50,683	**51,428**
Total	568,739	570,672	**574,798**

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, 2019, the number of corporate contracts for apartments stood at 280,643 units, down 9.2% from a year earlier due to the effects of the problem of construction defects. Nevertheless, the composition ratio was 57.9%, accounting for more than 50% of our lease portfolio for the sixth consecutive year.

	FY2016		FY2017		**FY2018**	
	Units	%	Units	%	**Units**	**%**
Corporations	293,824	56.4	309,062	57.8	**280,643**	**57.9**
Individuals	180,617	34.6	178,643	33.4	**163,318**	**33.7**
Students	46,857	9.0	47,142	8.8	**40,757**	**8.4**
Total	521,298	100.0	534,847	100.0	**484,718**	**100.0**

Average Annual Occupancy Rate

Both the year-end occupancy rate and the average annual occupancy rate declined, affected by the problem of construction defects. The year-end occupancy rate in the year under review fell 9.4 points from a year earlier, while the average annual occupancy rate fell 2.3 points from a year earlier.

(%)

	FY2016	FY2017	**FY2018**
Average annual occupancy rate	88.5	90.6	**88.3**

Fiscal Yearend Occupancy Rates by Region

The occupancy rate declined in all regions of Japan due to the effects of the problem of construction defects. In particular, the Hokkaido region was affected significantly, with the occupancy rate falling by 18 points from a year earlier. The occupancy rate also fell considerably in both the Hokuriku-Koshinetsu and Kinki regions, down 14 points and 11 points, respectively.

(%)

	End-FY2016	End-FY2017	**End-FY2018**
Hokkaido	84.7	87.1	**69.0**
Tohoku	94.1	94.5	**84.8**
Kita-Kanto	87.2	90.7	**80.3**
Tokyo metro area	92.6	94.2	**86.0**
Hokuriku-Koshinetsu	90.0	92.7	**79.1**
Chubu	91.1	94.5	**85.1**
Kinki	91.3	93.8	**83.1**
Chugoku	93.8	93.1	**88.0**
Shikoku	89.9	91.8	**84.3**
Kyushu-Okinawa	93.9	96.1	**87.6**
Total	91.7	93.7	**84.3**

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 1,494 people as of March 31, 2019, down 3.4% year on year.

	FY2016	FY2017	**FY2018**
No. of lease sales offices	308	307	**302**
Of which, Leopalace Centers	189	189	**189**
Of which, Leopalace Partners (franchisees)	119	118	**113**
No. of leasing sales personnel	1,589	1,546	**1,494**

	FY2016	FY2017	**FY2018**
Security systems installed (cumulative, rooms)	279,609	296,564	**308,944**
Security cameras installed (cumulative, buildings)	10,223	12,778	**14,364**
Services centers, no. of incoming calls	530,804	515,750	**387,398**
Of which, inquiries	373,062	361,678	**254,334**
Of which, maintenance related	125,734	121,672	**106,508**
Of which, complaints or claims	32,008	32,400	**26,556**
Tenant response rates from Internet (new contracts only)	45,673	45,971	**30,009**

Development Business Data

Orders

In fiscal 2018, orders stood at 64,495 million yen as a result of the impacts of measures for curbing apartment orders, due to efforts being focused on resolving the problem of construction defects, among other factors. By building category, however, orders were strong for stores and buildings with commercial space, increasing by 39.1% year on year to 1,934 million yen.

(Millions of yen)

	FY2016	FY2017	FY2018
Building categories			
Apartments	79,424	69,712	**56,859**
Elderly care facilities	2,377	706	**931**
Stores & commercial space	562	1,390	**1,934**
Custom-built homes*	4,763	4,097	**4,771**
Solar power systems	13	0	**0**
Total	87,139	75,905	**64,495**

*Subsidiary Morizou

Apartments Completions

The number of apartment buildings completed in fiscal 2018 declined by 32.7% year on year to 381. Due to the impacts of measures for curbing apartment orders, completions of mainstay two-story models decreased, along with completions of all buildings with three and four stories. Two-story buildings accounted for approximately 70% of our total completions.

(Buildings)

	FY2016	FY2017	FY2018
Two stories	485	376	**260**
Three stories	154	160	**99**
Four stories or more	24	30	**22**
Total	663	566	**381**

Apartment Completions by Region

The number of apartment completions is declining in Kita-Kanto, Tokyo metro area, Hokuriku-Koshinetsu, Chubu, Kinki, Chugoku, and Kyushu-Okinawa due to the impacts of measures for curbing orders.

(Buildings)

	FY2016	FY2017	FY2018
Tohoku	27	20	**25**
Kita-Kanto	21	13	**9**
Tokyo metro area	366	317	**196**
Hokuriku-Koshinetsu	5	1	**0**
Chubu	42	43	**39**
Kinki	101	79	**54**
Chugoku	33	32	**18**
Shikoku	9	2	**2**
Kyushu-Okinawa	59	59	**38**
Total	663	566	**381**

Sales Offices Accepting Construction Orders, Sales Personnel

The long-term outlook for demand for apartment construction is to decline nationwide. In this environment, our strategy is to concentrate our sales offices and personnel in regions where strong demand can be expected.

	FY2016	FY2017	FY2018
Sales offices responsible for construction orders (offices)	60	60	**35**
Sales personnel responsible for construction orders (personnel)	566	530	**475**

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)

	FY2016	FY2017	FY2018
Fee-based homes	21	21	**21**
Day services, Short stays	53	60	**64**
Group homes	2	2	**2**
Total	76	83	**87**

Utilization Rate

The utilization rate at fee-based homes for seniors and group homes as well as short stays remained high, exceeding 90%. We are focusing on temporary-type offerings, notably day services and short stays, and the utilization rate for both improved as already stated.

(Utilization rate, %)

	FY2016	FY2017	FY2018
Day services	72.5	72.8	**72.6**
Short stays	87.6	90.2	**93.6**
Fee-based homes & group homes	93.0	88.8	**91.6**

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.

	2016	2017	2018
No. of visitors to Guam* (thousands)	1,536	1,545	**1,549**
No. of visitors to Leopalace Resort Country Club (users)	50,000	47,000	**45,000**
No. of stakeholder visitors (people who stayed, recreational facility users)	47,000 (30.0% of the total)	55,000 (53.4% of the total)	**46,000 (53.6% of the total)**

* Data on the number of visitors to Guam, Guam Visitors Bureau (a government agency)

(Utilization rate, %)

	2016	2017	2018
Leopalace Resort Guam	55.9	50.7	**43.2**

Leopalace Hotels

Leopalace21 operates business hotels across Japan. We encourage usage of these hotels by stakeholders, including corporate clients on business trips.

* Hotel Leopalace Asahikawa and Okayama were sold in August 2016. Hotel Leopalace Sapporo, Sendai, and Hakata are expected to be sold at the end of October 2019.

(Utilization rate, %)	FY2016	FY2017	FY2018
Asahikawa	75.0	—	**—**
Sapporo	90.4	83.6	**82.2**
Sendai	78.1	77.8	**76.4**
Nagoya	80.9	79.6	**78.8**
Okayama	75.9	—	**—**
Hakata	94.8	94.9	**94.9**
No. of stakeholder stays (persons)	11,168 (7.1% of the total)	11,788 (8.6% of the total)	**11,707 (7.4% of the total)**

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

	FY2016	FY2017	FY2018
Outside directors	3	3	**3**
Female directors	1	1	**1**
Directors' compensation (millions of yen)	455	655	**595**
Directors (excludes outside directors)	370	563	**495**
Audit & Supervisory Board members (excludes outside ASB members)	31	19	**19**
Outside directors and ASB members	54	71	**80**

Employee Composition (Parent company)

	FY2016			FY2017			FY2018		
	Total	Men	Women	Total	Men	Women	**Total**	**Men**	**Women**
No. of employees	6,541	4,551	1,990	6,494	4,509	1,985	**6,331**	**4,395**	**1,936**
No. of regular employees	6,086	4,335	1,751	5,998	4,265	1,733	**5,833**	**4,142**	**1,691**
No. of temporary hires	455	216	239	496	244	252	**498**	**253**	**245**
Average age	36 years, 3 months	37 years, 4 months	33 years, 10 months	36 years, 11 months	38 years, 0 months	34 years, 5 months	**37 years, 7 months**	**38 years, 7 months**	**35 years, 2 months**
Average cumulative years of service	8 years, 3 months	9 years, 5 months	5 years, 6 months	8 years, 11 months	10 years, 2 months	6 years, 1 months	**9 years, 7 months**	**10 years, 10 months**	**6 years, 7 months**

Work-life Balance (Parent company)

	FY2016			FY2017			FY2018		
	Total	Men	Women	Total	Men	Women	**Total**	**Men**	**Women**
Total number of working hours per month	178.4			176.7			**173.0**		
Overtime work hours per month	20.0			18.2			**15.0**		
No. of employees with reduced working hours	154	5	149	188	12	176	**199**	**11**	**188**
No. of employees on childcare leave	149	5	144	257	80	177	**238**	**55**	**183**
Rate of paid leave usage	72.2%	68.4%	81.7%	74.1%	70.6%	82.5%	**76.8%**	**74.4%**	**82.6%**
Rate of workforce turnover	7.1%	5.4%	10.9%	8.1%	6.3%	12.2%	**8.6%**	**7.2%**	**12.0%**
Ratio of new hires	7.5%	7.0%	7.9%	12.5%	14.6%	10.3%	**19.1%**	**18.2%**	**20.3%**

Diversity (Consolidated (excluding Guam), Parent company + Leopalace Smile for disabled employees)

	FY2016			FY2017			FY2018		
	Total	Men	Women	Total	Men	Women	**Total**	**Men**	**Women**
No. of disabled employees (annual average)	158.6			159.7			**161.9**		
% of disabled employees (annual average rate)	2.14%			2.17%			**2.23%**		
No. of mandatory retirees that have been rehired*	27	25	2	22	19	3	**31**	**24**	**7**
No. of employees with foreign citizenship	299	108	191	334	124	210	**351**	**144**	**207**
No. of foreign national managers	19	14	5	20	15	5	**25**	**20**	**5**
Number of people newly employed	915	436	479	722	327	395	**725**	**336**	**389**
Gender ratio for new hires	100.0%	47.7%	52.3%	100.0%	45.3%	54.7%	**100.0%**	**46.3%**	**53.7%**
No. of managers	1,622	1,535	87	1,707	1,603	104	**1,758**	**1,648**	**110**
Gender ratio for managers	100.0%	94.6%	5.4%	100.0%	93.9%	6.1%	**100.0%**	**93.7%**	**6.3%**

* Employees who reach the mandatory retirement age can be rehired on a different contract.

Support for Employees Seeking to Obtain Qualifications

	FY2016	FY2017	FY2018
No. using support for obtaining qualifications	1,003	742	**368**
No. using support system for obtaining specified qualifications	875	651	**245**
No. in program for language skills improvement	21	16	**15**
No. awarded an incentive payment for obtaining Takken qualification	56	75	**108**

"Takuchi tatemono torihiki shi" or "Takken": This qualification recognizes those who passed a test on Japanese Building Lots and Building Transaction Business Act.

Certified Employees (as of March 2019)

Real estate broker	846
Rental property manager	506
General insurance solicitor (basic course/fire insurance course)	1,171
Architect (first-class, second-class)	428
Building construction management engineer (1st Grade, 2nd Grade)	333
Certified skilled worker of financial planning (1st Grade, 2nd Grade)	271
Land surveyor, Assistant land surveyor	37
Care worker	690
Care support specialist	186
Home-visit care worker (1st Grade, 2nd Grade)	398

Labor Safety and Health

	FY2016	FY2017	FY2018
No. of labor accidents	37	44	55
Accidents requiring time off work	16	3	14
Accidents not requiring time off work	21	41	41

Stakeholder Communication Initiatives

	FY2016	FY2017	FY2018
No. of property owner briefing sessions	231	424	517
No. of IR events (meetings for individual investors, etc.)	21	22	19
Career-support activity programs	28	35	35

Community Contributions

	FY2016	FY2017	FY2018
No. of cleanup campaign participants	14,143	14,013	6,142
Of which, in vicinity of existing properties	1,939	3,037	—**
Of which, in vicinity of construction sites	12,204	10,976	6,142
Total sum of donations (thousands of yen)	2,509	2,378	3,754
No. joining observation tours and OTJ training at Leopalace Smile*	571	444	417

* 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.

** Cleanup campaign was held all together in the management center of 170 branches once in fiscal 2018.

Efforts to Reduce our Environmental Impact

	FY2016	FY2017	FY2018
CO_2 emissions from electricity and gas use (t-CO_2)	16,469	15,696	14,730
Head office and branches	8,781	7,710	6,185
Azumi En nursing care facilities	6,111	6,043	6,056
Leopalace hotels	1,576	1,943	2,489
CO_2 emissions from vehicle gasoline (t-CO_2)	3,615	3,490	3,345
Scope 3 CO_2 emissions (t-CO_2)	873,167	864,448	786,510
Category 1 (purchased materials)	51,992	44,810	31,263
Category 2 (capital goods)	17,892	34,127	29,835
Category 3 (electricity-related) Category 6 (business travel) Category 7 (employee commuting)	4,337	4,409	4,338
Category 13 (electricity and gas use by rental housing)	798,946	781,102	724,543
No. of buildings with solar power systems	12,987	12,995	12,998
No. of buildings with systems installed by LP21 Group	4,495	4,494	4,483
Solar power generation capacity (kW)	182,443	182,591	182,604
Capacity of systems installed by LP21 Group (kW)	67,100	67,100	67,000
CO_2 reduction via solar power generation (t-CO_2)	55,040	55,084	55,088
Reduction via systems installed by LP21 Group (t-CO_2)	24,343	24,590	24,365

SusA
Sustainability Accounting Co.,Ltd.

Independent Assurance Statement

October 15, 2019

Mr. Bunya Miyao
President and CEO
Leopalace21 Corporation

1. Purpose

We, Sustainability Accounting Co., Ltd., have been engaged by Leopalace21 Corporation (thereinafter "the Company") to provide limited assurance on the Company's CO_2 emissions from electricity & gas use and vehicle gasoline, which are 14,730t-CO_2 (electricity & gas use) and 3,345t-CO_2 (vehicle gasoline), respectively. For CO_2 emissions reduction through the company's solar power generation recorded in environmental accounting is 24,365t-CO_2. These data ("the Environmental performance data") are disclosed in the Company's Integrated Report 2019. 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, 2019)

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:
7,600 (consolidated basis)
6,331 (non-consolidated basis)

Members of Board of Directors and Auditors (As of June 30, 2019)

Directors

President and CEO	Bunya Miyao
Director	Shigeru Ashida
Director	Katsuhiko Nanameki
Director	Seishi Okamoto
Director	Mayumi Hayashima
Director (Outside)	Tadashi Kodama
Director (Outside)	Tetsuji Taya
Director (Outside)	Yoshiko Sasao
Director (Outside)	Yoshitaka Murakami
Director (Outside)	Hisafumi Koga

Audit & Supervisory Board Members

Full-time Audit & Supervisory Board Member	Atsunori Nasu
Full-time 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, 2019)

	Shareholders	Thousands of Shares	Percentage of Outstanding Shares
1	Ardisia Investment, Inc	10,600	4.35
2	Reno, Inc	7,875	3.23
3	RBC ISB S/A DUB NON RESIDENT/TREATY RATE UCITS-CLIENTS ACCOUNT	7,090	2.91
4	JPMorgan Securities Japan Co.,Ltd.	6,643	2.72
5	BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	6,211	2.55
6	Stockholding Association for Leopalace21's Business Connection	5,662	2.32
7	The Master Trust Bank of Japan, Ltd. (Trust Account)	5,652	2.32
8	BNYN AS AGT/CLTS 10 PERCENT	5,097	2.09
9	STATE STREET BANK AND TRUST COMPANY 505103	4,945	2.03
10	EUROCLEAR BANK S.A./N.V.	4,901	2.01

Note1: Of the shares listed above, those held in trust accounts as part of trust bank operations are as follows:
The Master Trust Bank of Japan, Ltd. (Trust Account) 4,783 thousand shares

Note2: The above shareholding ratios are calculated excluding treasury stock.

Stock Information (As of March 31, 2019)

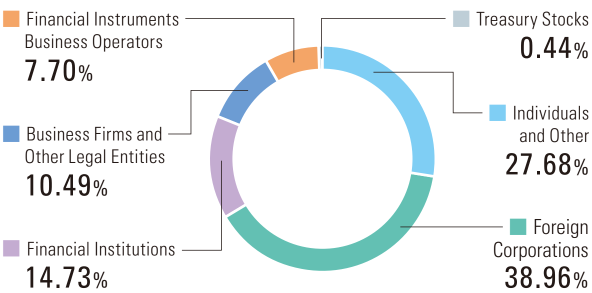
Number of Shares:
Authorized: 500,000,000
Outstanding: 244,882,515

Number of Shareholders:
66,820

Listing:
First Section of the Tokyo Stock Exchange
(Security code: 8848)

Administrator of Shareholder Registry:
Sumitomo Mitsui Trust Bank

Shareholder Composition (As of March 31, 2019)

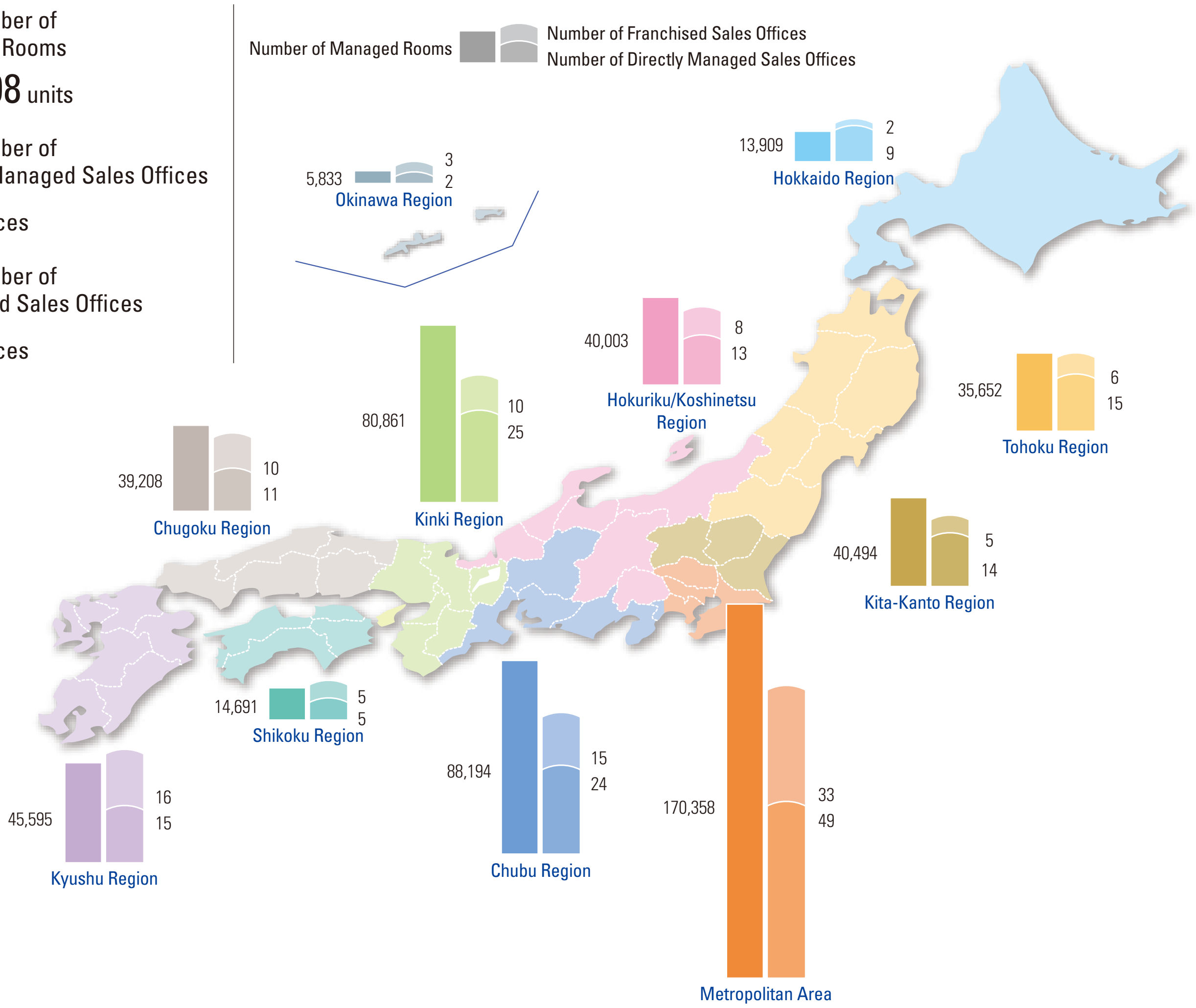


Number of Apartment Rooms under Management and Domestic Leasing Sales Offices by Region (As of March 31, 2019)

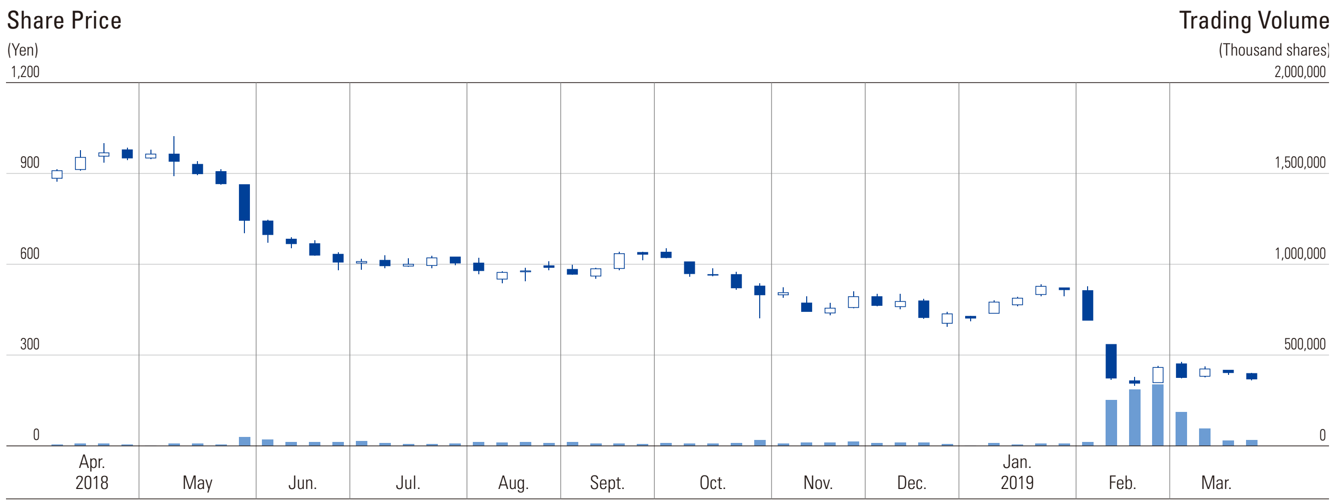
Total Number of Managed Rooms
574,798 units

Total Number of Directly Managed Sales Offices
182 offices

Total Number of Franchised Sales Offices
113 offices



Share Price and Trading Volume (As of March 31, 2019)



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