Annual Report 2014



**Leopalace 21** 

# **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.

What our businesses are

#### **CONTENTS**

Who we are
PROFILE
FINANCIAL HIGHLIGHTS 2
TO OUR STAKEHOLDERS 4
What our strategy is
FORMULATING A NEW MEDIUM- TERM MANAGEMENT PLAN 6
Towards Attaining Medium-term Management Plan Goals
Leopalace21's External Environment 11
Competitive Advantage
Leasing know-how
Management know-how 17
Solar Power Business
Expanding Overseas
Expansion of Elderly Care Business 20 Solid Human Resource Base 21
OUR BUSINESS MODEL
BUSINESS STRUCTURE TRANSITION 24
DIALOGUE: MANAGEMENT OF
LEOPALACE21 26

BUSINESS OVERVIEW AT A GLANCE
How CSR supports our management
CSR Activities Support Our New Medium-term Management Plan 42
CSR Issues in Leopalace21's Value Chain 44  Basic CSR Action Policy  Providing High-quality Services and
Supporting Affluent Living 46 Creating Pleasant Work Environments and Developing Diverse Human Resources 50
Creating an Environmentally Friendly Society 52
Contributing to Local Communities 54
Engaging in Sound, Constructive Communication with Stakeholders 55
CORPORATE GOVERNANCE 56 BUSINESS AND OTHER RISKS 60

# Financial Section & Corporate Data

FINANCIAL SECTION	62
Leopalace21 DATA COMPILATION	106
CORPORATE HISTORY	112
CORPORATE PROFILE	114

Leopalace21 has established a unique business model fusing two core businesses, the Construction Business, which involves constructing apartments aimed mainly at single persons, 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-type business model," which generates stable profits from renting apartments it manages. At the same time, with a portfolio also extending to the Elderly Care Business, the Hotels & Resort Business, and Other Businesses, Leopalace21 is a one-stop provider of a wide range of real estate services.



How CSR supports

our management

#### **EDITORIAL POLICY**

The purpose of this report is to enable top management to communicate its message to all our stakeholders. We seek to present our management strategy and priority measures and provide an overview of business conditions etc. as well as inform readers about our CSR activities to promote a deeper understanding of our contribution to building a sustainable society. As a result, we have from this fiscal year incorporated elements of CSR reporting into our annual report, a publication we have issued for many years.

This report covers the fiscal year from April 1, 2013 through March 31, 2014 (fiscal year 2013). The scope is Leopalace21 Corporation and its consolidated subsidiaries in Japan and overseas. The information in the report is, to the extent possible, the latest available as of the publication date, and to ensure readers understand our business trends to date, the report includes a "Data compilation" section. 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.

Aiming for sustainable growth, Leopalace21 is forging ahead with measures reflecting the theme of "staying committed to the challenge of advancing into new areas with our core businesses as our foundation." It is our hope we can obtain greater trust and understanding from our stakeholders through this report.

#### REFERENCE GUIDELINES

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

#### **Forward-looking Statements**

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

# **TEN-YEAR CONSOLIDATED FINANCIAL HIGHLIGHTS**

For the years ended March 31	'05/3 FY2004	'06/3 FY2005	'07/3 FY2006	'08/3 FY2007	
Net sales	¥ 476,267	¥ 465,387	¥ 631,609	¥ 672,973	
Leasing business	216,591	249,696	277,163	302,731	
Construction business	248,033	195,202	316,117	327,541	
Elderly care business	_	2,434	5,345	11,174	
Hotels & resort business	7,282	8,340	7,141	6,072	
Other businesses	4,361	9,715	25,842	25,456	
Cost of sales	357,546	353,928	474,713	511,054	
Selling, general and administrative expenses	64,038	70,684	80,888	90,517	
Operating income (loss)	54,682	40,775	76,007	71,403	
Leasing business	7,244	8,079	7,031	3,037	
Construction business	57,051	39,452	74,615	73,268	
Elderly care business	-	257	309	1,262	
Hotels & resort business	(3,928)	(2,668)	(2,628)	(1,117)	
Other businesses	(5,684)	(4,347)	(3,319)	(5,047)	
EBITDA (Operating income + depreciation)	60,538	45,340	80,567	76,566	
Net income (loss)	33,262	(16,582)	37,358	342	
Net income (1033)	00,202	(10,302)	07,000	042	
At year-end:					
Total assets	¥ 453,434	¥ 412,804	¥ 454,820	¥ 493,956	
Net assets	149,798	133,622	185,785	170,156	
Interest-bearing debt	108,786	64,513	53,160	49,711	
Cash flow:					
Cash flow from operations	¥ 40,349	¥ 56,972	¥ 63,308	¥ 11,746	
Cash flow from investing	(8,979)	(11,266)	(15,930)	148	
Cash flow from financing	(20,959)	(47,947)	(17,019)	(26,780)	
Amounts per share: (Yen)					
Net assets	¥ 941.06	¥ 839.44	V 1.054.00	V 1.006.40	
Net income (loss)			¥ 1,054.99	¥ 1,036.43	
Cash dividend	220.79 15.00	(104.17) 15.00	234.68 50.00	2.15 80.00	
Cash dividend	15.00	15.00	50.00	60.00	
Ratio:					
Units under management	304,111	344,045	388,500	442,025	
Occupancy rate (%)	89.12	92.41	92.84	92.36	
Orders received (Millions of yen)	263,357	322,253	362,493	463,044	
Equity ratio (%)	33.0	32.4	37.0	33.4	
Return on equity (ROE)(%)	28.8	(11.7)	24.8	0.2	
Return on assets (ROA) (%)	7.6	(3.8)	8.6	0.1	
Payout ratio (%)	6.8	(0.0)	21.3	3,720.9	
Debt/equity ratio (%)	0.7	0.5	0.3	0.3	
Number of employees	6,457	6,868	7,409	8,678	

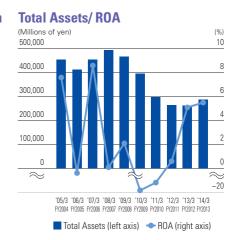
(Notes) 1.U.S. dollar amounts are translated from yen at the rate of ¥102.92 = U.S. \$1, the approximate rate prevailing at March 31, 2014.

- 2. The amounts of net assets for the fiscal years ended March 31, 2005 and 2006 represent the value of total shareholders' equity of each year-end, and do not include minority interests.
- 3. Return on equity (ROE) = Net income/average net assets during the fiscal year  $\times$  100 4. Return on assets (ROA) = Net income/average total assets during the fiscal year  $\times$  100
- 5. Debt/equity ratio = Interest-bearing debt/ (net assets minority interests)

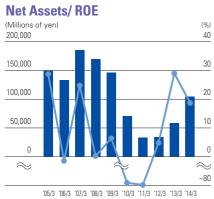
# Net Sales (Millions of yen) 800,000 600,000 400,000 200,000 0 105/3 '06/3 '07/3 '08/3 '09/3 '10/3 '11/3 '12/3 '13/3 '14/3 FYZ004 FYZ005 FYZ005 FYZ005 FYZ005 FYZ010 FYZ011 FYZ012 FYZ013

# Operating Income (Loss)/ Operating Margin (Millions of yen) (%) 80,000 16 60,000 12 40,000 8 20,000 4 -40,000 -8 -8 -105/3 '108/3 '107/3 '108/3 '107/3 '11/3

Operating Income (Loss) (left axis) - Operating Margin (right axis)

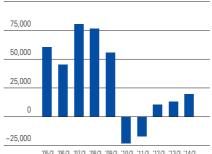


(Millions of	yen)											ousands of S. dollars)
'09/3 FY	2008	110/3	3 FY2009	′11/	3 FY2010	′12	2/3 FY2011	13/3 FY2012	'14	/3 FY2013	′14/	3 FY2013
¥ 733,	,235	¥	620,376	¥	484,391	¥	459,437	¥ 454,222	¥	471,090	\$ 4	4,577,241
334	,561		342,316		356,606		380,308	383,574		388,768		3,777,383
359,	,155		237,062		107,821		62,913	53,370		63,136		613,447
7	,953		8,813		7,786		8,845	9,482		10,172		98,830
5,	,611		6,734		6,492		6,228	6,658		7,572		73,569
25	,956		25,451		5,686		1,142	1,138		1,442		14,012
589	,834		570,749		448,392		403,573	396,509		401,511	;	3,901,189
93,	,245		79,355		59,606		51,278	50,299		55,906		543,199
50,	,157		(29,728)		(23,607)		4,586	7,414		13,673		132,853
(1,	,539)		(47,876)		(30,094)		5,249	8,688		15,568		151,260
70,	,113		29,745		11,971		4,309	2,747		2,954		28,702
(1,	,539)		(1,994)		(1,510)		(855)	(742)		(611)		(5,934)
	(805)		(1,324)		(1,975)		(1,664)	(1,006)		(1,119)		(10,870)
	,073)		(8,278)		(1,999)		(2,453)	35		138		1,338
55,	,939		(23,432)		(17,156)		10,633	13,098		19,667		191,087
9,	,952		(79,076)		(40,889)		1,589	13,335		15,230		147,977
¥ 467	,300	¥	396,512	¥	298,274	¥	264,783	¥ 261,650	¥	287,459	\$ 2	2,793,037
146	,443		70,979		33,041		33,831	58,151		104,860		1,018,856
44,	,189		61,318		43,859		51,654	49,027		37,227		361,708
	,843	¥	(12,991)	¥	(28,337)	¥		¥ 6,069	¥		\$	151,420
	,049)		(8,889)		13,144		(3,538)	(6)		(6,930)		(67,331)
(33)	,885)		15,281		(15,891)		7,245	9,149		8,848		85,972
	7.40		400.70		405.04		400.70	V 074.00		000.70		0.07
	7.40	¥	466.76	¥	195.91	¥		¥ 274.80	¥		\$	3.87
	3.54 0.00		(521.91)		(261.03)		9.40	74.50		67.17		0.65
31	0.00		_		_		_	_		_		_
506	742		551,773		571,656		556,207	546,204		548,912		
	8.51		82.25		80.09		81.16	82.94		84.58		
337			250,247		80,338		50,019	73,006		81,139		
	31.3		17.9		11.1		12.8	22.2		36.5		
	6.4		(72.8)		(78.7)		4.8	29.0		18.7		
	2.1		(18.3)		(11.8)		0.6	5.1		5.5		
	47.2				(11.0)		-	J. 1		J.J		
	0.3		0.9		1.3		1.5	0.8		0.4		
9	,926		8,582		7,114		6,165	6,277		6,758		
	,020		0,002		7,117		0,100	0,277		0,,00	_	



'05/3 '06/3 '07/3 '08/3 '09/3 '10/3 '11/3 '12/3 '13/3 '14/3 FY2004 FY2005 FY2006 FY2007 FY2008 FY2009 FY2010 FY2011 FY2012 FY2013 ■ Net Assets (left axis) → ROE (right axis)

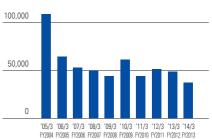




'05/3 '06/3 '07/3 '08/3 '09/3 '10/3 '11/3 '12/3 '13/3 '14/3 FY2004 FY2005 FY2006 FY2007 FY2008 FY2009 FY2010 FY2011 FY2012 FY2013

#### **Interest-bearing Debt**

(Millions of yen) 150,000







# Staying committed to the challenge of advancing into new areas with our core businesses as our foundation

The Japanese economy remained on a gradual recovery track in the fiscal year ended March 31, 2014 (fiscal 2013), as the government's economic and monetary policies drove the yen lower and stock prices higher, leading to improvements in consumer spending and employment conditions. In the housing industry, new housing starts climbed sharply and rental housing starts grew for a second consecutive year due in part to rush demand ahead of the April 2014 consumption tax hike.

In this environment, we strove to maximize earnings by enhancing the competitiveness of our leased managed properties and bolstering services for tenants given our designation of fiscal 2013, year two of the Medium-term Management Plan, as "the year of challenge to a new growth stage."

As a result of steady execution of these plan initiatives, Leopalace21's net sales rose 3.7% year on year to ¥471,090 million. Along with the increase in sales, operating income grew 84.4% year on year to ¥13,673 million. Recurring income grew 4.4% year on year to ¥11,575 million, and net income expanded 14.2% year on year to ¥15,230 million.

We originally saw fiscal 2014, the third year of our Medium-term Management Plan, as the plan's final year. However, with conditions supportive of stronger growth now in place thanks to dramatic changes in the economic environment, we have drawn up a new Medium-term Management Plan with new assumptions that commences in fiscal 2014. The new plan advances initiatives that reflect the theme of "staying committed to the challenge of advancing into new areas with our core businesses as our foundation." Our targets for the new plan's first fiscal year are net sales of ¥493,500 million, operating income of ¥14,500 million, and net income of ¥12,000 million.

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

June 2014

Eisei Miyama
President and CEO

Eisei Miyama

Mytwt

# FORMULATING A NEW MEDIUM-TERM MANAGEMENT PLAN

Our previous Medium-term Management Plan, "Creating Future," commenced in the fiscal year ended March 31, 2013 (fiscal 2012) and was scheduled to end in the fiscal year ending March 31, 2015 (fiscal 2014). However, because of large shifts in economic trends and the business environment in the past two years, we drew up a new Medium-term Management Plan, "EXPANDING VALUE," that kicked off on April 1, 2014. The new plan is more focused on growth-oriented measures, as the business conditions are likely to improve in the years ahead.

Slogan for the new Medium-term Management Plan

# EXPANDING VALUE

#### <Basic policy>

"Staying committed to the challenge of advancing into new areas with our core businesses as our foundation"

Three years from fiscal 2014 to fiscal 2016

#### Looking back at the previous Medium-term Management Plan

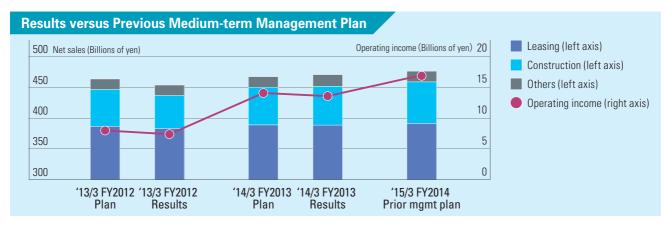
We achieved the basic policy goal of the previous plan: "to establish a stable profit structure balanced between the Leasing Business and Construction Business."

#### **Key achievements**

- Expanded profits thanks to improved earnings from leasing etc.
- Advanced solar power system installations and other measures to enhance the value of properties we manage
- Grew construction orders for elderly care facilities and other non-apartment work

#### Key issues we still need to address

- Attracting single-person tenants
- Improving profitability of the Construction Business
- Expanding new businesses such as overseas operations
- Expanding the Elderly Care Business



Who we are

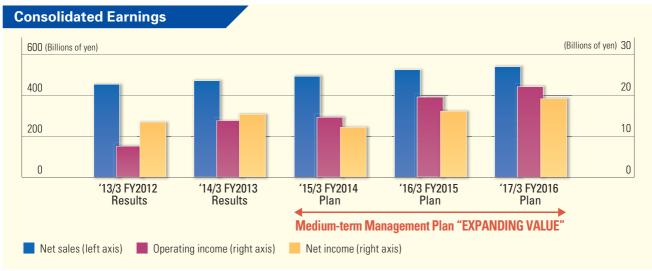
#### The "EXPANDING VALUE" Plan's Numerical Targets

The new Medium-term Management Plan, "EXPANDING VALUE," calls for net sales in fiscal 2016 (the plan's final year) to grow 14.6% versus the fiscal 2013 result, operating income to rise 60.9%, and net income to increase 24.8% through earnings growth driven by core

businesses. In addition to sales growth and resulting earnings growth, the plan also calls for further progress in bolstering the Company's financial position and sets targets for the following key management indicators: an equity ratio of 48.0%; ROE of 12.3%; EPS ¥71.7; and ROA of 6.0%.

How CSR supports

our management

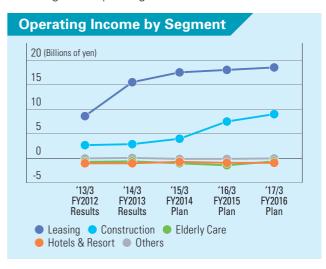


	'13/3 FY2012 Results	'14/3 FY2013 Results	'15/3 FY2014 Plan	'16/3 FY2015 Plan	'17/3 FY2016 Plan
Net sales (¥ bn)	454.2	471.0	493.5	525.0	540.0
Operating income (¥ bn)	7.4	13.6	14.5	19.5	22.0
Recurring income (¥ bn)	11.0	11.5	13.0	18.0	21.0
Net income (¥ bn)	13.3	15.2	12.0	16.0	19.0
Equity ratio (%)	22.2	36.5	41.0	45.0	48.0
ROE (%)	29.0	18.7	10.0	12.0	12.3
EPS (¥)	74.5	67.2	45.7	61.9	71.7
ROA (%)	5.1	5.5	4.2	5.5	6.0

Note: Tax-effect accounting is not factored into plan targets from '15/3 FY2014 onward.

On a segment basis, steady earnings are expected from the Leasing Business as in the previous year, and sales growth is projected in the Construction Business, which has shown signs of expanding demand.



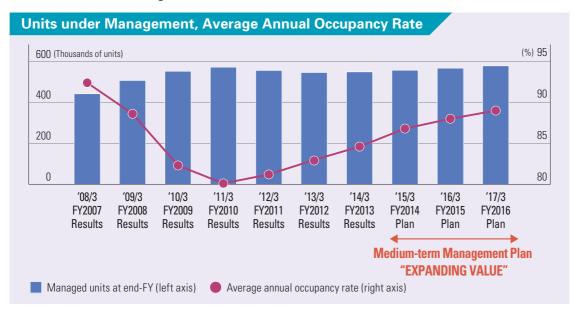


#### The "EXPANDING VALUE" Plan's Numerical Targets

#### **Leasing Business Strategy**

In the Leasing Business, improving occupancy rates is crucial to securing stable profits. For this reason, we recruit and secure tenants using our directly managed offices, franchise offices, and cooperative local real estate brokers. We also forge ahead with measures to

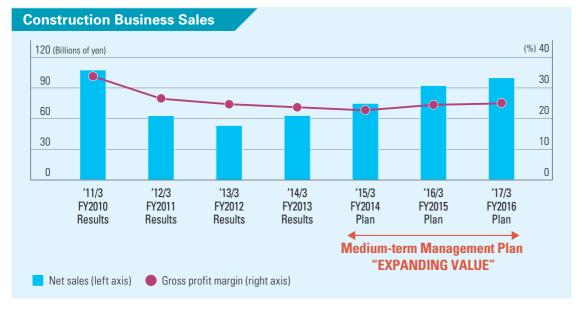
promote long-term tenancy by expanding our range of services for tenants. Our aim is to raise the average occupancy rate 4.4 percentage points to 89.0% in the three years to March 2017.



For more details, see page 34

#### **Construction Business Strategy**

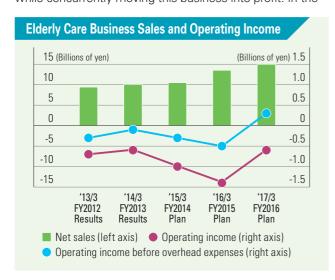
In the Construction Business, we are working to develop new products (apartments) that match tenant needs, while also expanding the variation of construction work we perform in order to respond to the needs of landowners who seek to build non-apartment properties such as elderly care facilities, commercial buildings, and built-to-order homes. We aim to boost sales to ¥100 billion by responding to a broader range of land usage needs.



For more details, see page

#### **Elderly Care Business Strategy**

As for the Elderly Care Business, in light of its considerable growth potential, we have newly designated it as a strategic growth business. We are working to open new facilities in response to the growing population of seniors, while concurrently moving this business into profit. In the



next three years, we plan to add about 30 facilities with the aim of reaching 90 facilities under management as of March 31, 2017. Our goal in this span is to make the Elderly Care Business profitable at the operating income level before the allocation of overhead expenses.



#### **Hotels & Resort Business Strategy**

In the Hotels & Resort Business, we use our facilities as venues to provide services and hospitality to our stakeholders, rather than seeking to expand the scale of this business. Leopalace Hotels in Japan often host corporate clients on business trips and training programs, and the Guam resorts are frequented by tenants and property owners for trips and by corporate clients as recreational facilities participating in their employee benefit programs. By offering these services, these hotels and resorts are expected to bring in sales promotional benefits to the Company.



#### **Solar Power Business Strategy**

In the solar power business, we are forging ahead with "Roof Megasolar Pro," a business model where we install solar panels on the leased rooftops of apartments we manage and earn revenues from selling electricity generated by panels. We have expanded a variety of solar power businesses such as one that supports solar panel installations funded by apartment owners as well as a pilot project in Fukushima Prefecture through a subsidiary. For fiscal 2014 and onward, however, we will concentrate our efforts on panel installations on leased rooftops.



#### **Overseas Business Strategy**

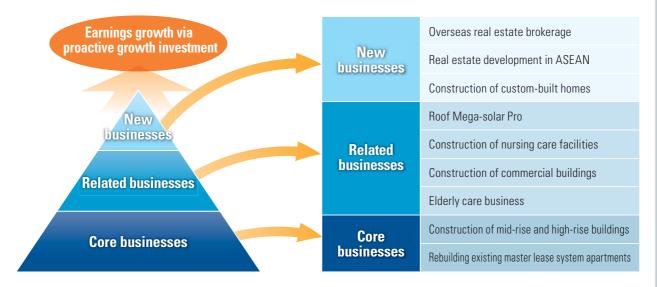
We are leveraging the know-how we amassed in Japan to expand into overseas leasing operations, with a focus on Southeast Asia. Along with introducing foreigners to properties in Japan, we have also started brokering local real estate in South Korea and Taiwan to Japanese individuals and companies. Moreover, we have entered the Korean market through a leasing management venture with a local enterprise.



#### **New Business Initiatives**

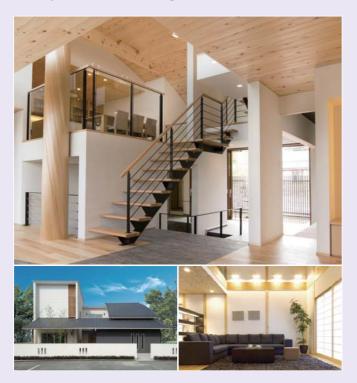
The "EXPANDING VALUE" plan reflects our intention to proactively invest in growth in view of the opportunities to realize strong earnings growth amid a tailwind arising from a favorable economic environment. We are particularly focused on our core Leasing Business and businesses related to the

Construction Business, namely, "Roof Mega-solar Pro," construction of nursing care facilities and commercial buildings, and the Elderly Care Business. Our aim for new businesses, particularly overseas real estate brokerage operations and construction of custom-built homes, is to make them profitable soon.



#### A Close-up Look at a New Business

#### Luxury custom-built "Taiga" homes made with Kiso-hinoki wood jointly designed with Morizou



Leopalace21 has started offering custom-designed and built "Taiga" homes jointly developed with its partner Morizou Co., Ltd. (headquartered in Shibuya ward, Tokyo; President Koichi Tsuno). Morizou is a custom-home builder using Kiso-hinoki wood, which is considered among the finest quality wood grown in Japan.

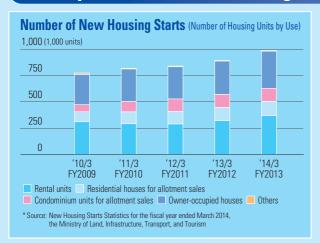
We are expanding related businesses where the know-how of the Construction Business, one of our core businesses, can be applied, and have begun constructing nursing care facilities and commercial buildings. Our partnership with Morizou and the launch of custom-built "Taiga" homes developed together with Morizou are both part of that business expansion. We will continue to push forward with measures that enable us to broaden the variation of construction work we perform in a bid to expand our operations.

In April 2014, Leopalace21 commenced a new, growth-oriented Medium-term Management Plan. In this section, we explain our views on the market outlook on which the new plan is based, what strengths we have that ought to be useful in achieving plan goals, and what areas we believe we should expand in the future.

#### Leopalace21's External Environment

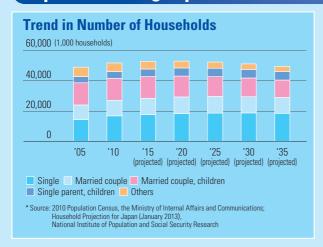
Our outlook for market trends relating to our businesses is as follows.

#### **Steady Trend in Rental Housing Starts**



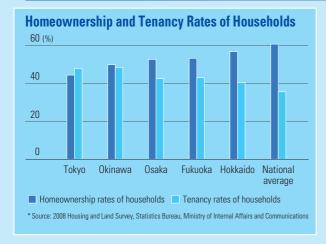
New housing starts dropped sharply during the period from the fiscal year ended March 2009 to the fiscal year ended March 2010 due to the economic slump following the Lehman Shock. Since then, however, they have gradually recovered as a result of policy support for housing investment and other schemes. In the fiscal year ended March 2014, the number of housing starts grew for the fourth consecutive year to 987,254 units thanks to the economic recovery along with a lift from rush demand ahead of the consumption tax hike. Amid this environment, new housing starts for rental units increased for the second successive year, climbing 15.3% year on year to 369,993 units.

#### **Uptrend in Single-person Households to Continue**



Due to Japan's declining population, the number of households is expected to gradually decline in the near future. However, single-person households are expected to keep growing for a while longer. The number of single-person households has grown from 16,780,000 in 2010, and there are forecasts for single-person households to continue to grow through 2025, when the total number of households is expected to start declining, and to keep rising until 2030. As a result, forecasts call for 18,450,000 households in 2035, an increase of 1,670,000 from 2010, and for the number of single-person households as a percentage of all households to be 37.2% in 2035, up 4.8 points from the 32.4% of 2010.

#### **Higher Tenancy Rate in Large Cities**



The 2008 survey (latest) on the total number of housing units and homeownership rates shows the homeownership rate was 61.1% and the tenancy rate was 35.8%, and homeownership rates have remained at around 60% since the survey started in 1973. This trend varies by region with low homeownership rates and high tenancy rates in major metropolitan areas in general. Of the top five prefectures with the lowest homeowner rates, Tokyo is first, Osaka is third, and Fukuoka is fourth. They include major metropolitan areas and are at or near the top in terms of population. So it can be said that tenant demand for rental housing is largely concentrated in metropolitan areas such as Tokyo, Osaka, and Fukuoka.

**Competitive Advantage** No.1

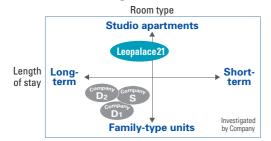
**Number of Apartment Units under Management** 548,912 units

(as of the end of March 2014)

The leasing business is so intensely competitive that it is often said "the company that controls the battle for tenants rules the leasing business." With over 540,000 apartment units under management, Leopalace21 has won in such a competitive environment and emerged as one of Japan's largest leasing management company.



#### **Market Positioning**



Our leasing business centers on one-room type units, a clear distinction versus our major competitors focusing on family-type units. A key feature of the apartments we manage is that they come with furniture and electrical appliances, and using this as a selling point, the company has achieved solid growth by responding to the needs of students, single employees, and others living alone amid the continued increase in single-person households. We also address short-term stay needs such as business trips. As a result, nearly half of our leases are company housing or dormitories for corporate use.

(as of the end of March 2014)

Competitive Advantage

No.2

# Proportions by Areas Total for Three Major Metro Areas

About 70%

How CSR supports

our management

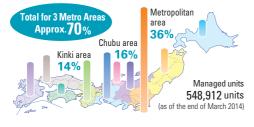
Even a large number of units under management does not mean much if they are located in areas where tenant demand is not expected to grow. Of the apartments under Leopalace21's management, about 70% are located in the three major urban centers.







#### Proportion of Managed Properties, Nationwide and by Key Area



The features of rental housing for single-person households differ substantially from those for families. Further, there is a clear distinction between areas showing strong demand for studios and those seeing strong demand for family-type apartments. Leopalace21 is focused on Japan's three major metropolitan areas, where the housing needs of single-person households—the company's strength—are substantial. Of our entire managed properties portfolio, about 70% are located in the three largest metropolitan areas, with the Metropolitan area accounting for 36% of the total, the Chubu area for 16%, and the Kinki area for 14%. Thanks to the high concentration of our managed properties in these three urban centers, where population inflows continue to outpace outflows, our occupancy rates remain stable.



"Appealing Products"—
High Value-added Apartments, Fittings,
Facilities, etc.—Attract Tenants.

#### **Product Appeal No.**

#### Comfortable Living Environments

We offer tenants comfortable living environments via a raft of products we developed with high-value-added, original fittings and specifications that meet the needs of tomorrow's rental housing market.



# **Leopalace 21**



#### **Product Appeal No.2**

# **Eco-consciousness and Disaster Preparedness**

Solar panel systems etc. have been installed in light of environmental concerns, and superior earthquake resistance and durability are factored in for disaster preparedness at the housing design stage.



#### **Product Appeal No.3**

# Safety and Security Measures

With our thoroughgoing emphasis on the housing basics of safety and security, we offer residences where anyone can live in safety and comfort.



How CSR supports

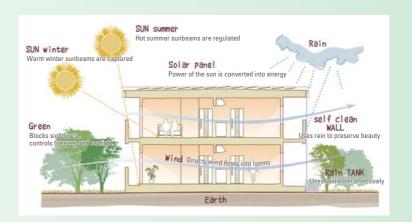
our management

What our strategy is

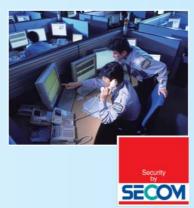
Leopalace21 has consistently focused on developing high-value-added products in response to tenant needs. As a way to ensure that neighbors are not bothered by loud noises, we have developed and installed sound-insulating walls and floorings that exceed the requirements of the Building Standards Act, as well as sound-dampening drainage pipes for kitchens, toilets, etc. that reduce the transmission of sounds of water draining and flushing.

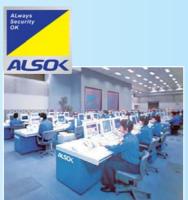


Harnessing our advanced engineering know-how in full, our Leco series of eco-conscious residences employ passive designs that capture natural heat and use cool breezes to enable comfortable living while reducing electricity consumption. In addition, we offer a broad array of eco-conscious products including rental apartments with solar panel installations.



A major requirement for companies providing dormitories and housing for their employees, as well as female tenants living alone, etc. is safety. Our comprehensive set of measures to ensure the safety and security of our tenants include the installation of apartment security systems etc. via operational tie-ups with major security providers.







# Our Strength Lies in Our "Diverse Services" and "Unique Tenant Attraction Capabilities."

We keep high occupancy rates at Leopalace21-managed rental properties. Two factors behind our ability to do this are (1) "diverse services" that respond to changing markets and needs and (2) superior leasing know-how based on "unique tenant attraction capabilities."

#### Leasing know-how No.1

#### **Diverse Services**

Our broad array of services is finetuned to cater to diverse lifestyles including our popular "Room Customize" plans, quite original compared with other industry offerings.



#### **Leasing know-how No.2**

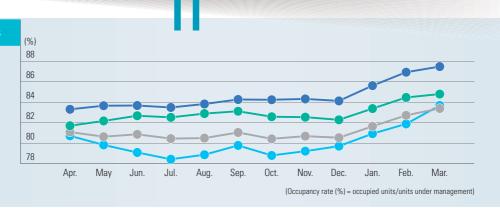
#### **Unique Tenant Attraction Capabilities**

We have built tenant marketing systems including sales offices, the internet, and seminars for those looking at rental housing options to cover all segments of the market—individuals, corporations and institutions, and students. We demonstrate our ability to attract tenants across segments by providing a diverse array of information and adopting many measures.



# Occupancy Rate Trends • Year ended March 31, 2014 • Year ended March 31, 2013

Year ended March 31, 2012Year ended March 31, 2011



Financial Section &

Corporate Data

#### Towards Attaining Medium-term Management Plan Goals



# All-around "Management Know-how"

As the leader of the leasing industry, Leopalace21 has been involved across all aspects of the lifecycle of apartments for over 30 years. We believe in our allaround "management know-how" to execute property management, which is essential to apartment business.



#### **Leopalace21's complete management system** All-around management know-how



**Management operations that** engage tenants from moving in to moving out

Collecting usage fees, meeting tenants when they move out, responding to claims, offering guidance to all kinds of tenants, etc.



neighborhood associations Responding to violations of parking and

trash-disposal rules, negotiations with neighbors and neighborhood associations, etc.

#### **Service Center Operational Status**

	FY ended March 31, 2014
Staff headcount	Managers: 17 Employees: 53 Temp-staff, part-timers: 41
Number of inquiries	609,877

Drawing up budgets for costs relating to repair and maintenance; a system designed to uphold building performance through planned repair and maintenance services

#### **Building management**

**Building management from** cleaning to inspections

Cleaning patrols and mandatory inspections, building inspections and diagnosis, repair proposals, etc

**Building maintenance system** 

**Total maintenance services** for furniture and home appliances



Maintenance services to always keep furniture and home appliances in good condition

**Preserving a fine-tuned responsiveness to tenant needs** and the asset value of apartments Realizing a long-term stable management model



## **Solar Power Systems**

9,001 buildings (125.8MW) (Installation rate 40.9%)

Mitigating global warming is a problem facing people everywhere. Leopalace21 has set up solar power generation businesses via an array of approaches such as installing solar panels on the rooftops of apartments we manage. Through the use of natural energy sources, we are moving forward with measures to counter global warming.



We are focusing on solar power systems as a promising new business endeavor that also contributes to mitigating global warming. We are proceeding with three kinds of solar power businesses. The first is a business installing solar panels acquired using investment funds from apartment owners. The second is to lease the rooftops of apartments we manage from their owners so as to generate solar power from panels installed on these rooftops and then sell this electricity to power utilities. The third is a mega-solar design and construction business that uses idle sites.

Our main focus at present is the business of solar power generation from panels installed on leased rooftops. Since launching this business in September 2012, we have installed panels on 2,372 buildings, and we will move forward with panel installations on viable rooftops.

# Installations of Solar Power Systems (cumulative) (Buildings) 10.000

#### Our Business Models for Solar Power Penetration (As of the end of March 2014)

		Ві	Starting month	Buildings where installed, cumulative	
1 Solar par		Solar panel installations via owner investment	Owners fund panel installations and receive revenues from selling electricity	Mar. 2011	6,629 (79.7MW)
	2	Solar panel installations on leased rooftops	Power generation on rooftops we leased from owners	Sep. 2012	2,372 (46.1MW)
	а	Fukushima verification pilot business	Leopalace Power Corporation, the Group's subsidiary, runs pilot project with Environment Ministry	Sep. 2012	67 (1.2MW)
	b	Power generation business funded through a public offering*	Power generation business by Leopalace Power Corporation	Dec. 2013	1,047 (20.3MW)
	С	SPC-based tie-ups	Power generation operations set up as SPCs or corporations	Feb. 2013	1,258 (24.6MW)
	3	Mega-solar projects using idle sites	Mega-solar design and construction projects as a way to use idle sites	Sep. 2013	Tomisato City, Chiba Pref. (1.7MW)
*	ane	I installations funded through a public offering are	TOTAL	9,001 (125.8MW)	

<sup>\*</sup>For details, see "Creating an Environmentally Friendly Society" on pages 52-53.

19

#### Towards Attaining Medium-term Management Plan Goals



# **Applying Our Unique Know-how Overseas**

(as of fiscal year ended March 31, 2014)

(as of fiscal year ended March 31, 2017)

If a business model remains reliant on the Japanese market, our business would contract as population decline leads to a shrinking domestic market. We are thus expanding to not-yet-mature leasing markets overseas, leveraging our know-how in leasing management and construction businesses that we have amassed over many years.





# **Expansion of Local Community-rooted Businesses**

Staying true to a "local community roots" concept, Leopalace21 is working to expand its elderly care businesses, centering on group homes, day-service centers, and fee-based homes with nursing care and fee-based residential homes.



#### **Group Homes**

- These homes provide personalized nursing care to elderly dementia patients.
- One feature of these homes is completely private rooms that preserve privacy.



#### **Day-service, Short-stay Nursing Care Centers**

- These centers provide same-day and overnight nursing care services.
- Satellite day-service centers are in an expansion phase.



#### Fee-based Homes with Nursing Care and Fee-based Residential Homes

 These are private long-term residences with onsite staff providing nursing care.

#### "Azumi En" Facility Map



#### "Azumi En" Facility Network

	Facilities
Group homes	2
Day-service, short-stay centers	38
Sites including fee-based nursing homes	21
Total	61

\*As of the end of March 31, 2014

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

21

#### Towards Attaining Medium-term Management Plan Goals

What our strategy is



# Strengthening Human Resources, a Key **Source of Competitiveness Solid Human Resource Base**

How CSR supports

our management

We see our workforce as the source of our competitiveness. Thus, in order to foster a comfortable work environment that allows it to fully exercise its individuality and capability, we are pushing ahead with policies that promote work-life balance and the hiring of diverse personnel.

#### **Solid Human Resource Base No.** 1

#### **Promoting Work-Life Balance**

Leopalace21 sees the promotion of work-life balance as an important issue. As a result, we are fostering an array of measures to shorten working hours and allow for diverse working styles. We are also working to obtain a Kurumin mark\*.

\* The Kurumin certification mark is awarded to companies that meet certain criteria set by the Ministry of Health, Labour and Welfare on policies supporting workers raising children





#### Solid Human Resource Base No.2

#### Hiring and Developing Diverse Human Resources

Leopalace21 strives to hire and develop diverse human resources. As of the end of March 2014, disabled workers accounted for 2.07% of our workforce (the statutory employment rate for disabled people was 2.0%) and female workers for 27.6%. We also employ 162 foreign nationals.



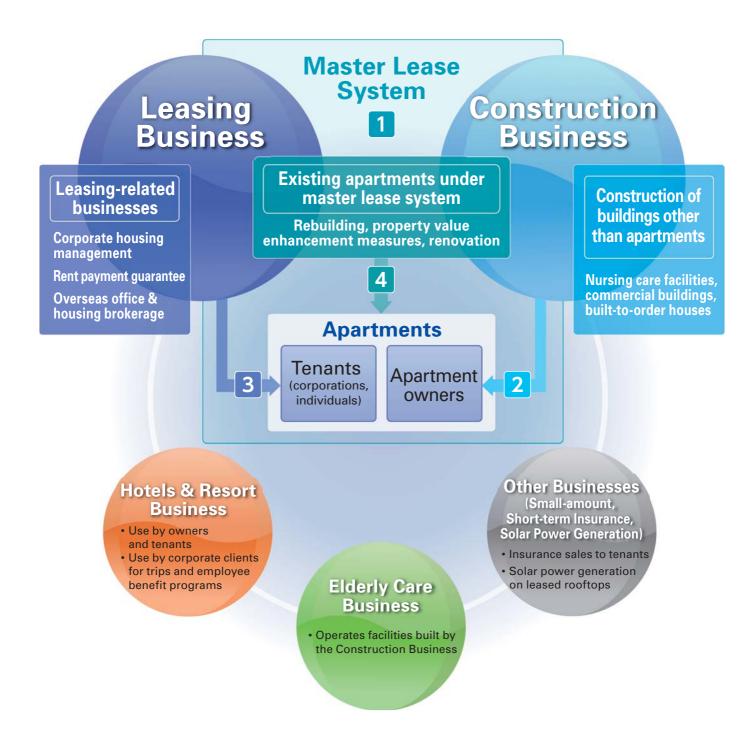


<sup>\*</sup>For details, see a "Creating Pleasant Work Environments and Developing Diverse Human Resources" on pages 50-51.

### **OUR BUSINESS MODEL**

# **Built a Distinctive Business Model Based on Our 30-year Master Lease System**

Leopalace21 considers the Leasing Business and the Construction Business its two core pillars. Through these two businesses, the Company is able to address simultaneously the two most important themes in the apartment sector: effectively using the sites of landowners who supply apartments; and supplying quality housing to prospective tenants who need to rent. The foundation supporting the two core businesses is our industry-pioneering 30-year master lease system, and on this basis, we have built a business model that differentiates us from competitors.



#### Leopalace21 Developed and Commenced the Industry's First "Master Lease System"

What our apartment owners dislike most in managing apartments long term is the risk of losing out on rent revenues due to vacancies. With this in mind, we developed an industry-first 30-year master lease system, which offers apartment and condo owners a total support package from construction to management for up to 30 years. Under this system, we pay rents to owners and provide management, maintenance, and repair services in order to reduce their burden and help secure their stable income. The master lease system could pose the risk of higherthan-expected vacancies but we are trying to mitigate the risk by continuously undertaking innovative efforts. The efforts include supplying properties that match the needs of customers and communities, enhancing the appeal of buildings across many dimensions such as interiors, exteriors, and fixtures, diversifying contracts.

What our strategy is



#### 2 Restrict New Supplies to Specific Areas

In order to succeed in business, it is essential to apply selectivity and focus to resource allocation so as to maximize gains from resources that a company has. We restrict our focus to areas in large urban centers, where demand for apartments for singles, a key demographic for our business model, is greatest, and maximize our potential by concentrating new supply in these areas.



#### **Channel Strategy Aimed at Attracting Tenants**

The leasing business can also be seen as a matching business that brings together apartment owners who need tenants and prospective tenants who need rental housing. Therefore, it is important for us to turn a dispersed population of would-be renters into tenants. To this end, we strive to maximize the opportunities to recruit tenants via a wide variety of channels, including directly managed offices, Leopalace Partners, and cooperative local real estate brokers, our online presence.



#### **Measures to Enhance Existing Property Values**

To keep occupancy rates high, it is necessary to ensure that a property constantly remains attractive to tenants. We use a variety of measures to enhance existing property values and ensure that the properties we manage are preferred by tenants. These measures include installing security systems in consideration of the safety and peace of mind of tenants and solar power systems that help conserve the environment and introducing "Room Customize" plans, which improve the appeal of older properties.



2003

Lists on 1st section of Tokyo Stock Exchange

### **BUSINESS STRUCTURE TRANSITION**

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

Our aim, amid the current economic recovery and beyond, is to thrive due to a shift to a stable earnings model that achieves a balanced earnings mix from the Leasing Business and Construction Business.

#### **Macro-Environment and Business Performance Trends**

#### **Economic Expansion**

(Before the collapse of Lehman Brothers in 2008)

Construction and Leasing Businesses: Full-scale Operation of Synergy Model

#### 200

Leopalace Resort Guam commences second phase (hotels, sports facilities such as a baseball field)

Number of managed properties increases to 300,000 Starts elderly care businesses

#### 2006

Starts leasing-related businesses (corporate housing management, marketing contents insurance to tenants)

#### 2007

Number of managed properties increases to 400,000

# Period of Global Recession (Post-Lehman Collapse)

Stagnation of Synergy Mode

#### 2009

Number of managed properties increases to 500,000

Opens Shanghai unit to introduce Japanese rental housing to exchange students etc.

#### 2010

Number of managed properties increases to 550,000



In economic expansion in the run-up to the global financial crisis, demand grew for apartments for company employees transferred to locations away from where their families live or as company dormitories not only in large cities but also regional communities. While continuing to steadily meet this need, we substantially increased the new supply of apartment stock and grew our Construction Business by addressing the concerns of landowners about vacancy risk through the introduction of the 30-year master lease system. The Leasing Business was also supported by healthy growth in corporate demand, enabling us to achieve rental income growth in concert with growth in the number of apartments leased. During this span, we realized an "Earnings Enhancement Cycle," where the Construction Business led our performance and also drove growth at the Leasing Business.

As a result of the rise in the unemployment rate across Japan due to the global financial crisis triggered by the 2008 collapse of Lehman Brothers, apartment demand also sagged. Many tenants vacated apartments we managed near factories in regional communities, and the decline in rental income eroded profits at the Leasing Business. In addition, the financial crisis caused financial institutions to tighten loan screening, which in turn reduced orders at the Construction Business. We fell into an "Earnings Deterioration Cycle," where the Construction Business shrank following earnings erosion at the Leasing Business caused by the decrease in tenants.

#### **Period of Economic Recovery** (The Present and Onward)

#### 2010

Launches Leopalace Partners franchise system

Full-scale installation of security systems for apartments

Full-scale launch of solar power systems for apartments

#### 2012

Launches "Room Customize" service

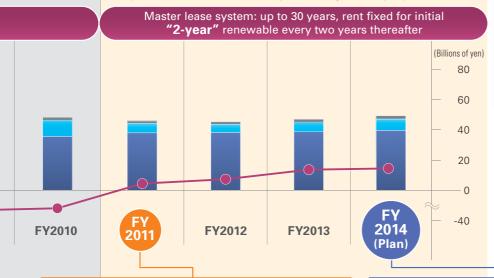
Launches nationwide "Roof Mega-solar Pro"

What our strategy is

Establishes local units in Thailand and Vietnam to introduce local properties to Japanese companies

Increases capital to ¥62.86 billion via exercise of share acquisition rights

Capital increases to ¥75.28 billion via public offering and third-party allotment



**Targets for Final Year of New Medium-Term Management Plan** 

Financial Section &

Corporate Data

(Period Ending March 2017)

▶ Net sales  $\pm 540.0$  billion

▶ Operating income ¥22.0 billion

**▶**ROE 12.3%

We implemented business structure reforms in the wake of the global financial crisis amid a series of weak earnings. While sharply restricting the supply of apartments to specific areas in the Construction Business, we strove to cut costs and boost rental income through improvement in occupancy rates, in an effort to rebuild the profitability of the Leasing Business. We also commenced sales of security systems and solar power systems as a way to enhance the property value of the existing buildings we managed.

In fiscal 2011, we returned to profit after two fiscal years of losses in the wake of the global financial crisis, and since then we have established a stable earnings model based on the Leasing Business. Together with aforementioned business structure reforms, our success in reorienting the earnings model reflects an upturn in business sentiment and stronger corporate demand for employee housing and dorms, benefiting from the pickup in stock prices and yen weakening following the December 2012 start of the Abe administration.

At the Leasing Business, we have worked to realize steady profit improvement through high occupancy rates delivered by offering innovative products and services, in addition to restricting apartment supply to areas where tenant demand is strong. The innovative products and services include security systems and solar power systems (2011), the "Room Customize" service (2012), and Arma-L apartments designed from a female perspective (2013). At the Construction Business, we are striving to broaden our order mix beyond our existing mainstay in apartments to encompass facilities for seniors, commercial buildings, builtto-order homes etc. We are also rolling out new businesses such as the solar power systems and rental housing brokerage in Asia.

### **DIALOGUE: MANAGEMENT OF LEOPALACE21**



#### **Business Structure Reforms**

We think the stock-type Leasing Business now has a system in place where it can reliably increase profits ■ First of all, please tell us what kinds of results business structural reforms have yielded so far. Also, can you sum up in simple terms what remains to be done?

**Miyama:** The major theme of our business structure reforms has been to change our structure to one that generates stable earnings from the Leasing Business, a stock-type business. I think this is nearly done. In the past, the Company relied on the Construction Business to earn profits but we think the stock-type Leasing Business now has a system in place where it can reliably increase profits.

In reforming our earnings structure, we have been able to control costs better than we assumed in our budget. Yet, on the matter of improving the operating efficiency of our apartments under management—that is, raising the occupancy rate—the trend has been largely as planned but a bit below our budget assumption.

■ In your analysis, what factors are behind the occupancy rate trending below the budget assumption?

**Miyama:** We use two channels to secure clients: one is to sign individuals who come to Leopalace Centers to contracts, and the other is corporate sales. While corporate sales have outpaced our plan, the trend in signing up individuals has lagged our plan a bit. Our challenge from here is to bolster our efforts aimed at signing up retail clients.

Who we are

This question is for Mr. Taya. As Outside Director, how do you evaluate the past two years in terms of business structure reforms?

Taya: From my standpoint, what is most important in management is to execute reliably according to plan. In that sense, it was an extremely important decision for management to reorient the Company towards the Leasing Business and away from the Construction Business, which has been an earnings engine. Moreover, I think it was a major accomplishment to have effected this transition a year ahead of schedule.

I think it was a major accomplishment to have reoriented the Company Business, away from the Construction Business a year ahead of schedule.

#### Medium-term Management Plan

With attainment of the business structural reforms now in sight, management formulated a new Medium-term Management Plan, entitled "EXPANDING VALUE," that commenced from April 2014. With regards to the new plan's goals and changes in the external environment management took into account in crafting the plan, can you tell us what management saw as the main points?

Miyama: The previous medium-term plan was not predicated on an economic recovery. The outlook has brightened since then thanks in part to a boost from Abenomics, and our new plan factors in this environment.

If the new management plan assumes vastly different economic conditions than the previous one did, I would then presume as a business plan, some aspects were substantially revised.

Miyama: Actually, there are positives and negatives that we need to review. First, in a recovering economy, improving employment conditions are accompanied by rising consumer incomes. This is a positive for the stock-type business, i.e., Leasing Business.

On the other hand, there is a serious shortage of skilled laborers in building trades with the emergence of a further raft of public works projects ahead of the 2020 Tokyo Summer Olympics. This factor is pushing up construction costs and so has a negative impact. If nothing was done, our profit margins would be dampened. So, I think a very major theme for us is how to reflect this factor into plan assumptions.

Does the management plan to take steps to address this matter?

Miyama: To address this pressing issue, we are studying the option of bringing in skilled laborers from overseas, and since the shortage of skilled laborers is a structural one, the steps we are taking are linked to our stepped-up expansion overseas, where we see potential to develop foreign human resources.

Please tell us about new initiatives that were not a part of the previous management plan.

Miyama: One is the development of operations overseas. We entered Vietnam and Thailand in fiscal 2013 and we want to further accelerate those efforts from here. Depending on conditions, we are thinking of pushing ahead actively overseas in real estate brokerage and investment.

What is the status of the South Korean venture, a part of the overseas expansion that goes back to 2013?

Miyama: Our entry into South Korea is moving forward with the establishment of a joint venture to manage real estate with a local corporate investor. Following an amendment to a Korean housing law in February 2014, a full launch of the real estate management venture commenced. Our goal for the first year of the project is to attain 1,000 apartments under management.

Do you think business methods like those in use in Japan can be applied overseas? Miyama: I think it is possible. In Korea, we are at the stage of gradually absorbing the local culture, but I think we can customize the approach we use in Japan a bit for the Korean market and start to accept construction orders soon. By the final year of the new management plan, we would like to have built up a

track record to some extent in orders for construction subcontracting.

Apart from overseas, are there any new initiatives in the new plan?

Miyama: In Japan, there are plans for the Elderly Care Business. We have until now operated the Elderly Care Business without increasing the number of facilities. Yet, as we have established operating methods based on our experience to date, we decided to increase the number of facilities in the new management plan. In the next three years, we aim to open 29 facilities to bring the total we manage to 90.

■ There is a perception the Elderly Care Business is in an intensely competitive sector. As Outside Director, what do you think about channeling resources into this business?

Taya: The focus in the past when the Company expanded the Elderly Care Business was on construction, and the mistakes made by expanding too fast then have taught management what should be done this time. As the expansion plans are informed by past experience, I am not worried this time.

Leopalace21 is a large business, so when the Company starts a new venture, the venture must be at least a certain scale or it will not contribute visibly to overall earnings. I think the Elderly Care Business will be one where Leopalace21 can superbly harness its capacity to execute with speed and power.

Our goal for the first year



Business will be one where Leopalace21 can capacity to execute with speed and power.

Corporate Data

Are the two themes discussed above priorities for the Company among the new initiatives in the management plan?

What our strategy is

Miyama: Yes. The solar power business is also a focus. Our subsidiary Leopalace Power Corporation has commenced operations and is already obtaining consent from owners on leasing rooftops. The solar power business is ready to build up a track record through Leopalace Power in the current fiscal year and the next one.

#### Corporate Governance

A new headquarters was established in April. Please tell us about the rationale for this move.

Miyama: As a company that has excelled in marketing going back to its founding, Leopalace21 has come this far with a vertical organizational structure. The new headquarters was set up to build up our organizational capabilities while retaining the advantage of the vertical structure, or the capacity to execute with speed. The new headquarters—the Corporate Business Promotion Headquarters—is meant to facilitate collaboration among nimble vertically-organized divisions and departments.

I think the new headquarters could also yield other benefits. It will work to improve the real strength of the Company as a whole by boosting collaboration and raise management plan execution performance by improving governance capabilities. At the same time, a cross-sectional organizational system may reveal areas of operational overlap etc. and enable us to reduce unnecessary expenditures.



#### Long-term Vision

In formulating the new Medium-term Management Plan, did management's thinking about its long-term vision change in any way?

Miyama: I would like to see Leopalace21 look beyond Japan and become a bit more global, building rental properties around the world, especially in the ASEAN region, and increasing profits from these assets.

The domestic market will naturally be an important one for us in the future, but to increase profits at home, we would need to sharply increase our rental housing stock in major metropolitan areas. I feel we are nearing the limits of such an approach, however.

As a result, I believe the Company ought to seek growth opportunities in Southeast Asia. As Japanese companies are increasingly forging ahead in the region, we intend to expand our Leasing Business there with a focus on attracting Japanese companies as tenants.

I would like to see more global, building rental properties around the world and increasing profits from these assets. I still believe our capacity to manage hundreds of thousands of rental properties under a single corporate umbrella is a definitive strength. What strengths does Leopalace21 have that can be applied overseas?
Miyama: I still believe our capacity to manage hundreds of thousands of rental properties under a single corporate umbrella is a definitive strength. Our structure for everyday operations has been built up over the years, and we do not face difficulties when entering overseas markets in hiring local employees and launching operations.

A test of this is what we are doing in South Korea, and so far 99% of the operations we carry out in Japan can also be applied there. The remaining 1% involves matters such as laws that lead to differences in the way real estate leasing is conducted in a given market. So only minor adjustments are needed, and I am confident future entry into ASEAN markets, which we are studying, will not be difficult to execute.

#### **Integrated Reporting**

In the past few years, an increasing number of companies are reporting financial and non-financial information in a unified format known as integrated reporting. What are your thoughts on this integrated reporting?

Miyama: I think integrated reporting reflects the growing importance of non-financial information in a context where corporate reporting had been targeted mainly at investors and focused exclusively on items linked to earnings.

From this viewpoint, our expansion of the leasing management business overseas meets social needs that had not existed until recently in those nations, and in that sense is a business that contributes to society. I think a place to live is a necessity for everyone wherever they live on the planet, and know-how in leasing management is needed around the world.

Moreover, in expanding our operations into the ASEAN region, we train and develop the skills of local employees. This is a new spur for the development of a deeper human resources pool in the region and is a source of value in that sense. If we are able to help alleviate the shortage of skilled workers in Japan by enabling overseas laborers to learn building trades, this works to our advantage as a business.

In my view, the problem of a shortage of skilled laborers in Japan applies not only to the Construction Business but also to the Elderly Care Business.



31

What our strategy is

Taya: First, I think a major underlying prerequisite to achieving what people would like to see from integrated reporting—that is, companies in a broad sense meeting their social responsibilities—is for companies to adopt a long-term perspective in how they think about issues. Leopalace21 fought hard to survive and get where it is today and so did not really have enough leeway to look far ahead then. But now that it is nearly done with its business structural reforms, I think the Company is at a stage where it can identify and prioritize what needs to be done and get to work on execution. As the expectations of society for companies will continue to grow stronger, I look forward to seeing Leopalace21 address these expectations by leveraging fields where it excels.

From this perspective, I believe our solar power business exemplifies what I meant about Leopalace21 leveraging fields where it excels to contribute to society. Using a rental housing stock of over 500,000 units, it is building a distributed solar power business. This is a model that other companies would be hardpressed to copy.



#### To Shareholders and Other Investors

In closing, please tell us your thoughts about improving shareholder value such as through dividends and shareholder returns.

Miyama: First of all, with regards to dividends, the Company went through a period of substantial negative retained earnings and so was unable to pay dividends. But as we accumulate earnings, we look to restore dividends, with the aim of doing so before the end of the current management plan.

The other thing we can do to improve shareholder value is to increase the share price. Rather than a guick boost, however, we seek to do so by staying true to the notion of working hard to build up profits over time. While other companies are taking steps such as share buybacks, we are not considering such measures at this stage. We look to start off with restoring dividends.

#### **BUSINESS OVERVIEW**

### AT A GLANCE

#### Segment overview/key subsidiaries and affiliates



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

- Leopalace Leasing Corporatio (corporate housing agency/real estate brokerage business)
- Plaza Guarantee Co., Ltd. (lease guarantee business
- Leopalace21 Business Consulting (Shanghai) Co., Ltd. (consulting business)
   LIXLE RENEWAL Corporation (maintenance business)
- Woori & Leo PMC Co., Ltd. (leasing management services business)
  Leopalace21 (Thailand) CO., LTD. (real estate agency)
  LEOPALACE21 VIETNAM CO., LTD. (real estate agency)

#### **CONSTRUCTION BUSINESS**



This business engages in constructing apartments etc. We are working to bolster the appeal of our products, offering products designed from a female perspective, those for young people living on their own for the first time, etc. Outside of apartments, the business is expanding in the construction of commercial properties and nursing homes. Moreover, we also plan to expand the construction business for custom-built homes.

To boost the construction business for custom-built homes, we are adding variations in the construction work we perform such as commencing sales of products jointly developed with Morizou Co., Ltd., which offers high-end custombuilt homes.

#### **ELDERLY CARE BUSINESS**



Under the brand name Azumi En, this community-based nursing care business manages fee-based nursing homes, centers offering day services and short stays, and group homes at 61 locations in the Kanto region as well as providing home visits by nursing care staff, in-home nursing care support, etc.

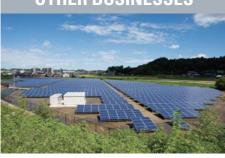
#### **TELS & RESORT BUSINESS**



Through our overseas subsidiary Leopalace Guam Corp., this business manages sports facilities such as golf courses and baseball fields as well as resort facilities such as hotels and condominiums on the island of Guam. It also operates hotels at eight locations across Japan.

- Leopalace Guam Corporation (hotels and resort business/Guam)
- Leopalace Travel Co., Ltd. (travel business)

#### OTHER BUSINESSES



This business mostly comprises small-amount, short-term insurance and solar power generation. The latter business focuses on installing solar power systems purchased using in-house funds on leased rooftops, earning profits from reselling the electricity generated ("Roof Mega-solar Pro").

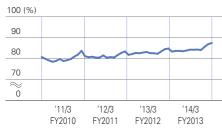
- Asuka SSI (small-amount, short-term insurance)
- Leopalace Smile Co., Ltd. (special subsidiary for providing clerical services)
- Leopalace Power Corporation (solar power generation)

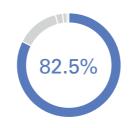


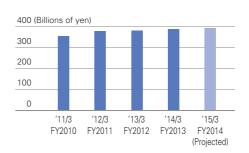
What our strategy is

#### Changes in Net Sales

#### **Occupancy Rates**









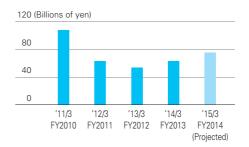
#### **Apartment Construction Sales**

scal Year Ended March 2014)



<sup>\*</sup>Completion basis, excluding sales of solar power systems







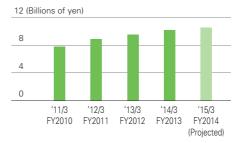
#### **Elderly Care Facility Occupancy Rates**

(Annual Average)



Private residential nursing homes, etc.





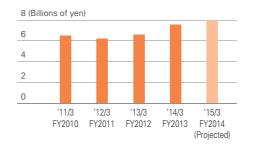


#### **Guam/Domestic Hotel Occupancy Rates**

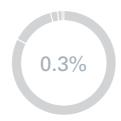
(Annual Average)

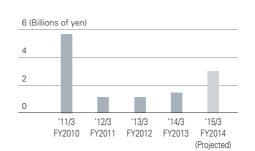














#### SEGMENT OVERVIEW

## **LEASING BUSINESS**





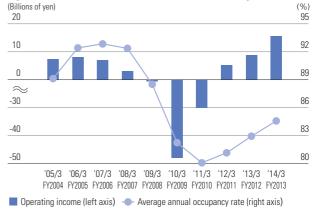


#### Performance

In fiscal 2013, the Leasing Business posted net sales of ¥388,768 million (a 1.4% increase from the previous fiscal year) and operating income of ¥15,568 million (a 79.2% increase from the previous fiscal year). In the fiscal year under review, we advanced a corporate sales policy aimed at avoiding overreliance on any sector, restrained tenant departures via proactive relocation proposals, added more variations to the "Room Customize" service. and increased the number of apartments where security systems have been installed. These measures and others enabled us to keep occupancy rates stable and promote long-term tenant occupancy. As a result, the number of managed properties at the fiscal year-end was 548,912 units (up 2,708 units from the previous fiscal year-end), the occupancy rate at the fiscal year-end was 87.47% (up 2.66

percentage points from the previous fiscal year-end), and the average annual occupancy rate was 84.58% (up 1.64 percentage points from the previous fiscal year).

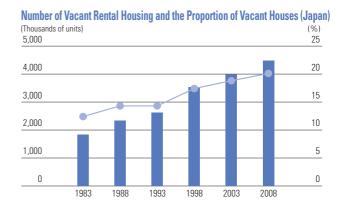
#### **Operating Income and Average Annual Occupancy Rate**



#### **Business Environment and Related Issues**

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

market rent levels and periodically reviewing our property management tasks.



- Number of vacant houses for rent or sale (left axis) Proportion of vacant houses (right axis)
- \* Source: Housing and Land Survey the Ministry of Internal Affairs and Communications

#### **Strategies**

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

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

#### **Corporate sales:**

By building a sales system that is not overly reliant on one particular industry, we have made our portfolio resilient to economic swings. In addition, our development and operation of LAM System, a website aimed exclusively at corporate partners, enables us to cultivate strong relationships with our existing clients and strive to add new clients and thus bolsters our marketing to corporations.

#### Measures aimed at female tenants:

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

places where women find it comfortable to live, such as apartments with security systems, and thereby raise occupancy rates. Specifically, we intend to enhance our services targeting women living on their own. For example, we plan to do more to offer housing with plenty of storage space or with a kitchen where tenants can enjoy cooking.

#### Measures aimed at international students:

Along with our overseas branch network with four sales offices in China, three in South Korea, and one in Taiwan and our call centers, we operate an online site, "LAM School," aimed exclusively at partner schools. We are stepping up efforts to capture demand among international students.

#### **Expanding business overseas:**

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

#### **Key Products/Services**

#### "Room Customize":

This innovative service enables tenants to customize their living space to suit their own tastes—even for rental properties. The number of contracts for the "Room Customize" service, which allows tenants to change the wallpaper on one wall for free, has already exceeded 14,000. With this service, we aim to promote long-term occupancy by enabling tenants to personalize and form attachments to their rooms.

#### **MY PAGE** website for tenants:

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

#### Monthly agreements:

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

#### **Security systems:**

With "24-hour, 365-day safety and security" as our motto, we have partnered with two major nationwide security companies to install security systems in properties we manage. The number of security system installations has already exceeded 180,000 units. We are also focusing on security camera installations, with the number of buildings with cameras in place now above 3,000.









## **CONSTRUCTION BUSINESS**







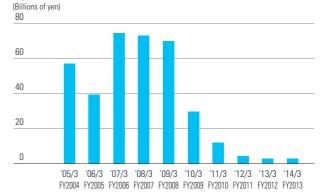


#### **Performance**

In fiscal 2013, the Construction Business posted net sales of ¥63,136 million (a 18.3% increase from the previous fiscal year) and operating income of ¥2,954 million (a 7.5% increase from the previous fiscal year). Given the high priority we put on improving earnings at the Leasing Business, order acquisition efforts of the Construction Business continued to be focused on the three largest metropolitan areas, where high occupancy rates are expected. We also channeled our efforts into obtaining construction orders for nursing-care homes, commercial buildings, and other non-apartment buildings as well as installations of solar power systems. As a result, orders received in fiscal 2013 totaled ¥81,139 million (an 11.1%

increase from the previous fiscal year) and orders received outstanding at fiscal year-end totaled ¥44,470 million (a 6.3% decrease from the end of previous fiscal year).

#### **Operating Income**

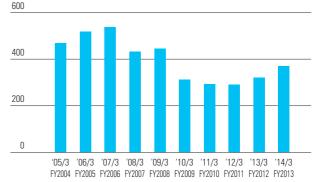


#### **Business Environment and Related Issues**

Due to recovery in the domestic economy and our earnings, the environment facing our Construction Business is improving. On the other hand, as shown by the continued decline in new rental housing starts from a peak of 537,943 units in fiscal 2006, the rental housing market is saturated when assessed at the national level. In such a difficult environment, we aim to identify areas where high occupancy rates are likely and expand construction orders received based on a more detailed supply plan, notably in the three largest metropolitan areas. As for products, we aim to enhance product quality by developing products from the perspective of tenants, particularly that of females, as well as implementing measures to improve sound insulation and security.

#### **Number of New Rental Housing Starts**

(Thousands of units)



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

#### **Strategies**

#### Actively supplying apartments to specific areas:

Since the occupancy rate is high for relatively new buildings and, in particular, extremely high demand continues to be expected in Japan's three largest metropolitan areas, we aim to expand the number of apartments we supply, focusing on those areas. To establish a sales system based on tenant demand for apartments, we opened five new branches in April 2014, mostly in the greater Tokyo metropolitan area.

#### **Enhancing product quality:**

We are actively working to reduce unwanted noise by combining sound-insulating flooring ("non-sound floor"), walls, and drainage pipes in a "non-sound system" with an industry-leading level of sound insulation that comes as a standard feature in apartments we build. We aim to erase the perception that Leopalace21 buildings have thin walls and build high-quality apartments that enable tenants to live comfortably.

#### Market expansion via new products:

We are adding more female tenants with the introduction of products created from a female perspective. We have also launched sales of products targeting young people living on their own for the first time.

#### Sales of solar power systems:

Starting from the previous fiscal period, we shifted our focus to the Roof Mega-solar Pro, and this remains one measure we are implementing to enhance the property value of existing buildings.

#### Broadening our building construction mix:

We are expanding the construction of non-apartment buildings for business uses such as elderly care facilities, for which demand is expected to grow, and buildings with retail/commercial space etc. We have started offering custom-built "Taiga" homes, a product that we jointly developed with partner Morizou Co., Ltd., which is a provider of built-to-order homes made using high-quality Kiso-hinoki wood. Our product lineup thus responds to a wide range of land-use needs.

#### **Key Products/Services**

#### Arma-L tri-EL:

With three lofts of an area equal to the bedroom, living room, and kitchen/dining space (1LDK), these apartments come with amenities designed from a female perspective such as an open-counter kitchen and a powder space featuring a sink and countertop with a large mirror.

#### **UNI BIRTH:**

Targeting young people living on their own for the first time, these apartments keep private room size to 20-23 square meters and come with amenities useful to singles living alone for the first time such as wireless LAN, a security system, and a separate sink vanity with a mirror.

#### Custom-built "Taiga" homes:

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







## **ELDERLY CARE BUSINESS**





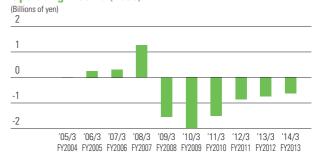
#### **Performance**

Thanks to the "Azumi En" facilities etc. developed by the Group, net sales at our Elderly Care Business in fiscal 2013 came to ¥10,172 million (a 7.3% increase from the previous fiscal year). This business posted an operating loss of ¥611 million, an improvement of ¥132 million versus the previous fiscal year.

#### **Business Environment and Related Issues**

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

#### **Operating Income (Loss)**



#### **Strategies**

We have placed the Elderly Care Business under the management of the Marketing and Sales Headquarters, just as we have done for the two core businesses (Leasing Business and Construction Business), and designated it a strategic growth business. With occupancy rates at existing facilities stable, the Elderly Care Business is moving forward with establishing new facilities in cooperation with the Construction Business with the aim of improving earnings.

#### **Key Products/Services**

#### **Azumi En:**

Currently, we manage 61 "Azumi En" facilities in the Kanto region. Services at each facility include fee-based homes for seniors that offer support for their daily lives in a family-like atmosphere, group homes with daily-living support through fine-tuned nursing care, day and short-stay services in which elderly people living in their own homes can access services for a day or come for temporary stays and so forth.



## **HOTELS & RESORT BUSINESS**

What our strategy is





How CSR supports

our management



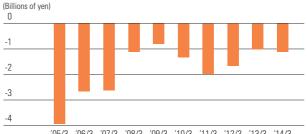
#### **Performance**

In fiscal 2013, net sales at our Hotels and Resort Business (Guam resort facilities and hotels in Japan) grew to ¥7,572 million (a 13.7% increase from the previous fiscal year) thanks to the success of our campaign promoting use by corporate partners etc. of our Leasing Business. Yet, due to heavy depreciation costs, the operating loss at this business came to ¥1,119 million, widening ¥113 million from the previous fiscal year.

#### **Business Environment and Related Issues**

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

#### **Operating Income (Loss)**



'07/3 '08/3 '09/3 '10/3 '11/3 '12/3 06/3 13/3 FY2004 FY2005 FY2006 FY2007 FY2008 FY2009 FY2010 FY2011 FY2012 FY2013

#### **Strategies**

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

#### **Key Products/Services**

#### **Leopalace Hotels:**

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

#### **Leopalace Resort Guam:**

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







## **OTHER BUSINESSES**







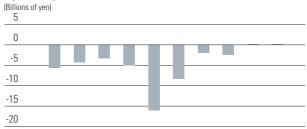
#### Performance

In fiscal 2013, net sales at Other Businesses, which includes small-amount, short-term insurance and solar power businesses, came to  $\pm 1,442$  million (a 26.7% increase from the previous fiscal year) and operating income came to  $\pm 138$  million (a 290.4% increase from the previous fiscal year).

#### **Business Environment and Related Issues**

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

#### **Operating Income (Loss)**



'05/3 '06/3 '07/3 '08/3 '09/3 '10/3 '11/3 '12/3 '13/3 '14/3 FY2004 FY2005 FY2006 FY2007 FY2008 FY2009 FY2010 FY2011 FY2012 FY2013

#### **Strategies**

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

#### **Key Products/Services**

#### Solar power systems:

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

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



## **TOPICS: Information Disclosure for Stakeholders**

We believe that proactively disclosing information in an appropriate manner is important to building relationships based on trust and deepening mutual understanding with stakeholders such as shareholders and other investors. With our website as the main vehicle of our disclosure efforts, we have moved forward on this score. We offer a broad array of disclosure content, ranging from materials aimed at institutional investors to those designed to be easy to understand for individual investors, and our efforts have garnered positive recognition by third-party organizations.

What our strategy is



#### Won a Bronze Award for the Second Successive Year in Gomez IR Site Ranking

We put great store on our website as a vehicle to communicate information to our shareholders and other investors. To this end, we have established a dedicated site for individual investors, where we provide materials about our strategy, the business environment etc. along with data on our financial position and earnings reports. Initiatives such as these aimed at educating investors about our business have been well received, and our website has earned a Bronze Award for the second successive year (the second highest ranking in Japan's real estate sector) in the Gomez Investor Relations (IR) site ranking. The Gomez IR site ranking is an annual assessment where Morningstar Japan K.K. evaluates IR websites aimed at shareholders and other investors for usability and content richness.





#### **Introducing Leopalace21 via Illustrated "Manga" Stories**

A section on our website called "Understand Leopalace21 through Manga" introduces our business in ways that anyone can easily understand. The web pages use four-panel cartoons ("Manga") to explain in a readily understandable way our business model, distinctive features and strengths, and our two core operations, the Leasing Business and Construction Business. Beneath the "Manga" stories we outline on-going initiatives etc. and provide links to pages that go into more detail on specifics.





#### **IR Seminars Targeted at Individual Investors**

As part of our IR activities for individual investors, we participate in seminars for individual investors where we can meet and communicate with them in person. We gave explanations to individual investors in person, held small briefings, and engaged in other outreach efforts at the Tokyo Stock Exchange (TSE) IR Festa 2014 (sponsored by the TSE) and the Nomura IR Individual Investor Fair (sponsored by Nomura Investor Relations Co., Ltd.) in fiscal 2013. Including these two events, we participated in a total of nine seminars or events for individual investors in the fiscal year under review, and we intend to remain a participant in the years to come.



## **CSR Activities Support Our New Medium-term Management Plan**

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

#### **CSR Activities Support Attainment of New Medium-term Management Plan Goals**

It is our belief that CSR activities are a pillar of our operations that play an important role in supporting from the base of financial activities the attainment of the targets in "EXPANDING VALUE," the new Medium-term Management Plan.

Having defined CSR activity goals relating to management measures in our Medium-term Management Plan, we commenced initiatives that step up development of non-financial activities.



Medium-term Management Plan goals	Related CSR fields	Medium-term Management Plan's CSR indicators
(1) Achieve sustainable, balanced growth at core businesses and maximize group profits	Improve services for property owners and tenants     It is important to improve the satisfaction of the main clients of our core businesses.	Number of incoming calls to the service center
(2) Enter new domains and businesses that create new social value	Diversity management It is important to foster a diverse workforce in order to respond to the needs of a diverse society.	Ratio of female managers Number of employees with foreign citizenship
(3) Retain a low-cost structure and strategic "selectivity and focus" approach to costs	Advance solar power businesses     We will continue to be contributors to     supplying electricity from safe, stable clean     energy sources.	Aggregate kWh generated by solar power systems
	Maintain positive relationships with stakeholders     We will continue to hold meetings for property owners to report the latest conditions.     We will continue to further promote cleanup campaign events and participation.	Number of owner events organized Number of cleanup campaign events and participants

#### **CSR Management**

In our CSR management, members of the CSR Committee, which is chaired by the General Manager of the Management Planning Headquarters, serve as coordinators to bring together separate divisions and departments, while engaging in their own CSR management.

The CSR committee meets four times a year to check the progress of initiatives that meet the Basic CSR Action Policy and discuss the future direction of the initiatives. In such ways, the committee promotes CSR.

In 2013, we devised a new Basic CSR Action Policy in response to changing modern needs and the requirements of ISO 26000 and other standards and guidelines.

What our strategy is

We will steadily press ahead with newly established five themes of the policy in order to expand CSR

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

How CSR supports

our management



Basic CSR Action Policy	Core subjects under ISO 26000 etc.	Main activities	Key Performance Indicators (KPI)
Providing high- quality services and supporting affluent living	Consumer issues	Providing high-quality services that enable safety and peace of mind     Improving client services further	Number of rooms with security systems installed Number of buildings with security cameras installed
Creating pleasant work environments and developing diverse human resources	Human rights Labor practices	Promoting work-life balance     Paying heed to diversity	Number of employees participating in training Overtime work hours
Creating an environmentally friendly society	Natural environment	Running solar power businesses     Factoring environmental considerations into our business activities	Number of buildings with solar power systems installed CO <sub>2</sub> emissions reduction
Contributing to local communities	Community involvement	Involving stakeholders in cleanup activities	Number of cleanup events Number of cleanup participants
Engaging in sound, constructive communication with stakeholders	Stakeholder engagement	Communicating with diverse stakeholders	Number of meetings for landowners Number of events held for tenants

## **CSR Issues in Leopalace21's Value Chain**

There are a range of social issues that we believe warrant attention at our core pillars, the Leasing Business and the Construction Business. With the aim of contributing to society through our businesses, we are implementing initiatives based on the five themes of the Basic CSR Action Policy.



# Construction Design and Execution



#### **CSR Issues: Construction, and Design and Execution**

There are a range of CSR issues that we believe warrant consideration in designing and constructing apartments and buildings so as to enable landowners to make the most effective use of their valuable land. Among these are ensuring building quality and onsite safety, factoring in environmental considerations, adhering to compliance frameworks, following CSR procurement guidelines, and maintaining amicable relations with neighboring residents.

At Leopalace21, all of our projects are supervised by construction managing engineers, who are specialists accredited by the government, in order to ensure quality.

We do our utmost to ensure the onsite safety of all those involved in construction work as well as people nearby by mapping out various risks in advance in line with the construction safety manual.

## <Relevant Basic CSR Action Policy> Providing high-quality services and supporting affluent living

Creating pleasant work environments and developing diverse human resources
Creating an environmentally friendly society
Contributing to local communities
Engaging in sound, constructive communication

with stakeholders



# Rental Sales at Counters, Corporate Sales



#### **CSR Issues: Rental Sales at Counters, Corporate Sales**

We offer rental properties to individuals who visit our offices around the country and corporate clients in their search for rental housing. In marketing rental housing to individuals and corporations, there are a range of CSR issues that we believe warrant consideration. Among these are adhering to compliance frameworks, protecting client privacy, and improving the quality of our response to clients.

As for personal information, under the leadership of the General Manager of the Management Headquarters, the Compliance Committee moves ahead with the proper use and management of private information in accordance with the Personal Information Protection Law and other relevant regulations as well as our privacy policies. Further, we have systems in place that enable us to respond swiftly if an unexpected event occurs.

#### <Relevant Basic CSR Action Policy>

Providing high-quality services and supporting affluent living

Creating pleasant work environments and developing diverse human resources



## Tenants Move-in











#### **Rental Housing** Management



#### **CSR Issues: Rental Housing Management**

There are a range of CSR issues that we believe warrant consideration in managing apartments across Japan. Among these are adhering to compliance frameworks, protecting privacy, factoring in global environmental considerations, improving the quality of our response to landowners and tenants, ensuring quality for comfortable living, and maintaining good relations with local communities.

Beyond fundamentals such as protecting the valuable assets of landowners and supporting tenants' comfortable living, we strive daily to build better relationships with all our stakeholders so as to continue to develop our businesses and services in a sustainable manner.

#### <Relevant Basic CSR Action Policy> **Providing high-quality services and supporting** affluent living

Creating pleasant work environments and developing diverse human resources Creating an environmentally friendly society **Contributing to local communities** 

**Engaging in sound, constructive communication** with stakeholders

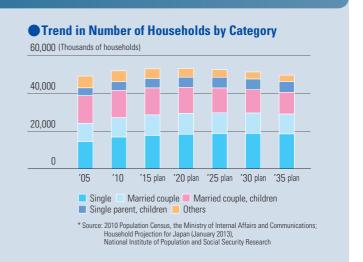
#### **Basic CSR Action Policy**

## **Providing High-quality Services and Supporting Affluent Living (1)**

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

#### **Social Backdrop: Diversifying Lifestyles**

In the past, a husband, wife, and one or more children comprised a customary household but as times have changed, the number of single-person households has grown, and the number of members per household continues to decline. In concert with these trends, rental housing needs are becoming more diverse.



#### Main Activities, KPIs, Goals, and Achievements

Main Activities: Provide high-quality services that enable safety and peace of mind,

improve client services further

Key Performance Indicators: Number of buildings with security systems installed, number of buildings

with security cameras installed

#### Fiscal 2013 goals Fiscal 2013 achievements Fiscal 2014 goals About 220,000 rooms (KPI) • 190,000 rooms • 187,756 rooms Target for cumulative security system Target for cumulative security system Cumulative security system installations by March 31, 2015 installations as of March 31, 2014 installations by March 31, 2015 4,500 buildings KPI Target for cumulative security camera installations by March 31, 2015 • Expand a product lineup with Upgraded specifications of sound-insulation fixtures "Non-Sound Floor," a sound-insulated wood product • Expand L-Club Off membership Launched dedicated tenant site Add 24 new tenant services available (special deals for tenants) on the dedicated tenant site "MY PAGE" "MY PAGE" and added 20 services. including L-Club Off

#### Initiative Summary: Ideas for Expressing Individuality in Living

What our strategy is

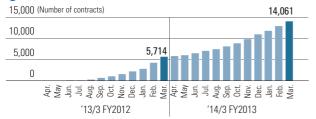
#### Supporting Self Expression via "Room Customize"

In response to the desire of tenants to express their preferences even in a rented space, we launched "Room Customize" services in May 2012 to allow tenants to customize their room to suit their preferences.

"Room Customize" plans allow tenants to customize one wall by giving them a choice of free wallpaper, along with options to use wall stickers, tacks, tape, etc. or install wall-mounted shelves on that wall. There are about 150,000 rooms nationwide, including ones with tenants, where "Room Customize" plans are available. The cumulative number of "Room Customize" contracts reached 14,061 as of March 31, 2014.

In contrast to services for detached homes and family housing, "Room Customize" plans target singles living on their own and enable them to express their individuality and preferences in their rental rooms. We will continue to broaden this service going forward.

#### Cumulative Number of "Room Customize" Contracts





How CSR supports

our management



#### Stakeholder's Voice

Tatsuya Sasaki, General Manager, Leasing Sales Planning and Management Division

Our popular "Room Customize" service, which was launched in May 2012, enables tenants to



casually change their room to suit their preferences. The number opting for it has exceeded 14,000 in the roughly two years since it was launched. Based on our corporate philosophy of "creating new value," we have launched many new services for rental housing, including patented lofts, rooms that come with furniture and home appliances, and broadband. One of these was the rollout of the "Room Customize" service as a way to encourage tenants to form attachments to their room and thus promote long-term tenancy.

We show prospective tenants model rooms featuring "Room Customize" plans that our employees created themselves in vacant rooms nationwide. In addition to promoting sales, this program has contributed to enhancing the marketing capabilities of our employees.

#### "Arma-L" Series for Female Tenants

To accompany the "Arma-L" apartments for female tenants, which come with plenty of storage space and furniture, we have developed and launched the "Arma-L tri-EL," which combines this plan with features of our mainstay DUAL-L product, which has two lofts.

These apartments combine the bedroom, living room, and kitchen/dining space (1LDK) into a luxurious space that features many ideas informed by a female perspective such as a powder space, wall-mounted storage, and an open-counter kitchen.

Amid a rising ratio of women living on their own, especially in cities, the number of female tenants living in our rental housing is expected to increase. We will continue to respond to this social need by providing housing where women feel comfortable living.





#### **TOPICS** Developed an "Arma-L" Temporary @cosme Model

SUUMO, a real estate and housing website (run by Recruit Sumai Company Ltd.), and @cosme, Japan's largest beauty and cosmetics website (run by istyle Inc.), released an attitude survey they conducted on beauty, health, and living conditions in February 2014.

About 70% of the survey's respondents said they took care of their body and skin or put on cosmetics while doing something else, and the activity most cited by those 70% was watching TV. When asked to name what about the place or fixtures of their residence that most frustrated them, many respondents cited lighting and storage space around the bathroom sink, lighting and sunlight exposure in the living room, and bathroom storage space.

Based on these survey results, we upgraded our "Arma-L" plans to even better reflect a female perspective.





#### **Basic CSR Action Policy**

## **Providing High-quality Services and Supporting Affluent Living (2)**

#### **Initiative Summary: Offering Safe, Secure Residences**

#### **Using Security Systems to Bolster Crime Prevention**

Through our alliances with two leaders in security services, SECOM Co., Ltd. and Sohgo Security Services Co., Ltd. (ALSOK), we have moved ahead with security system installations at existing properties we manage and installed security systems as a standard feature in

the rooms of newly built apartments. The number of buildings with security systems installed reached 187,756 as of March 31, 2014, or a 34.2% installation ratio.



#### Stakeholder's Voice

#### Mr. Kentaro Ogawa,

Section Chief, Sales Department, Johoku branch, Sohgo Security Services Co., Ltd. (ALSOK)

The idea that our services that meet diversifying lifestyles and consumer needs could match up

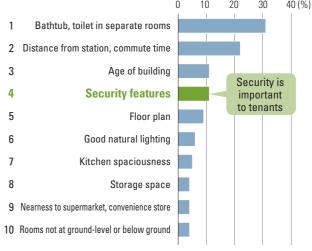
with Leopalace21's business model was the starting point of our relationship, and customers have since then shared many positive comments with us about our contribution. Since we installed security cameras, tenants have told us they felt safe living on their own, while landowners told us illegal waste dumping and unauthorized parking have gone away entirely.

## Offering Peace of Mind with Security Cameras and Other Home Security Systems

Apart from affordable rent, security is one of the most important features to tenants living on their own. We began mass deployment of security cameras in new and existing apartments in 2011 to monitor and record intruders and unwanted persons lingering onsite. The number of buildings nationwide with security cameras installed exceeded 3,000 (49,203 households) as of March 31, 2014.

We will continue to move ahead with the installation of security cameras in order to contribute to the creation of environments that uphold the safety and peace of mind not only of our apartment tenants but also of neighboring residents.

#### Features Singles Value Most Apart from Affordable Rent



Source: October 2010 COBS ONLINE survey, 432 respondents





#### Initiative Summary: Improving Customer Satisfaction with High-quality Service

#### Making Room Searches More Convenient, Helping Make Move-ins Go Smoothly

What our strategy is

The Leopalace21 website offers a complete suite of services online from room searches to room applications, enabling many who are busy or live far away to use our services.

As a general rule, we seek to respond to customers with foreign citizenship in their native language. Aside from Japanese, our rental housing website is currently available in four languages—English, Chinese, Korean, and Portuguese. Our call center can respond to calls in these four languages, along with Vietnamese. In addition to the above, we have assigned 162 employees with foreign citizenship (as of March 31, 2014) to Leopalace Centers etc. across Japan to provide foreign clients with native-language support ranging from apartment searches to helping them settle in after their move.

With eight offices in China, Korea, and Taiwan, our overseas network enables customers who are planning to stay in Japan to search apartments and consummate contracts before they arrive in Japan. We will continue to provide support for convenient apartment searches and comfortable living to students and workers coming to Japan, who have been increasing in number in the past several years.

#### **Broadening Our Range of Tenant Services**

Since the April 2013 launch of MY PAGE, a site exclusively for tenants, we have provided an extensive range of tenant services that reshape conventional notions of what people expect from rental housing, such as concierge services to respond to requests from tenants.

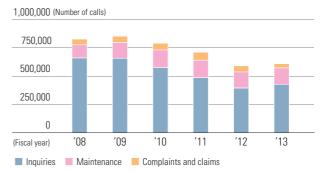


#### **Service Centers Offering Full Support After Move-ins**

Leopalace21 has systems in place to respond swiftly to various problems and emergencies that can arise after moving in to an apartment. At our service centers, our specialist communicators listen carefully to what each customer has to say and, after confirming what precisely the customer is requesting, do their best to respond. By analyzing inquiry content and continuously adding and updating the list of frequently asked questions (FAQs) on our website, we ease customer doubts and anxieties and improve satisfaction levels, and thus enable them to live safe, comfortable lives in the apartments we manage.

In addition, we offer an around-the-clock response service for troubles such as lost keys and repairs to water-related facilities like bathrooms and kitchens, etc. to customers who enroll in our optional "Life support service\*."

#### Trend in Incoming Calls to Our Service Centers



<sup>\*</sup>The "Life support service" is optional.

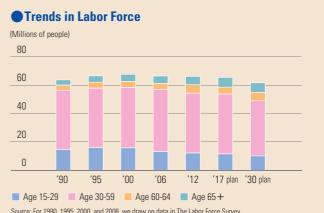
#### **Basic CSR Action Policy**

## **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 working, enabling all employees to express their diverse individuality and develop and harness their capabilities.

#### Social Backdrop: Diversifying Work Styles

Work styles are growing increasingly diverse for many reasons, from the shrinking labor force attendant with Japan's aging population to economic circumstances and the advance of women in society. There is a growing importance placed on achieving work-life balance, and companies are increasingly expected to take steps and adopt systems that promote greater work-style flexibility and revise working hours etc.



Source: For 1990, 1995, 2000, and 2006, we draw on data in The Labor Force Survey, published by the Statistics Bureau of the Ministry of Internal Affairs and Communications; from 2012 onward, we draw on data in the 2007 Labor Force Supply and Demand Estimates, published by the Japan Institute for Labour Policy and Training.

#### Main Activities, KPIs, Goals, and Achievements

Main Activities: Promoting work-life balance, paying heed to diversity

Key Performance Indicators: Number of employees participating in training, hours of overtime work

#### Fiscal 2013 goals

#### Attain goals of the next action plan (introduce a half-day vacation system during fiscal 2013)

#### Fiscal 2013 achievements

# 1,582 people Number of employees who used the half-day vacation system since it commenced on July 1, 2013

#### Fiscal 2014 goals

 3,200 people KPI Implement planned employee training (Number of employees participating in training)

• 7% reduction KPI
Implement initiatives to reduce
overtime work hours
(Year-on-year percentage reduction
in hours of overtime work)

- Continue to provide lectures, company tours, and on-the-job (OTJ) learning opportunities at special subsidiary Leopalace Smile Co., Ltd.
- **365 people**Number of company-tour visitors
- 71 people
   Number of people receiving OTJ training
- 2.0% Statutory employment ratio of disabled people
- 2.07% (as of March 31, 2014)
   Actual employment ratio of disabled people

Leopalace21 Corporation / Annual Report 2014

#### **Initiative Summary: Creating Worker-friendly Workplaces**

#### **Promotion of Work-life Balance**

We believe promoting work-life balance is an important issue, and we are moving ahead with various initiatives such as promoting diverse styles of working and shortening work hours. We obtained a next-generation certification mark (the Kurumin mark) in step with an action plan based on the Act for Promotion of Measures to Support the Development of the Next Generation published by the Ministry of Health, Labour and Welfare aimed at promoting worker-friendly workplaces. We continue to execute initiatives in the action plan we devised (shown below).

#### Action Plan Goals (January 2013-January 2015)

Goal 1: Create an environment where workers can readily take child-care leave

> (Men: at least one male employee takes child-care leave during the relevant period; Women: a usage rate among female employees of over 80%)

Goal 2: Implement measures to reduce hours of overtime work

Goal 3: Study feasibility of introducing a half-day vacation system

#### TOPICS Established Work-life Balance Promotion Office

The Company established a new office for the promotion of work-life balance, which reports directly to the President, in January 2014. The new office is designed to promote the growth of all employees and raise awareness of labor management issues as well as to create a work environment where employees can achieve their full potential and capabilities.

We will continue making concerted efforts to create even more worker-friendly environments.



Members of the Work-life Balance Promotion Office

#### **Initiative Summary: Developing Diverse Human Resources**

The Kurumin mark

#### **Appointment of Diverse Human Resources**

We aim to achieve new growth by improving our capabilities as an organization by helping to develop the capabilities of each employee through our training system.

Our training system is essentially split along two lines: training according to employee rank and training according to division. The former is divided into seven ranks going from new hires up to management executives and targets all of our divisions from leasing, construction, and elderly care to domestic hotels and resorts etc. The aim is to promote employees in each rank to play the roles they are expected to perform and to obtain knowledge and know-how they need. Regardless of which division they belong to, all Leopalace21 employees can obtain the basic capabilities and knowledge they need as they move up the ladder to higher ranks.

As for training according to division, we offer programs for employees to learn the expert knowledge and skills each division requires. Our aim is to improve customer satisfaction by sprucing up the expertise of our employees.

	Fiscal 2013 results	Fiscal 2014 plan
Number of training programs	3	9
Number of participants	460	3,200
Training costs per-person	¥76,326	About ¥85,000
Number of training days	70	173

#### Stakeholder's Voice

Tatsushi Ishikura, General Manager, Human Resources

To achieve the goals set in the new Medium-term Management Plan that kicked off in fiscal 2014, we need to make our organization and



people stronger. In particular, we will introduce a new program to enhance marketing capabilities of sales staff in order to expand training programs for managers to improve their management capabilities. We seek to improve customer satisfaction by improving the skills of employees who are closest to our clients and to enhance employee satisfaction by expanding our training system, which was scaled back in the aftermath of the collapse of Lehman Brothers.

#### **Basic CSR Action Policy**

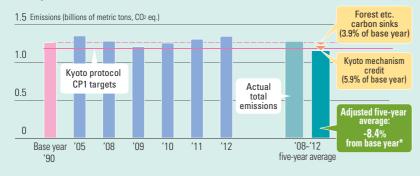
## **Creating an Environmentally Friendly Society**

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

#### Social Backdrop: Environmental Degradation on a Global Scale, Growing Demand for Clean Energy

Japan's total greenhouse gas emissions (GHG) in fiscal 2012 came to 1,343 million metric tons (CO<sub>2</sub> equivalent), representing a 36.6 million ton increase in emissions, or a 2.8% rise year on year, from the fiscal 2011 level. Amid the growing threats to the natural environment around the world, interest in solar power generation is growing as a safe, sustainable form of energy.

#### Japan's GHG Emissions and Attainment versus Kyoto Protocol Emission Targets



- \*Total emissions and removals for the Kyoto Protocol target will be finalized based on a technical review process to be effected in fiscal 2014 under the UN Framework Convention on Climate Change and the Kyoto Protocol. Also, following the December 31, 2012 expiration of the Kyoto Protocol's first commitment period (CP1), the Kyoto mechanism credits are to be finalized after the current adjustment period ends (it is expected to be in the second half of 2015 and beyond).
- \* Final estimates of Japan's greenhouse gas emissions released by the Ministry of the Environment (April 2014)

#### Main Activities, KPIs, Goals, and Achievements

Main Activities: Solar power businesses, factoring environmental considerations

into our business activities

Key Performance Indicators: Number of buildings with solar power systems installed,

adjusted CO2 emission reductions

#### Fiscal 2013 goals

#### **Fiscal 2013 achievements**

#### Fiscal 2014 goals

• 7,000 buildings

Cumulative number of buildings with solar power systems installed as of March 31, 2015

• 9,001 buildings

Cumulative number of buildings with solar power systems installed as of March 31, 2014

• 3,000 buildings KPI

Number of buildings with solar power systems installed for the year (38,370,634 kWh, adjusted CO<sub>2</sub> emission reduction of 12,068 tons)

- Reduce electricity consumption and CO<sub>2</sub> emissions by replacing multifunction printers
- Reduce gasoline consumption by using eco-cars

- Expand and improve "Leco series" products
- "Sky-stage" six buildings
   "Li-stage" three buildings completed
- 20% reduction

Target for reducing disposal volume of construction materials

 Evaluated the use of pre-cut construction materials for lofts at one site

Leopalace21 Corporation / Annual Report 2014

#### **Initiative Summary: Growth of Solar Power Businesses**

Since March 2011, we have actively moved forward with three kinds of solar power businesses: (1) installing solar panels acquired using investment funds from apartment owners, (2) Roof Mega-solar Pro, and (3) executing mega-solar projects on idle land. We have installed solar power systems on a total of 9,001 buildings as of March 31, 2014 for a total generation capacity of 125.8 MW.

We will continue to push ahead with initiatives to advance solar power as a source of safe, renewable energy.





Mega-solar project in Tomisato city, Chiba Prefecture

#### **Consummating Agreement with Kanagawa Prefecture TOPICS** on Promoting Solar Power Systems on Leased Rooftops

Leopalace21 signed an agreement with Kanagawa Prefecture to promote the spread of solar power systems in June 2013.

The Kanagawa Prefecture government is promoting the spread of solar power systems through rooftop leasing across the prefecture. Of the 2,900 apartment buildings we manage in Kanagawa Prefecture, it has targeted 700 buildings for solar power system installations (total generation capacity is expected to be 8.4 MW) through our rooftop solar power businesses.



Leopalace21 President Eisei Mivama (left) and Kanagawa Prefecture Governor Yuji Kuroiwa (right)

Financial Section &

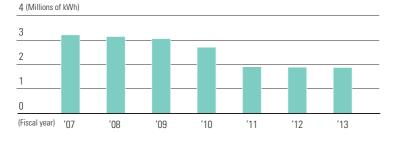
Corporate Data

#### Initiative Summary: Reducing Environmental Impact of Our Business Activities

We are working to reduce the environmental burden of our business activities. The activities we implemented on this theme in fiscal 2013 are listed in the box to the right. We plan to lease more eco-friendly cars for company use in fiscal 2014.

Recognizing the large impact we have on the global environment, we plan to continue to actively implement initiatives to reduce our environmental impact.

#### Annual Electricity Consumption at Head Office



#### Fiscal 2013-Implemented Initiatives to **Reduce Our Environmental Impact**

Energy-saving measures at apartment buildings

Implementing "Cool biz" dress code in summer, "Warm biz" in winter

Initiatives to reduce water use

Eco-cards, Eco-green cards

Initiatives to reduce electricity consumption

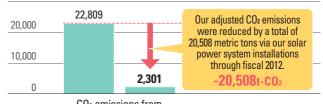
#### Initiative Summary: Solar Power Business Helps to Reduce Environmental Impact

While we are striving to reduce CO2 emissions in our business activities as much as possible (see initiatives above), we have also sharply cut CO2 emissions through the energy generation of our solar power businesses and, on an adjusted basis, these have offset the burden of our business activities on the global environment. We plan to move ahead with initiatives to reduce our environmental impact further in the future.

CO2 emission reductions we have achieved through our solar power businesses totaled 37,967 metric tons in the years through March 2014, and we expect this trend to continue.

#### **● CO₂ Emissions from Leopalace21 Sites in Fiscal 2012**

30,000 (metric tons of CO2 emissions)



CO<sub>2</sub> emissions from our business activities

#### **Basic CSR Action Policy**

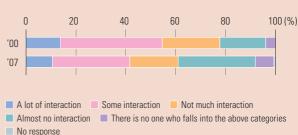
## **Contributing to Local Communities**

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

#### **Social Backdrop: Weakening Local Community Connections**

With more people living in dense cities and the rural countryside becoming depopulated, connections within communities are becoming more tenuous, and these trends have given rise to many problems such as elderly people dying alone and more crime targeting children. The importance of local community connections is recognized in emergencies in particular, but there has been little progress recently in moving forward with policies to address the aforementioned trends.

# Interaction among Neighbors 0 20 40 60 80 100 (%) '75 '86 '97 Friendly interaction Interaction but without closeness Little interaction No interaction Don't know



Source: Data is drawn from Cabinet Office's Public Opinion Poll on the Social Awareness (1975, 1986, and 1997) as well as a special summary of the National Survey on Lifestyle Preferences (2000, 2007).

#### Main Activities, KPIs, Goals, and Achievements

Main Activities: Stakeholder participation in cleanup events
Key Performance Indicators: Number of cleanup events, number of participants

#### Fiscal 2013 goals

- Entire company in unison continues with our cleanup campaign
- Workplace experience days for students hosted at all eight domestic hotels
- Advance donation collection activities for the Ultraman Foundation

#### **Fiscal 2013 achievements**

- Entire company in unison:
   total of three events, 3,040 buildings,
   3,642 participants
   Immediate vicinity of construction sites:
   1,995 sites, 9,561 participants
- Four hotels hosted a total of 21 schools
- Donations collected: ¥213,238
   Participants: 326 people

#### Fiscal 2014 goals

Entire company in unison KPI
Hold four events
(about 1,000 buildings per event)
Immediate vicinity of construction sites:
2,000 sites, 10,000 participants

#### Initiative Summary: Creating Livable Communities via Cleanup Campaign

We are continuing with our neighborhood cleanup campaign to encourage our employees to form attachments to the neighborhoods and communities where they work and to deepen interaction with our stakeholders.

Cleanup campaign	Performance data
Entire company in unison (three events)	3,642 participants at 3,040 buildings
Immediate vicinity of construction sites	9,561 participants at 1,995 buildings

#### Initiative Summary: Contributing in Many Ways via Core Businesses

We contribute to communities in various forms through our core businesses. We are actively promoting employee participation in social contribution activities such as hosting workplace experience days for students at the hotels and nursing care facilities we operate, cooperating with "Kodomo #110" (emergency refuge for children), and helping neighbors remove snow from sidewalks, driveways, and rooftops.





our management

#### **Basic CSR Action Policy**

## **Engaging in Sound, Constructive Communication with Stakeholders**

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

#### **Main Activities, KPIs**

Main Activities: Communication with diverse stakeholders

Key Performance Indicators: Number of meetings for landowners, number of events held for tenants

We are implementing a range of initiatives to build positive relationships with our stakeholders.

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





#### <0wners>

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

Landowner

#### <Partners>

• Cleanup campaign events



**Partners** 

Leopalace 21 Employee



<Employee>

 Provide employee training

hareholde



 Host workplace experience days for students





#### <Investors/shareholders>

- Hold earnings results briefings
- Arrange small meetings for institutional investors
- Participate in IR events

#### Third-party opinion: Close-up on Leopalace21's CSR Reporting



Takashi Fukushima, Representative Director Sustainability Accounting Co., Ltd.

Leopalace21's CSR framework is clear. It recognizes the important role of CSR as a pillar to achieving the targets set out in "EXPANDING VALUE," its new Medium-term Management Plan. It designates key performance indicators (KPIs) for each of the five themes of the Basic CSR Action Policy and attempts to locate CSR issues within the processes of its multiple value chains. It is easy for readers to understand the significance and progress of its initiatives in the context of its reporting framework where it identifies each action theme and social backdrop, and then reports on the goals at the start of the relevant fiscal year, what it achieved in the fiscal year under review, and what the goal is for the next fiscal year.

I sat in and observed two meetings of the CSR Committee, where top executives coached and mentored those involved with each department's CSR initiatives. It is unfortunate the sincerity with which people in the field are executing initiatives aimed at "creating new value" is not fully conveyed because of the space constraints of this paper report.

From here, I would like to see Leopalace21 integrate all divisions' initiatives under the five themes of the Basic CSR Action Policy and advance its CSR so that KPI serves as a benchmark for activity progress.

## **CORPORATE GOVERNANCE**

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

#### **Our Corporate Governance Philosophy**

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

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

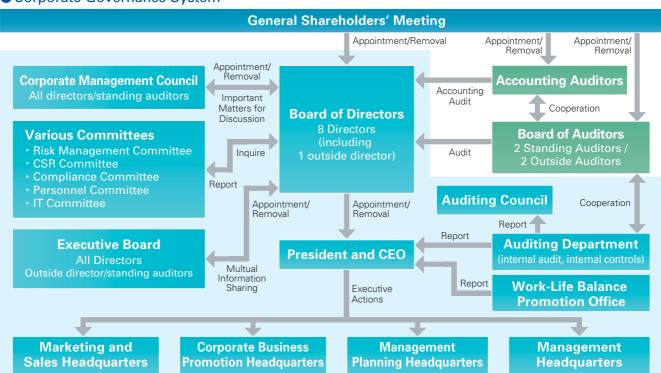
Specifically, we set up the Board of Directors to enhance business performance through appropriate and rapid decision-making, responding dynamically to changes in the business and management environment. At the same time, we strive for stronger management oversight through the Board of Auditors, a body set up to monitor business execution by directors. Moreover, through committees set up as consultative bodies to the Board of Directors, we have established a compliance system and risk management system.

We established a new headquarters division, called the

Corporate Business Promotion Headquarters, in April 2014 to enhance collaboration among business divisions. The addition of this headquarters to the tripartite structure in place until then—the Marketing and Sales Headquarters, the Management Planning Headquarters (previously named General Planning Headquarters), and the Management Headquarters (previously called Business Management Headquarters)—has created a four-headquarters system. With this structure in place to clarify responsibilities and authorities, we aim to continuously enhance our systems and corporate governance.

We are assertively moving forward with information disclosure activities through the public relations group in the Management Planning Division. While working to provide a fuller array of information disclosure on our website, we conduct information disclosure activities via participation in business presentations aimed at individual investors and IR fairs organized by third parties. We hold regularly scheduled meetings attended by Japan-based analysts and institutional investors, and top executive officers etc. visit investors in North America, Asia, and Europe when necessary.

#### Corporate Governance System



#### **Governance System and Initiatives**

#### **Board of Directors**

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

#### **Board of Auditors**

The Board of Auditors (BOA), composed of four members (two standing auditors and two non-standing auditors), is a body set up to monitor business execution by directors. BOA members attend important meetings of the Board etc. in accordance with the audit plan to monitor the decisionmaking process for key decisions and the progress of operational strategies set by the directors. At the same time, BOA strives to ensure the system in place enhances audit effectiveness by conducting operational status investigations and periodically exchanging views and opinions with the president.

#### **Outside Directors/Outside Auditors**

By nominating an Outside Director as well as Outside Auditors, Leopalace21 strives to strengthen the oversight function to ensure that decision-making and business execution by the Board comply with relevant laws and regulations in order to achieve management transparency and fairness. At the same time, it hopes that the outside directors and auditors provide advice from an objective standpoint based on their experience and knowledge they have obtained through their business careers as well as their insight as executives. With regards to ensuring the outside director and outside auditors nominated are independent from the Company, our policy is to make certain that they have no personnel, capital, or business ties with or other interest in the Company and that no conflict of interest with common shareholders arises.

#### Attendance at Board Meetings by Outside Director

Tetsuji Taya	Attended 15 of 16 Board Meetings
<ul> <li>Attendance at Board and E</li> </ul>	BOA Meetings by Outside Auditors
	Attended 14 of 16 Board Meetings

Koichi Fujiwara Attended 8 of 10 BOA Meetings Attended 15 of 16 Board Meetings Masahiko Nakamura Attended 10 of 10 BOA Meetings

#### **Internal Audit**

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

#### Accounting Audit

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

#### **Compensation for Members of Board of Directors**

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

(Basic Compensation)

This is determined for each member of the Board based on a comprehensive assessment of the attributes of the operations they oversee, the scope of these operations, their business performance, etc.

(Stock options)

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

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

#### Amount of Compensation Awarded to Directors and Auditors

Directors and Addito	13		(IVI	illions of yen)
	Total compensation etc. a		sation etc. acro	ss categories
	Total compensation	Basic compensation	Stock options	Bonuses
8 board members (excludes OD)	234	234	_	_
3 auditors (excludes OA)	31	31	_	_
3 outside directors/auditors	19	19	_	_

The table includes one director and one auditor who retired as of June 27, 2013: OD = outside director and OA = outside auditor

#### **Compliance and Risk Management Systems**

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

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

Compliance Committee includes lawyers and other external experts. As one plank in our efforts to bolster governance, the committee develops various measures relating to compliance such as enhancing educational training and reinforcing the information management system. We are also working to bolster monitoring systems and to identify and improve problems, and have put into place a system to assertively implement compliance-related measures onsite where operations are conducted, assigning a person responsible for compliance at each division and department.

#### • Specific Initiatives Concerning Compliance (Fiscal year ended March 31, 2014)

Description	Theme	Implementation Frequency
E-learning	"Contracts," etc.	2 times
E-learning (training for new and mid-career employees)	"Information Management," etc.	Two-month unit
Compliance training	"Reporter Protection and Utilization of Internal Reporting System," etc.	2 times
Compliance training (training for executive officers)	"Legal Responsibilities of Directors," etc.	2 times
Compliance training (training for management employees)	"Harassment," etc.	3 times
Compliance training (training for new employees)	"The Basics of Compliance," etc.	1 time
A seminar by a Tokyo Stock Exchange lecturer	"Key Insider Trading Regulations and Case Studies"	1 time

With regards to the risk management system, the Risk Management Committee has been created as an advisory body to the Board of Directors to ascertain and manage the risks facing the entire Company in a comprehensive manner, with a view to strengthening risk management. With the president serving as chair, the Risk Management Committee includes lawyers and other external experts. It not only verifies risk management conditions but also plans and implements

training and other measures in its efforts to reduce risk and increase preparedness and prevention. Each division extracts and analyzes risks concerning their operations, establishes and supervises risk countermeasures, and reports these efforts to the Risk Management Committee. The committee ensures the proper management of risks in each division through consultation and guidance.

What our strategy is



Back row, left to right

Director Hiroyuki Harada, Director Yoshikazu Miike, Director Kou Kimura, Outside Director Tetsuji Taya

Director Yuzuru Sekiya, President and CEO Eisei Miyama, Director Tadahiro Miyama, Director Kazuto Tajiri

#### Executive Officers (As of April 1, 2014)



Back row, left to right

Executive Officer Shigeru Ashida, Executive Officer Kenichiro Samejima, Executive Officer Seiji Shinozaki, Executive Officer Bunya Miyao, Executive Officer Motoyoshi Ohishi, Executive Officer Yasushi Mizuno

Bottom row, left to right

Executive Officer Fujio Sato, Managing Executive Officer Satoshi Abe, Senior Executive Officer Hiroshi Takeda, Managing Executive Officer Yousuke Kitagawa, Managing Executive Officer Naomichi Mochida, Executive Officer Hideki Matsunaga

### **BUSINESS AND OTHER RISKS**

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

#### 1. Revenue-related Risk

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

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

#### 2. Cost of Sales

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

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

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

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

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

#### 5. Reserve for Apartment Vacancy Loss

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

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

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

#### 7. Financial Covenants

Financial covenants have been set on the numerous loan agreements that Leopalace21 has concluded with financial institutions. Accordingly, should consolidated or non-consolidated net assets, consolidated or nonconsolidated interest-bearing debt, non-consolidated operating income violate the conditions of a financial covenant, there is a possibility that the Company, at the behest of the financial institution, could forfeit the benefit of the term for corporate bonds or other borrowings, which could have an impact on the Company's operating performance.

#### 8. Information Leaks

How CSR supports

our management

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

#### 9. Other Risks

The Group is aware that it incurs a variety of risks in the course of promoting its businesses, and it attempts to prevent, distribute or avoid risk whenever possible.

Nevertheless, the Group's business performance and financial position may be affected by changes in economic conditions, the real estate market, the financial and stock markets, legal regulations, natural disasters, and a variety of other factors.

# FINANCIAL SECTION

Management's Discussion and Analysis	63
Consolidated Balance Sheets	66
Consolidated Statements of Operations	68
Consolidated Statements of Comprehensive Income	69
Consolidated Statements of Changes in Net Assets	70
Consolidated Statements of Cash Flows	71
Notes to Consolidated Financial Statements	73
Independent Auditor's Report	05



#### FINANCIAL SECTION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

#### 1. Operating Environment

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

In the housing rental industry, due to last minute surge in demand before increase in taxation, new housing starts increased for the second consecutive year (up 15.3% year-on-year) and the number of vacant houses has also been increasing steadily. To achieve stable occupancy rates against the backdrop of this oversupply in the market, housing supply in selected areas and highquality housing and services are required.

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

#### 2. Analysis of Business Results

#### (1) Net Sales

Net sales during the fiscal year under were ¥471,090 million (up 3.7% year-on-year). In the Leasing business, net sales was ¥388,768 million (up 1.4% year-on-year), and net sales in the Construction business was ¥63,136 million (up 18.3% year-on-year).

#### Net Sales by Segment

(Millions of Yen)	FY2012	FY2013	Change
Leasing	383,574	388,768	5,194
Construction	53,370	63,136	9,766
Elderly Care	9,482	10,172	689
Hotels & Resort	6,658	7,572	914
Others	1,138	1,442	304
Total	454,222	471,090	16,868

#### (2) Earnings

Gross profit was ¥69,579 million (up 20.6% year-onyear), operating profit was ¥13,673 million (up 84.4% year-on-year), and recurring profit was ¥11,575 million (up 4.4% year-on-year). Net income drastically increased to ¥15,230 million (up 14.2% year-on-year), mainly reflecting income taxes—deferred of -¥5,182 million due to the accumulation of deferred tax assets, despite the posting of an impairment loss of ¥779 million.

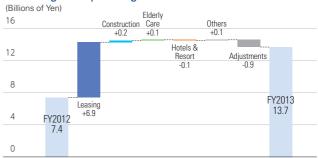
#### Operating Income by Segment

How CSR supports

our management

(Millions of Yen)	FY2012	FY2013	Change
Leasing	8,688	15,568	6,880
Construction	2,747	2,954	207
Elderly Care	(742)	(611)	132
Hotels & Resort	(1,006)	(1,119)	(113)
Others	35	138	102
Adjustments	(2,308)	(3,257)	(949)
Total	7,414	13,673	6,259

#### Change in Operating Income



#### (3) Segment Information

#### Leasing Business

The occupancy rate at the end of the consolidated fiscal year under review was 87.47% (up 2.66 points from the end of last fiscal year) and the average occupancy rate for the fiscal year under review was 84.58% (up 1.64 points from last fiscal year).

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

The number of units under management at the end of the consolidated fiscal year under review was 548 thousand (increasing 2 thousand from the end of last fiscal year), and the number of direct offices was 184 (increasing 2). The number of franchise offices was 164 (decreasing 28).

As a result of the above, net sales amounted to ¥388,768 million (up 1.4% year-on-year), and operating income was ¥15,568 million (up 79.2% year-on-year).

#### **Construction Business**

Orders received during the consolidated fiscal year under review were ¥81,139 million (up 11.1% from last fiscal year) and the orders received outstanding at the end of the consolidated fiscal year under review stood at ¥44,470 million (down 6.3% from last fiscal year).

In the Construction business, the Company continued to focus on receiving orders for apartments in areas where solid demand was anticipated, especially in the three metropolitan areas, prioritizing increasing profitability in the Leasing business. Meanwhile, the Company promoted installation of solar power systems and construction of buildings other than apartment buildings, including elderly care facilities and stores. The Company also strove to enhance product capabilities, for example by installing a non-sound system to significantly enhance noise insulation. As a result, net sales came to ¥63,136 million (up 18.3% year-on-year), and operating income was ¥2,954 million (up 7.5%).

#### **Elderly Care Business**

Net sales were ¥10,172 million (up 7.3% year-on-year), and operating loss was ¥611 million (improving ¥132 million).

#### **Hotels & Resort Business**

Net sales in resort facilities in Guam and hotels in Japan were ¥7,572 million (up 13.7% year-on-year), and the operating loss was ¥1,119 million (increasing ¥113 million in loss).

#### Other Businesses

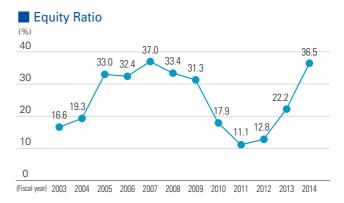
In Other businesses such as the small-claims and short-term insurance business, the finance business, and the solar power generation business, net sales were ¥1,442 million (up 26.7% year-on-year), and the operating income was ¥138 million (up 290.4% year-on-year).

#### 3. Analysis of Financial Position

(1) Position of Assets, Liabilities, and Net assets
Total assets at the end of the fiscal year under review
increased ¥25,809 million from the end of the previous
fiscal year, to ¥287,459 million. This was mainly
attributable to a decrease of ¥6,093 million in prepaid
expenses and ¥4,408 million in long-term prepaid
expenses and increase of ¥18,085 million in cash and
cash equivalents, ¥13,505 million in tangible fixed assets
and ¥5,440 million in deferred tax assets.

Total liabilities decreased ¥20,900 million from the end of the previous fiscal year, to ¥182,599 million. This primarily reflected an increase of ¥2,749 million in accounts payable—other and ¥1,435 million of customer advances for projects in progress. In addition, a decrease of ¥11,800 million in interest-bearing debt, ¥8,715 million in long and short-term advances received and ¥4,598 million in reserve for apartment vacancy loss lead to this lead to this result.

Net assets were up ¥46,709 million from the end of the previous fiscal year, to ¥104,860 million, chiefly due to an increase of ¥24,830 million in common stock and capital surplus via issuance of new shares, a decrease of ¥6,945 million in negative foreign currency translation adjustments balance and an increase of ¥15,230 million in retained earnings due to the posting of net income. The ratio of shareholders' equity to assets rose 14.3 points from the end of the previous fiscal year, to 36.5%.



#### (2) Cash Flow Position

Cash flow from operating activities was a net inflow of ¥15,584 million (an increase of ¥9,515 million in net inflow from the previous fiscal year). This was mainly due to a decrease of ¥8,718 million in advances received and ¥4,598 million in reserve for apartment vacancy loss, as well as a decrease of ¥10,067 million in long-term prepaid expenses, ¥5,994 million of depreciation and ¥10,782 million of income before income taxes and minority interests.

Cash flow from investing activities was a net outflow of ¥6,930 million (an increase of ¥6,924 million in net outflow from the previous fiscal year). This was primarily due to payments of ¥6,445 million for the purchase of property, plant and equipment as well as intangible assets.

Cash flow from financing activities was a net inflow of ¥8,848 million (a decline of ¥300 million in net inflow from the previous fiscal year). This was chiefly due to the repayment of interest-bearing debt of ¥16,588

million and proceeds from issuance of common stock of ¥24,708 million.

As a result, cash and cash equivalents at the end of the consolidated fiscal year under review stood at ¥74,150 million, an increase of ¥17,768 million from the end of the previous fiscal year.

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

The Leopalace21 Group acknowledges that the distribution of profit to shareholders is an important management issue. However, retained earnings are negative so it is with deep regret that the Group will pass on the term-end dividend. The Group also plans to pass on its dividends for the next fiscal year but will endeavor to recover retained earnings through a stable profit structure with the aim of restoring the dividend.

#### 5. Outlook

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

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

In the Construction business, the Company will seek a new profit foundation through measures such as supplying apartments in urban areas where a high occupancy rate is expected, offering advanced new products, building high-quality apartments by paying attention to earthquake protection and sound insulation, etc., and expanding the number of orders received for business buildings such as elderly care and commercial facilities and built-to-order houses. In the new Medium-Term Management Plan, the Company positions the elderly care business as a growth strategy area and will endeavor to promote the opening of care facilities through collaboration with the construction business. As a company-wide measure, the Company will also maintain a low cost structure while strategically investing in the costs (personnel, advertising, and sales promotion expenses) necessary to expand future sales and earnings.

In the next fiscal year, the Company will strengthen our competitiveness by taking in our core business as the base, expanding elderly care business by cooperating with Construction business and full-scale initiation of solar power generation business and overseas business.

As for the consolidated business results of the fiscal year ending March 2015, we expect sales of ¥493,500 million (up 4.8% year-on-year), operating income of ¥14,500 million (up 6.0%), recurring income of ¥13,000 million (up 12.3%), and net income of ¥12,000 million (down 21.2%).

The Company has set its financial targets for the fiscal year ending March 31, 2017, the final year of its new Medium-term Management Plan, at ¥540.0 billion for net sales, ¥22.0 billion for operating income, ¥19.0 billion for net income, 12.3% for ROE, and 6.0% for ROA.

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

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

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

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

For the Group to grow sustainably, improving its earnings power in the Leasing Business and developing new business domains will be necessary. Although the Company has already made efforts to increase its earnings power by enhancing tenant services and implementing measures to increase the value of properties, in addition to establishing a rental housing management company in South Korea and operating a "leased roof solar power generation business" through a special purpose company, the Company will continue to work on developing new products and services, as well as its revenue base.

#### FINANCIAL SECTION

## **CONSOLIDATED BALANCE SHEETS**

Leopalace21 Corporation and consolidated subsidiaries March 31, 2014 and 2013

	Millions	Millions of yen	
	2014	2013	2014
ASSETS			
Current assets:			
Cash and cash equivalents (Notes 2-(2), 4, 5-(2))	74,767	56,682	726,459
Trade receivables (Note 5-(2))	5,490	4,360	53,344
Accounts receivable for completed projects (Note 5-(2))	1,651	2,232	16,044
Operating loans (Note 5-(2))	1,430	1,880	13,892
Securities (Notes 2-(4), 5-(2), 6)	350	505	3,404
Payment for construction in progress (Note 2-(14))	501	340	4,868
Raw materials and supplies	464	457	4,513
Prepaid expenses	6,680	12,772	64,901
Deferred tax assets (Notes 2-(16), 10)	4,148	4,274	40,300
Other accounts receivable	1,585	1,017	15,397
Other	5,480	6,723	53,244
Allowance for doubtful accounts (Notes 2-(9), 5-(2))	(222)	(346)	(2,154)
Total current assets	102,324	90,896	994,212
Property, plant and equipment: (Notes 2-(5), 2-(20))	121,075	111 250	1 176 400
Buildings and structures (Notes 8, 11-(2), 17)		111,350	1,176,400
Accumulated depreciation	(64,001)	(56,609)	(621,854)
Net	57,074	54,741	554,546
Machinery, equipment, and vehicles	7,327	3,274	71,190
Accumulated depreciation	(3,376)	(2,652)	(32,803)
Net	3,951	622	38,387
Land (Notes 11-(2), 8, 17)	81,801	80,781	794,798
Leased assets (Note 2-(17))	11,471	6,833	111,451
Accumulated depreciation	(6,303)	(5,034)	(61,239)
Net	5,168	1,799	50,212
Construction in progress	3,713	176	36,073
Other (Note 20-(1)-(a))	10,843	10,074	105,366
Accumulated depreciation	(10,047)	(9,195)	(97,617)
Net	796	879	7,749
Total property, plant and equipment	152,503	138,998	1,481,765
nvestments and other assets:			
Intangible assets (Note 2-(7))	6,601	6,613	64,141
Investment securities (Notes 2-(4), 5-(2), 6, 11-(2))	7,258	7,177	70,519
Long-term loans (Note 5-(2))	563	571	5,468
Bad debt (Notes 5-(2), 9)	1,420	1,900	13,799
Long-term prepaid expenses (Note 2-(8))	3,720	8,128	36,143
Deferred tax assets (Notes 2-(16), 10)	12,152	6,586	118,074
Bond issuance cost	34	48	334
Other (Note 11-(2))	3,038	3,339	29,510
Allowance for doubtful accounts (Notes 2-(9), 5-(2))	(2,154)	(2,606)	(20,928)
Total investments and other assets	32,632	31,756	317,060
Total assets (Note 22)	287,459	261,650	2,793,037

The accompanying notes are an integral part of these statements.

2013  86	26,097 117,846 — 28,566 5,441 15,308 155,472 20 9,706 437,732
29 14,307 — 11,875 40 2,940 60 560 76 1,098 01 13,252 2 13 99 394 51 49,037 42 3,807	117,846 — 28,566 5,441 15,308 155,472 20 9,706
29 14,307 — 11,875 40 2,940 60 560 76 1,098 01 13,252 2 13 99 394 51 49,037 42 3,807	117,846 — 28,566 5,441 15,308 155,472 20 9,706
29 14,307 — 11,875 40 2,940 60 560 76 1,098 01 13,252 2 13 99 394 51 49,037 42 3,807	117,846 — 28,566 5,441 15,308 155,472 20 9,706
29 14,307 — 11,875 40 2,940 60 560 76 1,098 01 13,252 2 13 99 394 51 49,037 42 3,807	28,566 5,441 15,308 155,472 20 9,706
<ul> <li>11,875</li> <li>2,940</li> <li>2,940</li> <li>560</li> <li>1,098</li> <li>13,252</li> <li>13</li> <li>39</li> <li>394</li> <li>49,037</li> <li>3,807</li> </ul>	28,566 5,441 15,308 155,472 20 9,706
40     2,940       60     560       76     1,098       01     13,252       2     13       99     394       51     49,037       42     3,807	5,441 15,308 155,472 20 9,706
60       560         76       1,098         01       13,252         2       13         99       394         51       49,037         42       3,807	5,441 15,308 155,472 20 9,706
01       13,252         2       13         99       394         51       49,037         42       3,807	155,472 20 9,706
01       13,252         2       13         99       394         51       49,037         42       3,807	155,472 20 9,706
993945149,037423,807	9,706
<b>51</b> 49,037 <b>42</b> 3,807	-
<b>42</b> 3,807	437.732
<b>42</b> 3,807	
	50,934
	2,253
<b>83</b> 457	5,662
<b>43</b> 37	414
<b>17</b> 4,626	43,896
<b>61</b> 105,145	899,347
	333/317
<b>20</b> 1,480	8,939
77 30,020	263,090
<b>54</b> 1,054	40,365
<b>29</b> 32,358	268,447
	82,513
	1,320
	.,020
·	90,876
	97,653
	424
	21,207
	874,834
	1,774,181
200,100	1,771,7101
<b>82</b> 62 867	731,465
•	500,403
	(153,409)
	(35,566)
	1,042,893
00,010	.,6,650
<b>27</b> 648	4,153
	(20,567)
	(7,925)
	(24,339)
	175
	127
	1,018,856
<b>60</b> 58,151	
	92       8,984         36       —         8,634       13,951         50       —         44       49         83       1,824         38       98,354         99       203,499         82       62,867         01       39,425         89)       (31,019)         60)       (4,727)         34       66,546         27       648         16)       (9,061)         16)       —         05)       (8,413)         18       18         13       —

#### FINANCIAL SECTION

## **CONSOLIDATED STATEMENTS OF OPERATIONS**

Leopalace21 Corporation and consolidated subsidiaries For the years ended March 31, 2014 and 2013

	Millions	Thousands of U.S. dollars (Note 1)	
	2014	2013	2014
Net sales (Note 22)	471,090	454,222	4,577,241
Cost of sales	401,511	396,509	3,901,189
Gross profit	69,579	57,713	676,052
Selling, general and administrative expenses	55,906	50,299	543,199
Operating profit (Note 22)	13,673	7,414	132,853
Other income (expenses):			
Interest and dividend income	110	94	1,073
Equity in gains of affiliated companies	3	_	26
Equity in losses of affiliated companies	_	0	_
Foreign exchange gains (losses), net (Note 2-(18))	10	5,592	97
Interest expenses	(1,575)	(1,423)	(15,300)
Commission fee	(551)	(549)	(5,352)
Gain on sale of property, plant and equipment (Note 14)	0	_	3
Gain on sale of investment securities (Note 6)	_	6	_
Gain from cancellation of contracted work	18	38	178
Gain on liquidation of subsidiaries	_	70	_
Reversal of allowance for disaster losses	_	3	_
Reversal of allowance for switch to terrestrial digital broadcasts	_	65	_
Loss on sale of property, plant and equipment (Note 15)	(1)	_	(12)
Loss on disposal of property, plant and equipment (Note 16)	(14)	(85)	(132)
Impairment loss (Notes 2-(6), 8)	(779)	(2,173)	(7,568)
Consumption tax refund	_	109	_
Other—net	(112)	(190)	(1,109)
Income before income taxes	10,782	8,971	104,757
Income taxes (Note 2-(16))			
Current	768	313	7,464
Refund	(31)	(7)	(306)
Deferred	(5,182)	(4,670)	(50,346)
	(4,445)	(4,364)	(43,188)
Income before minority interests	15,227	13,335	147,945
Minority interests	(3)	_	(32)
Net income (Note 23)	15,230	13,335	147,977

The accompanying notes are an integral part of these statements.

How CSR supports

our management

#### FINANCIAL SECTION

## **CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Leopalace21 Corporation and consolidated subsidiaries For the years ended March 31, 2014 and 2013

	Million	Thousands of U.S. dollars (Note 1)	
	2014	2013	2014
Income before minority interests	15,227	13,335	147,945
Other comprehensive income			
Net unrealized gains on "other securities"	(221)	399	(2,144)
Foreign currency translation adjustments (Note 2-(19))	6,943	(2,093)	67,464
Share of other comprehensive income in affiliates	1	0	11
Total	6,723	(1,694)	65,331
Comprehensive income	21,950	11,641	213,276
Comprehensive income attributable to shareholders of the parent entity	21,954	11,641	213,310
Comprehensive income attributable to minority interests	(4)	_	(34)

The accompanying notes are an integral part of these statements.

#### FINANCIAL SECTION

## **CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

Leopalace21 Corporation and consolidated subsidiaries For the years ended March 31, 2014 and 2013

	Millions of yen											
		eholders' e	quity		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	Share subscription rights	Minority interests	Total net assets
Balance as of April 1, 2012	56,563	33,884	(44,964)	(4,959)	40,524	249	(6,969)	_	(6,720)	27	_	33,831
Net income			13,335		13,335							13,335
Issuance of new shares	6,304	6,304			12,608							12,608
Sales of treasury stock		(153)		232	79							79
Decrease from decrease												
in affiliated companies		(610)			(610)							(610)
Increase from decrease												
in affiliated companies			610		610							610
Net change of items other												
than shareholders' equity						399	(2,092)	_	(1,693)	(9)	_	(1,702)
Total change during period	6,304	5,541	13,945	232	26,022	399	(2,092)	_	(1,693)	(9)	_	24,320
Balance as of March 31, 2013	62,867	39,425	(31,019)	(4,727)	66,546	648	(9,061)	_	(8,413)	18	_	58,151
Net income			15,230		15,230							15,230
Issuance of new shares	12,415	12,415			24,830							24,830
Acquisition of treasury stock				(0)	(0)							(0)
Sales of treasury stock		(339)		1,067	728							728
Net change of items other												
than shareholders' equity						(221)	6,945	(816)	5,908	_	13	5,921
Total change during period	12,415	12,076	15,230	1,067	40,788	(221)	6,945	(816)	5,908	_	13	46,709
Balance as of March 31, 2014	75,282	51,501	(15,789)	(3,660)	107,334	427	(2,116)	(816)	(2,505)	18	13	104,860

	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	Minority interests	Total net assets
Balance as of March 31, 2013	610,837	383,061	(301,386)	(45,927)	646,585	6,297	(88,044)	_	(81,747)	175	_	565,013
Net income			147,977		147,977							147,977
Issuance of new shares	120,628	120,628			241,256							241,256
Acquisition of treasury stock				(0)	(0)							(0)
Sales of treasury stock		(3,286)		10,361	7,075							7,075
Net change of items other												
than shareholders' equity						(2,144)	67,477	(7,925)	57,408	_	127	57,535
Total change during period	120,628	117,342	147,977	10,361	396,308	(2,144)	67,477	(7,925)	57,408	_	127	453,843
Balance as of March 31, 2014	731,465	500,403	(153,409)	(35,566)	1,042,893	4,153	(20,567)	(7,925)	(24,339)	175	127	1,018,856

The accompanying notes are an integral part of these statements.

### FINANCIAL SECTION

Who we are

# **ONSOLIDATED STATEMENTS OF CASH FLOWS**

Leopalace21 Corporation and consolidated subsidiaries For the years ended March 31, 2014 and 2013

Millions of yen		Thousands of U.S. dollars (Note 1)
2014	2013	2014
10,782	8,971	104,757
5,994	5,684	58,235
(269)	(97)	(2,615)
(4,598)	(5,256)	(44,674)
_	(20)	_
_	(58)	_
(110)	(94)	(1,073)
1,575	1,423	15,300
(10)	(5,592)	(97)
(3)	0	(26)
1		9
14	85	132
779	2,173	7,568
_	(3)	_
_	(65)	_
_	(6)	_
(193)	(102)	(1,878)
_	14	_
(161)	280	(1,565)
10,067	16,300	97,818
(2,513)	(503)	(24,418)
1,346	850	13,083
(8,718)	(19,587)	(84,708)
(533)	(1,033)	(5,183)
(519)	75	(5,045)
4,626	4,302	44,969
17,557	7,741	170,589
98	80	954
(1,585)	(1,297)	(15,399)
(486)	(455)	(4,724)
15,584	6,069	151,420
	2014  10,782 5,994 (269) (4,598) — — (110) 1,575 (10) (3) 1 14 779 — — (193) — (161) 10,067 (2,513) 1,346 (8,718) (533) (519) 4,626 17,557 98 (1,585) (486)	2014       2013         10,782       8,971         5,994       5,684         (269)       (97)         (4,598)       (5,256)         —       (20)         —       (58)         (110)       (94)         1,575       1,423         (10)       (5,592)         (3)       0         1       14         4       85         779       2,173         —       (3)         —       (65)         —       (6)         (193)       (102)         —       14         (161)       280         10,067       16,300         (2,513)       (503)         1,346       850         (8,718)       (19,587)         (533)       (1,033)         (519)       75         4,626       4,302         17,557       7,741         98       80         (1,585)       (1,297)         (486)       (455)

The accompanying notes are an integral part of these statements.

	Millions	Millions of yen	
	2014	2013	2014
Cash flows from investing activities:			
Payment for purchase of property, plant and equipment	(5,481)	(707)	(53,252)
Proceeds from sale of property, plant and equipment	3	_	32
Payment for purchase of intangible assets	(964)	(184)	(9,365)
Payment for purchase of investment securities	(216)	_	(2,101)
Proceeds from sale of investment securities	20	85	195
Payment for loans	(15)	(21)	(148)
Proceeds from collection of loans	36	39	353
Payments for purchase of time deposits	(700)	(300)	(6,801)
Proceeds from withdrawal of time deposits	400	600	3,887
Other	(13)	482	(131)
Net cash provided by (used in) investing activities	(6,930)	(6)	(67,331)
Cash flows from financing activities:			_
Proceeds from short-term borrowings	_	2,609	_
Repayment of short-term borrowings	(11,875)	(29,638)	(115,382)
Proceeds from long-term debt	_	32,268	_
Repayment of long-term debt	(2,943)	(6,801)	(28,593)
Repayment of finance lease obligations	(1,210)	(1,359)	(11,760)
Payment for redemption of bonds	(560)	(560)	(5,441)
Proceeds from issuance of common stock	24,708	12,552	240,072
Proceeds from sales of treasury stock	728	78	7,076
Payment for purchases of treasury stock	(0)	_	(0)
Net cash provided by (used in) financing activities	8,848	9,149	85,972
Effect of exchange rate changes on cash and cash equivalents	266	292	2,581
Net increase (decrease) in cash and cash equivalents	17,768	15,504	172,642
Cash and cash equivalents at beginning of year	56,382	40,878	547,822
Cash and cash equivalents at end of year (Note 4)	74,150	56,382	720,464

The accompanying notes are an integral part of these statements.

#### FINANCIAL SECTION

Who we are

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Leopalace21 Corporation and consolidated subsidiaries For the years ended March 31, 2014 and 2013

#### 1. Basis of Presenting Consolidated Financial **Statements**

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

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014, which was ¥102.92 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 prior year's financial statements have been reclassified to conform to the current fiscal year's presentation.

#### 2. Summary of Significant Accounting Policies (1) Consolidation

The accompanying consolidated financial statements as of March 31, 2014 include the accounts of the Company and its 13 (10 as of March 31, 2013) significant subsidiaries (together, the "Companies"). Affiliated companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. Investments in 2 affiliates (2 as of March 31, 2013) have been included for the year ended March 31, 2014. All significant intercompany

balances and transactions have been eliminated.

How CSR supports

our management

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

Since the fiscal year end for certain consolidated subsidiaries is December 31, their financial statements as of that date are used in the preparation of the Company's consolidated financial statement. When significant transactions occur at those subsidiaries between their fiscal year end and the Company's fiscal year end, these transactions are included in consolidation as necessary.

#### (2) Cash and cash equivalents

For the purpose of the statements of cash flows, the Company considers all highly liquid investments with insignificant risk of change in value that have maturities of generally three months or less when purchased to be cash equivalents. These include cash on hand, demand deposits at banks and highly liquid short-term investments with negligible risk of fluctuation in value and maturities of less than three months.

#### (3) Inventories

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

#### (4) Securities

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

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

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

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

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

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

Property, plant and equipment other than buildings for rent of the Company and domestic consolidated subsidiaries are stated at cost. Depreciation is computed generally by the declining-balance method. However, buildings (excluding accompanying facilities) obtained on or after April 1, 1998 are depreciated by the straight-line method. The range of useful lives is principally from 40 to 50 years for buildings and structures, 17 years for machinery, equipment and vehicles, and 5 years for tools, furniture and fixtures.

Property, plant and equipment of the consolidated overseas subsidiaries are depreciated by the straight-line method based on the local GAAP. The range of useful lives is principally from 30 to 40 years for buildings and structures and from 3 to 5 years for machinery and equipment.

#### (6) Long-lived assets

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

#### (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) Allowance for doubtful accounts

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

#### (10) Liability for retirement benefit

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

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

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

#### (11) Reserve for apartment vacancy loss

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

# (12) Reserve for warranty obligations on completed projects

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

75

#### (13) Reserve for fulfillment of guarantees

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

#### (14) 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, 2014, while the completed contract method is applied to other constructions. Progress of construction is estimated based on the method of the ratio of actual cost incurred to total cost.

#### (15) Advances received

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

#### (16) 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.

#### (17) Leases

Finance leases that are deemed to transfer ownership of leased property to the lessee (excluding leases that existed on or before March 31, 2008) are accounted for in a manner similar to sales transactions and depreciated by the straight-line method over the lease-term of respective assets as their useful lives with no residual value.

Any finance lease transactions executed before March 31, 2008, where ownership of the leased assets is not transferred to the lessee, are accounted for as operating lease transactions.

#### (18) Foreign currency transactions

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

#### (19) Foreign currency financial statements

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

#### (20) Interest capitalization

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

Capitalized interests included in carrying value of property, plant and equipment were ¥2,035 million (\$19,771 thousand) and ¥1,720 million as of March 31, 2014 and 2013, respectively.

#### (21) Consumption taxes

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

#### (22) Earnings per share

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

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

#### 3. Additional Information

# (Changes in Accounting Policies) (Application of accounting policies related to retirement benefits)

The Company has applied the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012) since the end of the subject fiscal year (excluding section 35 of the "Accounting Standard for Retirement Benefits" and section 67 of the "Guidance on Accounting Standard for Retirement Benefits"). The accounting method has been changed to recording the amount remaining after deducting pension assets from retirement benefit obligations as liability for retirement benefit, and unrecognized actuarial differences and unrecognized past service costs are recorded as liability for retirement benefit.

Application of accounting policies related to retirement benefits is in accordance to the transitional measures stated in section 37 of the "Accounting Standard for Retirement Benefits." As of the end of the subject fiscal year, the effected amount due to the change is recorded as remeasurements of defined benefit plans under other comprehensive income.

As a result, ¥10,050 million (\$97,653 thousand) has been recorded as liability for retirement benefit, and cumulative amount of other comprehensive income has decreased ¥816 million (\$7,925 thousand). Also, net assets per share has decreased ¥3.10 (\$0.03).

# (New Accounting Standard and Guidance Not Yet Applied)

- "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26, May 17, 2012)
- "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, May 17, 2012)

#### (1) Overview

Revisions have been made to the amortization of unrecognized actuarial gains/losses and unrecognized prior service cost, the calculating process of retirement benefit obligations and service cost, as well as the expansion of disclosure.

#### (2) Effective Dates

Revision to the calculating process of retirement benefit obligations and service cost applies from the beginning of the fiscal year ending March 31, 2015. Since the revised accounting standards stipulate provisions regarding transitional processes, the revision is not retroactively applicable to consolidated financial statements for past periods.

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

Concerning the revision to the calculating process of retirement benefit obligations and service cost, the amount of impact to the consolidated financial statements is currently under review.

#### (Changes in presentation) (Consolidated Balance Sheet)

"Machinery, equipment and vehicles (net amount)," which was included in "Other (net amount)" in "Property, plant and equipment" in the previous fiscal year, is posted as a separate item in the fiscal year under review as its amount exceeds 1/100th of total assets. Consolidated financial statements for the previous fiscal year have been restated in order to reflect this change in description.

As a result, ¥1,503 million posted as "Other (net amount)" in "Property, plant and equipment" in the consolidated financial statement of the previous fiscal year has been restated as ¥622 million for "Machinery, equipment and vehicles (net amount)," and ¥881 million for "Other (net amount)."

#### 4. Cash and Cash Equivalents

Who we are

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
	2014	2013	2014
Cash and cash equivalents in the consolidated balance sheets	74,767	56,682	726,459
Time deposits with original maturities of more than three months	(617)	(300)	(5,995)
Cash and cash equivalents in the consolidated statements of cash flows	74,150	56,382	720,464

#### 5. Financial Instruments

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

#### (a) Policy for financial instruments

The Companies are mainly involved in raising funds (mostly bank borrowing and corporate bond issuance) needed for capital investment to carry out Leasing Business and Construction Business. Temporary excess funds are invested in highly secure financial assets, and short-term working capital is raised by borrowing from the bank. The Companies conduct derivative transactions primarily for the purpose of avoiding interest rate and exchange rate risks, and has a policy not to conduct speculative trading.

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

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

Foreign currency denominated debts and credits originated in conjunction with overseas business development are exposed to exchange risk. Securities are mainly held-to-maturity securities and shares of the companies with which the Company has a business relationship, and those securities are exposed to market risk.

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

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

There are no derivatives transaction balances remaining as of the end of this fiscal year.

#### (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.

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

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

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

Fair value of financial instruments which guoted market price is not available is calculated based on a fluctuating factor, and the value might differ if different assumptions are used.

#### (2) Fair value of financial instruments

The carrying amount on the consolidated balance sheet and fair value of financial instruments as of March 31, 2014 and 2013 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))

	Millions of yen		
March 31, 2014	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	74,767	74,767	_
(2) Trade receivables and accounts receivable for completed projects	7,141	7,141	_
(3) Securities and investment securities	4,462	4,473	11
(4) Operating loans	1,430		
Allowance for doubtful accounts (*1)	(106)		
Net	1,324	1,571	247
(5) Long-term loans	563		
Allowance for doubtful accounts (*1)	(97)		
Net	466	466	_
(6) Bad debt	1,420		
Allowance for doubtful accounts (*1)	(1,387)		
Net	33	33	_
Total assets	88,193	88,451	258
(1) Accounts payable and accounts payable for completed projects	14,815	14,815	_
(2) Bonds (*2)	1,480	1,487	7
(3) Long-term debt (*2)	30,017	30,017	_
(4) Lease obligations	5,730	5,789	59
Total liabilities	52,042	52,108	66

		Millions of yen	
March 31, 2013	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	56,682	56,682	_
(2) Trade receivables and accounts receivable for completed projects	6,592	6,592	_
(3) Securities and investment securities	4,730	4,742	12
(4) Operating loans	1,880		
Allowance for doubtful accounts (*1)	(141)		
Net	1,739	2,080	341
(5) Long-term loans	571		
Allowance for doubtful accounts (*1)	(91)		
Net	480	480	_
(6) Bad debt	1,900		
Allowance for doubtful accounts (*1)	(1,865)		
Net	35	35	<del>_</del>
Total assets	70,258	70,611	353
(1) Accounts payable and accounts payable for completed projects	16,977	16,977	_
(2) Short-term borrowings	11,875	11,875	_
(3) Bonds (*2)	2,040	2,054	14
(4) Long-term debt	32,960	32,960	_
(5) Lease obligations	2,152	2,250	98
Total liabilities	66,004	66,116	112

	Th	ousands of U.S. dolla	rs
March 31, 2014	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	726,459	726,459	_
(2) Trade receivables and accounts receivable for completed projects	69,388	69,388	_
(3) Securities and investment securities	43,356	43,460	104
(4) Operating loans	13,892		
Allowance for doubtful accounts (*1)	(1,032)		
Net	12,860	15,264	2,404
(5) Long-term loans	5,468		
Allowance for doubtful accounts (*1)	(942)		
Net	4,526	4,526	_
(6) Bad debt	13,799		
Allowance for doubtful accounts (*1)	(13,481)		
Net	318	318	_
Total assets	856,907	859,415	2,508
(1) Accounts payable and accounts payable for completed projects	143,943	143,943	_
(2) Bonds (*2)	14,380	14,449	69
(3) Long-term debt (*2)	291,655	291,655	_
(4) Lease obligations	55,673	56,245	572
Total liabilities	505,651	506,292	641

- (\*1) Operating loans, long-term loans and bad debts have deductions of their respective allowance for doubtful accounts, which are recorded separately.
- (\*2) As of March 31, 2014 and 2013, bonds due within one year of ¥560 million (\$5,441 thousand for 2014) and current portion of long-term debt of ¥2,940 million (\$28,566 thousand for 2014) are included in bonds and long-term debt, respectively.

#### Notes:

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

#### Assets

#### Cash and cash equivalents

# Trade receivables and accounts receivable for completed projects

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

#### Securities and investment securities

Shares are stated at the stock exchange quoted price; bonds are stated at either the stock exchange quoted price or the price presented by transacting

#### financial institutions.

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

#### Operating loans

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

#### Long-term loans Bad debt

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

#### Liabilities

# Accounts payable and accounts payable for completed projects

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

#### Bonds

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

# Long-term debt, Current portion of long-term debt

#### Lease obligations

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

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unlisted shares	1,146	1,118	11,131
Unlisted bonds (subordinate corporate bonds)	824	824	8,009
Subordinate beneficiary rights of loans and accounts receivable in trust	895	899	8,698
Contributions to limited investment partnerships	281	111	2,729
Total	3,146	2,952	30,567

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: (3) Securities and investment securities."

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

	Millions of yen				
March 31, 2014	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	74,767	_	_	_	
Trade receivables and accounts receivable for					
completed projects	7,141	_	_	_	
Securities and investment securities					
Held-to-maturity debt securities					
(1)Government and municipal bonds	200	500	600	_	
(2)Corporate bonds	_	_	_	_	
Other securities with maturities					
(1)Government and municipal bonds	150	1,310	544	_	
(2)Bonds					
(Corporate bonds)	_	_	_	824	
(3)Others	_	95	_	895	
Operating loans	249	800	336	45	
Long-term loans	19	39	22	483	
Bad debts	_	_	_	1,420	
Total	82,526	2,744	1,502	3,667	

How CSR supports

our management

	Millions of yen				
March 31, 2013	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	56,682	_		_	
Trade receivables and accounts receivable for					
completed projects	6,592	_	_	_	
Securities and investment securities					
Held-to-maturity debt securities					
(1)Government and municipal bonds	500	800	_	_	
(2)Corporate bonds	_	_	_	_	
Other securities with maturities					
(1)Government and municipal bonds	5	1,395	544	_	
(2)Bonds					
(Corporate bonds)	_	_	_	824	
(3)Others	_	111	_	900	
Operating loans	303	971	548	58	
Long-term loans	20	48	22	481	
Bad debts	_	_	_	1,900	
Total	64,102	3,325	1,114	4,163	

	Thousands of U.S. dollars			
March 31, 2014	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	726,459	_	_	_
Trade receivables and accounts receivable for				
completed projects	69,388	_	_	_
Securities and investment securities				
Held-to-maturity debt securities				
(1)Government and municipal bonds	1,943	4,858	5,830	_
(2)Corporate bonds	_	_	_	_
Other securities with maturities				
(1)Government and municipal bonds	1,458	12,728	5,285	_
(2)Bonds				
(Corporate bonds)	_	_	_	8,009
(3)Others	_	923	_	8,698
Operating loans	2,418	7,770	3,271	433
Long-term loans	180	384	214	4,690
Bad debts	_	_	_	13,799
Total	801,846	26,663	14,600	35,629

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

		Millions of yen					
March 31, 2014	Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years	Due after 5 years	
Bonds	560	560	360	_	_	_	
Long-term debt	2,940	27,077	_	_	_	_	
Lease obligations	1,576	1,389	1,143	1,023	599	_	
Total	5,076	29,026	1,503	1,023	599	_	

	Millions of yen							
March 31, 2013	Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years	Due after 5 years		
Short-term borrowings	11,875	_	_	_	_	_		
Bonds	560	560	560	360	_	_		
Long-term debt	2,940	2,940	27,080	_	_	_		
Lease obligations	1,098	582	356	100	16	_		
Total	16,473	4,082	27,996	460	16	_		

		Thousands of U.S. dollars				
March 31, 2014	Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years	Due after 5 years
Bonds	5,441	5,441	3,498	_	_	_
Long-term debt	28,566	263,090	_	_	_	_
Lease obligations	15,308	13,495	11,105	9,944	5,820	_
Total	49,315	282,026	14,603	9,944	5,820	_

#### 6. Securities

(1) At March 31, 2014 and 2013, information with respect to held-to-maturity debt securities for which market prices were available was summarized as follows:

		Millions of yen	
March 31, 2014	Carrying value	Market value	Unrealized gain (loss)
Unrecognized gain items:			
Government and municipal bonds	1,232	1,243	11
Corporate bonds	_	_	_
Others	_	_	_
Subtotal	1,232	1,243	11
Unrecognized loss items:			
Government and municipal bonds	107	107	(0)
Corporate bonds	_	_	_
Others	_	_	_
Subtotal	107	107	(0)
Total	1,339	1,350	11

Who we are

How CSR supports

our management

		Millions of y	en
March 31, 2013	Carrying v	alue Market valu	ue Unrecognized gain
Unrecognized gain items:			
Government and municipal bonds	1,321	1,333	12
Corporate bonds	_	_	_
Others	_	_	_
Subtotal	1,321	1,333	12
Unrecognized loss items:			
Government and municipal bonds	_	_	_
Corporate bonds	_	_	_
Others	_	_	_
Subtotal	_	_	_
Total	1,321	1,333	12

		Thousands of U.S. dollars		
March 31, 2014	Carrying value	Market value	Unrealized gain (loss)	
Unrecognized gain items:				
Government and municipal bonds	11,976	12,082	106	
Corporate bonds	_	_	_	
Others	_	_	_	
Subtotal	11,976	12,082	106	
Unrecognized loss items:				
Government and municipal bonds	1,039	1,037	(2)	
Corporate bonds	_	_	_	
Others	_	_	_	
Subtotal	1,039	1,037	(2)	
Total	13,015	13,119	104	

#### (2) Investment securities classified as other securities as of March 31, 2014 and 2013 were as follows:

		Millions of yen	
March 31, 2014	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	1,128	460	668
Bonds:			
Government and municipal bonds	1,917	1,883	34
Corporate bonds	_	_	_
Others	_	_	_
Others	_	_	_
Subtotal	3,045	2,343	702
Securities whose acquisition cost exceeds their carrying value:			
Stock	_	_	_
Bonds:			
Government and municipal bonds	78	78	(0)
Corporate bonds	_	_	_
Others	_	_	_
Others	_	_	_
Subtotal	78	78	(0)
Total	3,123	2,421	702

		Millions of yen	
March 31, 2013	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	1,464	447	1,017
Bonds:			
Government and municipal bonds	1,890	1,848	42
Corporate bonds	_	_	_
Others	_	_	_
Others	_	_	_
Subtotal	3,354	2,295	1,059
Securities whose acquisition cost exceeds their carrying value:			
Stock	12	13	(1)
Bonds:			
Government and municipal bonds	43	43	(0)
Corporate bonds	_	_	_
Others	_	_	_
Others	_	_	_
Subtotal	55	56	(1)
Total	3,409	2,351	1,058

	Т	housands of U.S. dollar	rs .
March 31, 2014	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	10,965	4,470	6,495
Bonds:			
Government and municipal bonds	18,621	18,290	331
Corporate bonds	_	_	_
Others	_	_	_
Others	_	_	_
Subtotal	29,586	22,760	6,826
Securities whose acquisition cost exceeds their carrying value:			
Stock	_	_	_
Bonds:			
Government and municipal bonds	755	757	(2)
Corporate bonds	_	_	_
Others	_	_	_
Others	_	_	_
Subtotal	755	757	(2)
Total	30,341	23,517	6,824

Who we are

#### March 31, 2014

¥1,146 million (\$11,131 thousand) of non-listed shares, ¥824 million (\$8,009 thousand) of non-listed bonds (subordinate corporate bonds), ¥895 million (\$8,698 thousand) of subordinate beneficiary rights to loans and money in trust, and ¥281 million (\$2,729 thousand) of contributions to investment business limited partnerships are not included in the other securities given above because they have no market value and assigning them fair market prices is recognized to be extremely difficult.

#### March 31, 2013

¥1,118 million of non-listed shares, ¥824 million of non-listed bonds, ¥899 million of subordinate beneficiary rights to loans and money in trust, and ¥111 million of contributions to investment business limited partnerships are not included in the other securities given above because they have no market value and assigning them fair market prices is recognized to be extremely difficult.

How CSR supports

our management

# (3) Proceeds from sales of other securities and gain or loss on these sales for the years ended March 31, 2014 and 2013 were summarized as follows:

March 31, 2014

None

		Millions of yen		
March 31, 2013	Proceeds from sale	Gains	Losses	
Stock	_	_	_	
Bonds:				
Government and municipal bonds	_	_	_	
Corporate bonds	_	_	_	
Others	_	_	_	
Others	76	6	_	
Total	76	6	<u>—</u>	

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

	Million	Millions of yen	
	2014	2013	2014
Investment securities (stocks)	42	14	407
Of which, investment in joint venture	28	7	276

#### 7. Derivative Transactions

None

#### 8. Long-lived Assets

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Residential properties for rent	57,830	59,657	561,896
Domestic hotels	13,410	13,872	130,302
Head office and branches	24,193	24,037	235,063
Leopalace Resort Manenggon Hills Guam	23,784	20,172	231,090
Westin Resort Guam	13,774	11,817	133,830
Leopalace Power (solar power systems)	2,973	_	28,890

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Machinery, equipment, and vehicles	<b>155</b> 69		1,506

# (3) The Companies recognized impairment loss on the following asset groups for the years ended March 31, 2014 and 2013:

March 31, 2014

	0		Impairm	Impairment loss	
Purpose	Category	Location	Millions of yen	Thousands of U.S. dollars	
Rental assets	Buildings and	Kobe-shi,			
(Apartment buildings	Structures	Hyogo, etc.	99	959	
and others, 70 units)	Land		680	6,609	
Total			779	7,568	

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

The Companies wrote down book value of the rental assets whose profitability decreased seriously due to the slump in the rental income market and continuous decline in land prices, to recoverable amounts and

recognized the reduced values as impairment losses.

Recoverable amounts of rental assets were measured at the higher of their values in use or their net realizable values in sale. Value in use was computed by discounting its future cash flows at 3.8%, while net realizable value in sale was determined based on publicly appraised value.

87

Durage	Catalana		Impairment loss
Purpose	Category	Location	Millions of yen
Rental assets	Buildings and	Ota-ku,	
(Apartment buildings	Structures	Tokyo, etc.	160
and others, 96 units)	Land		1,744
Idle assets	Land	Higashi-kagawa	
		City, Kagawa	269
Total			2,173

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

What our strategy is

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

impairment losses.

Recoverable amounts of rental assets were measured at the higher of their values in use or their net realizable values in sale. Value in use was computed by discounting its future cash flows at 3.8%, while net realizable value in sale was determined based on publicly appraised value.

How CSR supports

our management

Recoverability of inactive assets was calculated using net selling value based on real estate appraisal values.

#### 9. Bad Debts

Bad debts are claims as stipulated under Article 32, Paragraph 1, and Item 10 of the Regulation concerning Financial Statements. Bad debt at March 31, 2014 and 2013 consisted of the following:

	Millio	Millions of yen	
	2014	2013	2014
Claims in bankruptcy	_	14	_
Claims in the process of bankruptcy	1,092	1,100	10,611
Bad debts	186	369	1,811
Others	142	417	1,377
Total	1,420	1,900	13,799

### 10. Income Taxes

(1) Significant components of deferred tax assets and liabilities as of March 31, 2014 and 2013 were as follows:

	Million	Millions of yen	
	2014	2013	2014
Deferred tax assets:			-
Loss carried forward for tax purposes	47,000	44,181	456,663
Impairment loss	23,036	21,326	223,820
Liability for retirement benefit	3,582	_	34,804
Retirement benefit reserves	_	3,094	_
Reserve for apartment vacancy loss	3,333	5,189	32,388
Advances from customers for rent income	2,552	4,259	24,795
Loss on devaluation of property, plant and equipment	1,427	1,427	13,869
Bonuses payable	742	453	7,206
Allowance for doubtful accounts	705	887	6,850
Deposits received	519	601	5,042
Loss on devaluation of real estate for sale	424	424	4,122
Elimination of unrealized gain	375	82	3,640
Excess amortization on software	279	256	2,711
Reserve for fulfillment of guarantees	208	163	2,018
Sales promotion cost	184	144	1,785
Excess depreciation	135	135	1,308
Accrued enterprise tax	129	48	1,252
Asset retirement obligations	126	116	1,223
Bad debt loss	89	11	861
Reserve for warranty obligations on completed project	83	27	803
Other payables	78	83	758
Sales discount for construction contracts	35	61	339
Loss on devaluation of securities	16	16	156
Low-value assets	12	12	119
Subsidiaries' foreign exchange loss	_	2,393	_
Others	242	200	2,376
Sub-total	85,311	85,588	828,908
Less: valuation allowance	(68,724)	(74,360)	(667,745)
Total deferred tax assets	16,587	11,228	161,163
Deferred tax liabilities:			
Net unrealized gain on other securities	(237)	(359)	(2,300)
Reserve for special depreciation	(178)	_	(1,734)
Fixed asset retirement expenses	(8)	(9)	(76)
Total deferred tax liabilities	(423)	(368)	(4,110)
Net deferred tax assets	16,164	10,860	(157,053)

How CSR supports

our management

# (2) Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the years ended March 31, 2014 and 2013 were as follows:

#### March 31, 2014

Normal effective statutory tax rate	38.01%
Adjustments:	
Effect from decrease in valuation reserve	(95.10)
Entertainment and other expenses not deductible for income tax purposes	9.23
Impact of change in income tax rates	4.98
Per capital portion of inhabitants taxes	1.94
Other	(0.29)
Actual effective tax rate	(41.23)

#### March 31, 2013

Not stated since the Company posted no taxable income.

What our strategy is

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

The "Bill for Partial Amendment of the Income Tax Act. etc." enacted on March 31, 2014 stipulates that the special corporate tax for reconstruction will no longer be applied for the fiscal years beginning on or after April 1, 2014. As a result, the normal effective statutory tax rate used to calculate deferred tax assets and liabilities will be changed from 38.01% to 35.64% for temporary differences expected to be recovered or settled in the fiscal year beginning April 1, 2014.

Due to the above changes, the amount of deferred tax assets (after deducting the amount of deferred tax liabilities) decreased ¥277 million (\$2,688 thousand) and income taxes deferred increased by the same amount.

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

# (1) Short-term borrowings, long-term debt and lease obligations at March 31, 2014 and 2013 consisted of the following:

	Million	Millions of yen	
	2014	2013	2014
Short-term borrowings	_	11,875	_
Current portion of long-term debt,			
with average interest rate of 2.31%	2,940	2,940	28,566
Current portion of lease obligations,			
with average interest rate of 5.76%	1,576	1,098	15,308
Long-term debt, due 2014 to 2015,			
with average interest rate of 2.79%	27,077	30,020	263,090
Lease obligations, long-term, due 2014 to 2019,			
with average interest rate of 5.65%	4,154	1,054	40,365
Total	35,747	46,987	347,329

#### (Note)

To calculate "average interest rate," weighted-average rates and fiscal year-end balances are used.

## (2) Assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2014 and 2013 were as follows:

	Millions	Millions of yen	
	2014	2013	2014
Cash and cash equivalents	17	_	165
Securities	92	_	897
Buildings and structures	56,451	54,079	548,490
Land	81,385	80,537	790,763
Investment securities	1,129	1,569	10,964
Others in Investments and other assets (Membership right)	420	420	4,081
Total	139,494	136,605	1,355,360

#### (3) Secured borrowings with pledge of collateral at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Short-term borrowings	_	10,000	_
Current portion of long-term debt	2,940	2,940	28,566
Long-term debt	27,077	30,020	263,089
Total	30,017	42,960	291,655

# (4) Securities and investment securities which have been deposited with the Legal Affairs Bureau at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deposit for operation stipulated in Building Lots and			
Buildings Transaction Business Act	50	45	485
Deposit for housing construction warranty	820	759	7,969
Deposit for housing defect warranty	108	107	1,045
Advanced payment certificate in accordance with			
Payment and Settlement Regulations	919	919	8,932

#### 12. Commitment Line

For efficient procurement of working capital, the Company maintains commitment line contracts with two financial institutions. As of the end of the current fiscal year, the unexercised portion of facilities based on the contract was as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Total commitment available	10,000	10,000	97,163
Less amount utilized	_	10,000	_
Balance available	10,000	_	97,163

#### 13. Retirement Benefit Plans

#### For the year ended March 31, 2014

#### (1) Multi-employer plans

The amount of requested contributions for the employees' pension fund program under multi-employer plans, which is processed with the same accounting method as that for the defined contribution program, was ¥1,215 million (\$11,805 thousand).

#### Recent funding status of the multi-employer plan as of March 31, 2013 were as follows:

	Millions of yen	U.S. dollars
Pension assets	50,486	490,541
Projected benefit obligation	53,020	515,157
Difference	(2,534)	(24,616)

The main components of the difference were unrecognized past service costs of ¥3,622 million (\$35,192 thousand). The Company recognized the special annuity premium of ¥93 million (\$907 thousand) as an expense.

Ratio of Companies in the amount of contributions for the multi-employer program was 34% from April 1, 2013 to March 31, 2014.

#### (2) Defined benefit plan

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

	Millions of yen	Thousands of U.S. dollars
Beginning balance of retirement benefit obligations	8,634	83,892
Service cost	879	8,539
Interest cost	75	726
Actuarial gains and losses accrued	890	8,654
Retirement benefits paid	(458)	(4,453)
Past service cost	30	295
Closing balance of retirement benefit obligations	10,050	97,653

#### (b) List of adjustments between the closing balances of retirement benefit obligations and pension assets and the liabilities and assets related to the retirement benefit posted in the consolidated balance sheet were as follows:

	Millions of yen	Thousands of U.S. dollars
Funded retirement benefit obligations	_	_
Pension assets	_	_
	_	_
Unfunded retirement benefit obligations	10,050	97,653
Net amount of the liabilities and assets posted in the consolidated balance sheet	10,050	97,653
Liability for retirement benefit	10,050	97,653
Net amount of the liabilities and assets posted in the consolidated balance sheet	10,050	97,653

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

	Millions of yen	Thousands of U.S. dollars
Service cost	2,094	20,344
Interest cost	75	727
Amortization of actuarial gain or loss	81	788
Amortization of past service cost	24	236
Retirement benefit expenses related to the defined benefit program	2,274	22,095

- (Notes) 1. Contributions of ¥1,215 million (\$11,805 thousand), including ¥473 million (\$4,599 thousand) attributable to employees) for the "Japan Housing Construction Industry Employees' Pension Fund" integrated employees' pension funds, are included in the service cost.
  - 2. Retirement benefit expenses of domestic consolidated subsidiaries, which are calculated based on a simplified method, are posted as service cost.

#### (d) Items posted as the remeasurements of defined benefit plans (before deduction of tax effects) were as follows:

	Millions of yen	Thousands of U.S. dollars
Unrecognized past service cost	6	59
Unrecognized actuarial gains/losses	810	7,866
Total	816	7,925

#### (e) Main calculation basis for actuarial assumptions at the end of the fiscal year under review:

Discount rate: 0.83%

#### For the year ended March 31, 2013

#### (1) The funded and accrued status of the entire pension plan as of March 31, 2012 were as follows:

	Millions of yen
Pension assets	44,139
Projected benefit obligation	53,150
Difference	(9,011)

The main components of the difference were unrecognized prior service costs of ¥1,194 million and insufficient amount carried forward of ¥7,817 million. The Company recognized the special annuity premium of ¥83 million as an expense in the years ended March 31, 2012. The ¥7,817 million of insufficient amount carried forward will be settled by increasing the rate of special annuity

premium based on fiscal recalculation.

The annuity premium contributory proportion of the entire pension plan was 33% as of March 31, 2013.

The Company has a welfare pension fund. In the welfare pension fund, it cannot reasonably calculate the portion of the pension assets attributed to the Company.

#### (2) The funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2013 for the Companies' defined benefit plans were as follows:

	Millions of yen
Projected benefit obligation	(9,033)
Unrecognized prior service cost	31
Unrecognized actuarial gain or loss	368
Retirement benefit reserves	(8,634)

Certain consolidated subsidiaries apply simplified methods in calculating their projected benefit obligations.

#### (3) The components of retirement benefit expenses for the years ended March 31, 2013 were summarized as follows:

	Millions of yen
Service cost	2,025
Interest cost	69
Amortization of actuarial gain or loss	83
Amortization of prior service cost	24
Total	2,201

- (Notes) 1. Contributions to the welfare pension fund, which were recorded in service cost, were ¥1,129 million, including ¥444 million of employee contribution.
  - 2. All the retirement benefit expenses of the domestic consolidated subsidiaries adopting the simplified method were recorded in service cost.

#### (4) The assumptions used in accounting for the above plans are as follows:

Periodical allocation of estimated retirement benefit	Straight-line method
Discount rate	0.83%
Amortization period of prior service cost	5 years (Amortized evenly over a period not exceeding the expected average remaining working lives of the employee from the time of occurrence.)
Amortization period of actuarial gain or loss	5 years from the following fiscal year (Amortized evenly over a period not exceeding the expected average remaining working lives of the employee from the time of occurrence.)

#### 14. Gain on Sale of Property, Plant and Equipment

Gain on sale of property, plant and equipment for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Machinery, equipment, and vehicles	0	_	3

#### 15. Loss on Sale of Property, Plant and Equipment

Loss on sale of property, plant and equipment for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Land	1	_	12

#### 16. Loss on Disposal of Property, Plant and Equipment

Loss on disposal of property, plant and equipment for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Buildings and structures	12	31	114
Machinery, equipment, and vehicles	0	_	0
Others	2	54	15
Intangible assets	0	_	3
Total	14	85	132

#### 17. Rental Properties

The Company possesses rental apartments in major cities and regions throughout Japan. Also, Leopalace Guam Corporation as a subsidiary company possesses rental housing within resorts, and Plaza Guarantee Co., Ltd. as a subsidiary company possesses buildings for rent. For the years ended March 31, 2014 and 2013,

income arising from these rental properties were ¥4,058 million (\$39,426 thousand) and ¥4,186 million, and impairment losses were ¥779 million (\$7,568 thousand) and ¥2,173 million, respectively.

Also, the changes in book value of rental properties during the year ended March 31, 2014 and 2013, and the fair value as of March 31, 2014 and 2013 were as follows:

#### March 31, 2014

Millions of yen			
	Carrying value		Fair value as of
Balance as of April 1, 2013	Increase/Decrease	Balance as of March 31, 2014	March 31, 2014
65,851	(1,821)	64,030	62,559

#### March 31, 2013

Millions of yen				
	Carrying value		Fair value as of	
Balance as of April 1, 2012	Increase/Decrease	Balance as of March 31, 2013	March 31, 2013	
69,263	(3,412)	65,851	64,626	

#### March 31, 2014

Thousands of U.S. dollars			
	Carrying value		Fair value as of
Balance as of April 1, 2013	Increase/Decrease	Balance as of March 31, 2014	March 31, 2014
639,829	(17,694)	622,135	607,838

- (Notes) 1. Carrying value recorded on the consolidated balance sheets is the amount after deducting accumulated depreciation and accumulated impairment loss from acquisition cost.
  - 2. The main decrease was impairment loss of ¥779 million (\$7,568 thousand) and ¥2,173 million for the year ended March 31, 2014 and 2013, respectively.
  - 3. Fair value as of the end of the current fiscal year is calculated by the Company mainly based on "Real-estate appraisal standards."

#### 18. Asset Retirement Obligations

Omitted due to immateriality

#### 19. Supplemental Information on the Statement of Changes in Equity

Shares issued and treasury stocks for the year ended March 31, 2014 were as follows:

Type of shares	April 1, 2013	Increase	Decrease	March 31, 2014
Shares issued				
Common stock	217,443,915	50,000,000	_	267,443,915
Total	217,443,915	50,000,000	_	267,443,915
Treasury stock				
Common stock	5,900,320	90	1,331,200	4,569,210
Total	5,900,320	90	1,331,200	4,569,210

(Notes) 1. Breakdown of amounts of increase in shares issued was as follows:

Issuance of new shares

50,000,000 shares

2. Breakdown of amounts of increase in treasury stock was as follows:

Purchase of shares less than one unit

90 shares

3. Breakdown of amounts of decrease in treasury stock was as follows:

Sell off of shares from "Leopalace 21 Employee Stock Ownership Committee Trust Account" to the Board for

Employees' Ownership 68,600 shares

Sell off of remaining shares from settlement of trust account 1,262,600 shares

Stock acquisition rights (SAR) and own share options for the year ended March 31, 2014 were as follows:

Type issued upon ————————————————————————————————————		Numbe	Number of shares issued upon exercise of SARs				Outstanding as of March 31, 2014		
	Increase	Decrease	March 31, 2014	Millions of yen	Thousands of U.S. dollars				
SARs as stock option	_	_	_	_	_	18	175		
Total	<del>_</del>	<del>_</del>	_	<u> </u>	_	18	175		

Shares issued and treasury stocks for the year ended March 31, 2013 were as follows:

Type of shares	April 1, 2012	Increase	Decrease	March 31, 2013
Shares issued				
Common stock	175,443,915	42,000,000	_	217,443,915
Total	175,443,915	42,000,000	_	217,443,915
Treasury stock				
Common stock	6,190,520	_	290,200	5,900,320
Total	6,190,520	_	290,200	5,900,320

(Notes) 1. Breakdown of amounts of increase was as follows:

Exercise of stock acquisition rights

42,000,000 shares

2. Breakdown of amounts of decrease was as follows:

Sell off of shares from "Leopalace 21 Employee Stock Ownership Committee Trust Account" to the Board for Employees' Ownership 290,200 shares

3. Number of treasury stock includes 1,331,200 shares held by the Trust Account as of March 31, 2013.

Stock acquisition rights (SAR) and own share options for the year ended March 31, 2013 were as follows:

	Class of shares issued upon -	Numbe	Outstanding as of			
Туре	exercise of April 1, 2012 Increase SARs		Decrease	March 31, 2013	March 31, 2013 Millions of yen	
SARs as stock option	_	_	_	_	_	18
1st series SARs	Common stock	14,000,000	_	14,000,000	_	_
2nd series SARs	Common stock	14,000,000	_	14,000,000	<u> </u>	_
3rd series SARs	Common stock	14,000,000	_	14,000,000	_	_
Total	_	42,000,000	_	42,000,000	_	18

(Note) The decrease of 1st to 3rd series SARs is due to the exercise of SARs.

#### 20. Leases

#### (1) Finance lease transactions

The Companies primarily lease furniture and electronic appliances, for apartments of their leasing business.

(a) The following pro forma amounts represent the acquisition cost, accumulated depreciation and net

book value of leased property as of March 31, 2014 and 2013, which would have been reflected in the accompanying consolidated balance sheets if finance accounting had been applied to the finance leases that existed on or before March 31, 2008 and are currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Acquisition cost			
Equipment	652	5,574	6,334
Accumulated depreciation			
Equipment	604	5,256	5,871
Net book value			
Equipment	48	318	463

(b) The amounts of outstanding future lease payments under finance lease subsequent to March 31, 2014 and 2013 including the interest portion thereon were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Due within one year	55	300	535
Due after one year	_	55	_
Total	55	355	535

(c) Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2014 and 2013 for finance lease transactions accounted for as operating leases were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Lease payment	307	1,351	2,978
Estimated amount of depreciation by			
the straight-line method over the lease period	270	1,168	2,623
Estimated interest cost by the interest method	7	44	67

- (d) Method of estimating amount of depreciation: Amounts corresponding to pro forma depreciation under finance leases were computed by the straightline method in which the lease period is used as the useful lives and it is assumed that the residual value of the relevant assets falls to nil at the end of the lease period.
- (e) Method of estimating interest cost: Estimated interest cost is calculated as the difference between the total amount of lease payments and the acquisition cost of leased properties, and allocated between each period using the interest method.

#### (2) Operating lease transactions

Future minimum lease payments related to non-cancelable operating leases subsequent to March 31, 2014 and 2013 were as follows:

		Millions of yen			
March 31, 2014	Future lease payments	Prepaid lease payments	Differences		
Due within one year	249,305	5,166	244,139		
	(249,296)	(5,166)	(244,130)		
Due after one year	495,733	3,292	492,441		
	(495,714)	(3,292)	(492,422)		
Total	745,038	8,458	736,580		
	(745,010)	(8,458)	(736,552)		

		Millions of yen			
March 31, 2013	Future lease payments	Prepaid lease payments	Differences		
Due within one year	253,341	11,059	242,282		
	(253,338)	(11,059)	(242,279)		
Due after one year	651,064	7,466	643,598		
	(651,055)	(7,466)	(643,589)		
Total	904,405	18,525	885,880		
	(904,393)	(18,525)	(885,868)		

	Thousands of U.S. dollars				
March 31, 2014	Future lease payments	Prepaid lease payments	Differences		
Due within one year	2,422,311	50,194	2,372,117		
	(2,422,228)	(50,194)	(2,372,034)		
Due after one year	4,816,686	31,985	4,784,701		
	(4,816,498)	(31,985)	(4,784,513)		
Total	7,238,997	82,179	7,156,818		
	(7,238,726)	(82,179)	(7,156,547)		

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

#### 21. Contingent Liabilities

Contingent liabilities as of March 31, 2014 and 2013 were as follows:

	Millions	Millions of yen	
	2014	2013	2014
Contingent liabilities to financial institutions for			
customers who have a home mortgage	1,126	1,336	10,942
Contingent liabilities to financial institutions for			
customers who have a membership loan	16	16	152
Total	1,142	1,352	11,094

#### 22. Segment Information

#### (1) Overview of Reportable Segments

The Companies' reportable segments are the components for which separate financial information is available, and whose operating results are reviewed regularly by the board of directors in order to determine allocation of resources and assess segment performance.

The Companies have four reportable segments, the Leasing Business, Construction Business, Hotels & Resort Business and Elderly Care Business.

The Leasing Business operations comprise the leasing and management of apartment buildings and other properties, repair work, broadband internet service, rent guarantee, and the company residence agency business.

The Construction Business constructs apartments and other buildings and installs solar power systems on a contract basis. The Hotels & Resort Business operates hotels and resort facilities. The Elderly Care Business operates elderly care facilities.

#### (2) Calculation Method for Sales, Profits and Losses, Assets, and other Items by Reportable Segment

The accounting methods for reportable segments are basically the same as that presented in "Summary of Significant Accounting Policies." The reportable segment profits (losses) represent operating income (loss). Intersegment sales and transfers are based on prevailing market prices.

99

How CSR supports

our management

				1	Millions of yen				
		Reportable segment							
March 31, 2014	Leasing Business	Construction Business	Hotels & Resort Business	Elderly Care Business	Segment Total	Others	Total	Adjustments	Consolidated Total
Sales									
Sales to customers	388,768	63,136	7,572	10,172	469,648	1,442	471,090	_	471,090
Inter-segment sales									
and transfers	593	6,684	2,505	_	9,782	107	9,889	(9,889)	_
Total	389,361	69,820	10,077	10,172	479,430	1,549	480,979	(9,889)	471,090
Segment profit (loss)	15,568	2,954	(1,119)	(611)	16,792	138	16,930	(3,257)	13,673
Segment assets	98,316	16,122	50,710	2,372	167,520	10,662	178,182	109,277	287,459
Other items									
Depreciation	2,579	175	1,857	41	4,652	157	4,809	1,184	5,993
Increase in property,									
plant, and equipment,									
and intangible assets	4,698	<b>52</b>	438	38	5,226	6,785	12,011	2,704	14,715

- (Notes) 1. The "Others" classification is the business segment not included in reportable segments, and comprises the small-claims and short-term insurance business, financing business, residential sales business, and solar power business.
  - 2. Breakdown of adjustments was as follows: Segment profit (loss)

	Millions of yen	Thousands of U.S. dollars
Inter-segment eliminations	(642)	(6,235)
Corporate expenses*	(2,615)	(25,408)
Total	(3,257)	(31,643)

<sup>\*</sup>Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

Adjustments in segment assets (¥109,277 million, \$1,061,770 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 (¥2,704 million, \$26,270 thousand) consist of capital investments which do not belong to reportable segments.

3. Segment profit (loss) is adjusted to operating profit on the consolidated statements of operations.

				1					
		Rep	ortable segm	nent					
March 31, 2013	Leasing Business	Construction Business	Hotels & Resort Business	Elderly Care Business	Segment Total	Others	Total	Adjustments	Consolidated Total
Sales									
Sales to customers	383,574	53,370	6,658	9,482	453,084	1,138	454,222	_	454,222
Inter-segment sales									
and transfers	483	388	1,865	_	2,736	77	2,813	(2,813)	_
Total	384,057	53,758	8,523	9,482	455,820	1,215	457,035	(2,813)	454,222
Segment profit (loss)	8,688	2,747	(1,006)	(742)	9,687	35	9,722	(2,308)	7,414
Segment assets	107,726	15,851	43,692	2,193	169,462	4,380	173,842	87,808	261,650
Other items									
Depreciation	2,594	199	1,708	67	4,568	53	4,621	1,063	5,684
Increase in property,									
plant, and equipment,									
and intangible assets	113	7	184	29	333	281	614	566	1,180

- (Notes) 1. The "Others" classification is the business segment not included in reportable segments, and comprises the small-claims and short-term insurance business, financing business, residential sales business, and solar power business.
  - 2.Breakdown of adjustments was as follows: Segment profit (loss)

	Millions of yen
Inter-segment eliminations	(38)
Corporate expenses*	(2,270)
Total	(2,308)

<sup>\*</sup>Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

Adjustments in segment assets (¥87,808 million) 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 (¥566 million) consist of capital investments which do not belong to reportable segments.

3. Segment profit (loss) is adjusted to operating profit on the consolidated statements of operations.

				Thou	lollars				
		Rep	ortable segm	ent					
March 31, 2014	Leasing Business	Construction Business	Hotels & Resort Business	Elderly Care Business	Segment Total	Others	Total	Adjustments	Consolidated Total
Sales									
Sales to customers	3,777,383	613,447	73,569	98,830	4,563,229	14,012	4,577,241	_	4,577,241
Inter-segment sales									
and transfers	5,759	64,947	24,345	_	95,051	1,036	96,087	(96,087)	_
Total	3,783,142	678,394	97,914	98,830	4,658,280	15,048	4,673,328	(96,087)	4,577,241
Segment profit (loss)	151,260	28,702	(10,870)	(5,934)	163,158	1,338	164,496	(31,643)	132,853
Segment assets	955,265	156,645	492,714	23,045	1,627,669	103,597	1,731,266	1,061,771	2,793,037
Other items									
Depreciation	25,057	1,703	18,048	394	45,202	1,528	46,730	11,504	58,234
Increase in property,									
plant, and equipment,									
and intangible assets	45,649	509	4,253	364	50,775	65,928	116,703	26,270	142,973

#### Related information

#### 1. Products and services

Information concerning products and services has been omitted, since similar information is reported in "22. Segment Information."

#### 2. Geographic area

(1) Sales

Information concerning sales by geographic area has been omitted, since more than 90% of sales reported in the consolidated statement of operations are generated in Japan.

#### (2) Plant, property, and equipment

#### March 31, 2014

		Millions of yen		
Japan	Trust territory of U.S.A. Guam	People's Republic of China	Kingdom of Thailand	Total
114,682	37,819	2	0	152,503

#### March 31, 2013

Millions of yen							
Japan	Trust territory of U.S.A. Guam	People's Republic of China	Total				
106,982	32,012	4	138,998				

#### March 31, 2014

		Thousands of U.S. dollars		
Japan	Trust territory of U.S.A. Guam	People's Republic of China	Kingdom of Thailand	Total
1,114,287	367,455	22	1	1,481,765

#### 3. Major customers

Information concerning sales to major customers has been omitted, since sales to any particular customer does not exceed 10% of sales reported in the consolidated statement of operations.

# Information concerning impairment loss on fixed assets by reportable segments March 31, 2014

	Millions of yen						
	Leasing Business	Construction Business	Hotels & Resort Business	Elderly Care Business	Others	Adjustments	Consolidated total
Impairment loss	779	_	_	_	_	_	779

#### March 31, 2013

	Millions of yen						
	Leasing Business	Construction Business	Hotels & Resort Business	Elderly Care Business	Others	Adjustments	Consolidated total
Impairment loss	1,903	_	_	_	_	270	2,173

#### March 31, 2014

	Thousands of U.S. dollars						
	Leasing Business	Construction Business	Hotels & Resort Business	Elderly Care Business	Others	Adjustments	Consolidated total
Impairment loss	7,568	_	_	_	_	_	7,568

#### Information concerning goodwill amortization and unamortized balance by reportable segments

For the years ended March 31, 2014 and 2013

Not applicable.

#### Information concerning gain on negative goodwill by reportable segments

For the years ended March 31, 2014 and 2013

Not applicable.

#### 23. Amounts per Share

(1) The following tables set forth the net assets and net income per share of common stock for the years ended March 31, 2014 and 2013.

	Yen		U.S. dollars
	2014	2013	2014
Net assets	398.78	274.80	3.87
Net income			
Basic	67.17	74.50	0.65
Diluted	_	74.48	_

How CSR supports

our management

103

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Basic net income per share			
Net income	15,230	13,335	147,977
Amount not attributable to common stock	_	_	_
Net income attributable to common stock	15,230	13,335	147,977
Weighted-average shares during the year			
(Thousands of shares)	226,724	179,002	226,724

	Millions	Millions of yen	
	2014	2013	2014
Diluted net income per share			
Adjustment to net income	_	_	_
Increase in common stock (Thousands of shares)	_	41	_
(of which, stock acquisition rights, thousands of shares)	(—)	(41)	()
Dilutive securities that didn't have dilutive effects	New stock	New stock	New stock
and therefore were not included in the calculation of	acquisition rights	acquisition rights	acquisition rights
diluted net income per share	(650)	(650)	(650)

#### 24. Related Party Transactions

The following tables set forth related party transactions for the years ended March 31, 2014 and 2013.

#### For the year ended March 31, 2014

(a) Unconsolidated subsidiaries and affiliates

None

#### (b) Directors and major individual shareholders

			Capital stock		Business or	Percentage of		
Attribute	Name	Address	Millions of yen	Thousands of U.S. dollars	position	share ownership	Relation	
Directors and	Toshiko						Leasing of land	
close relatives	Miyoshi	_	_	_	_	_	and building	

			Transaction amount			Bal	ance
Attribute	Name	Transaction	Millions of yen	Thousands of U.S. dollars	Account	Millions of yen	Thousands of U.S. dollars
Directors and	Toshiko	Leasing of			Prepaid		
close relatives	Miyoshi	apartments	26	253	expenses	2	23

(Notes) 1. Consumption taxes were not included in amounts.

- 2. Conditions of leasing of apartments are the same as transactions with third parties.
- 3. Toshiko Miyoshi is a close relative of Tadahiro Miyama, Director of the Company.

#### For the year ended March 31, 2013

(a) Unconsolidated subsidiaries and affiliates

None

#### (b) Directors and major individual shareholders

Attribute	Name	Address	Capital stock (Millions of yen)	Business or position	Percentage of share ownership	Relation
Directors and						
close relatives	Toshiko Miyoshi	_	_	_	_	Leasing of land and building

Attribute	Name	Transaction	Transaction amount (Millions of yen)	Account	Balance (Millions of yen)
Directors and					
close relatives	Toshiko Miyoshi	Leasing of apartments	26	Long-term prepaid expenses	8

(Notes) 1. Consumption taxes were not included in amounts.

- 2. Conditions of leasing of apartments are the same as transactions with third parties.
- 3. Toshiko Miyoshi is a close relative of Tadahiro Miyama, Director of the Company.

#### 25. Other

The following tables set forth quarterly information for the year ended March 31, 2014.

		Millions of yen					
(Cumulative period)	First quarter	Second quarter	Third quarter	Full-year			
Net sales	114,876	231,673	343,465	471,090			
Income before income taxes	1,510	4,282	7,039	10,782			
Net income	1,371	3,921	6,403	15,230			
Net income per share (yen)	6.48	18.53	29.77	67.17			

(Accounting period)	First quarter	Second quarter	Third quarter	Full-year
Net income per share (yen)	6.48	12.05	11.18	33.63

		Thousands of U.S. dollars					
(Cumulative period)	First quarter	Second quarter	Third quarter	Full-year			
Net sales	1,116,169	2,251,001	3,337,206	4,577,241			
Income before income taxes	14,675	41,604	68,392	104,757			
Net income	13,323	38,102	62,210	147,977			
Net income per share (dollars)	0.06	0.18	0.29	0.65			

(Accounting period)	First quarter	Second quarter	Third quarter	Full-year
Net income per share (dollars)	0.06	0.12	0.11	0.33

#### 26. Subsequent Events

Not applicable.

105



Grant Thornton Taiyo ASG LLC

#### INDEPENDENT AUDITOR'S REPORT

### To the Board of Directors of LEOPALACE21 Corporation

We have audited the accompanying consolidated financial statements of LEOPALACE21 Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, 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, 2014, and their consolidated financial performance and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

#### Convenience Translation

The United States dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 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 Taigo ASG LLC

June 27, 2014

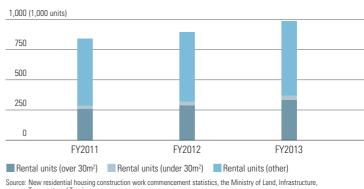
Tokyo, Japan

# Leopalace21 DATA COMPILATION



### **Number of New Housing Starts**

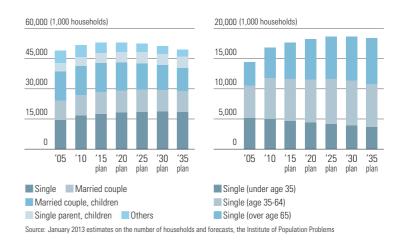
The number of new housing starts for rental units grew for a second successive year, climbing 15.3% year on year to 369,993 units. Of these, units under 30 square meters aimed mainly at singles increased 17.8% year on year to 36,217.



Source: New residential housing construction work commencement statistics, the Ministry of Land, Infrastructure, Transport, and Tourism

### **Number of Households**

The number of households in Japan is expected to decline from 2020 due to Japan's twin demographic trends of a growing elderly cohort and a low fertility rate. On the other hand, single households, especially ones with people over the age of 35, are expected to keep growing for a while longer.



### **Number of Vacant Homes** in Japan

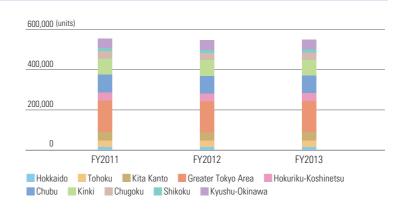
The number of vacant homes is growing, particularly in rural countryside areas, amid the growing concentration of people living in cities. The number of vacant properties in Japan available for rent or sale stands at 4,476,000 units, or one in five homes, according the fiscal 2008 Housing and Land Survey, the most recently published one.



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

### **Apartment Units under Management**

The number of apartment units we have under management is the earnings foundation of the Leasing Business. For the first time in two years, the number of units under management swung into growth, rising to 548,912 as of the end of March 31, 2014. The proportion of our total portfolio located in our focus areas of Kanto, Chubu, and Kinki stands at about 70%.

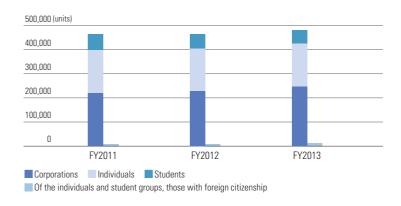


How CSR supports

our management

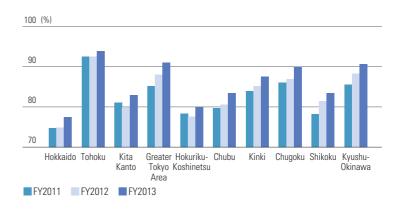
### **Leases by Contract Type**

We are strengthening our marketing efforts aimed at corporations, a group where we see prospects for long-term stable earnings. Thanks to these efforts, the number of corporate contracts for apartments grew 7.7% year on year to 246,272 units as of March 31, 2014, raising corporate contracts to over 50% of our lease portfolio at 51.3%.



### **Fiscal Yearend Occupancy Rates by Area**

With the economy now fully beyond the slump that followed the global financial crisis, the occupancy rate of our portfolio improved 2.7 percentage points to 87.5% as of March 31, 2014. The occupancy rate of properties located in the Tohoku, greater Tokyo, Chugoku, and Kyushu-Okinawa regions all stood at over 90%.



# Leasing Data

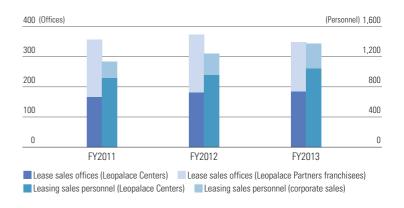
# **Average Annual Occupancy Rate**

Like the fiscal yearend occupancy rate, the average annual occupancy rate recovered during the fiscal year under review. The average annual occupancy rate was 84.6% in fiscal 2013, the third successive year of increase. This reflected longer occupancy as a result of the consummation of long-term lease contracts.



# **Growing Number of Sales Offices and Sales Personnel**

The Leasing Business is forging ahead with measures to develop a balanced sales structure split between directly run sales offices and franchisee offices. On the other hand, we continue to bolster our sales personnel workforce, which grew 10.2% year on year to 1,371 people as of March 31, 2014.



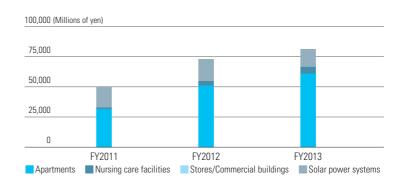
	Fiscal 2011	Fiscal 2012	Fiscal 2013
Security systems installed (cumulative, rooms)	60,734	136,064	187,756
Security cameras installed (cumulative, buildings)	0	1,326	3,145
Service centers, no. of incoming calls	710,898	590,867	609,877
Of which, inquiries	485,735	394,075	428,293
Of which, maintenance related	154,663	143,476	144,059
Of which, complaints or claims	70,500	53,316	37,525
No. of tenant meetings with high-school students*	3,757	8,454	8,626
Internet tenant response rates (new contracts only)	99,339	105,011	97,523

<sup>\*</sup> This refers to the number of prospective tenant meetings held with third-year high-school students.

What our strategy is

#### **Orders**

Orders rose for a second successive year in fiscal 2013, climbing 11.1% year on year to ¥81.139 billion. In addition to signs of recovery in apartment orders, the Construction Business is pushing forward with the development of new fields such as nursing care facilities as well as stores and commercial buildings etc.

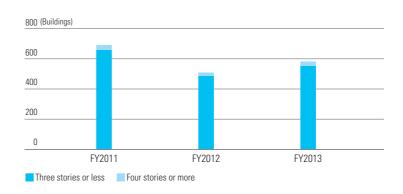


How CSR supports

our management

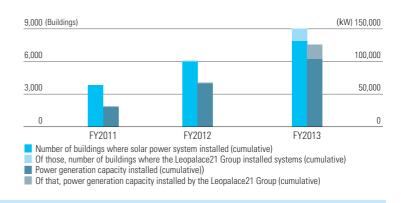
### Apartments completed

The number of apartment buildings completed rose 14.3% year on year to 582 units in fiscal 2013. Of those, low-rise buildings with three stories or less remained the main driver but the trend towards a more diverse mix continues, as buildings with four stories or more accounted for about 5% of the total.



### Solar power systems installed, total kW capacity installed

Solar power system installations continued as one prong of earnings growth at the Construction Business. The cumulative number of buildings where solar power systems have been installed came to 9,001 in fiscal 2013, lifting total power generation capacity to 125,836 kW.



### **Sales Offices Accepting Construction Orders, Sales Personnel**

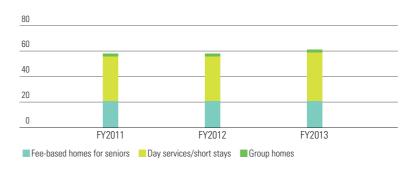
There have been efforts to scale back offices and sales personnel responsible for construction subcontracting work in keeping with the business structural reforms aimed at making the Leasing Business the centerpiece of the company's earnings model, but in response to the demand recovery driven by Abenomics, the Construction Business added offices and sale personnel once again.



### Elderly Care Data

### **Number of facilities**

Expanding primarily in the greater Tokyo metropolitan area, the Elderly Care Business now operates about 60 facilities. It opened three new facilities offering day services and short stays in fiscal 2013 with the expectation they will be profitable.



### **Occupancy rate**

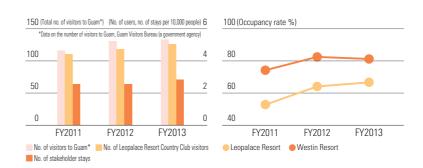
The Elderly Care Business is working to improve occupancy rates in an effort to be profitable. As a result of such efforts, occupancy rates improved across all service categories—day services, short stays, fee-based homes for seniors, and group homes.



Hotels & Resort Data

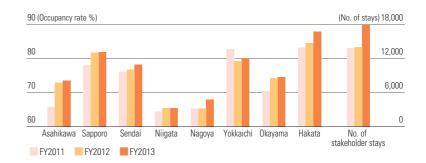
### **Leopalace Resort Guam**

At Leopalace Resort Guam, a resort facility the company runs in Guam, the occupancy rate improved on efforts to promote usage by stakeholders such as corporate clients.



### **Leopalace Hotels**

Leopalace21 operates eight hotels across Japan, where it promotes usage by various stakeholders. In fiscal 2013, the number of stays at these hotels increased 27.7% year on year to 17,922.



111

### **Employees with foreign** citizenship, ratio of foreign managers

We aim to expand the Leasing Business overseas, especially in the ASEAN region, as a way to drive growth. We are hiring more employees with foreign citizenship to prepare for further future expansion globally and adding more foreign managers, although the increase in the latter is gradual.

Employee data	Fiscal 2011	Fiscal 2012	Fiscal 2013
No. of employees	5,361	5,390	5,781
Average age	35.7	36.2	35.9
Female employee ratio	25.6	26.0	27.6
Female manager ratio	2.8	3.0	3.3
Disabled employee ratio (consolidated)	2.06	2.07	2.07
No. of employees with foreign citizenship	107	144	162
Ratio of foreign managers	1.2	1.2	1.3
No. of employees who used child care leave	50	70	77
No. of employees on short work-hours schedule	44	44	68
No. of employees who used nursing care leave	5	1	15
No. of labor accident incidents	45	43	39

### **Ratio of female managers**

We aim to hire diverse human resources, including women and people with foreign citizenship, as one of our initiatives to contribute as a corporate citizen to the creation of a sustainable society. Within our diverse human resources, the ratio of female employees was 27.6% as of March 31, 2014, continuing the uptrend of the past several years.

Employees by age group (parent)	Under age 29	Age 30-39	Age 40-49	Age 50-59	Over age 60	Total
Totals	1,634	2,625	940	492	90	5,781
Males	952	2,083	727	346	75	4,183
Females	682	542	213	146	15	1,598

CSR initiatives	Fiscal 2011	Fiscal 2012	Fiscal 2013
Cleanup campaign participants	9,574	17,166	13,203
Of which, in the vicinity of existing properties	75	5,274	3,642
Of which, in the vicinity of newly built properties	9,499	11,892	9,561
Registered for "Kodomo #110"	186	193	228
Of which, Leopalace Center offices	130	135	133
Of which, Leopalace Partners franchisees	56	58	65
Of which, Azumi En facilities	0	0	30
No. of meetings for apartment owners	9	138	211
No. of building tour fairs for students	0	1	5
No. of PET bottle caps collected for Ecocap Movement*	1,580,986	1,434,459	328,661
(No. of polio vaccines)	1,976	1,793	411
No. of students on domestic hotel observation tours	59	50	50
No. of tours, OTJ training accepted at Leopalace Smile**	82	123	436

The Ecocap Movement is an NPO that accepts used PET bottle caps collected by companies and other organizations and sells them to recycling vendors and uses the proceeds to fund donations to an NPO that purchases polio vaccine for children.

<sup>\*\*</sup> 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.

### **CORPORATE HISTORY**



#### 1973

Establishment

#### 1985

- Full-scale launch of Leopalace 21 urban apartments
- Capital increases to ¥132 million

• Capital increases to ¥452 million

#### 1987

- Capital increases to ¥760 million
- Capital increases to ¥2.74 billion



#### 1991

• Acquire a patent for housing with lofts

• Open Leopalace Resort Guam

#### 1997

• Launch Leopalace Fraternity

#### 1998

- Number of managed properties increases to 100.000
- Leopalace 21 wins 1998 Good Design Award

#### 1999

• Launch Monthly Leopalace Flat service including furniture and consumer electronics



#### Growth **Period**

Bubble **Period** 

Post-Bubble **Business model** Period transition

Establish our business model (Shift from built-for-sale to construction subcontracting)

#### **Economic** growth period

Full launch of a synergy model combining Construction and Leasing Businesses

#### Apartment development/ sales business

#### 1988

- Launch a unique membership-based tenant system
- Launch an online management of buildings and tenants

#### 1989

- Capital increases to ¥4.42 billion
- List on over-the-counter market (JASDAQ)
- Change company name to "MDI Corporation"

#### 1990

• Capital increases to ¥22.48 billion

management operations etc

#### 1995

• Launch corporate membership sales

#### 2000

- Capital increases to ¥30.52 billion following third-party allotment of new shares
- Change company name to "Leopalace21 Corporation"

#### 2001

• Launch Leopalace REIT, a series of real estate securitization products

**Business model** in transition period

#### Leopalace21 Developed and Commenced the Industry's First "Master Lease System" **Budgeting maintenance and** repair costs for a 30-year period Secures funds for property maintenance and future repairs **Apartments Rents from** Management of rental revenues **Property owners** master leases for a 30-year period Leopalace 21 Rent collection operations etc. Payments of master-lease **Tenants** rents are made to owners Individuals (general) Companies (dorms, regardless of whether or not ompany-leased housing) there are vacancies Recruitment and management of tenants for a 30-year period Tenant recruitment and everyday tenant

#### 2002

- Capital increases via public offering to ¥37.24 billion
- Start broadband business



What our strategy is

- Open Leopalace Center Gangnam, Seoul
- Launch Monthly Leopalace Flats
- Number of managed properties increases to 200,000



#### 2008

• Launch of membership-based 'Class-L' service

#### 2009

• Number of managed properties increases to 500,000

How CSR supports

our management

Open Leopalace21 Business Consulting (Shanghai) Co., Ltd.
 Open Beijing Branch

#### 2010

- Number of managed properties increases to 550,000
- Launch Leopalace Partners franchise system
- Capital increases to ¥56.56 billion following third-party allotment of new shares
- Open Shanghai Corporation Dalian Branch and Guangzhou Branch

Global Recession Lehman Collapse Great East Japan Earthquake

**Economic recovery period** 

Comprehensive enhancement of stock-based earnings

Establish New Growth Stage Formulate Medium-Term Management Plan "Creating Future"

#### 2004

- List on 1st Section of Tokyo Stock Exchange
- Capital increases via public offering to ¥55.64 billion

#### 2005

- Number of managed properties increases to 300,000
- Start Residential and Elderly Care Businesses

#### 2006

• Open Leopalace Center Taipei and Leopalace Center Busan

#### 2007

- Number of managed properties increases to 400,000
- Open Leopalace Center Jongno, Seoul





#### 2011

- Full-scale installation of security systems for apartments
- Commences full sales launch of solar power systems

#### 2012

- Launch "Room Customize" service
- Start Fukushima virtual solar power plant pilot project with Fujitsu Ltd.
- Establish "Woori & Leo PMC Co., Ltd." in South Korea
- First exercise of share subscription rights, capital increases to ¥58.31 billion
- Launch property brokerage business in South Korea

#### 2013

- Nationwide launch of "Roof Mega-solar Pro"
- Second exercise of share subscription rights, capital increases to ¥60.42 billion
- Third exercise of share subscription rights, capital increases to ¥62.87 billion
- Launch brokerage business in Taiwan
- Install our "non-sound system" with improved sound insulation in apartments as standard fixtures
- Establish local units in Thailand and Vietnam to introduce local properties to Japanese companies

#### 2014

 Capital increases via public offering and third-party allotment to ¥75.28 billion

### **CORPORATE PROFILE**

#### **Corporate Data**

(As of March 31, 2014)

#### **Company Name:**

Leopalace21 Corporation

#### **Head Office:**

2-54-11 Honcho, Nakano-ku, Tokyo TEL: +81-3-5350-0001 (Main Line)

#### **Established:**

August 17, 1973

#### Paid-in Capital:

¥75,282.36 million

#### **Operations:**

Construction, leasing and sales of apartments, condominiums, and residential housing; development and operation of resort facilities; hotel business; broadband business; and elderly care business, etc.

#### **Number of Employees:**

6,758 (consolidated basis) 5,781 (non-consolidated basis)

#### **Members of Board of Directors and Auditors**

(As of April 1, 2014)

#### **Directors**

President and CEO Eisei Miyama Director Tadahiro Miyama Director Yuzuru Sekiya Director Kazuto Taiiri Director Yoshikazu Miike Director Kou Kimura Hirovuki Harada Director Director (Outside) Tetsuji Taya

#### **Auditors**

Standing Auditor
Standing Auditor
Auditor (Outside)
Auditor (Outside)
Auditor (Outside)

Masumi Iwakabe
Mutsuhiro Yamada
Koichi Fujiwara
Masahiko Nakamura

### Major Shareholders (Top10)

(As of March 31, 2014)

Shareholders	Thousands of Shares	Percentage of Outstanding Shares
1 Japan Trustee Services Bank, Ltd. (Trust Account)	25,352	9.48%
2 Goldman Sachs International	16,213	6.06%
3 The Master Trust Bank of Japan, Ltd. (Trust Account)	15,587	5.83%
4 LIXIL Realty, Corp.	10,500	3.93%
5 Goldman, Sachs & Co. (Regular Account)	9,805	3.67%
6 UBS Securities LLC-HFS Customer Segregated Account	9,614	3.59%
7 Deutsche Bank AG London-PB Non-treaty Clients 613	7,162	2.68%
8 Stockholding Association for Leopalace21's Business Connection	5,791	2.16%
9 BBH for Fidelity Low-Priced Stock Fund (Principal All Sector Subportfolio)	5,000	1.87%
10 Leopalace21 Corporation	4,569	1.71%

Note: Of the shares listed above, those held in trust accounts as part of trust bank operations are as follows:

Japan Trustee Services Bank, Ltd. (Trust Account) 25,034 thousand shares

The Master Trust Bank of Japan, Ltd. (Trust Account) 15,587 thousand shares

#### **Stock Information**

(As of March 31, 2014)

#### **Number of Shares:**

**Authorized:** 500,000,000 **Outstanding:** 267,443,915

#### **Number of Shareholders:**

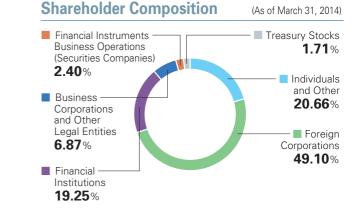
39,166

#### Listing:

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

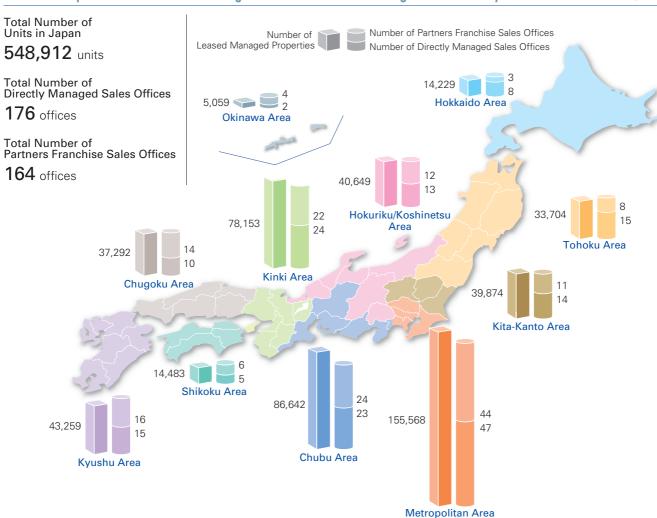
#### **Transfer Agent:**

Mitsubishi UFJ Trust and Banking Corporation



### Number of Apartment Units under Management and Domestic Leasing Sales Offices by Areas

(As of March 31, 2014)



### **Share Price and Trading Volume**

(As of March 31, 2014)



### Leopalace21 Corporation

2-54-11 Honcho, Nakano-ku, Tokyo 164-8622, Japan TEL: +81-3-5350-0001 (Main Line) http://eg.leopalace21.com/