

Annual Report 2015

For the fiscal year ended March 31, 2015

INNOVATION for EXPANDING VALUE



CORPORATE PHILOSOPHY

“Creating New Value”

1.

We keep a close eye on modern-day needs, and strive to create new value in our own unique way, through flexible thinking and dynamic, inclusive teamwork.

2.

We are only happy if our customers are happy. We are constantly working to improve our products, services, and technologies and to grow as a company.

3.

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

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PROFILE

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

Through efforts to strengthen the profitability of the Leasing Business, Leopalace21 is moving forward with the establishment of a “stock-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 and Resort Business, and Other Businesses, Leopalace21 is a one-stop provider of a wide range of real estate services.



EDITORIAL POLICY

Since fiscal 2013, we have published an integrated report that combines a traditional annual report with CSR reporting. We seek to present our management strategy, priority measures, an overview of business conditions, etc. as well as inform readers about our CSR activities.

This report covers the fiscal year from April 1, 2014 through March 31, 2015 (fiscal year 2014). The scope is Leopalace21 Corporation and its consolidated subsidiaries in Japan and overseas. Our aim is to publish to the extent possible the latest information available as of the publication date. We also explain initiatives adopted in response to new policies in areas like

corporate governance code. Moreover, to ensure readers understand trends to date affecting our business, the report includes the “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.

Based on our corporate philosophy of “creating new value,” Leopalace21 is forging ahead with measures reflecting the basic approach of “focusing on core businesses and challenging itself with new business fields.” It is our hope this report will help our stakeholders obtain a greater understanding of the Company.

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				
	'06/3 FY2005	'07/3 FY2006	'08/3 FY2007	'09/3 FY2008
Net sales	¥ 465,386	¥ 631,608	¥ 672,973	¥ 733,235
Leasing Business	249,695	277,163	302,731	334,560
Construction Business	195,202	316,117	327,540	359,154
Elderly Care Business	2,433	5,345	11,173	7,952
Hotels & Resort Business	8,339	7,140	6,071	5,610
Other Businesses	9,715	25,842	25,456	25,956
Cost of sales	353,928	474,713	511,053	589,833
Selling, general and administrative expenses	70,683	80,887	90,516	93,244
Operating income (loss)	40,775	76,007	71,402	50,156
Leasing Business	8,079	7,031	3,036	(1,538)
Construction Business	39,452	74,614	73,267	70,112
Elderly Care Business	257	308	1,261	(1,538)
Hotels & Resort Business	(2,667)	(2,628)	(1,116)	(805)
Other Businesses	(4,346)	(3,318)	(5,046)	(16,072)
EBITDA (Operating income + depreciation)	45,340	80,566	76,565	55,939
Net income (loss)	(16,582)	37,358	342	9,951
At year-end:				
Total assets	¥ 412,803	¥ 454,819	¥ 493,956	¥ 467,300
Net assets	133,622	185,784	170,155	146,442
Interest-bearing debt	64,513	53,159	49,710	44,188
Cash flow:				
Cash flow from operating	¥ 56,971	¥ 63,308	¥ 11,745	¥ 62,843
Cash flow from investing	(11,266)	(15,930)	148	(10,048)
Cash flow from financing	(47,946)	(17,018)	(26,779)	(33,885)
Amounts per share: (Yen)				
Net assets	¥ 839.44	¥ 1,054.99	¥ 1,036.43	¥ 967.40
Net income (loss)	(104.17)	234.68	2.15	63.54
Cash dividend	15.00	50.00	80.00	30.00
Ratio:				
Units under management	344,045	388,500	442,025	506,742
Occupancy rate (%)	92.41	92.84	92.36	88.51
Orders received (Millions of yen)	322,253	362,493	463,044	337,883
Equity ratio (%)	32.4	37.0	33.4	31.3
Return on equity (ROE)(%)	(11.7)	24.8	0.2	6.4
Return on assets (ROA) (%)	(3.8)	8.6	0.1	2.1
Payout ratio (%)	—	21.3	3,720.9	47.2
Debt/equity ratio (%)	0.5	0.3	0.3	0.3
Number of employees	6,868	7,409	8,678	9,926

(Notes) 1. U.S. dollar amounts are translated from yen at the rate of ¥120.17 = U.S. \$1, the approximate rate prevailing at March 31, 2015.

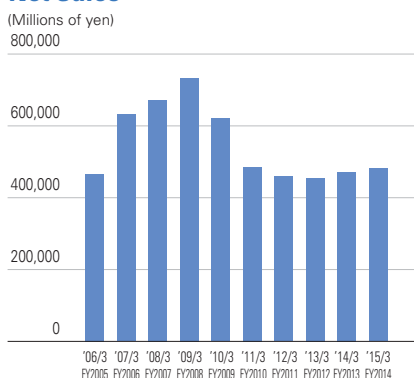
2. The amounts of net assets for the fiscal year ended March 31, 2006 represent the value of total shareholders' equity of year-end, and do not include minority interests.

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

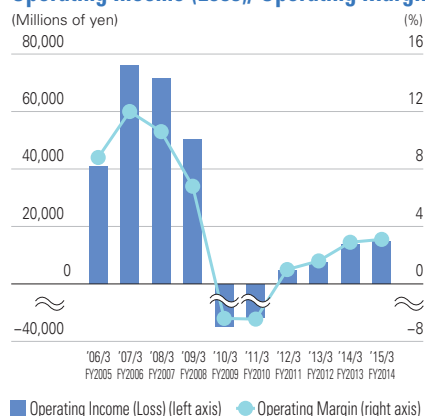
4. Return on assets (ROA) = Net income/average total assets during the fiscal year x 100

5. Debt/equity ratio = Interest-bearing debt/ (net assets - minority interests)

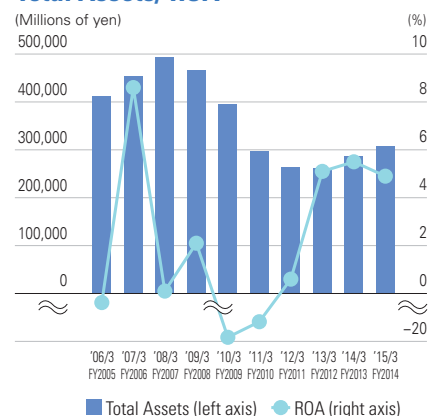
Net Sales



Operating Income (Loss)/ Operating Margin

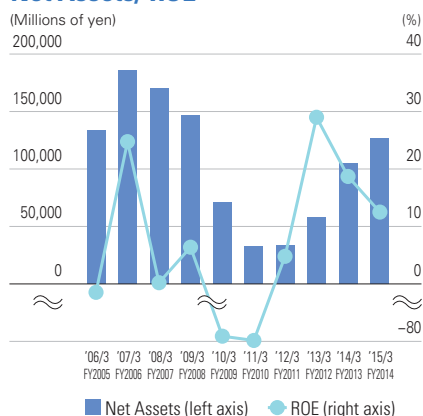


Total Assets/ ROA

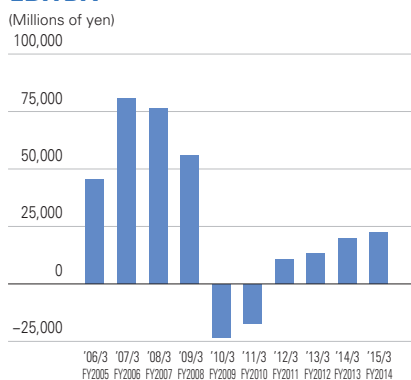


(Millions of yen)							(Thousands of U.S. dollars)
	'10/3 FY2009	'11/3 FY2010	'12/3 FY2011	'13/3 FY2012	'14/3 FY2013	'15/3 FY2014	'15/3 FY2014
	¥ 620,376	¥ 484,390	¥ 459,436	¥ 454,222	¥ 471,089	¥ 483,188	\$ 4,020,875
	342,316	356,606	380,307	383,574	388,768	399,316	3,322,932
	237,062	107,821	62,913	53,369	63,135	61,312	510,216
	8,812	7,785	8,845	9,482	10,171	10,608	88,277
	6,734	6,491	6,228	6,657	7,571	8,951	74,487
	25,451	5,686	1,142	1,137	1,442	2,999	24,962
	570,749	448,392	403,572	396,508	401,510	407,433	3,390,472
	79,354	59,605	51,278	50,299	55,906	60,992	507,549
	(29,727)	(23,607)	4,585	7,413	13,673	14,763	122,853
	(47,875)	(30,094)	5,248	8,687	15,567	20,532	170,864
	29,744	11,971	4,309	2,747	2,954	210	1,751
	(1,994)	(1,509)	(855)	(742)	(610)	(606)	(5,043)
	(1,324)	(1,974)	(1,663)	(1,005)	(1,118)	(1,289)	(10,726)
	(8,278)	(1,999)	(2,453)	35	137	31	260
	(23,432)	(17,155)	10,632	13,097	19,666	22,499	187,231
	(79,075)	(40,889)	1,588	13,335	15,229	14,507	120,728
	¥ 396,511	¥ 298,274	¥ 264,783	¥ 261,649	¥ 287,459	¥ 308,274	\$ 2,565,318
	70,979	33,040	33,831	58,151	104,860	126,473	1,052,452
	61,318	43,858	51,654	49,026	37,227	44,487	370,205
	¥ (12,990)	¥ (28,337)	¥ (3,174)	¥ 6,069	¥ 15,584	¥ 15,715	\$ 130,777
	(8,889)	13,143	(3,537)	(6)	(6,929)	(17,550)	(146,045)
	15,281	(15,890)	7,245	9,148	8,848	1,747	14,545
	¥ 466.76	¥ 195.91	¥ 199.73	¥ 274.80	¥ 398.78	¥ 481.05	\$ 4.00
	(521.91)	(261.03)	9.40	74.50	67.17	55.19	0.46
	—	—	—	—	—	—	—
	551,773	571,656	556,207	546,204	548,912	554,948	—
	82.25	80.09	81.16	82.94	84.58	86.57	—
	250,247	80,338	50,019	73,006	81,139	87,395	\$ 727,263
	17.9	11.1	12.8	22.2	36.5	41.0	—
	(72.8)	(78.7)	4.8	29.0	18.7	12.5	—
	(18.3)	(11.8)	0.6	5.1	5.5	4.9	—
	—	—	—	—	—	—	—
	0.9	1.3	1.5	0.8	0.4	0.4	—
	8,582	7,114	6,165	6,277	6,758	7,339	—

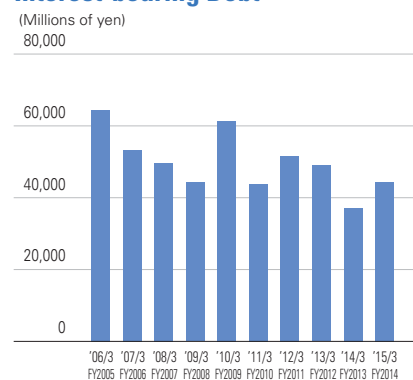
Net Assets/ ROE



EBITDA



Interest-bearing Debt



TO OUR STAKEHOLDERS

With each employee encouraged to tap their imagination, unrestrained by preconceptions, to drive innovation in his or her sphere of responsibility, Leoplace21 seeks to attain its Medium-term Management Plan targets and achieve growth beyond that.

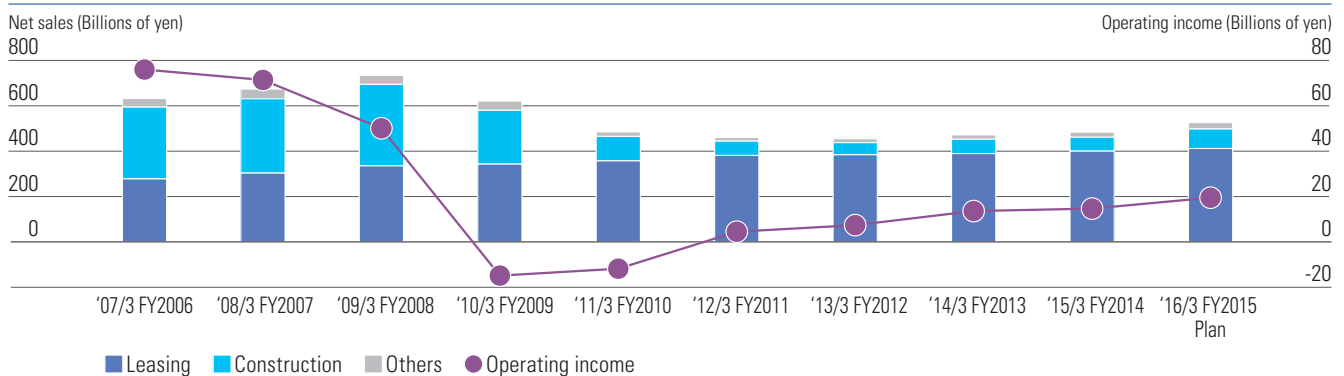


Advancing Initiatives Aimed at New Growth Based on a Business Foundation Bolstered by Restructuring without Sanctuary

Leopalace21's two core businesses are the Construction Business, which builds single-person studio apartments, and the Leasing Business, which accepts consignments from landowners to build and manage apartments. Our particular strength to date has been corporate-use housing such as dormitories for singles, but in the wake of the sharp falloff in corporate demand after the Lehman collapse, we booked two successive years of operating losses. With the subsequent progress of

restructuring without sanctuary, we have reoriented the Company towards the Leasing Business and away from the Construction Business so as to avoid growth without profits. As a result, operating income recovered to over ¥10.0 billion in fiscal 2013 (fiscal year ended March 2014). In view of the upturn in market conditions, we have moved forward with an array of growth measures in the year since the April 2014 launch of the "EXPANDING VALUE" Medium-term Management Plan.

Earnings Trend



First Fiscal Year of Medium-term Management Plan Initiatives for Core Businesses Delivered Solid Results

The first year of the Medium-term Management Plan, which kicked off in April 2014, has been completed. In the core Leasing Business, the average occupancy rate in the full fiscal year, which is a key earnings indicator, was more or less in line with our plan thanks to our skillful uptake of corporate demand growth that accompanied the recovery in corporate earnings. With the number of general leases increasing to a record high of over 230,000, earnings at the Leasing Business were steady.

At the Construction Business, our other core operation, orders grew on an improving external environment reflecting inheritance tax revisions and other factors but fell short of the plan. Buffeted by higher labor costs and longer project stages, margins tightened and earnings fell short of the plan.

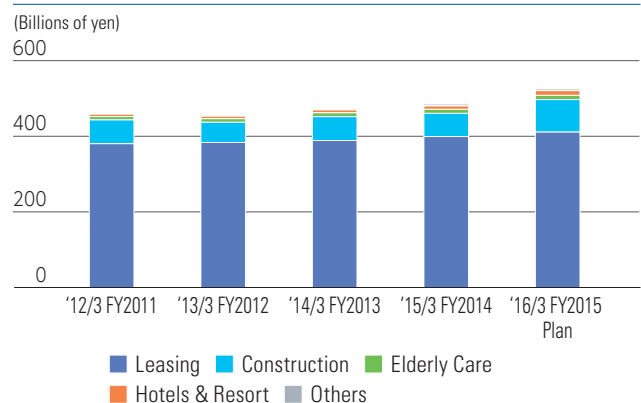
At the Elderly Care Business, the opening of new facilities went smoothly and the occupancy rate of existing facilities also improved, and at the Hotels & Resort Business, the occupancy rate exceeded the plan.

We are pleased the strengthening of the business foundation that has been implemented thus far translated into steady earnings in the first fiscal year of the Medium-term Management Plan.

Key Achievements

- Improved occupancy rates on uptake of corporate demand etc.
- Conversion of custom-made wood-home builder Morizou Co., Ltd. into a subsidiary
- Stepped-up entry into Southeast Asian markets

Sales by Segment



Year Two Key to Overall Plan Success; Core Businesses Becoming Linchpins; Progress towards Target Attainment

The “EXPANDING VALUE” Medium-term Management Plan is off to a strong start, with a favorable first year, but I feel it would be unwise to place too much stock in this. Even with a strong first year, a slackening in year two would make it harder to reach the plan targets in year three, and this would affect the targets for the next new management plan.

With this in mind, I would like to explain what we will focus on in fiscal 2015. The Company will do all it can to steadily advance initiatives aimed at raising occupancy rates in the Leasing Business. This means we will broaden our menu of sought-after rooms and services, such as our popular “Room Customize,” aimed at the general leasing market designed with a client’s perspective in mind, while again striving to capture corporate demand.

At the Construction Business, I think we will work hard to win orders and not let opportunities, created by the favorable tailwind of firm corporate tenant demand on rebounding corporate earnings, slip away. One concern for this business is labor supply. In response to the sharp increase in labor costs, we support training apprentices

from overseas countries such as Vietnam, and are making progress in opening a new way for them to work at building contractors. Moreover, by the stepped-up adoption of industrial methods for building materials and parts through apartment design revisions, etc., we are making progress in finding new ways of reducing costs by lightening the on-site workload.

In fiscal 2015, we expect tenant demand to stay high amid the improving trend for employment and rising wages as corporate earnings continue to recover. In the event a return to domestic production at manufacturing industries, which are said to be buoyed by the weak yen, were realized, this would improve occupancy rates in provincial regions and would be a swing to a more favorable market environment for the Company. We see plan target attainment as riding on our initiatives and are eager for the opportunity to show we can deliver. With each employee encouraged to tap their imagination, unrestrained by preconceptions, to drive innovation in his or her sphere of responsibility, the Company seeks to attain its Medium-term Management Plan targets and achieve growth beyond that.

Pursuing Added Value as an Elderly Care and Hotels & Resort Business Proprietor



Outside of our core businesses, we are pressing ahead in fiscal 2015 with an expansion strategy for the Elderly Care Business, which we see as a growth business. The reduction to nursing care compensation stemming from the April 2015 nursing care insurance system amendment was a negative for our business, but in view

of the facility shortage at present, we think it is best to proceed assertively in opening new facilities. We are striving to reach the Medium-term Plan target of opening 29 facilities in three years. The Elderly Care Business supports trends at the Construction Business, and we believe it is important to work to secure orders for care facilities at the Construction Business.

In contrast, at the Hotels & Resort Business, we are not looking to expand beyond current levels but instead we will encourage property owners, tenants, and corporate clients—valued customers of our core Leasing Business and Construction Business—to make use of our hotels and Guam resorts for travel, business trips, and employee benefit programs.

In these ways, the aforementioned two businesses, especially the Elderly Care Business, enable us to harness synergies with our core businesses in leasing apartments and constructing, and pursue further growth.

Conversion of Highest-quality Custom-built-home Contractor Morizou into a Subsidiary Opens Way for Growth and Synergies with Other Businesses

As I mentioned earlier, the two core operations, the Leasing Business and Construction Business, have steadily bolstered their capabilities through a series of measures that have been implemented to reinforce our business foundation, and so trends at these businesses are comparatively favorable.

On the other hand, when I consider the future, I recognize the necessity of boldly addressing risks and opportunities in assessing new businesses from here onwards. On this score, I see two targets—custom-built home construction contracting and overseas businesses.

With regards to the custom-built home contracting, we converted Morizou Co., Ltd., an alliance partner since April 2014 that has for years built ultra-luxurious Kiso-hinoki wood homes using traditional Japanese construction methods, into a subsidiary in March 2015. In bringing Morizou under our corporate umbrella, we have further bolstered our collaboration relationship.

The perception many potential clients for our custom-ordered homes have of us so far is as an apartment building contractor, but I think the Morizou addition

enables Leopalace21 to sharply improve perceptions about the quality of the homes we build. At the same time, we are striving to bolster contact points with property owners and broaden our order variation.



Plans to Launch Service Apartment Operations in Cambodia

I would next like to discuss our overseas businesses, which we expect to drive growth. We plan to develop and operate service apartments with amenities and services catering to employees of Japanese companies, etc. that have been sent overseas.

The first overseas location for our service apartments will be Cambodia. With construction scheduled to be finished in January 2017, the service apartments are to

commence operations in April 2017. We are studying the situation in other countries in assessing where to build next, but from what I hear, Japanese companies venturing out from Japan and posting employees overseas are often not satisfied with the housing options available, so there is scope for new entrants. Given this, in addition to Cambodia, Vietnam and Myanmar, among others, are markets where we see similar opportunities, and we look to expand our service apartment business in regions such as these.

On a related note involving M&A in our overseas portfolio, we converted WING MATE CO., LTD. which excels in making arrangements for overseas business trips for corporate clients, into a subsidiary in October 2014. We expect this move to add another arrow to the quiver of our marketing efforts to corporations as well as feed through to bolstering sales routes we can harness to market the offerings of our Hotels & Resort Business.

In this way, we continue to take sound steps in our overseas business in fields where we see growth prospects.



The cityscape in rapidly developing Phnom Penh, Cambodia

CSR as Part of Our Core Businesses: Initiatives to Contribute Socially Using Our Strengths and Businesses

I have so far explained initiatives in our Medium-term Management Plan centering on our growth strategy, but I think CSR activities that support these initiatives from the base upwards are also important.

In the past few years within the discussion on moving toward a sustainable society, there has been debate about how companies should proceed in their role as for-profit enterprises with CSR activities, especially those extending from their core businesses. I would like to share some examples of CSR activities at Leopalace21 that extend from our core businesses.



We have in the past few years stepped up the expansion of leasing overseas. The impetus for this expansion originated in requests from a corporate client, whereas the focus of our business activities until then had been the domestic market. Our expansion into real estate brokerage overseas via the application of the know-how we amassed in Japan in response to this demand has enabled us to build “win-win” relationships not only with this client but also with local communities to which our know-how has been transferred. At the same time, we will work to build our business while fostering exchanges that meet local needs.

One example is our human resources development efforts. Apprentices that have finished our training program in Vietnam are being brought to Japan for work at domestic building contractors. This addresses a shortage of construction-site labor that persists ahead of the 2020 Tokyo Olympics. Meanwhile, we are also optimistic that apprentices who gain onsite work experience in Japan will be valuable human resources that can underpin contractor projects in their home country Vietnam in the future. We are making similar efforts in our Elderly Care Business, where workers that were trained in the Philippines have been hired to work at our Azumi En care facilities.

Stepping up Measures Addressing the Governance Code: Adding a Second Outside Director to Our Board

We are keenly aware of the growing public interest in corporate governance systems, including the Corporate Governance Code, a Japanese governance standard devised for listed companies in an initiative supported by the Tokyo Stock Exchange and the Financial Services Agency, and others.

We have adopted a spate of measures aimed at governance reform, starting with the establishment of the Compliance Committee in 2006. Among other actions, we have since then introduced an executive board system in 2007, set up the CSR Committee and Risk Management Committee in 2008, and established the Auditing Council and nominated an outside director to our board in 2010. The Corporate Business Promotion Headquarters, established in April 2014, is preparing the way for a business promotion system through

collaboration across divisions and functions. As a result, we have put into place a comprehensive governance structure aimed at enhancing the functions of the Board of Directors, improving management quality, and strengthening collaboration across divisions and functions.

From this basis, in response to the Corporate Governance Code, we are studying the five general principles established in the code and how initiatives should be translated into the final objective of creating greater corporate value and how we should implement such initiatives.

As a plank in this effort, the agenda for the June 2015 annual general meeting for shareholders will contain nominations for two Outside Directors. The new nominee is Yoshiko Sasao, an experienced female executive who can draw on her experience and

knowledge in offering her views. We welcome a female executive's insights to our boardroom debate as we strive to reflect diversity in our decision-making.

Currently serving Outside Director Tetsuji Taya has again been nominated and is expected to reprise the role he has played so far inside and outside the boardroom of actively offering ideas for boosting corporate value.

Apart from the two Outside Directors, the Company will continue to take steps to ensure the board's

effectiveness, such as providing training for directors and proceeding with self-evaluation by the Board of Directors. Moreover, with regards to applicable standards outside of the Corporate Governance Code, we intend to proceed with responsive measure as necessary after developing a firm understanding of the background and aims of each set of applicable rules, codes, regulations, etc.

Aiming to Restore Dividends Soon as Retained Earnings Move into Surplus

I would like to end with a discussion of our strategy to boost shareholder value. In view of the enormous impact of the post-Lehman slump on our performance, we have refrained from paying dividends for six years. We have pressed ahead with serious efforts to reform the company's internal systems and structure but we are also keenly aware this policy tests the patience of our shareholders.

The reforms we have pursued wholeheartedly are beginning to yield results, with consolidated retained earnings, a section within shareholders' equity on the balance sheet, swinging into positive territory in fiscal 2014 from a negative ¥46.5 billion in fiscal 2010. Moreover, our performance has recovered to a level where ROE has stayed above 10% for three successive fiscal years, counting the 12.5% recorded in the fiscal year under review. We have earned sufficient capital to erase the deficit in the retained earnings section of shareholders' equity, as the circular on matters for discussion at the annual general meeting (i.e., on the decrease in capital reserves and disposal of surplus retained earnings) indicates, and so our preparations for

restoring dividends are in place. Discussions at the company on the timing and size of resumption in dividends are proceeding, along with matters such as our future dividend policy, and we would like to disclose specifics on these in the not-so-distant future.

That said, our long-term strategy for creating greater shareholder value does not stop at dividends. In particular, the growth strategy we are implementing includes initiatives with a promising return outlook, and we think there are cases where realizing those returns will translate into boosting shareholder value. As a result, we will devise our dividend policy after taking into account the funding required for initiatives aimed at increasing shareholder value.

Leopalace21 has traveled a long way in reforming its systems and structure, and the entire company is united in forging ahead with measures to boost growth. With respect to our stakeholders, I would like in closing to humbly request your continued support and encouragement.



June 2015

Eisei Miyama
President and CEO

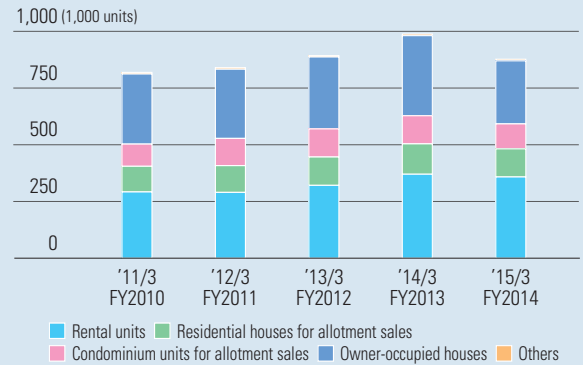
BUSINESS ENVIRONMENT AND COMPETITIVENESS

Business Environment 1

A Small Dip in Rental Housing Starts

New housing starts dropped sharply from fiscal 2008 to fiscal 2009 due to the economic slump following the Lehman Brothers collapse. Since then, they had been gradually recovering as a result of policy support and the like for housing investment but in fiscal 2014, against rush demand in the run-up to the April 2014 consumption tax hike, housing starts fell back 10.8% year on year. Rental housing starts also declined for the first time in three years, but the 3.1% year-on-year fall to 358,340 units was smaller than the overall drop in housing starts.

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



Competitive Advantage 1

One of Japan's largest lease management companies

In the lease management business, many believe “the company that controls the battle for tenants, rules the industry” and so competition is intense. Our rental housing business centers on one-room type units for people living alone that come with furniture and electrical appliances as standard features. Our ability to respond to the needs of clients, such as students and company employees living alone, has enabled us to keep growing. We also address short-term stay needs such as business trips, and about half of our leases are for company housing and dormitories for single employees. With over 550,000 rooms under management, Leopalace21 is one of Japan's largest lease management companies.

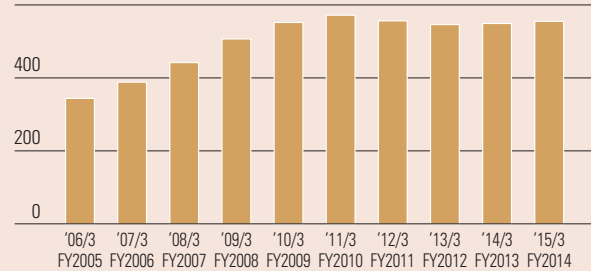
Number of Apartment Units under Management

554,948 units

(as of the end of March 2015)

Trend in Units under Management

600 (1,000 units)



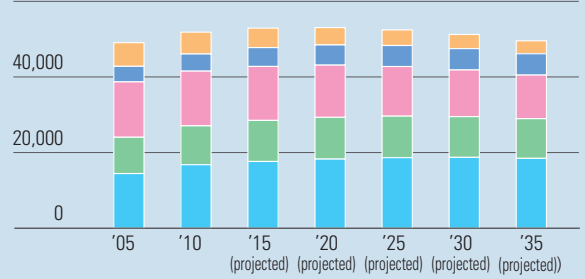
Business Environment 2

Uptrend in Single-person Households to Continue

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

Trend in Number of Households

60,000 (1,000 households)



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



Market Positioning

(Leopalace21 market research)

Room type

Studio apartments

Leopalace21

Length of stay
Long-term

Short-term

D₂ Company
S Company
D₁ Company

Family-type units



Competitive Advantage 2

Leveraging Our Strength in Single-person Households

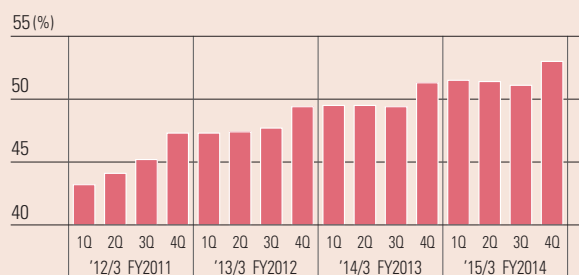
Since soon after the Company was founded, we have focused on urban-type apartments, especially housing for people living alone—a different category from conventional segments. Given this, our core pillars of apartment construction and leasing management have over the past thirty years built up know-how in design, specifications, and management sought by single-person households and put this know-how to full use. Our expertise is a good match for the high-quality housing companies seek for dormitories for single employees and company housing for people living alone. As a result, the ratio of corporate leases to our total portfolio has risen to 53.0% as of March 31, 2015.

Ratio of Corporate Lease

53.0%

(as of the end of March 2015)

Corporate Leases as a Ratio of Our Total Portfolio



Amenities and Fixtures Provided in Leopalace21 Apartments

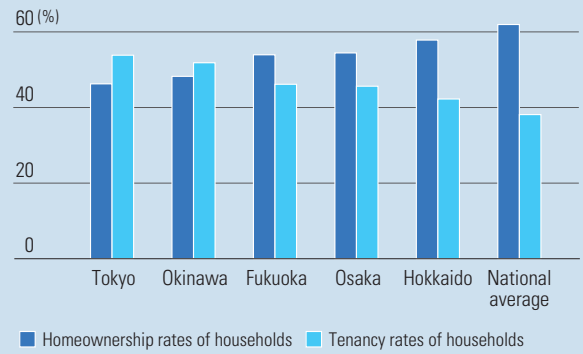


Business Environment **3**

Higher Tenancy Rates in Large Cities

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

Homeownership and Tenancy Rates of Households



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

TOKYO



Competitive Advantage **3**

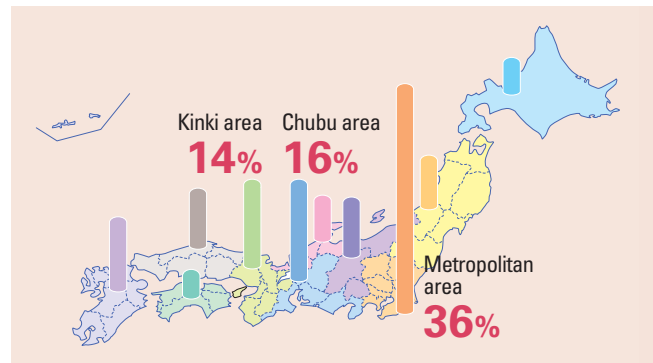
Focus on Major Urban Centers where Client Demand Is Strong

Harnessing our focus on housing for people living alone, Leopalace21's regional strategy is based on the watchword "selectivity and focus." The expansion of our operations is focused on the three major metro areas where demand for housing for people living alone is high and net population inflows are expected to continue. Of our total managed property portfolio, 36% is in the Metropolitan area, 16% is in the Chubu region, and 14% is in the Kinki region, and these three regions combined account for about 70% of our portfolio. The decision to focus our managed properties business in these three metro areas will enable us to keep occupancy rates stable and high.

Nationwide Portfolio Breakdown by Region Total for Three Major Metro Areas

About 70%

(as of the end of March 2015)



NAGOYA



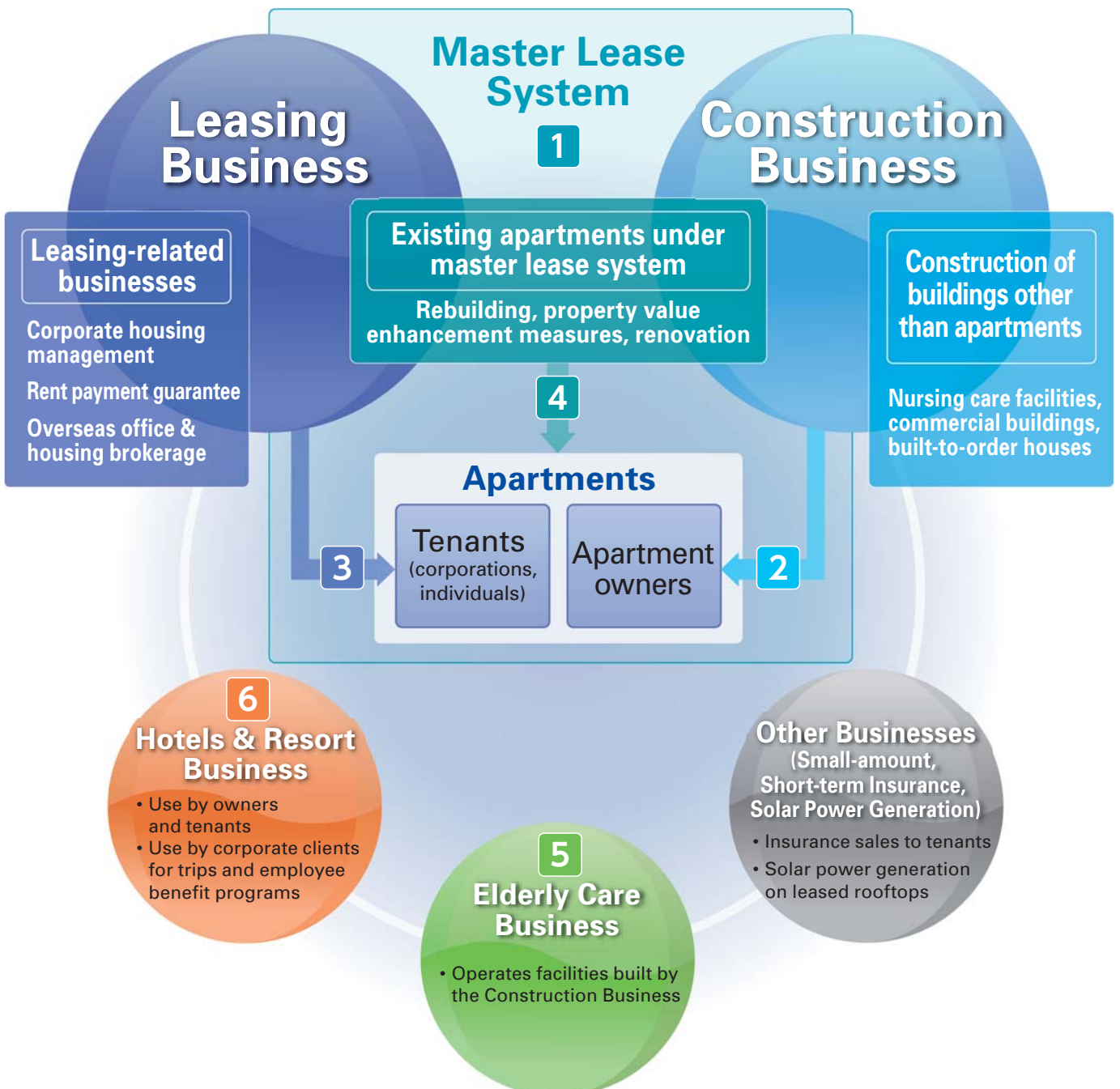
OSAKA



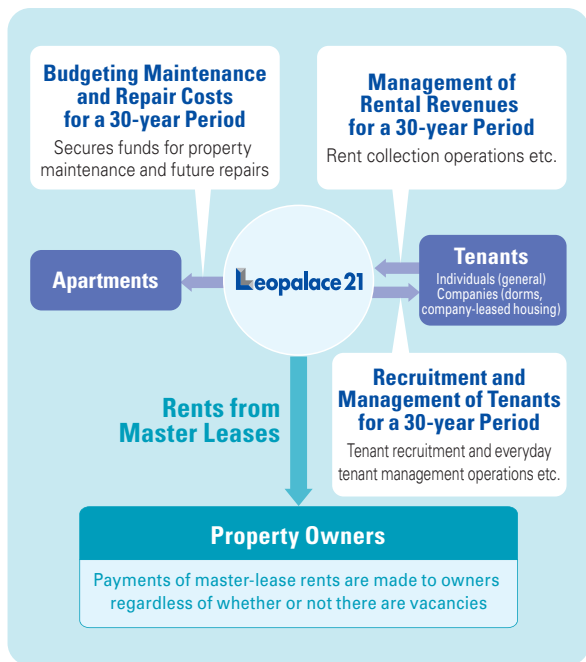
OUR BUSINESS MODEL

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

Leopalace21 has time and again bolstered its presence as an industry leader in leasing management for apartments since the 1985 full-scale launch of Leopalace21 urban apartments. Our greatest strength is our superior business model, which has been honed via knowledge we have amassed across the Group over the years. Keeping apartment occupancy rates high and stable is the biggest determinant of our business success. With myriad initiatives to keep occupancy rates high, we seek to further reinforce our strengths.



1 Leoplace21 Developed Industry-First “Master Lease System”



Of the apartment owners in the Leoplace21 system, many are individuals and regard apartment management as a way to manage their assets. While major real estate developers aim for high-risk, high-return projects, individuals dislike the risk of losing out on rent revenues due to vacancies and view low-risk, middle-return investments as ideal.

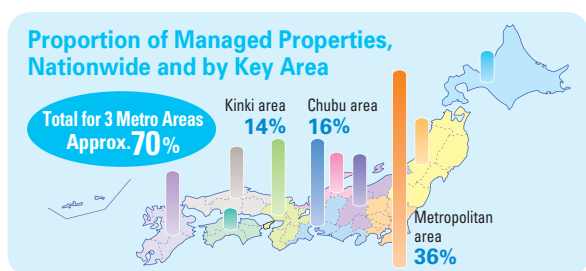
With this in mind, the Company developed the 30-year master lease system, an industry first. It reduces risk for owners by offering them a total support package for apartments and condo properties from construction to management for up to 30 years.

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

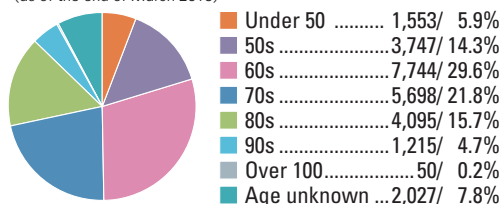
Our Pledge to Landowners

- Provide effective land-use proposals
- Ensure apartment construction yields savings on inheritance taxes and lessens fixed asset and city planning taxes

2 Restrict New Supplies to Specific Areas



Age composition of Leoplace21 Individual Apartment Owners
(as of the end of March 2015)



Sub-total for individual owners	26,129
Sub-total for corporate owners	1,290
Grant total for all owners	27,419

To succeed in business, it is essential to apply selectivity and focus to resource allocation so as to maximize gains from the resources that a company has. Since the full launch of Leoplace21 urban apartments in 1985, we have restricted our focus to areas in large urban centers, where demand is greatest for apartments for people living alone, a key demographic for our business model. This strategy of selectively concentrating new supply in these areas enables us to maximum our potential.

Many of the apartment owners in our system are older, with 72% over age 60 and 42% over age 70. Many of them are thus part of a demographic that will bequeath assets in the not-so-distant future.

3 Channel Strategy Aimed at Attracting Tenants



The Leasing Business can also be seen as a matching business that brings together apartment owners who need tenants and prospective tenants who seek rental housing. It is thus necessary for a company like Leopalace21 that manages many apartments to create venues that expand the opportunities for quality interaction between renters and the population of would-be tenants so there is smooth progress in matching them up. With this in mind, we are not only developing new channels, but are also coming up with creative ways to use existing ones.

Specifically, we harness our network of directly run offices and Leopalace Partners franchisees to convince potential tenants to become actual ones while expanding our channels online, which is becoming the go-to channel for most people looking to live alone to search for rooms. Moreover, our comprehensive channel strategy has initiatives targeting all untapped tenant segments, unearthing demand in the individual market via seminars for those actively looking for rental housing etc., offering proposals to corporate clients for dormitories for singles etc., and developing student demand through seminars at universities and vocational schools. These are aimed at ensuring potential tenants do not slip away.

4 Measures to Enhance Existing Property Values

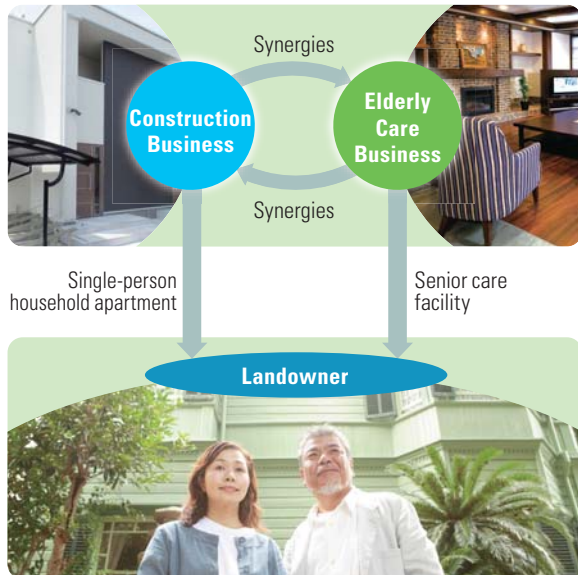


Japanese housing policy is moving in a direction that emphasizes greater supply of high-quality housing for long-term occupancy, and boosting housing values is also an important issue for the rental housing market. Yet, with the vacancy rate in rental housing at 20.0% (the Fiscal 2013 Housing and Land Survey, Statistics Bureau, Ministry of Internal Affairs and Communication), apartments themselves increasingly need more than ever to be attractive so that would-be tenants choose them and keep their occupancy rates high, avoiding vacancies.

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

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

5 Synergies between our Elderly Care Business and Construction Business



The projected rise in the portion of the Japanese population over age 65 means the potential market for our Elderly Care Business is growing, and we see it as a standalone growth business. Beyond this, however, we recognize the potential for this business to generate synergies with our core Construction Business.

The Elderly Care Business runs a network of nursing care facilities under the “Azumi En” brand in the greater Tokyo metropolitan area and its environs, a catchment area that mirrors that of our core Construction Business, and it recently entered the greater Nagoya area (i.e., the Chukyo region). As a result, even in cases where we cannot market a single-person household apartment to a landowner, we may be able to propose a plan for a senior care facility. This synergy is thus indispensable as a plank in our effort to be a one-stop provider of land-use solutions.

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

6 Synergies between our Hotels & Resort Business and Core Pillars



Our current Medium-term Management Plan does not target an increase in visitor traffic at our Hotels & Resort Business. We instead view this business as a way to indirectly support expansion of synergies with our core pillars.

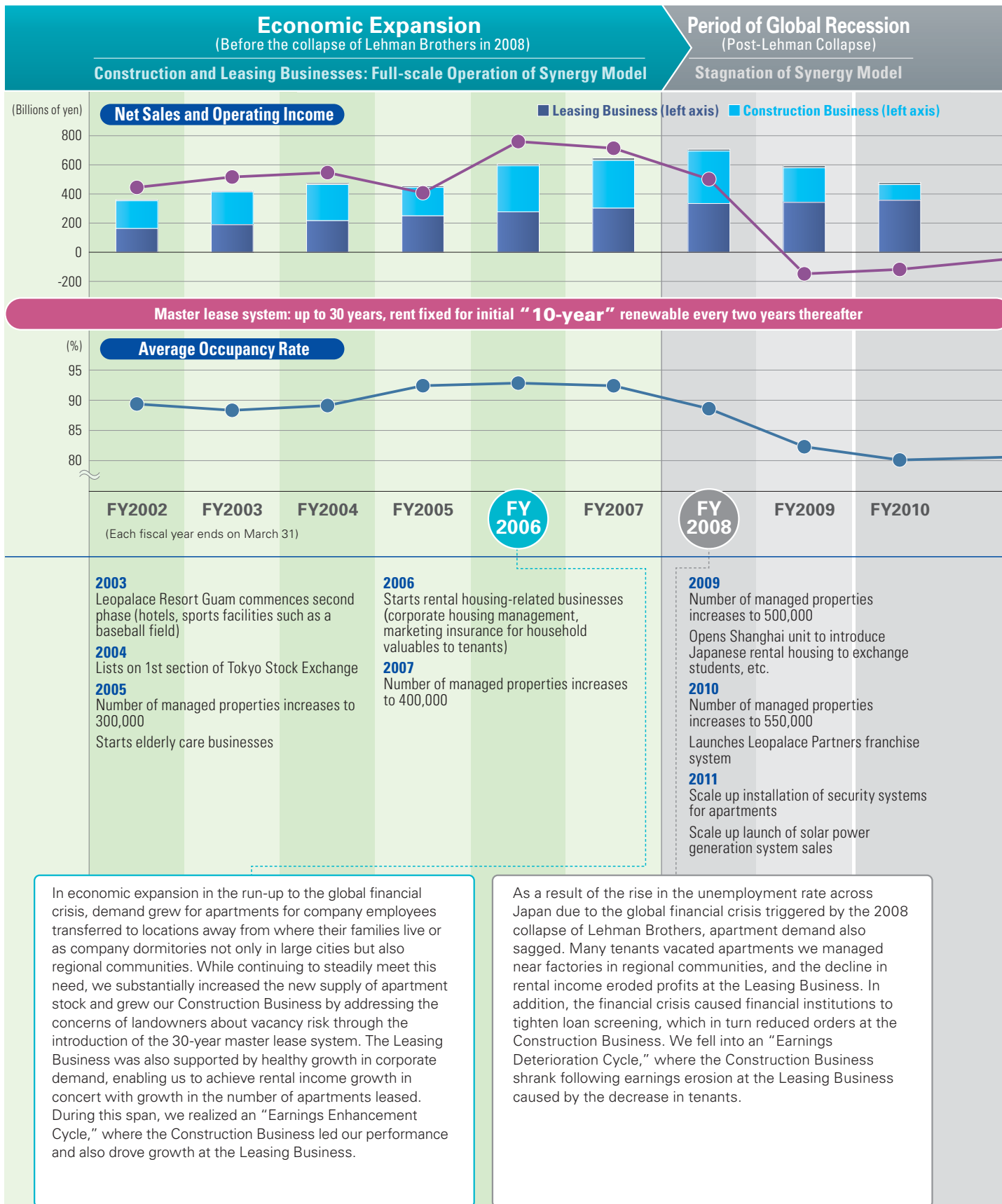
Simply put, we envision the Hotels & Resort Business as supplying venues for providing service and hospitality to clients of our core Leasing Business and Construction Business.

We encourage corporate clients to whom we supply rental housing to use our domestic Leopalace Hotels for business trips and training events. In contrast, we market use of the overseas Guam resort to tenants and landowners as a tourist destination and to corporate clients as a facility for their employee benefit programs. We hope our clients will come away from their visits favorably impressed with our services and hospitality and these contacts serve a promotional role in encouraging our clients to form long-term relationships with us.

WING MATE, which was recently acquired for its skill in arranging business trips and the like for corporate clients, is expected to be a new sales channel for the corporate sales department at the Hotels & Resort Business.

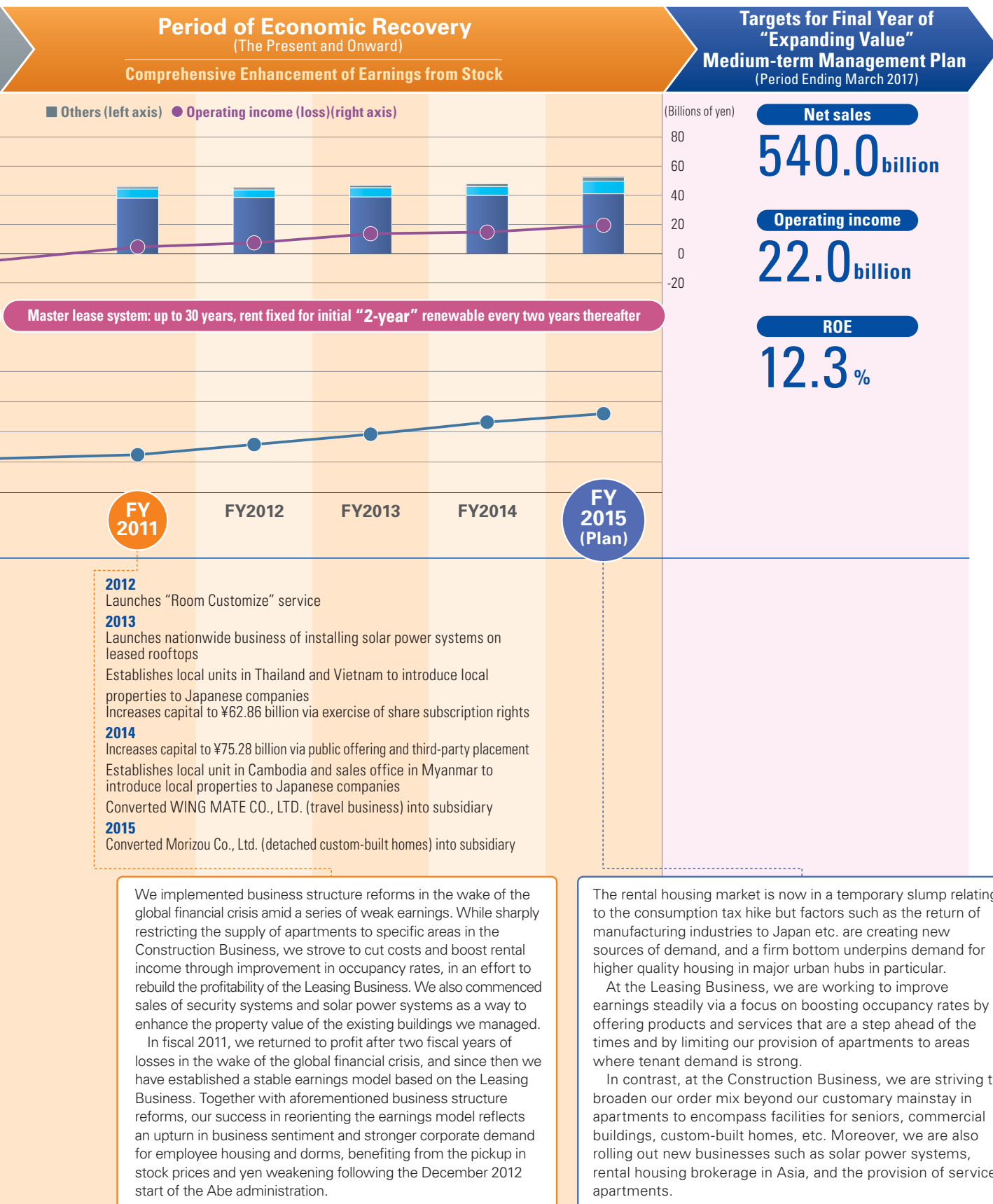
BUSINESS MODEL TRANSITION

Macro-Environment and Business Performance Trends



In the period of economic growth, our Construction Business drove our growth, sharply expanding new apartment supply, but following the 2008 collapse of Lehman Brothers, we recorded operating losses as orders at the Construction Business declined.

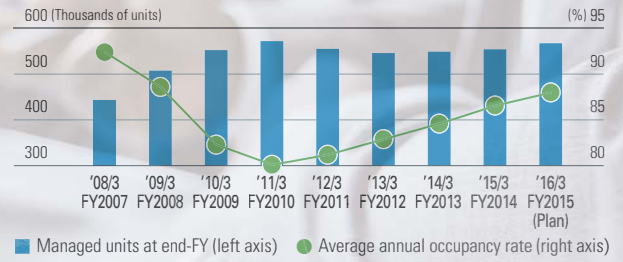
Our aim amid the current economic recovery and beyond is to thrive due to our shift to a stable earnings model that achieves a balanced earnings mix from the Leasing Business and Construction Business.



SPECIAL FEATURE: LEASING BUSINESS STRATEGY

In the Leasing Business, improving occupancy rates is crucial to securing stable profits. For this reason, we are working to foster demand among corporate clients for properties with long-term tenancy prospects like company housing, dormitories for singles, etc. In the individual market, we are moving ahead with efforts to broaden our service menus to create spaces where people want to live.

Units under Management, Average Annual Occupancy Rate



Further Bolster Corporate Sales

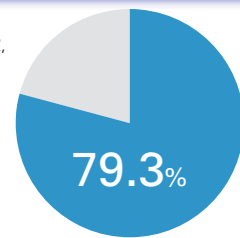
Expert Marketing Teams for Each Industry

At the Leasing Business, about half of the leased units are used by corporate clients. We cater to many industries including manufacturing, personnel dispatch and business outsourcing, services, retail, etc. About 80% of listed companies across Japan use properties we manage.

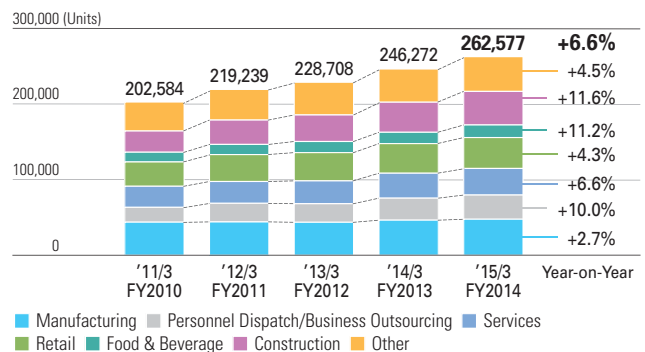
Given this, we have set up marketing teams for each key industry and fine-tune our marketing to industry clients in ways that take into account their attributes. We can propose leasing plans to corporate clients that best meet their needs in terms of contract form, length, and number of units. After signing corporate clients to a contract, we appeal to them on the basis of our ability to identify properties nationwide. These strengths further reinforce our marketing to corporations.

Ratio of Listed Companies Using Our Services

* Companies listed on Japan's TSE1, TSE2, regional stock exchanges, or startup stock markets



Corporate-Leased Housing Units by Industry



Customer Voice



KOURAKUEN CORPORATION

Founded in 1954, KOURAKUEN is a restaurant chain serving ramen, soba, etc. It currently has 518 outlets in Japan and 5 overseas.

We turned to Leopalace21 when we sought to revise our employee dormitory room system to address dissatisfaction with our previous arrangement that employees noted in their self-review reports. The general affairs department had been managing about 300 units, including 3LDK apartments, with three employees living in each one. After we grasped how much employees wanted their own living spaces, we asked Leopalace21 for help in their specialty of single-person households. After the changeover, 80% of employees surveyed on their housing said they were either satisfied or very satisfied, and management is also pleased. The "corporate limited plan" Leopalace21 arranged also lightened the workload of our general affairs department. While these benefits are not readily identifiable in performance data, the lighter workload enabled employees to focus more on work and themselves. We think this is a major plus in advancing the company and our human resources development.

With an aim of 1,000 outlets in Japan, KOURAKUEN sees Leopalace21's extensive property portfolio and arrangement capabilities as important resources.



President of
KOURAKUEN
Tsutae Niida

Promoting Long-term Tenancy via More Extensive Tenant Services

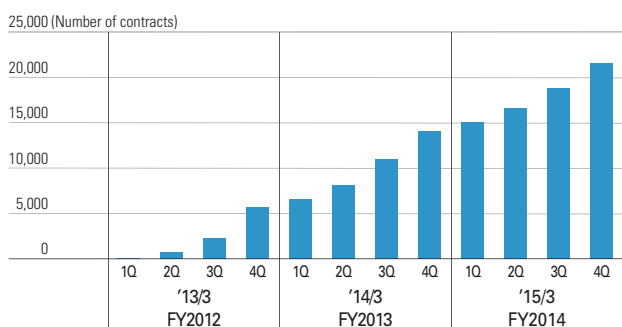
Developing Products to Reflect Client Viewpoints with over 20,000 "Room Customize" Contracts

To retain individual tenants over the long term, it is important to ensure rooms are ones where they will want to continue to live. As an industry pioneer on this front, Leopalace21 has consistently worked to offer products and services that appeal to clients in this way. One example that is popular among tenants is our "Room Customize", which allows them to change for free the wallpaper on one wall to suit their tastes.

Such customization plans are not available for most rental housing. The aim is to encourage long-term occupancy by enabling tenants to personalize and form attachments to their apartments. The "Room Customize" have proven very popular, with the number of leases with such plans exceeding 20,000. The Company is working to developing new products and services.



Cumulative "Room Customize" Contracts



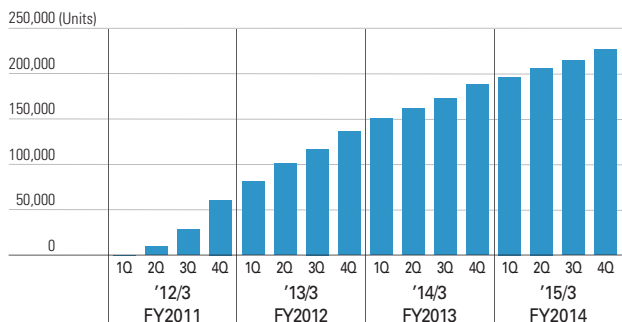
Installing Home Security Systems for "24-hour, 365-day" Safety

For prospective tenants, attractive housing goes beyond design, room layout, amenities, and fixtures. For apartments aimed at single-person households that Leopalace21 mainly builds, a well-conceived security arrangement that offers safety and peace of mind is a major attraction. For this reason, we have operational tie-ups with major security companies, with security system installations in units we manage on the increase.

Of our aggregate managed unit portfolio, the number with a security system installed has risen to 40.9%, equating to 226,801 units. We plan to stay on this course, with the aim of attracting more female tenants, who in particular tend to find comfort and security from a well-conceived security setup, and encourage them to become long-term tenants.



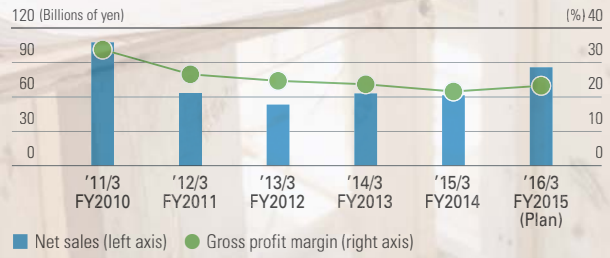
Installation of Home Security Systems



SPECIAL FEATURE: CONSTRUCTION BUSINESS STRATEGY

In concert with the drop-off in demand after the 2008 collapse of Lehman Brothers, we kept orders at the Construction Business in check. With the market now picking up, however, we are aiming for annual sales of ¥100 billion by enhancing our product mix and offering a broader portfolio of construction products.

Construction Business Sales and Gross Profit Margin



Market Environment Facing the Construction Business

Net Migration into Urban Centers, Especially the Greater Tokyo Area

Our strategy for the Construction Business is to focus on regions where we expect tenant demand to be robust. One indicator we use to determine tenant demand is a report which tracks migrant inflows and outflows by prefecture [Report on Internal Migration in Japan Derived from the Basic Resident Registration, Ministry of Internal Affairs and Communications(MIC)].

There has been a net migrant inflow into urban centers for the past three years running. In view of this trend, we expect the strongest tenant demand to be in six prefectures, especially the greater Tokyo metropolitan area (Tokyo, Kanagawa, Saitama, etc.). The next four prefectures where we see potential, led by Osaka, had net migrant inflows

in either the past three years combined or in 2014. Mainly located in the prefectures referenced above, our network of 60 offices and bases (as of March 31, 2015) for the Construction Business leads our marketing efforts.

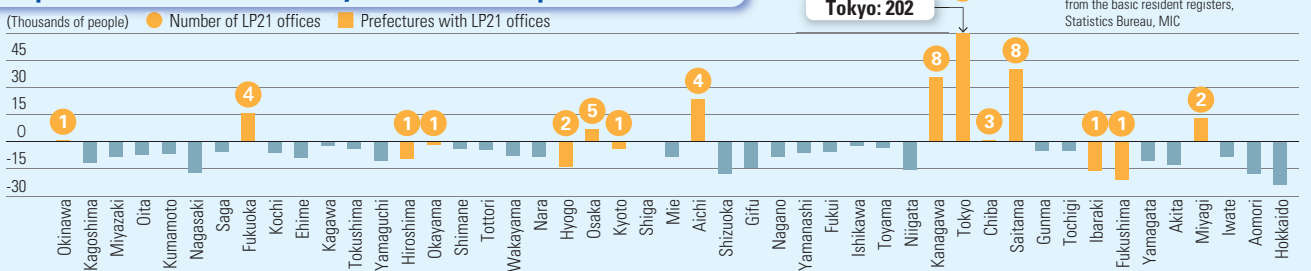
The ratio of rental housing over 35 years old in the four major urban centers where most of our efforts are concentrated has risen to 14.5% of the total rental housing stock, or 1.265 million units, according to statistics of rental housing that include apartments.

Privately Owned Rental Units over 35 Years Old (units, % of total)

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

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

Population Inflows/Outflows by Prefecture in Japan in 2012-2014



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

Consulting Sales Based on Understanding Landowner Needs

Apartment Construction Proposals Reflect Our Tax System Knowledge

Of the landowners that we build apartments for, many own property as individuals. Of these, quite a few regard apartment management as a way to reduce taxes arising from bequeathing assets to the next generation. In the Japanese tax system, the inheritance tax payable on land inherited with a structure such as an apartment building on it differs from that on a vacant lot (unused land).

Leopalace21 is knowledgeable about the tax system

with regards to land use and inheritance considerations, and we strive to uncover latent needs via a consulting-based marketing approach where we propose plans that best fit the circumstances of each individual landowner.

Consulting-based Proposals with Benefits for Landowners



Bolstering Product Competitiveness

Creating Comfortable Spaces Responsive to Future Rental Housing Needs

The standards potential tenants seek for rental housing are increasingly high. Given the importance many people put on privacy these days, sound insulation is becoming a standard feature. While many years ago Leopalace21 apartments were thought to have thin walls, we have found many ways to reduce unwanted noise in apartments we built such as sound-insulated flooring, walls, and pipes. Other ways we are bolstering our product competitiveness is by broadening our construction product mix and factoring a female perspective into our product planning.

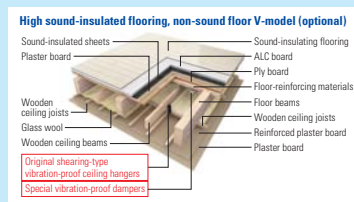
Adding more product planning functions that reflect a female perspective

Our product lineup to date has often lacked a female perspective, from the ways we have innovated to the fixtures and amenities selected. We have for this reason launched a team comprised entirely of women to be responsible for a slice of our product planning. As a result, we have started to roll out products with fixtures and specifications that women appreciate such as a powder space in the living room and wall storage.



Installing industry-leading sound-insulation fixtures we developed

In wooden apartments sold since April 2013, we have installed sound-insulated flooring (i.e., “non-sound floors”) as a standard feature to go with sound-dampening drainage pipes and sound-insulating walls. Compared with normal flooring, our “non-sound floors” are at least two ranks more effective in providing sound insulation in a wooden structure. Moreover, as of July 2013, “non-sound flooring” has been installed as a standard feature in our steel-framed rental housing products. We have thus lessened problems around unwanted noise—important for residence quality—in ways that have translated into greater product competitiveness.



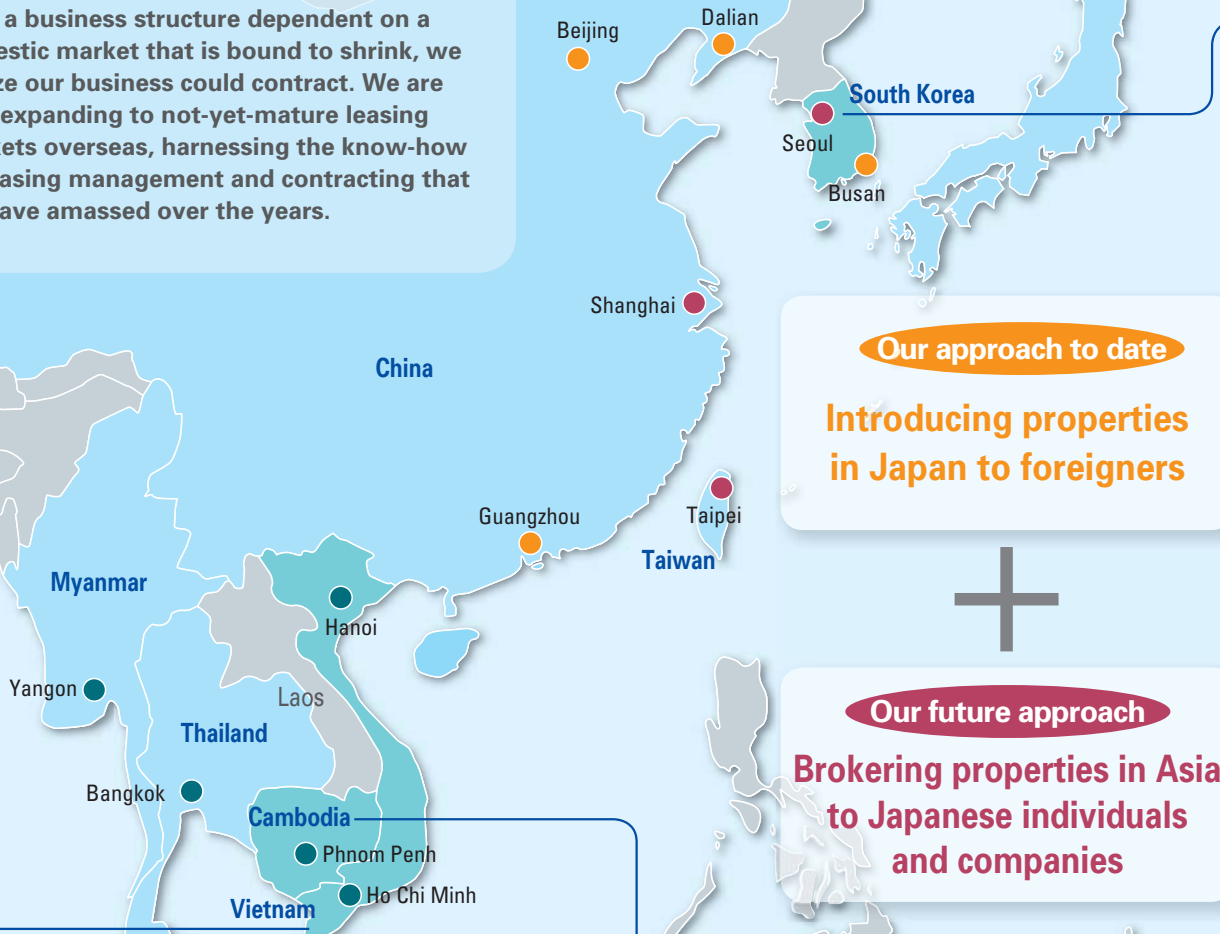
Broadening our construction product mix

The Construction Business is predicated on apartment orders, which are in turn premised on keeping occupancy rates high at the Leasing Business. To expand orders at the Construction Business, we are broadening our construction product mix to custom-built homes, in addition to fields that have not been priorities thus far such as care facilities for the elderly, retail stores, and commercial facilities. These steps are helping to strengthen our ability to market proposals to landowners.



SPECIAL FEATURE: OVERSEAS BUSINESS STRATEGY

With a business structure dependent on a domestic market that is bound to shrink, we realize our business could contract. We are thus expanding to not-yet-mature leasing markets overseas, harnessing the know-how on leasing management and contracting that we have amassed over the years.



Sales office expansion plan: 20 sites (as of the year ending March 31, 2017)

- Offices introducing/arranging rental housing in Japan
- Offices brokering local rental housing in Asia
- Offices introducing/arranging in Japan and brokering in Asia

Training Workers in Vietnam for Construction Work in Japan

There is a shortage of building-site workers available for construction work in Japan as a result of redevelopment in major cities and projects for the 2020 Tokyo Olympics. In these circumstances, it is critical for a company like Leopalace21 with a construction contracting business to secure enough skilled labor for onsite construction work. For this reason, apprentices that finished our first training program in Vietnam are being brought to Japan for work at domestic building contractors.

We think the shortage of construction-site labor supply is likely to persist, and there are plans to bring apprentices that complete our second training program to Japan for work.



Training workers in Vietnam

Progress at South Korean Joint Venture Woori & Leo PMC Progresses

Woori & Leo PMC Co., Ltd. has commenced a residential lease business for companies with rent collection management in South Korea. The joint venture with Woori Housing Operation and Management Co., a major Korean residential building manager, was established in November 2012.

Most rental housing in South Korea has been managed and traded with an eye on capital gains but an income approach has gained acceptance and is emerging as the mainstream method, with the preferred form of lease for rental housing changing over from the upfront deposit *Chonse* contract to the monthly rent *Wolse* contract. The venture's founding is a response to these trends and the concomitant demand for know-how in housing rent collection management for corporate clients. Woori & Leo PMC's units under management stood at 452 units as of the end of March 2015.

The venture aims to reap synergies between Woori & Leo PMC's leasing management business and our Korean consulting business, which brokers local rental housing, and is keeping an eye on expansion via construction contracting in the future.



◆ Woori & Leo PMC Co., Ltd. ◆

A joint venture with Woori Housing Operation and Management Co., a major South Korean residential building manager with 360,000 units under management

An unmatched system of rent collection services provided by a company

A full rollout of marketing activities based on local regulations in February 2014; managed 452 units as of the end of March 2015

Launched Service Apartment Business in Cambodia

We started construction on a service apartment property in Cambodia. We selected Cambodia for our first service apartment overseas because we think there is ample opportunity for us to harness our know-how there.

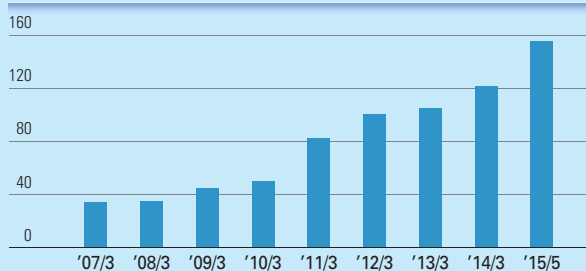
With a growing population, Cambodia is situated in the heart of Southeast Asia, and 142* Japanese companies have set up operations there. About 1,800* Japanese nationals now reside in Cambodia and more are coming every year, mainly due to the growing presence of Japanese manufacturers, but the residential environment is not yet suitable for Japanese employees on long-term stays.

With these trends as a backdrop, Leopalace21 launched operations in Cambodia, but we think there are still many nations in Asia where there are such needs, and our policy is to expand our target countries sequentially.

* Statistics on Japanese nationals overseas, as of October 2013, Ministry of Foreign Affairs



Official Members of the Japanese Business Association of Cambodia



Source: Japanese Business Association of Cambodia

SPECIAL FEATURE: ELDERLY CARE BUSINESS STRATEGY

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

- Provide personalized nursing care to elderly dementia patients
- Feature completely private rooms that preserve privacy



Day-service, Short-stay Nursing Care Centers

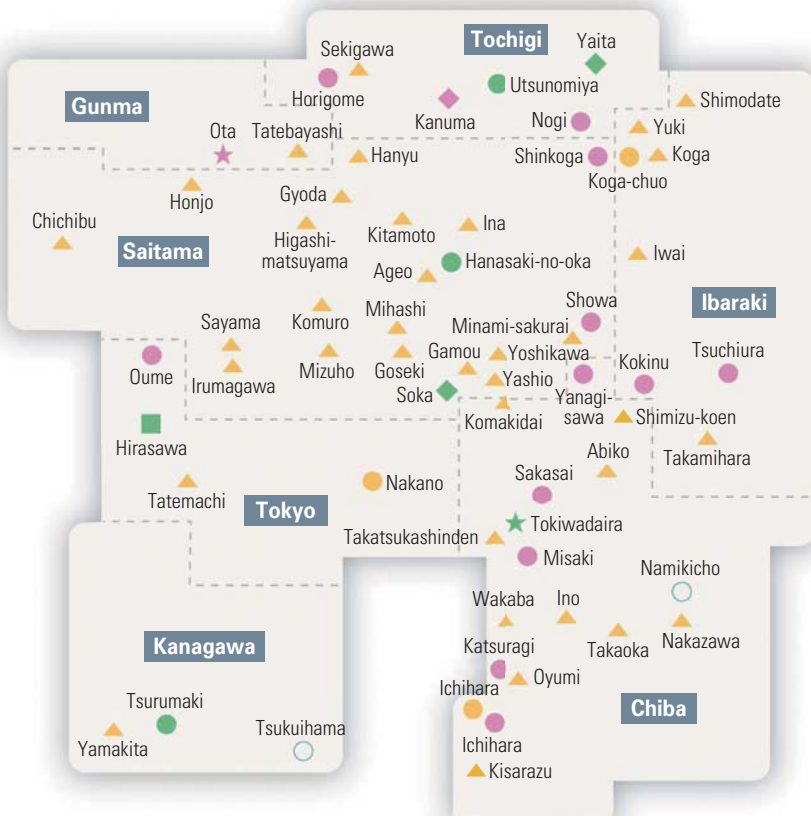
- Provide same-day and overnight nursing care services
- Combine fee-based homes with nursing care and increasing visiting-care day services



Fee-based Residential Homes with Nursing Care

- 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	40
Sites including fee-based nursing homes	21
Total	63

*As of the end of March 2015

- ★ 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

SPECIAL FEATURE: SOLAR POWER BUSINESS STRATEGY

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.

Solar Power Systems

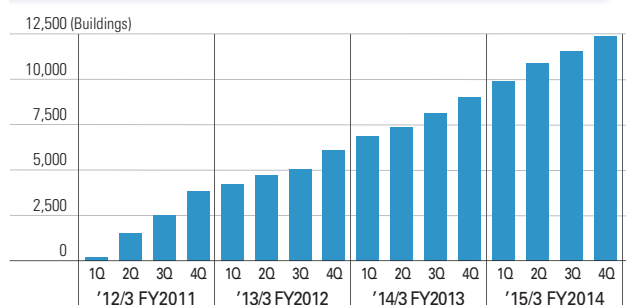
12,356 buildings

(172.4MW)

(Installation rate: Approx. 55%)



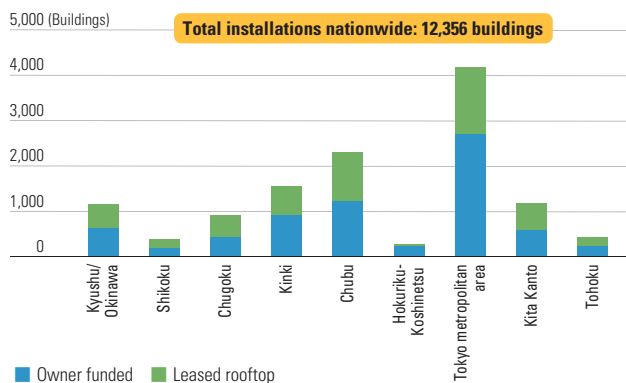
Installations of Solar Power Systems (cumulative)



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 installing solar panels acquired using investment funds from apartment owners (the construction business). The second is leasing the rooftops of apartments we manage so as to generate solar power and sell this electricity to power utilities (other businesses). The third is designing and constructing mega solar installations on vacant idle sites (the construction business).

Our main focus is solar power generation from panels the Group has installed on leased rooftops. Since launching this business in December 2013, we have installed panels on 3,969 buildings. Our aim is to proceed with installations on about 500 rooftops in the first half of fiscal 2015, adding about 64MW in generation capacity.

Solar Power Systems: Installations by Region (As of the end of March 2015)



Our Business Models for Solar Power Penetration (As of the end of March 2015)

Business models		Starting month	As of the end of March 2014		As of the end of March 2015	
1	Solar panel installations via owner investment	Mar. 2011	6,629	(79.7MW)	7,129	(89.1MW)
2	Solar panel installations on leased rooftops	Sep. 2012	2,372	(46.1MW)	5,227	(83.3MW)
	a SPC-based tie-ups	Feb. 2013	1,258	(24.6MW)	1,258	(24.6MW)
	b Leopalace21 Group's generation business	Dec. 2013	1,114	(21.4MW)	3,969	(58.7MW)
3	Mega solar projects using idle sites	Sep. 2013	Tomisato City, Chiba Pref.	(1.7MW)	Tomisato City, Chiba Pref.	(1.7MW)
TOTAL			9,001	(125.8MW)	12,356	(172.4MW)

*2b: Earnings on installations for Leopalace21 Group's generation business are subject to consolidated eliminations

*For details, see "Creating an Environmentally Friendly Society" on pages 62-63.

DIALOGUE ON LEOPALACE21'S CORPORATE GOVERNANCE

President Eisei Miyama and Outside Director Tetsuji Taya discuss governance-related themes such as what form of corporate governance the Company seeks, its response to the corporate governance code, and the code's requirement that at least two outside directors be appointed to a listed company's board of directors.

Eisei Miyama

Leopalace21 President and CEO

X

Tetsuji Taya

Leopalace21 Outside Director

(Industrial Growth Platform, Inc.)
(Partner & Managing Director)

What Form of Corporate Governance Leopalace21 Seeks

Management sincerely feels a corporate governance structure that passes muster at the global level is a necessity.

There are sufficient corporate governance systems already in place.

Miyama: While our core businesses are still in Japan, we are looking to overseas markets as a source of growth and foreign investors now comprise over 50% of our shareholder structure. We are thus implementing various initiatives to adapt our management approach to respond to such global shifts. One example of this is our sincere conviction that a corporate governance structure that passes muster at the global level is now a necessity.

Among other efforts, the Company is forging ahead by enhancing the functions of the Board of Directors, adopting management quality improvements, and bolstering corporate systems via efforts to strengthen collaboration among business divisions. While proceeding with efforts to upgrade our unique corporate governance, we are always asking ourselves what new idea or initiative should we consider next.

Taya: I think there has been rapid progress in strengthening Leopalace21's corporate governance systems in the past few years. Of particular note are the committees under the Board of Directors that act as consultative bodies to the board. With the effective functioning of these committees, I believe Leopalace21 has already put into place sufficient governance systems.

In view of the steady progress of its efforts to address new needs and changes in the times as the years go by, my sense is governance from here onward is unlikely to be a problem.

Some Measures in Place Address Corporate Governance Code Content

Miyama: A new tide is sweeping across the world of Japanese business with the confirmation of the final version of the Corporate Governance Code on March 5, 2015. We have been following with interest the expert council's process in reaching a final version, and are studying what we should do in specific terms now it has been decided.

That said, we have already commenced several initiatives that address issues raised in the code. On ensuring diversity, including the active participation of women, for example, we have already started implementation of an action plan to promote work-life balance.

In sum, there are items in the code we are already addressing and items we will address in the future. Our policy is to be mindful of sequence in disclosing what new initiatives we will need to implement and how we should explain these initiatives so as to satisfy all the requirements of the Corporate Governance Code.

Taya: I think companies should welcome the formulation of the Corporate Governance Code and the clarification of standards for listed companies. While there is an explicit statement on the addition of outside directors as a formal requirement, Leopalace21 has developed greater awareness of shareholder concerns in the course of its public share offerings and the diversification of its shareholder base to date, and there are hardly any issues in the code it will need to address immediately.

There are issues such as improving management transparency and advancing dialogue with shareholders on which the Company will need to raise its game, but I think what matters most is not to overreact to the issuance of a code of this sort and rush to put into place superficial compliance. Instead, I believe it is vital to satisfy the code based on actual practice by explaining those items where our response needs to be explained while striving to fully understand the real intent of code's principles and aims.

On diversity concerns, including the active participation of women, we are implementing an action plan to promote work-life balance.

I believe it is vital to satisfy the code based on actual practice by explaining items where necessary.

Ensuring Boardroom Debate Translates into Greater Corporate Value Creation

Miyama: As contained in the Corporate Governance Code, boards of directors are expected to create conditions that enable top management to take appropriate risks. We rely on Mr. Taya, our Outside Director, for necessary debate and advice so the Company can foster greater corporate value without losing our aptitude for speed.

The size of an outside director's commitment is a key factor to improving the quality of boardroom debates.

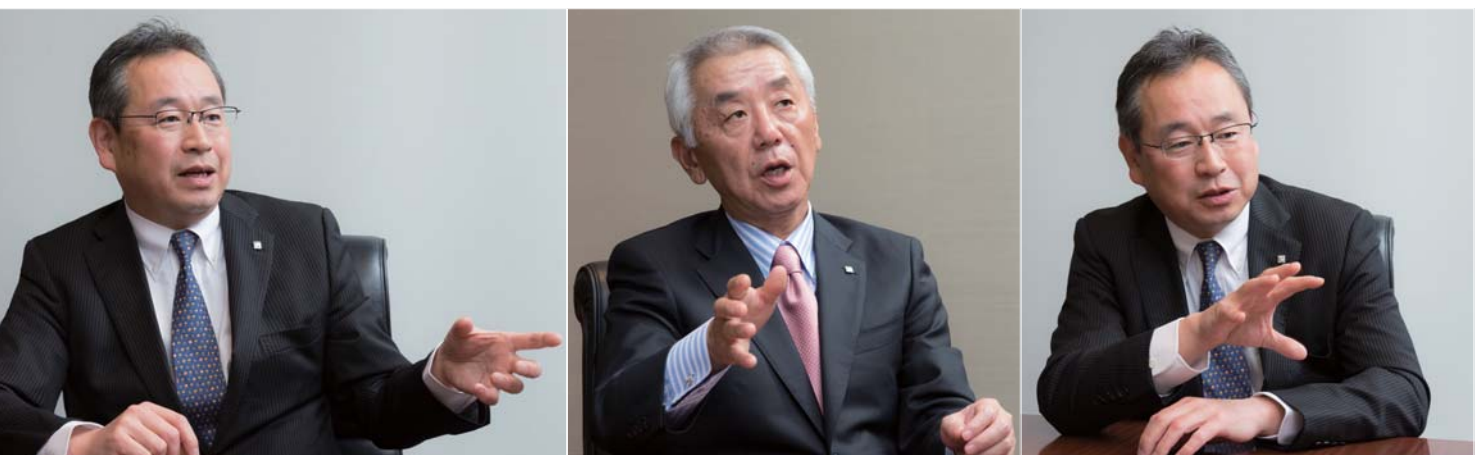
Taya: What is most important in promoting necessary debate and providing appropriate advice is information. As a condition for accepting an appointment to the board, I asked the Company to disclose all the information necessary for making decisions. Given I set terms of this sort for accepting this position, I have a duty to avoid irresponsible statements. I thus participate not only in meetings of the Board of Directors but also in the process of formulating agenda items for meetings, and I make an effort to grasp what is happening even in intermediate stages.

If directors were to simply vote up or down on fully developed proposals, this would reduce the board to a mere formality. Moreover, to contribute my own experiences and knowledge to decision-making, I have found there are many instances where improving proposals with appropriate revisions yields favorable results. In addition, there are many cases where agenda items involve stakeholders outside the Company, so it is necessary to minimize the risk and costs of their opposition.

For such reasons, I feel outside directors that can only attend a once-a-month meeting at a specific time are not well suited to fostering a fast-moving management approach. The key elements for outside directors to improve the quality of boardroom debate go beyond just offering an independent perspective to encompass the size and extent of his or her commitment to the company.

The Conduct and Attributes Leopalace21 Seeks from Outside Directors

Miyama: When we originally decided to appoint an outside director and looked into what sort of person we thought would be a good fit, we naturally sought someone that could offer us objective viewpoints based on a wealth of knowledge and experience but in addition to that, an important condition for us was to find someone who could act as a brake on management decisions. Leopalace21 is a company where decision-makers inherently come from



sales divisions and their viewpoints tend to be skewed toward speed in management decision-making. As a result, we have been very pleased to hear opinions based on an outside perspective on how we can correct course. We think Mr. Taya has done well in discharging such responsibilities.

We have been very pleased to hear opinions based on an outside perspective on how we can correct course.

Taya: While Mr. Miyama suggests he sought someone who could act as a brake on decision-making, in my capacity as Outside Director, I am not alone in performing this role at Leopalace21. The Company has built a proper governance structure that harnesses third-party contributions from its outside corporate auditors, its accounting auditor, lawyers, and others. The Corporate Business Promotion Headquarters, set up in 2014, has worked to enable the Company to benefit more from bottom-up input, collecting opinions from employees, and preparing the way for a horizontal organization across divisions that is less vertically segregated. In these ways and others, efforts across multiple dimensions have coalesced into a structure that has appropriate brakes in place but has not lost its ability to move fast.

Our Policy on Returning Profits to Shareholders

Miyama: What to do about shareholder returns is an important item for the Board of Directors. We have refrained from paying dividends but a pathway to a bolstering our earnings structure and accumulating retained earnings that can fund dividends has come into view. I think debate will focus on this matter from here.

Taya: In fiscal year 2014, profits returned to shareholders in some form by listed companies in Japanese came to a record high of about ¥13 trillion. There are also calls for Leopalace21 to restore dividend payments soon. In deciding on a policy for returning profits to shareholders within the context of the Company's tilt toward growth, I feel it is necessary to determine based on a dialogue with shareholders what kind of policy they really want.

It is necessary to determine based on a dialogue with shareholders what kind of policy they really want.



CORPORATE GOVERNANCE

Leoplace21 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 working in order to ensure corporate governance functions well.

Our Corporate Governance Philosophy

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

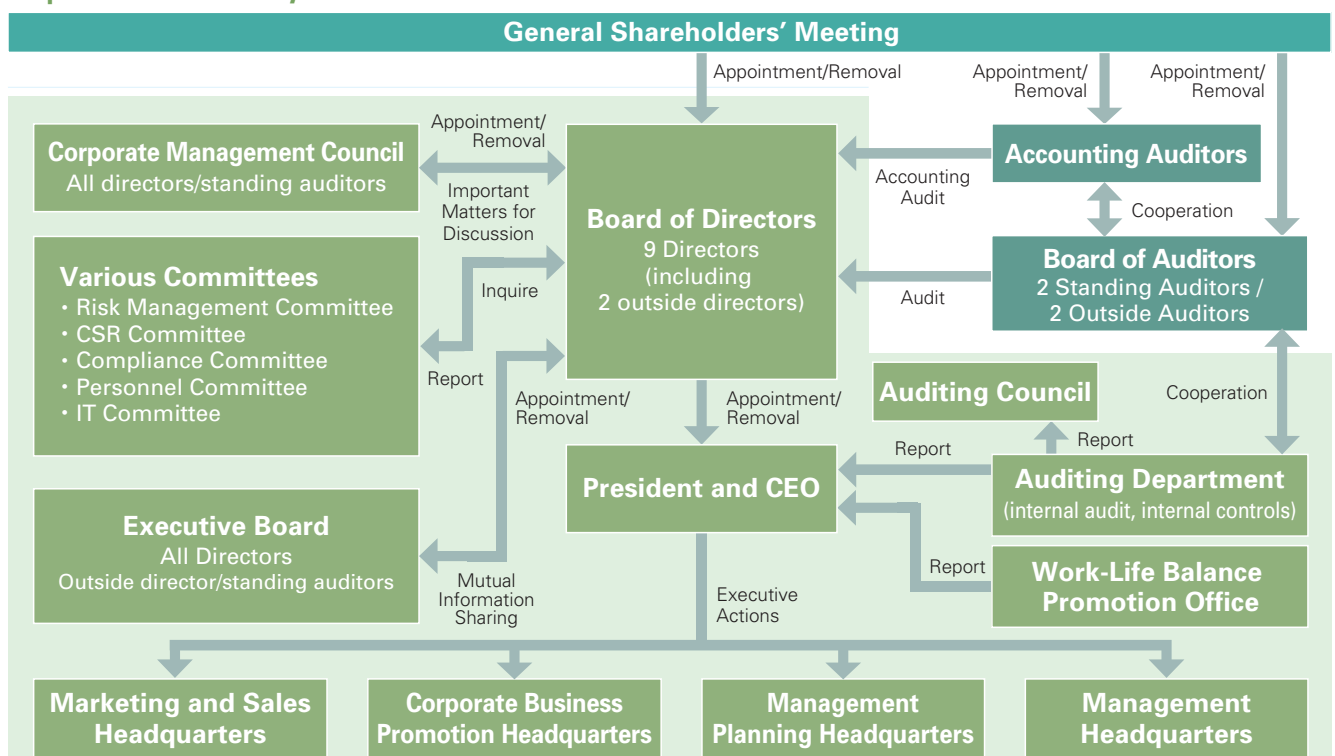
Based on this philosophy, we seek to improve management organizations and management systems through such measures as reinforcing check-and-balance functions in our decision-making processes and building good relations with shareholders, business partners, etc.

Specifically, we set up the Board of Directors to enhance business performance through appropriate and rapid decision-making, responding dynamically to changes in the business and management environment. At the same time, we strive for stronger management oversight through the Board of Auditors, a body set up to monitor the performance of duties 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.

In fiscal 2014, our headquarters division, called the Corporate Business Promotion Headquarters, was established to enhance collaboration among business divisions. Creating a four-headquarters system, it augments the three-prong structure that had been in place—the Marketing and Sales Headquarters, the Management Planning Headquarters, and the Management Headquarters. 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 PR and IR 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 nine directors, including two outside directors. It holds regular meetings once a month, while extraordinary meetings can be called at any time as required, in order for decisions to be made on critical management matters as well as to monitor business performance. Furthermore, regular meetings of the Corporate Management Council are held to discuss business operation policies or to study measures for their implementation.

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 the performance of duties by directors. BOA members attend important meetings of the Board etc. in accordance with the audit plan to monitor the decision-making 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 outside directors 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 the experience and knowledge they have obtained through their business careers as well as their insight as executives. The Company has notified the Tokyo Stock Exchange of the independence of its two outside directors and two outside auditors (four in total).

Attendance at Board Meetings by Outside Director

Tetsuji Taya	Attended 16 of 16 Board Meetings
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Attendance at Board and BOA Meetings by Outside Auditors

Koichi Fujiwara	Attended 16 of 16 Board Meetings
	Attended 9 of 9 BOA Meetings
Masahiko Nakamura	Attended 16 of 16 Board Meetings
	Attended 9 of 9 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 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 option)

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.

(Bonuses)

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

Amount of Compensation Awarded to Directors and Auditors (Millions of yen)

	Total compensation etc. across categories			
	Total compensation	Basic compensation	Stock options	Bonuses
7 board members (excludes OD)	277	277	—	—
2 auditors (excludes OA)	32	32	—	—
3 outside directors/auditors	20	20	—	—

* The table includes one director who resigned as of March 31, 2015 and one auditor who is to retire as of June 27, 2015; 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, 2015)

Content	Theme
Compliance training	Compliance basics, information management, contract management, etc.
E-learning	Harassment, information management, etc.
Distribution of compliance publications	Information management, etc.

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

training and other measures in its efforts to reduce risk and increase preparedness and prevention. 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.

Directors (As of June 26, 2015)



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

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

Executive Officers (As of June 26, 2015)



Back row, left to right
Executive Officer Yasushi Mizuno, Executive Officer Motoyoshi Ohishi, Executive Officer Bunya Miyao,
Executive Officer Kenichiro Samejima, Executive Officer Shigeru Ashida, Executive Officer Shu Ikeda

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

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 Property, Plant and Equipment and Real Estate Held for Resale

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

4. Loan Losses, and Reserve for Bad Debt

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

5. Reserve for Apartment Vacancy Loss

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

6. Leasehold Deposits and Guarantee Deposits

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

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

7. Financial Covenants

Financial covenants have been set on the numerous loan agreements that Leopalace21 has concluded with financial institutions. Accordingly, should consolidated or non-consolidated net assets, consolidated or non-consolidated 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

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.

BUSINESS OVERVIEW

AT A GLANCE

LEASING BUSINESS

42P

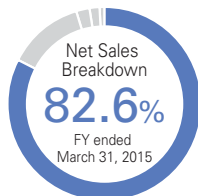


Segment overview

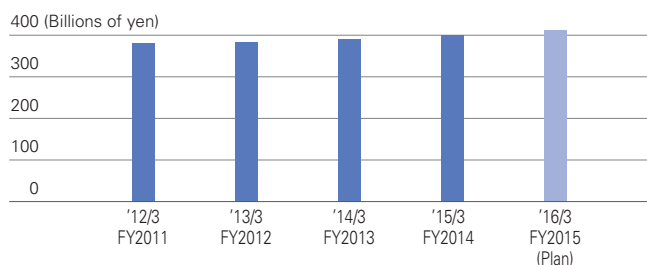
This business is involved in renting units of managed properties based on our master lease system. One rental agreement we developed allows usage fees to be paid on a monthly basis, easing the burden of initial costs. Another contract, the "monthly agreement," requires upfront payment of usage fees for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

key subsidiaries and affiliates

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

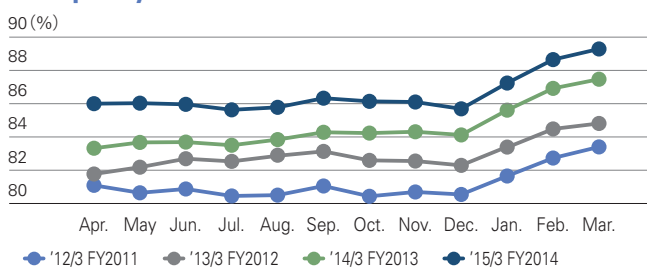


Changes in Net Sales



Key Data

Occupancy Rates



CONSTRUCTION BUSINESS

44P

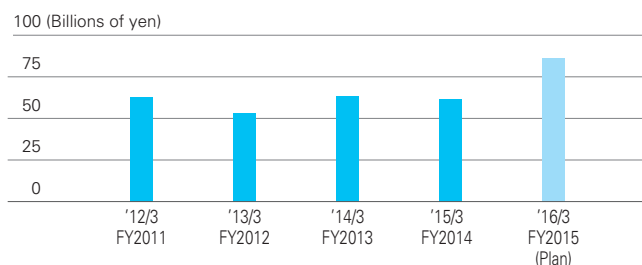
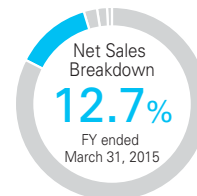
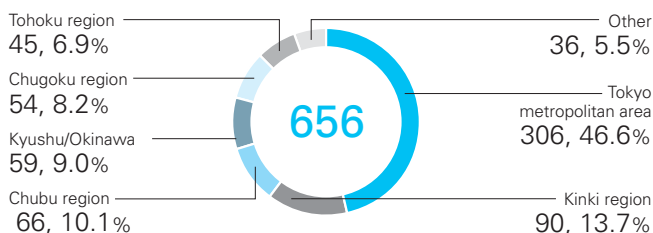


This business engages in construction, mainly apartments. We are working to bolster our product competitiveness, offering products designed from a female perspective and those for young people living on their own for the first time. Outside of apartments, we are expanding construction of commercial properties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

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

key subsidiaries and affiliates

- Morizou Co., Ltd. (custom-built homes)

Master Lease Apartment Completions (as of end-March 2015)
(Number of buildings, % of total)

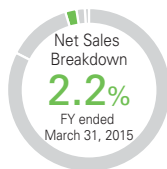
ELDERLY CARE BUSINESS 46P



Under the brand name “Azumi En”, our community-based nursing care business manages fee-based nursing homes, centers offering day services and short stays, and group homes at 63 locations in the Kanto region as well as providing home visits by nursing care staff, in-home nursing care support, etc.

key subsidiaries and affiliates

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



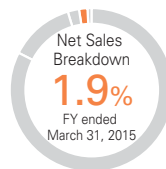
HOTELS & RESORT BUSINESS 47P



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 seven locations across Japan.

key subsidiaries and affiliates

- Leopalace Guam Corporation (hotels and resort business/Guam)
- WING MATE CO., LTD. (travel business)



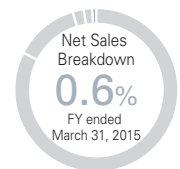
OTHER BUSINESSES 48P



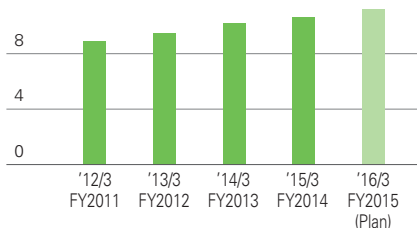
This segment centers on small-amount, short-term insurance and solar power generation. The latter installs solar power systems acquired with internal funds on leased rooftops, earning profits from reselling the electricity generated (solar panel installations on leased rooftops).

key subsidiaries and affiliates

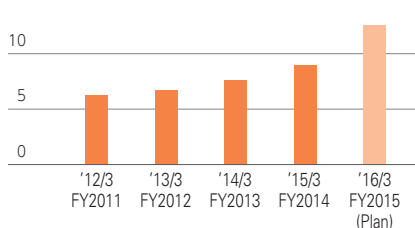
- Asuka SSI (small-amount, short-term insurance)
- Leopalace Power Corporation (solar power generation)
- Leopalace Energy Corporation (power producer and supplier)
- Leopalace Smile Co., Ltd. (special subsidiary for providing clerical services)



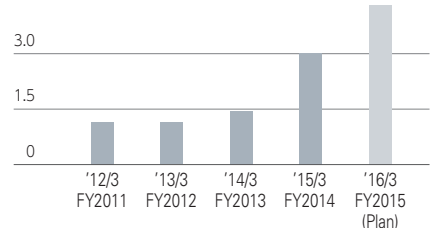
12 (Billions of yen)



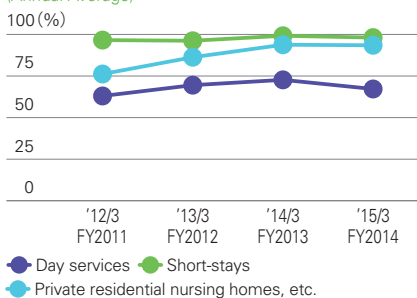
15 (Billions of yen)



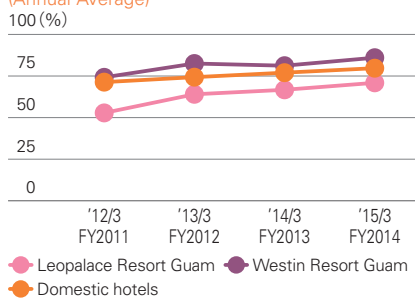
4.5 (Billions of yen)



Elderly Care Facility Occupancy Rates (Annual Average)



Guam/Domestic Hotel Occupancy Rates (Annual Average)



SEGMENT OVERVIEW

LEASING BUSINESS



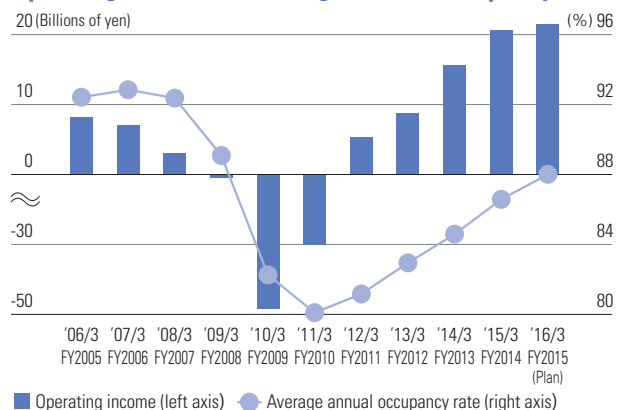
Performance

In fiscal 2014, the Leasing Business posted net sales of ¥399,316 million (a 2.7% increase from the previous fiscal year) and operating income of ¥20,532 million (a 31.9% increase from the previous fiscal year). We strove to maintain stable profit by securing tenants via our network, including directly run offices; promoting long-term occupancy via a more extensive menu of tenant services such as “Room Customize” plans and home security system installations; further bolstering marketing to corporations; sewing up demand from exchange students; and revamping routine tasks. As a result, the number of units managed at the fiscal year-end was 554,948 units (up 6,036 units from the previous fiscal year-end), the occupancy rate at the fiscal year-end was 89.29% (up 1.82 percentage points from the previous fiscal year-end), and the average annual occupancy rate was 86.57% (up 1.99 percentage points from the previous fiscal year-end).

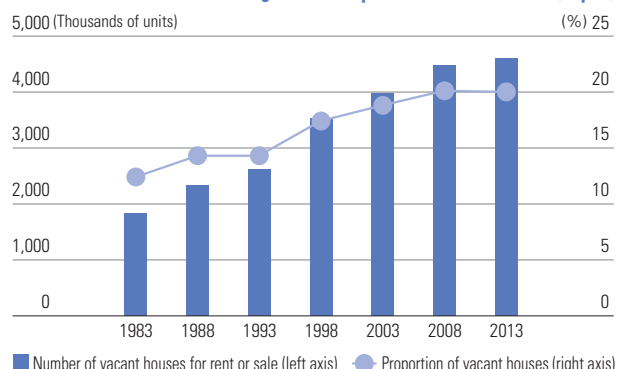
Business Environment and Related Issues

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

Operating Income and Average Annual Occupancy Rate



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



* 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" 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 or a kitchen where cooking is enjoyable.

Measures aimed at international students:

Our overseas branch network includes four sales offices in China, two in South Korea, one in Taiwan, two in Vietnam, and one each in Thailand, Cambodia, and Myanmar. We also operate call centers as well as an online site, "LAM School," aimed exclusively at partner schools. We are stepping up efforts to sew up 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 21,000. 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 220,000 units. We are also focusing on security camera installations, with the number of buildings with cameras in place now above 5,500.



SEGMENT OVERVIEW

CONSTRUCTION BUSINESS



Performance

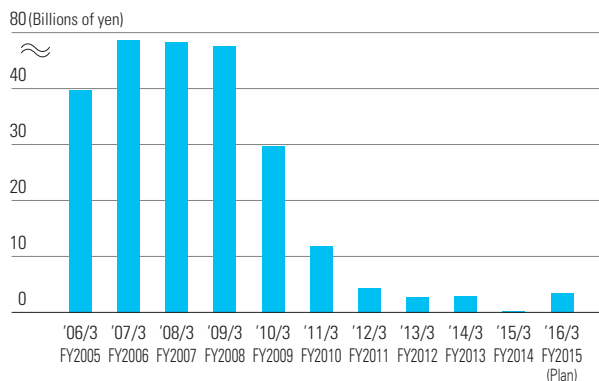
In fiscal 2014, total orders at the Construction Business came to ¥87,395 million (a 7.7% increase from the previous fiscal year), net sales to ¥61,312 million (a 2.9% decline from the previous fiscal year) and operating income of ¥210 million (a 92.9% fall from the previous fiscal year).

We took many steps to improve margins at the Construction Business such as focusing our apartment supply in areas where we expect high tenancy rates; adopting “non-sound system” fittings and fixtures that improve sound insulation; sprucing up product development via amenities appealing to women and young prospective tenants; broadening our construction mix with products responsive to diverse land use needs; and restructuring our project construction systems. Even so, earnings were squeeze by a labor shortage and a sharp rise in building materials prices.

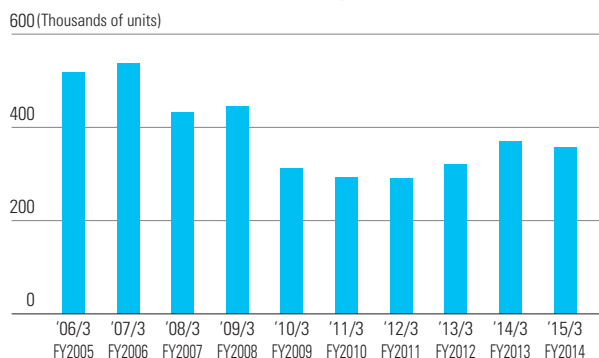
Business Environment and Related Issues

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

Operating Income



Number of New Rental Housing Starts



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

Strategies

Actively supplying apartments to specific areas:

Since the occupancy rate is high for relatively new buildings and, in particular, extremely high demand continues to be expected in Japan's three largest metropolitan areas, we aim to expand the number of apartments we supply, focusing on those areas. To establish a sales system based on tenant demand for apartments, we increased the number of branches by six at end-March 2015 from the previous year-end.

Enhancing product competitiveness:

We are actively working to reduce unwanted noise by combining sound-insulating flooring ("non-sound floor"), walls, and drainage pipes in a "non-sound system" with an industry-leading level of sound insulation that comes as a standard feature in apartments we build. We aim to erase the perception that Leoplace21 buildings have thin walls and build high-quality apartments that enable tenants to live comfortably.

Market expansion via new products:

With the introduction of products created from a female perspective, more women are becoming tenants at apartments we manage. 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 fiscal 2012, we shifted our focus to solar panel installations on leased rooftops, and this remains an initiative aimed at enhancing property values.

Broadening our construction product mix:

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

Key Products/Services

MIRANDA:

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



CLEINO:

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



Custom-built "Taiga" homes:

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



SEGMENT OVERVIEW

ELDERLY CARE BUSINESS



Performance

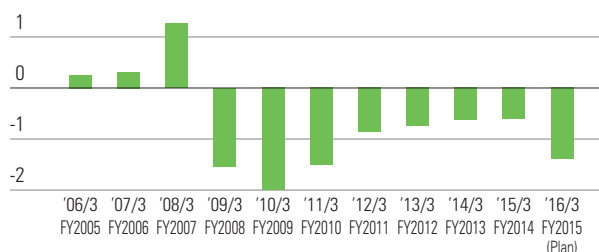
Thanks to expansion of the Group's "Azumi En" facilities, net sales at our Elderly Care Business in fiscal 2014 came to ¥10,608 million (a 4.3% increase from the previous fiscal year). This business posted an operating loss of ¥606 million, an improvement of ¥4 million versus the previous fiscal year.

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)

2 (Billions of yen)



Strategies

We have placed the Elderly Care Business under the management of the Marketing and Sales Headquarters, just as we have done for our two core pillars (the 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 63 "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.



SEGMENT OVERVIEW

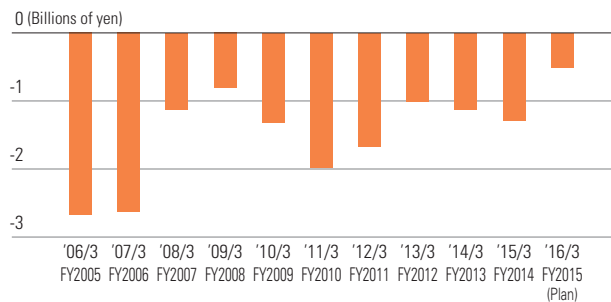
HOTELS & RESORT BUSINESS



Performance

In fiscal 2014, net sales at our Hotels & Resort Business (Guam resort facilities and hotels in Japan) grew to ¥8,951 million (an 18.2% increase from the previous fiscal year) thanks to the success of our campaign promoting use by corporate clients of our Leasing Business. Yet, due to heavy depreciation costs, the operating loss at this business came to ¥1,289 million, widening ¥170 million from the previous fiscal year.

Operating Income (Loss)



Business Environment and Related Issues

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

Strategies

To encourage longer stays by senior citizens, we market our Guam resort in ways that raise its profile as a golf destination. In addition, we are putting greater effort into attracting visitors from Asia. At our domestic hotels, we offer the event halls in our hotel facilities for sports group activities and company training exercises. 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

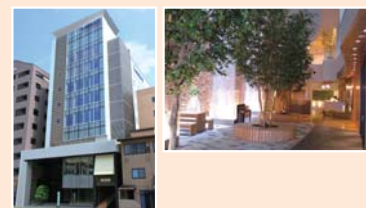
Leopalace Hotels:

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

*We plan to sell off Hotel Leopalace Niigata in July 2015.

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.



SEGMENT OVERVIEW

OTHER BUSINESSES



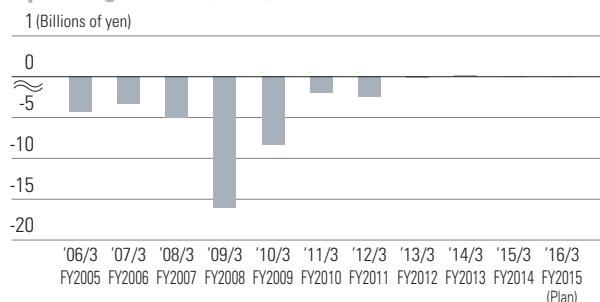
Performance

In fiscal 2014, net sales at Other Businesses, which includes small-amount, short-term insurance and solar power businesses, came to ¥2,999 million (a 108.0% increase from the previous fiscal year) and operating income came to ¥31 million (a 77.3% decrease from the previous fiscal year).

Business Environment and Related Issues

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

Operating Income (Loss)



Strategies

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

Key Products/Services

Solar power systems:

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

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



Metal Gripper

TOPICS: INFORMATION DISCLOSURE FOR STAKEHOLDERS

We believe proactively disclosing information in an appropriate manner is important to building relationships based on trust and deepening mutual understanding with stakeholders such as shareholders and other investors. As a step in this direction, we disclose information via investor relations (IR) sites and explanatory seminars aimed at individual investors.

IR Events and Seminars for Individual Investors

With the aim of promoting a deeper understanding of our businesses, strategy, and earnings among individual investors, we host IR events at major cities across Japan. Moreover, we are bolstering our communication with individual investors through active participation in seminars for them arranged by sponsors such as Tokyo Stock Exchange, Nomura Investor Relations Co., Ltd., etc. In fiscal 2014, we hosted or participated in 13 events or seminars for individual investors, and we intend to remain a participant in the years to come.

IR Events Held in Fiscal 2014

June 12, 2014	Event, Fukuoka
July 3, 2014	Seminar, Tokyo
July 23, 2014	Seminar, Kashiwa
August 8, 2014	Seminar, Osaka
August 24, 2014	Exhibit at IR Forum 2014 for Individual Investors
August 29, 2014	Seminar, Sapporo
September 11, 2014	Seminar, Osaka
September 12, 2014	Seminar, Kyoto
November 28, 2014	Event, Sendai
December 16-17, 2014	Exhibit at Nomura IR Individual Investor Fair 2014
January 16, 2015	Event, Nagoya
February 27, 2015	Seminar, Kita Kyushu
March 13-14, 2015	Exhibit at TSE IR Festa 2015

IR Events Scheduled for Fiscal 2015

June 6, 2015	Seminar, Hiroshima
June 12, 2015	Event, Nagoya
July 16, 2015	Seminar, Tokyo
July 22, 2015	Seminar, Okayama
August 4, 2015	Seminar, Osaka
September 12, 2015	Seminar, Kanazawa
December 11-12, 2015	Asset Management Fair 2015, Tokyo



Guide to Our IR Website

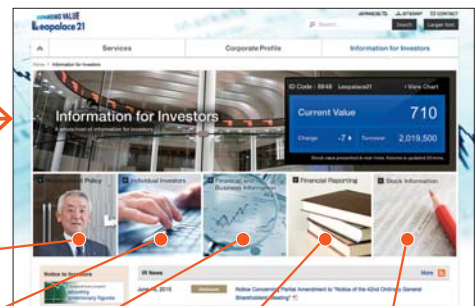
Targeting a broad cross-section of the investment community, Leopalace21 discloses the latest information on relevant management issues at our IR website. In addition to pages on management policies such as President Eisei Miyama's "Message from the President" and an outline of our Medium-term Management Plan, the website contains financial and business information, stock-related data as well as a section for individual investors where there are easy-to-understand explanations of our businesses. Investors can also access a library of materials we have disclosed in the past such as business reports, medium-term management plans, presentation materials, etc.

 <http://eg.leopalace21.com/ir/>

Home Page



Information for Investors



Management Policy

Read explanations of management policies

Individual Investors

Read introductions to earnings and benefits of investing

Financial and Business Information

Peruse important financial data

Financial Reporting

Read IR materials

Stock Information

View stock-related information

Recognized and Awarded for IR Website Content Richness

We believe our IR website is an important source of information for our individual investors, domestic institutional investors, and overseas investors, and we strive to satisfy the needs of all our investors with extensive disclosure. Our efforts were recognized with the

Internet IR Excellence Award in 2013 and 2014 by Daiwa Investor Relations, and our website received the "Bronze" score for three successive years in the Gomez Investor Relations site ranking, an annual assessment sponsored by Morningstar Japan K.K.

Leopalace21 and CSR

CSR ISSUES TO BE TACKLED AND OUR VALUE CHAIN

From a big-picture vantage point, we look at trends affecting apartments, our main product line, across the value chain and sum up the major stakeholders and relevant CSR issues for each step in the process.



Construction, Design and Execution



CSR Issues: Construction, Design and Execution

One of two core pillars at Leopalace21, the Construction Business designs and executes the construction of apartments, elderly care facilities, stores etc. to enable landowners to make the most effective use of their valuable land. With ensuring building quality at the top of the list, we see the following CSR issues as noteworthy.

- Building quality guarantees
- Ensuring safety at construction sites
- Environmental consideration
- CSR procurement guidelines
- Human resource development

<Key Stakeholders>

- Landowners
- Business partners
- Global environment
- Employees



Rental Sales at Counters, Corporate Sales



CSR Issues: Rental Sales at Counters, Corporate Sales

The management of buildings after they have been constructed is the other core pillar at Leopalace21. The Leasing Business provides guidance to individuals who visit one of our offices across Japan to look for a room and introduces corporate clients to rental properties. In marketing rental housing to individuals and corporations, we believe the following CSR issues warrant consideration.

- Compliance framework adherence
- Protecting client privacy
- Improving the quality of our response to clients
- Human resource development

<Key Stakeholders>

- Tenants
- Employees



Move-in Support for Tenants



CSR Issues: "Move-in and Settle-in" Support for Tenants

In response to diversifying lifestyles, we have focused on developing apartments that address needs such as sound insulation and earthquake resistance. We have also worked to broaden our menu of tenant services, installing security systems and introducing "Room Customize." At this stage of the value chain, we see the following CSR issues as noteworthy.

- High-quality service provision
- Product development that responds to various needs
- Compliance framework adherence
- Protecting privacy
- Improving the quality of our response to clients
- Human resource development

<Key Stakeholders>

- Tenants
- Employees



Leasing Management



CSR Issues: Leasing Management

In managing apartments and other facilities across Japan, we strive to protect the valuable assets of landowners and provide ongoing support to ensure a comfortable living environment for tenants. Beyond those, we also seek to build positive relationships with all our stakeholders so as to continue to develop our business and services in a sustainable manner. At this stage of the value chain, we see the following CSR issues as noteworthy.

- Environmental consideration
- Ensuring quality in order to support comfortable living
- Building positive relationships with local communities

<Key Stakeholders>

- Tenants/Landowners
- Global environment/Local communities

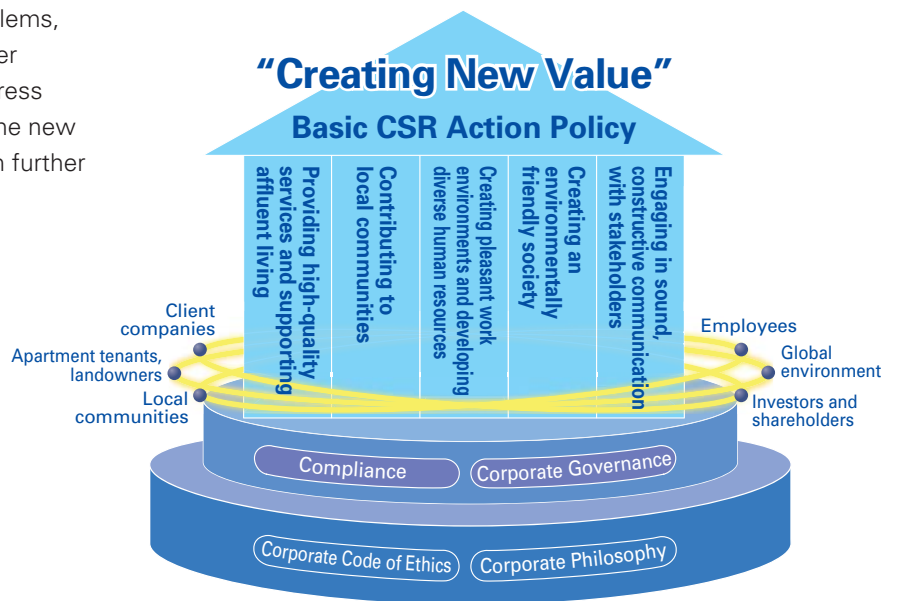
Leopalace21's MANAGEMENT PLAN AND CSR ACTIVITIES

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

Basic CSR Action Policy

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



	Links between Our Value Chain and CSR Activities				Basic CSR Action Policy	Restatement as ISO26000 Core Subjects
	Construction	Rental Sales to Individuals, Companies	Move-in Support	Leasing Management		
1	○	○	○	○	Engaging in sound, constructive communication with stakeholders	Stakeholder engagement
2	○	○	○	○	Providing high-quality services and supporting affluent living	Consumer issues
3	○	/	/	○	Contributing to local communities	Community involvement
4	○	○	○	○	Creating pleasant work environments and developing diverse human resources	Human rights, Labor practices
5	○	/	/	○	Creating an environmentally friendly society	Natural environment

CSR Management

In our CSR management, members of the CSR Committee serve as coordinators to bring together separate Group companies, divisions, and departments to engage in various CSR initiatives. The General Manager of the Management Planning Headquarters chairs the committee. 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.

Stakeholder's Voice

Leopalace21 has since 2009 conducted CSR activities by providing residential spaces, the core concept of our businesses. Our interest in CSR and corporate governance has increased since then, and in 2013 we devised a new Basic CSR Action Policy based on compliance and corporate governance.

Through our businesses, we think identifying solutions to social problems involving living spaces can help contribute to the creation of a sustainable society. We will continue to promote and implement activities that are in keeping with our Basic CSR Action Policy.



Director, Senior Executive Officer,
CSR Committee
Chairman

Yuzuru Sekiya

Links between Medium-term Management Plan and CSR Activities

Leopalace21 CSR activities play an important role in supporting three goals in "EXPANDING VALUE," the Medium-term Management Plan devised in May 2014. The setting of targets for key performance indicators

(KPIs) for CSR (non-financial activities) and steady progress toward these have contributed to advancing the management measures in our Medium-term Management Plan.

Plan Goal 1:

Achieve sustainable, balanced growth at core pillars and maximize group profits

Plan Goal 2:

Foster new domains and businesses that create new social value

Plan Goal 3:

Retain low-cost structure and strategic "selectivity and focus" approach to costs

Main CSR Activities	Links between Management Plan and CSR Activities			Key Performance Indicators (KPIs)
	Plan Goal 1: Achieve sustainable, balanced growth at core pillars and maximize group profits	Plan Goal 2: Foster new domains and businesses that create new social value	Plan Goal 3: Retain low-cost structure and strategic "selectivity and focus" approach to costs	
• Communication with diverse stakeholders	○	○	○	• No. of meetings for landowners
• High-quality services enabling safety and peace of mind • Improve client services further	○	○	○	• No. of rooms with security systems installed • No. of buildings with security cameras installed
• Involve stakeholders in cleanup activities	○	○	○	• No. of cleanup events • No. of cleanup participants
• Promote work-life balance • Foster diversity (boost ratio of female managers, employees with foreign citizenship)	○	○	○	• No. of employees in training programs • Overtime hours worked
• Solar power generation business • Factor environmental impact into our business activities	○	○	○	• No. of buildings with solar power systems installed • CO ₂ emissions reduction

BASIC CSR ACTION POLICY

ENGAGING IN SOUND, CONSTRUCTIVE COMMUNICATION WITH STAKEHOLDERS

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

Social Backdrop: Importance of Dialogue and Disclosure

Companies face growing social expectations to engage in active dialogue with a wide range of stakeholders, including shareholders, as well as to be transparent in their information disclosure. With finalization of the draft version of the Corporate Governance Code in March 2015, the Financial Services Agency has called on

companies to strive for proper collaboration with stakeholders based on recognition of their contribution to results and provision of resources as shareholders, local communities, employees, suppliers and business partners, customers, creditors, etc. toward the creation of longer-term corporate value and sustainable growth.

Goals and Achievements

Main Activities	Fiscal 2014 goals	Fiscal 2014 achievements	Fiscal 2015 goals
No. of meetings for landowners	330 times	193 times	250 times
No. of meetings for individual investors	15 times	17 times Achieved	16 times

Leopalace21's Main Stakeholders

Apartment Tenants

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



Landowners

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



Partners

- Cleanup campaign events (see page 58)



Employees

- Provide employee training (see page 60-61)



Local Communities

- Host workplace experience days for students
- Marche project events (see page 59)



Investors/Shareholders

Investors/Shareholders

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



Partners **Leopalace21** Employees

Apartment Tenants

Landowners

Partners

Employees

Local Communities

Investors/Shareholders

BASIC CSR ACTION POLICY

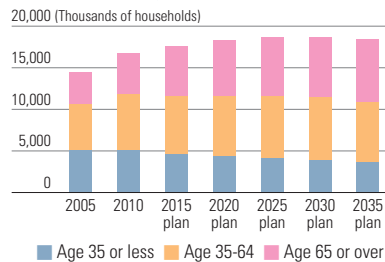
PROVIDING HIGH-QUALITY SERVICES AND SUPPORTING AFFLUENT LIVING

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

Social Backdrop: Lifestyle Diversification

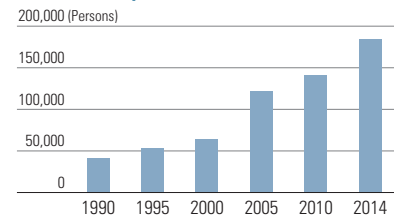
Attendant with shifting family composition reflecting the twin demographic trends of a growing elderly cohort and a low fertility rate and changing times, the number of single-person households continues to grow. At the same time, the foreign population in Japan continues to grow, with a three-fold increase in the number of international exchange students enrolled in schools in Japan compared with the 1990 level. In concert with such population trends, rental housing needs are becoming more diverse.

Single-person Households by Age Group: Estimates and Projections



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

Enrollment Trend for International Exchange Students in Japan



* Results of the 2014 annual survey of international students in Japan, Japan Student Services Organization (JASSO) (released in February 2015)
** In 2014, data on international students in Japan, including those at Japanese language institutes, was recorded.

Goals and Achievements

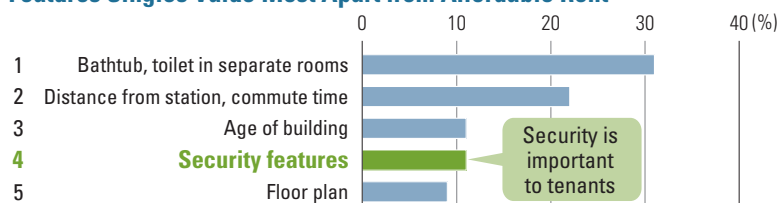
Main Activities	Fiscal 2014 goals	Fiscal 2014 achievements	Fiscal 2015 goals
High-quality services enabling safety and peace of mind Improve client services further	220,000 rooms Cumulative security system installations	226,801 rooms Achieved	240,000 rooms
	4,500 buildings Cumulative security camera installations	5,505 buildings Achieved	7,000 buildings
	Add 24 tenant services to "MY PAGE," a dedicated tenant site	10 tenant services	20 tenant services

Providing Safe, Secure Living Spaces

Offering Peace of Mind with Stronger Anti-Crime 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 lurkers. The number of buildings we manage nationwide with security cameras exceeds 5,505. Through our alliances with two security services firms, SECOM Co., Ltd. and Sohgo Security Services Co., Ltd. (ALSOK), we have moved forward with installing security systems at existing properties we manage and installing security systems as a standard feature in newly built apartments. The number of rooms with security systems installed reached 226,801 as of March 31, 2015, or a 40.9% installation ratio.

Features Singles Value Most Apart from Affordable Rent



Source: October 2010 COBS ONLINE survey, 432 respondents

Stakeholder's Voice



Sohgo Security Services Co., Ltd. (ALSOK)
HOME ALSOK Sales Department

Yuuki Tanaka

We think security cameras are great not only for their anti-crime deterrence, but also as a solution to the many troubles around garbage disposal at multi-dwelling residential buildings. United with Leopalace21 in delivering on the motto "safety and peace of mind around the clock 365 days a year," we will continue to provide tenants with a comfortable living environment.

Ideas for Expressing Individuality in Living Spaces

“Room Customize” Popular among Women

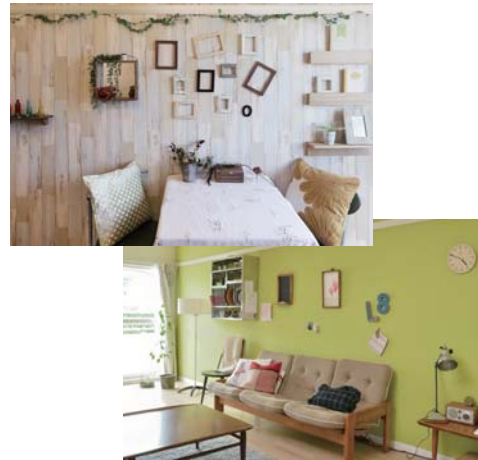
Plans Enable Tenants Living Alone to Express Preferences

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

The plans enable tenants to select from over a hundred kinds of wallpaper to decorate one wall in the apartment, with options to use thumbtacks, attach shelves, and paint, scribble and draw freely on the wall. The ratio of males to females in Leopalace21 apartments is 7:3 but among tenants opting for “Room Customize,” the ratio is 5:5, indicating the plans are especially popular among women.

The Company has sponsored a series of tenant service-themed contests. Among these was a collaborative project where Nagoya Mode Gakuen and Osaka Mode Gakuen students used materials supplied by Sangetsu Co., Ltd., a designer and retailer of interior decoration products, to create rooms that best expressed “Nagoya-ness” and “Osaka-ness” in Leopalace21 apartments.

Amid the uptrend in women living alone, especially in metro areas, Leopalace21 will continue to broaden the menu of services that enable tenants to express their tastes and preferences.



Cumulative Number of “Room Customize” Contracts



Community Space “L+” (L plus)

Hosting Events for Female Tenants

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

At present, there are “L+” spaces in Sendai, Osaka, and Shinjuku. One representative event co-hosted with Nestle Japan Ltd. at Sendai “L+” in August 2014 was a cooking class exclusively for tenants. A Nestle Japan advisory chef showed attendees how to make several tasty, easy-to-prepare dishes that can be made in Leopalace21 apartment kitchens.

In January 2015 at the recently opened Shinjuku “L+”, two outside experts led a “Sleeping Beauty” seminar on sleeping and the implications for beauty and on how to choose sleep products necessary for a good night’s sleep. The seminar was well received. The Shinjuku “L+” also hosts get-togethers for international exchange students, helping to improve the lives of tenants living alone and providing a space for tenants to interact with neighbors.



Improving Customer Satisfaction with High-quality Service

Services for International Tenants

Supporting Smooth Move-ins, Comfortable Living

Of our individual and student leases, 6.2% are for foreign tenants, and as a general rule, we seek to respond to international tenants in their native language. Our rental housing website is available in English, Chinese, Korean, and Portuguese, and our call center accepts calls in these four languages, in addition to Vietnamese.

We published a service guide in fiscal 2014—available in the five aforementioned languages—with highlights on lease terms, manners for those moving in and moving out, and general instructions. Some 482 people came to the 38 get-togethers we hosted at sites across Japan for international exchange students.

With offices in China, Korea, Taiwan, Vietnam, Thailand, Cambodia, and Myanmar, our overseas network enables customers who are planning to stay in Japan to search for apartments and sign contracts before they arrive in Japan. We are assigning more employees with foreign citizenship (175 employees as of March 31, 2015), to these offices, and we will continue to help people coming to Japan by supporting convenient apartment searches and comfortable living.

Stakeholder's Voice

Lease Management
Supervisory Division
Leasing Management
Department
"Meister" Secretariat
Deputy Division Chief

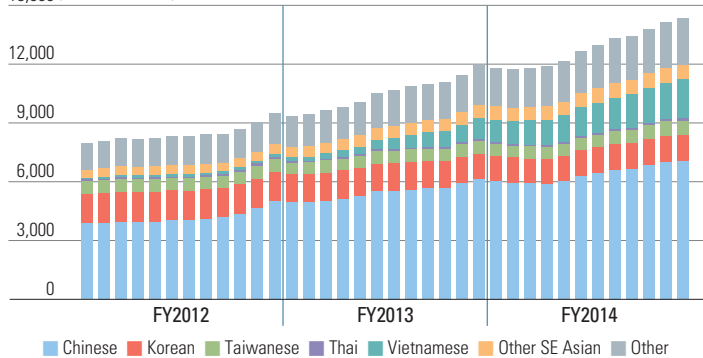
Naohito Yanagitsuru



We host get-togethers for international tenants to introduce them to Japanese culture and customs with the aim of providing them with a safe, comfortable living environment. The instructions on separating different kinds of waste and manners neighbors need to observe are especially appreciated, and we will continue to host get-togethers to dispel concerns international tenants may have about living in Japan.

Number of Foreign-tenant Leases: Major Nationalities

15,000 (Number of leases)



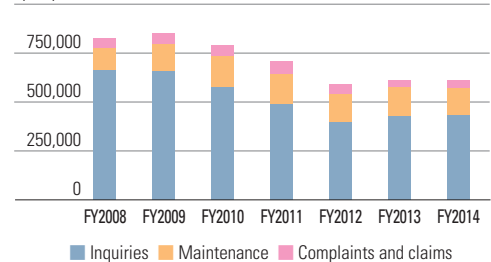
Service Centers Offer Full Post-Move-in Support

Leopalace21 has systems in place to respond swiftly to various problems and emergencies that can arise after moving in to an apartment. At our service centers, our specialist communicators listen carefully to what customers want and 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.

Our menu of tenant services is reshaping what people expect from rental housing, such as concierge services that responds to tenant requests via MY PAGE, a site exclusively for tenants launched in April 2013.

Trend in Incoming Calls to Our Service Centers

1,000,000 (Number of calls)



BASIC CSR ACTION POLICY

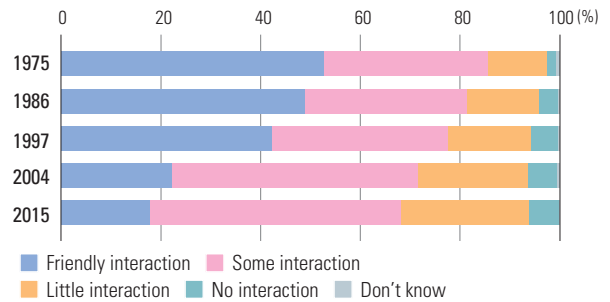
CONTRIBUTING TO LOCAL COMMUNITIES

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

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. In serving to promote interaction and collaboration among neighbors, the structure of residential neighborhoods and how people live play important roles.

Interaction among Neighbors



Source: Data is drawn from past publications of the Cabinet Office Public Opinion Poll on the Social Awareness; the questions have been revised since the 1997 poll (multiple-choice structure), and the above reflects the new questions.

Goals and Achievements

Main Activities	Fiscal 2014 goals	Fiscal 2014 achievements	Fiscal 2015 goals
Involve stakeholders in cleanup activities	<ul style="list-style-type: none"> Entire company in unison Four events (1,000 buildings per event) 	<ul style="list-style-type: none"> Entire company in unison Three events (2,458 buildings) 	<ul style="list-style-type: none"> Entire company in unison Four events
	<ul style="list-style-type: none"> Immediate vicinity of construction sites 2,000 sites, 10,000 participants 	<ul style="list-style-type: none"> Immediate vicinity of construction sites 2,437 sites, 12,294 participants Achieved 	<ul style="list-style-type: none"> Immediate vicinity of construction sites 3,200 buildings, 16,000 participants

Cleanup Campaign

Creating Better Places to Live via Our Cleanup Campaign

We are continuing with our neighborhood cleanup campaign to encourage our employees to form attachments to the towns and regions where we operate businesses and to promote deeper interaction among stakeholders. Those participating in the campaign are, naturally, Leopalace21 employees as well as landowners and their families and local contractors who work for us at apartment construction sites. It seeks to foster communication between them and local residents.



Cleanup campaign	Fiscal 2014 achievements
Entire company in unison (three events)	3,203 participants at 2,458 buildings
Immediate vicinity of construction sites	12,294 participants at 2,437 sites

Initiatives via Diverse Channels Harnessing Core Businesses

Leopalace21 continues to cooperate with “Kodomo #110,” a program where private-sector businesses register to provide emergency refuge to children who feel threatened or troubled. It is seen as effective in preventing an array of harms from coming to children. Of our 180 directly run sales offices, 134 offices are registered for the program, and 53 offices run by Leopalace Partners franchisees are also registered. Of the Azumi En facilities, 61 have been registered.

In addition, Hotel Leopalace Asahikawa began an initiative to provide a temporary shelter for those afflicted by domestic violence in response to a request from the Hokkaido police. We also continue to support snow

removal efforts. As a member of communities where we do business, we will continue to support efforts that enable their residents to live in safety.

Registered for “Kodomo #110” as of March 31, 2015	
Sales offices (includes Leopalace Partner franchisees)	187
Hotels	All seven
Azumi En facilities	61
Total	225 facilities and offices registered

Marche Project

French for marketplace, a neighborhood “marche” in France is a place where people go to shop for fresh ingredients and to swap friendly chitchat and gossip. With the aim of providing a venue that fosters communication among landowners, tenants, international tenants, and nearby residents, we launched the Marche Project, where vegetables and other perishables grown by landowners are sold in the parking lots of Azumi En facilities and apartments we manage. Thanks to the cooperation of all those who interact with us regularly, the three Marche Project events held in fiscal 2014 were well received. We will continue to host Marche Project events in the future with the aim of stimulating greater interaction with community residents.



Stakeholder's Voice

Hotels and Resort Supervisory Division
Resort Marketing Department
Planning Section
Deputy Section Chief

Rika Burako



It started with an idea proposed at a session of the recently launched cross-divisional training program that reached the planning stage. Everyone involved—sellers, buyers, and corporate sponsors—in the Marche Project benefits. I feel we were able to host a very lively, enjoyable event that offered fresh vegetables and fun.

Elderly Care Business Division
Operations Department
Manager

Tomoyoshi Isa



It commenced as the first Marche Project event, drawing 107 elderly residents receiving care at Azumi En facilities. Prudent consideration for safety management was important, and the event attracted more regular customers than we expected with the vegetables selling out quickly. I think the project was a positive in empowering facility employees responsible for various operations.

BASIC CSR ACTION POLICY

CREATING PLEASANT WORK ENVIRONMENTS AND DEVELOPING DIVERSE HUMAN RESOURCES

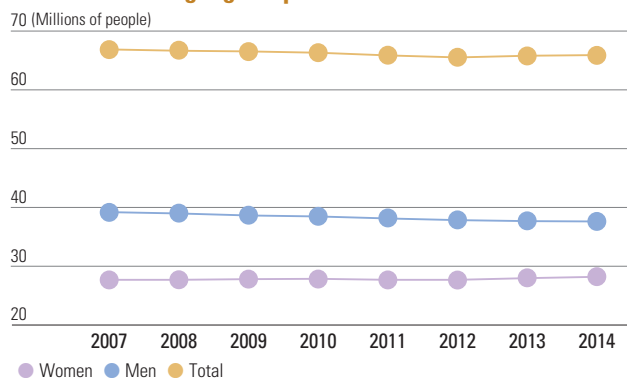
We believe human resources are important as upholders of our corporate philosophy of “creating new value.” Our aim is to build pleasant workplaces where people enjoy working, enabling all employees to express their diverse individuality and harness their capabilities.

Social Backdrop: Diversifying Work Styles and Human Resources

Work styles in Japan are becoming increasingly diverse for many reasons, from the shrinking of the working-age population attendant with a growing elderly cohort and low fertility rate to the advance of women in society. The 2014 working-age population was one million smaller than 2007's. Yet the female working-age population grew 200,000 year on year in 2014 even as the male working-age population shrank 100,000 in the same period.

At the same time, we expect human resources, including women, with diverse values and perspectives that reflect their varied backgrounds to be responsive to diversifying social needs and contribute to sustainable growth at the Company through innovation.

Trend in Working-Age Population



Source: Labor force status trends and labor force status by population group (2014), Statistics Bureau, Ministry of Internal Affairs and Communications

Goals and Achievements

Main Activities	Fiscal 2014 goals	Fiscal 2014 achievements	Fiscal 2015 goals
Promote work-life balance Foster diversity	Implement planned employee training 3,200 employees	2,739 employees in training programs	3,420 employees in training programs
	Implement measures to reduce overtime work hours 7% year-on-year reduction	2% year-on-year reduction in overtime work hours	70% usage rate of paid vacation days

Developing Diverse Human Resources

Overseas Training Program for Female Employees

Leopalace21 has started a month-long overseas training program called “Expanding Women’s Careers” with the aim of preparing female employees and managers to play active roles at overseas operations, which are expected to grow.

The February 2015 public invitation for applicants the Corporate Business Promotion Headquarters issued did not restrict eligibility on the basis of age, current position or function, and many ambitious women applied. From among those, seven were ultimately selected and sent for training in Thailand, Vietnam, and Cambodia in May 2015 with an eye to preparing them for future overseas assignments. Participants benefited from the program, striving to make the most of exposure to different languages, cultures, and sales training.

Stakeholder’s Voice

Overseas Department
Overseas Sales Section

Yachiyo Kaneko

(Center Partner, Leasing Business Division
Applicant from Takadanobaba office’s Sales
Supervisory Division from a public invitation)



In my fourth year after joining Leopalace21, I was given an opportunity to participate in training in Vietnam. By visiting Japanese companies and introducing them to local rental properties, I was able to experience a culture and ways of doing business that differs from Japan’s. I came away with the impression that new business opportunities await there.

The training program was a very valuable experience in helping me develop a sense of business that extends across borders.

Cross-divisional Training

As part of an initiative to improve our vertical organizational structure, the Company launched a cross-divisional training program in fiscal 2014 aimed at bolstering the organization in a holistic sense. The program focused on renewing mutual understanding of tasks across divisions and departments, intra-company interaction, work-life balance, and labor-management problems etc.

A total of 430 employees—core representatives from each division and department—came together over three sessions to share information, exchange views, and propose new initiatives that extend beyond the boundaries of our organizational chart. The third session was the grand finale, where teams from 26 different areas made presentations on implementing new initiatives. With preparations, announcements, and networking among teams, the program was a valuable learning opportunity.

Employee Training System

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

Employee Training System

	Fiscal 2013 results	Fiscal 2014 results	Fiscal 2015 plan
No. of training programs	3	7	10
No. of participants	460	2,739	3,420
Per-head training costs	¥76,326	¥77,087	Approx. ¥90,000
Total training days	70	163	408

Stakeholder's Voice

Corporate Business
Promotion Headquarters
Corporate Business
Promotion Division
Division Manager



Mayumi Hayashima

The Corporate Business Promotion Headquarters was set up in April 2014 to improve our capabilities as an organization by encouraging more robust collaboration across our divisions and departments. We have commenced cross-divisional training to build up a robust organization that is responsive to the needs of an era of diversification. Several measures proposed at training sessions have been adopted, such as the Marche Plan (see page 59) and renovation of properties we own.

Some employees knew little outside their own departments and so had constrained views on what could be achieved but through exchanges with other departments and exposure to fresh perspectives, the sessions opened up their thinking on how the Company as a whole can improve customer satisfaction. In pursuit of "creating new value," we will continue with further cross-divisional training.

Creating Worker-friendly Workplaces

Progress in Initiatives Advanced by Work-life Balance Promotion Office

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.

Established in January 2014, the Work-life Balance Promotion Office, which reports directly to the President, works to raise awareness of labor-management issues and to create work environments where each employee can achieve his or her full potential.

In fiscal 2014, total hours worked (average) fell 4.7 hours for managerial employees versus the year-ago level and fell 3.5 hours for non-managerial employees. As has been the case since 2012, Leoplace21 was again

recognized by the Ministry of Health, Labor, and Welfare for its many measures to support parenting by employees, and as a result, obtained the "Kurumin mark."



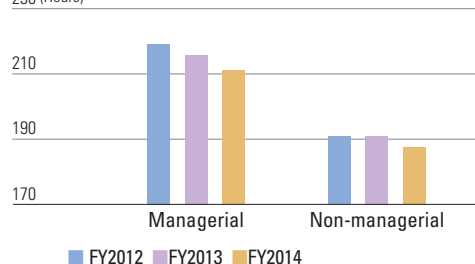
The Kurumin mark

■ Action Plan Goals (March 2015-March 2017)

- Goal 1: Implement measures to ensure employees have enough time for parenting
- Goal 2: Implement measures to encourage employees to use annual paid vacation days
- Goal 3: Offer some paid holidays for employees to care for sick children, spouses, or relatives

Comparison of Total Working Hours (Monthly Average)

230 (Hours)



Female employee ratio	28.4%
Female manager ratio	4.1%
No. of employees using paid holidays for parenting	79
No. of employees using shorter work-hour system	87

*Non-consolidated

BASIC CSR ACTION POLICY

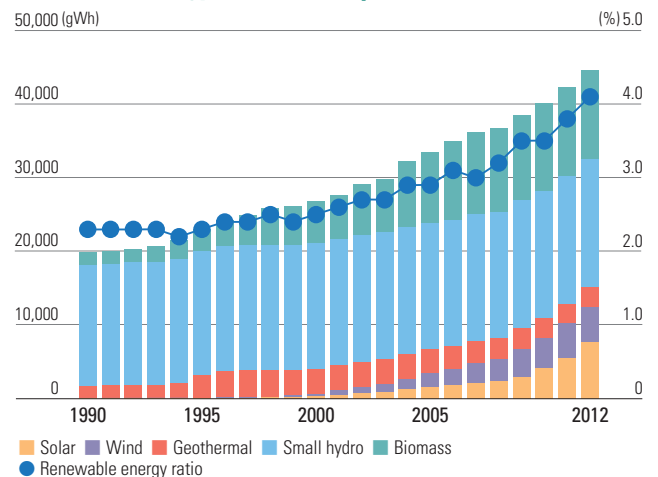
CREATING AN ENVIRONMENTALLY FRIENDLY SOCIETY

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

Social Backdrop: Growing Demand for Clean Energy

Regenerating naturally at a faster pace than it is used, renewable energy refers to energy from solar light, solar heat, water flows, wind flows, and geothermal sources. These clean energy sources do not release greenhouse gases (GHG) when generating power, so wider adoption of them is seen as a way to mitigate global warming. In fiscal 2013, Japan's total GHG emissions came to 1,480 million metric tons, up 10.8% versus the 1990 level, the base year in the Kyoto Protocol. Given this, interest in clean energy sources is growing, especially photovoltaic (PV) panels, the growth leader thus far. Most PV panel installations on the rooftops of buildings and factories and at vacant sites are for industrial power generation.

Trend in annual electricity generation (gWh) from renewable energy sources in Japan



Source: Renewables Japan Status Report 2014, Institute for Sustainable Energy Policies, an independent non-profit research organization

Goals and Achievements

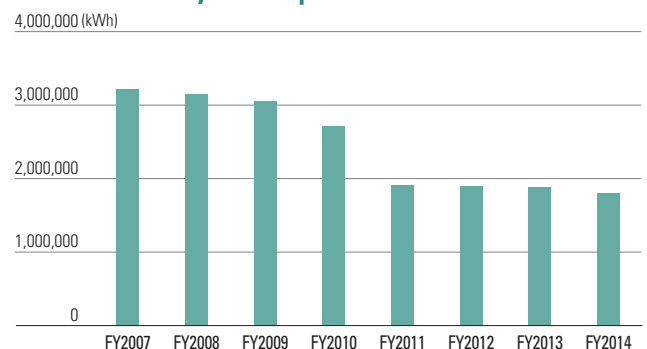
Main Activities	Fiscal 2014 goals	Fiscal 2014 achievements	Fiscal 2015 goals
Solar power generation business Factor environmental impact into our business activities	Install solar power systems in 3,000 buildings (38,371,000 kWh, CO ₂ emission reduction of 12,068t)	3,405 buildings (44,669,000 kWh, CO ₂ emission reduction of 14,048t) Achieved	535 buildings (8,093,000 kWh, CO ₂ emission reduction of 2,545t)
	Reduce electricity consumption/CO ₂ emissions via switch to new multi-function printers	Lowered CO ₂ emissions 423t via switch to new multi-function printers (446 units))	Replace remaining 40 older models with new multi-function printers/copiers
	Reduce gas consumption via introducing mini-cars to fleet	Lowered per-vehicle CO ₂ emissions 0.3t versus fiscal 2012 level	Replace remaining 80 standard cars with mini-cars sequentially

Reducing Environmental Impact of Our Business Activities

We are working to reduce the environmental burden of our business activities. In fiscal 2014, like in fiscal 2013, we implemented a "Cool Biz" dress code for summer as well as an Eco-green cards program, along with moving forward with the adoption of mini-cars and the installation of LED lighting at facilities we operate.

Recognizing the size of the impact our business activities have on the environment, we monitor electricity usage at the head office as well as for the entire company. We plan to continue to actively implement initiatives to reduce our impact.

Annual Electricity Consumption at Head Office



Adoption of Mini-cars

Leopalace21 pressed ahead with mini-car adoption in fiscal 2014, with mini-cars making up 97.4% of our vehicle purchases, up 58% compared to fiscal 2012. Compared with the fiscal 2012 level, our annual per-car gas consumption has fallen 143L and our annual per-vehicle emissions have declined 0.3t on a CO₂ equivalence basis.

Conversion to LED Lighting at Facilities We Operate

While providing a comfortable living environment to tenants, we implement measures to reduce energy use. In new apartments, LED lighting is now a standard feature for all lighting needs. In existing apartments, we are switching to LED lighting for common-use spaces when renovating.

Promotion of Solar Power Generation Business

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

As of March 31, 2015, the total installed generation capacity stands at 172.4 MW, with installations on the rooftops of 12,356 buildings. We plan to move forward with solar power generation initiatives as a way to support safe, sustainable energy generation.



Independent Third-party Assurance on Environmental Reporting



Independent Assurance Statement

June 9, 2015

Mr. Eisei Miyama
President and CEO
Leopalace21 Corporation

1. Purpose

We, Sustainability Accounting Co., Ltd., have been engaged by Leopalace21 Corporation ("the Company") to provide limited assurance on the Company's environmental performance data disclosed in item Fiscal 2014 Achievements of the section Goals and Achievements of the chapter Creating an environmentally Friendly Society of the Company's Annual Report 2015 ("the Environmental performance data"). The purpose of this task is to carry out our assurance procedures and express our conclusion on whether the Environmental performance data were calculated in accordance with the Company's standards. The Company's management is responsible for calculating the Environmental performance data. Our responsibility is to independently express our assurance conclusion.

2. Procedures Performed

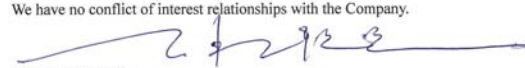
We conducted our assurance engagement in accordance with International Standard on Assurance Engagement 3000 (ISAE 3000). The key procedures we carried out included:

- Interviewing the Company's responsible personnel to understand the Company's standards
- Reviewing the Company's standards
- Performing cross-checks on a sample basis and performing a recalculation to determine whether the Environmental performance data were calculated in accordance with the Company's standards.

3. Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Environmental performance data have not been calculated in all material respects in accordance with the Company's standards.

We have no conflict of interest relationships with the Company.


Takashi Fukushima
Representative Director
Sustainability Accounting Co., Ltd.

FINANCIAL SECTION

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FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

1. Operating Environment

During the fiscal year although weakness can be seen in individual consumption due to the increase in consumption tax, a continuing recovery in the Japanese economy was evidenced primarily by the improvement in corporate earnings, employment, and income.

In the rental housing industry, new housing starts of leased units declined for the first time in three years (3.1% down year-on-year), due to negative effects of the rush demand from consumption tax increase. To achieve stable occupancy rates against the increasing number of vacant houses in the market, housing supply in limited areas and high-quality housing and services are required.

Under these conditions, the Leopalace21 Group (the Companies) aims to build solid management strength focusing on the core businesses, made up of leasing and construction, based on the Medium-term Management Plan "EXPANDING VALUE" announced in May 2014. In addition, the Companies aims to establish new businesses that will contribute to future growth.

2. Analysis of Business Results

(1) Net Sales

Net sales during the fiscal year were ¥483,188 million (up 2.6% year-on-year). In the Leasing Business, net sales was ¥399,316 million (up 2.7% year-on-year), and net sales in the Construction Business was ¥61,312 million (down 2.9% year-on-year).

Net Sales by Segment

(Millions of Yen)	2014	2015	Change
Leasing	388,768	399,316	10,548
Construction	63,135	61,312	(1,823)
Elderly Care	10,171	10,608	436
Hotels & Resort	7,571	8,951	1,379
Others	1,442	2,999	1,557
Total	471,089	483,188	12,099

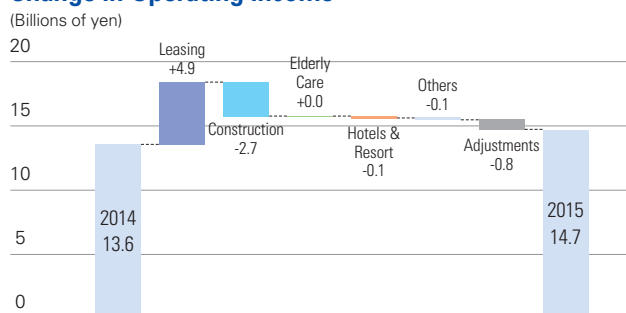
(2) Earnings

Gross profit was ¥75,755 million (up 8.9% year-on-year), operating profit was ¥14,763 million (up 8.0% year-on-year), recurring profit was ¥13,424 million (up 16.0% year-on-year), and net income was ¥14,507 million (down 4.7% year-on-year).

Operating Income by Segment

(Millions of Yen)	2014	2015	Change
Leasing	15,567	20,532	4,965
Construction	2,954	210	(2,743)
Elderly Care	(610)	(606)	4
Hotels & Resort	(1,118)	(1,289)	(170)
Others	137	31	(106)
Adjustments	(3,256)	(4,116)	(859)
Total	13,673	14,763	1,090

Change in Operating Income



(3) Segment Information

Leasing Business

The occupancy rate at the end of the consolidated fiscal year was 89.29% (up 1.82 points from the end of last fiscal year) and the average occupancy rate for the fiscal year was 86.57% (up 1.99 points from last fiscal year).

In the Leasing Business, to establish stable profits led by occupancy improvement, the Company implemented measures such as tenant recruitment utilizing direct leasing offices, franchises, and local real estate brokers, as well as expanding tenant services including "Room Customize" and security system installations. In addition, the Company further strengthened sales against corporate and foreign clients as well as reduced costs by reviewing routine property management tasks.

The number of units under management at the end of the consolidated fiscal year was 554 thousand (increasing 6 thousand from the end of last fiscal year), and the number of direct offices was 188 (increasing 4). The number of franchise offices was 141 (decreasing 23).

As a result of the above, net sales amounted to ¥399,316 million (up 2.7% year-on-year), and operating income was ¥20,532 million (up 31.9% year-on-year).

Construction Business

Orders received during the consolidated fiscal year were ¥87,395 million (up 7.7% from last fiscal year) and the

orders received outstanding at the end of the consolidated fiscal year stood at ¥58,136 million (up 30.7% from last fiscal year).

In the Construction Business, the Company aimed to improve profitability by focusing apartment supply in the three metropolitan areas where solid leasing demand is anticipated, as well as installing “non-sound floors” which improve sound insulation and developing products targeting females and young tenants. The Company also expanded construction variations to meet various land usage needs and has begun restructuring construction methods. However, the influence of worker shortage and cost increase in construction materials cannot be avoided. As a result, net sales came to ¥61,312 million (down 2.9% year-on-year), and operating income was ¥210 million (down 92.9% year-on-year).

Elderly Care Business

Net sales were ¥10,608 million (up 4.3% year-on-year), and operating loss was ¥606 million (improving ¥4 million).

Hotels & Resort Business

Net sales in resort facilities in Guam and hotels in Japan were ¥8,951 million (up 18.2% year-on-year), and the operating loss was ¥1,289 million (increasing ¥170 million in loss).

Other Businesses

In Other Businesses such as the small-claims and short-term insurance business, the solar power generation business, and the finance business, net sales were ¥2,999 million (up 108.0% year-on-year), and the operating income was ¥31 million (down 77.3% year-on-year).

3. Analysis of Financial Position

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

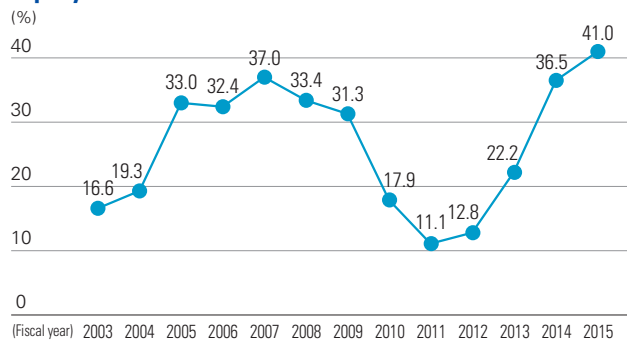
Total assets at the end of the fiscal year increased ¥20,815 million from the end of the previous fiscal year, to ¥308,274 million. This was mainly attributable to an increase of ¥16,927 million in property, plant and equipment, such as machinery, equipment, and vehicles related to solar power generation business, ¥2,801 million in deferred tax assets, ¥1,684 million in goodwill, and ¥1,429 million in other accounts receivables, despite a decrease of ¥3,023 million in prepaid expenses.

Total liabilities decreased ¥797 million from the end of the previous fiscal year, to ¥181,801 million. This primarily reflected a decrease of ¥9,699 million in long and short term advances received and ¥4,072 million in

reserve for apartment vacancy loss, despite an increase of ¥1,920 million in accounts payable for completed projects, ¥2,465 million in unpaid expenses and ¥7,260 million in interest-bearing debt.

Net assets were up ¥21,612 million from the end of the previous fiscal year, to ¥126,473 million, chiefly due to an increase of ¥16,216 million in retained earnings from net income and application of accounting policies related to retirement benefits, as well as an increase of ¥5,662 million in foreign currency translation adjustments. The ratio of shareholders' equity to assets rose 4.5 points from the end of the previous fiscal year, to 41.0%.

Equity Ratio



(2) Cash Flow Position

Cash flow from operating activities was a net inflow of ¥15,715 million (an increase of ¥131 million in net inflow from the previous fiscal year). This was mainly due to ¥12,896 million of income before taxes and minority interests, ¥7,736 million of depreciation, an increase of ¥4,924 million in accounts payable and a decrease of ¥3,774 million in long-term prepaid expenses, despite a decrease of ¥9,572 million in advances received and ¥4,072 million in reserve for apartment vacancy loss.

Cash flow from investing activities was a net outflow of ¥17,550 million (an increase of ¥10,620 million in net outflow from the previous fiscal year). This was primarily due to payments for the purchase of property, plant and equipment of ¥16,531 million, as well as payments for the purchase of shares in subsidiaries of ¥812 million.

Cash flow from financing activities was a net inflow of ¥1,747 million (a decline of ¥7,100 million in net inflow from the previous fiscal year). This was chiefly due to proceeds from the loans and bond of ¥3,354 million (after deduction of repayment of borrowings and bonds redemption), despite a repayment of finance lease

obligations of ¥1,606 million.

As a result, cash and cash equivalents at the end of the consolidated fiscal year stood at ¥74,504 million, an increase of ¥354 million from the end of the previous fiscal year.

4. Fundamental Policy on the Distribution of Earnings and Dividends

The Companies acknowledges that the distribution of profit to shareholders is an important management issue. The Company is aiming to restore dividends soon by accumulating profit.

5. Outlook

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

The Company aims to 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 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 2016, we expect sales of ¥525,000 million (up 8.7% year-on-year), operating profit of ¥19,500 million (up 32.1% year-on-year), recurring profit of ¥18,000 million (up 34.1% year-on-year), and net income of ¥16,000 million (up 10.3% year-on-year).

The Company has set its financial targets for the fiscal year ending March 31, 2017, the final year of its Medium-Term Management Plan, at ¥540.0 billion for net sales, ¥22.0 billion for operating profit, ¥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 Company 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 implementing a “leased roof solar power generation business” through a solar power generation company, operating the rental housing management business through a joint venture in South Korea and the local real estate agency business and development of service apartments in countries of ASEAN, the Company will continue to work on developing new business fields, products and services, as well as its revenue base.

FINANCIAL SECTION

CONSOLIDATED BALANCE SHEETS

Leopalace21 Corporation and consolidated subsidiaries
March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
ASSETS			
Current assets:			
Cash and cash equivalents (Notes 2-(2), 4, 5-(2))	75,221	74,767	625,960
Trade receivables (Note 5-(2))	6,254	5,490	52,050
Accounts receivable for completed projects (Note 5-(2))	1,714	1,651	14,270
Operating loans (Note 5-(2))	1,135	1,429	9,448
Securities (Notes 2-(4), 5-(2), 6)	831	350	6,918
Real estate for sale	21	—	181
Payment for construction in progress (Note 2-(15))	647	501	5,391
Raw materials and supplies	609	464	5,073
Prepaid expenses	3,656	6,679	30,425
Deferred tax assets (Notes 2-(18), 10)	4,447	4,147	37,005
Other accounts receivable	3,013	1,584	25,079
Others	4,907	5,479	40,841
Allowance for doubtful accounts (Notes 2-(10), 5-(2))	(199)	(221)	(1,658)
Total current assets	102,263	102,324	850,988
Non-current assets:			
Property, plant and equipment: (Notes 2-(6), 2-(22))			
Buildings and structures (Notes 8, 11-(3), 17)	130,100	121,075	1,082,634
Accumulated depreciation	(70,200)	(64,001)	(584,179)
Net	59,899	57,073	498,454
Machinery, equipment, and vehicles	20,259	7,326	168,586
Accumulated depreciation	(5,143)	(3,376)	(42,803)
Net	15,115	3,950	125,783
Land (Notes 8, 11-(3), 17)	83,289	81,800	693,093
Leased assets (Note 2-(19))	14,809	11,470	123,233
Accumulated depreciation	(6,928)	(6,302)	(57,654)
Net	7,880	5,167	65,579
Construction in progress	992	3,712	8,257
Other (Note 20-(1)-(a))	12,065	10,844	100,403
Accumulated depreciation	(9,811)	(10,046)	(81,648)
Net	2,253	797	18,755
Total property, plant and equipment	169,430	152,503	1,409,924
Intangible fixed assets:			
Goodwill	1,684	—	14,020
Others (Note 2-(8))	7,210	6,601	59,998
Total intangible fixed assets	8,894	6,601	74,019
Investments and other assets:			
Investment securities (Notes 2-(4), 5-(2), 6, 11-(3))	6,832	7,257	56,857
Long-term loans (Note 5-(2))	540	562	4,494
Bad debts (Notes 5-(2), 9)	1,297	1,420	10,793
Long-term prepaid expenses (Note 2-(9))	3,416	3,719	28,432
Deferred tax assets (Notes 2-(18), 10)	14,654	12,152	121,949
Others (Note 11-(3))	2,905	3,037	24,179
Allowance for doubtful accounts (Notes 2-(10), 5-(2))	(2,085)	(2,153)	(17,351)
Total investments and other assets	27,561	25,996	229,355
Total non-current assets	205,887	185,100	1,713,299
Deferred assets:			
Bond issuance cost	123	34	1,031
Total deferred assets	123	34	1,031
Total assets (Note 23)	308,274	287,459	2,565,318

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable (Note 5-(2))	2,803	2,685	23,325
Accounts payable for completed projects (Note 5-(2))	14,049	12,128	116,910
Short-term borrowings (Notes 5-(2), 5-(3), 11, 12)	60	—	499
Current portion of long-term debt (Notes 5-(2), 5-(3), 11)	23,005	2,940	191,443
Bonds due within one year (Notes 5-(2), 5-(3))	1,460	560	12,149
Lease obligations (Notes 5-(2), 5-(3), 11-(1))	2,355	1,575	19,598
Accounts payable—other	18,466	16,001	153,673
Accrued expenses	13	2	109
Accrued income taxes	944	998	7,863
Advances received (Note 2-(16))	40,781	45,051	339,367
Customer advances for projects in progress	6,930	5,242	57,672
Reserve for warranty obligations on completed projects (Note 2-(13))	404	231	3,362
Reserve for fulfillment of guarantees (Note 2-(14))	700	582	5,831
Asset retirement obligations (Note 18)	41	42	348
Others	4,504	4,517	37,482
Total current liabilities	116,521	92,560	969,636
Non-current liabilities:			
Bonds (Notes 5-(2), 5-(3))	3,960	920	32,953
Long-term debt (Notes 5-(2), 5-(3), 11)	7,196	27,077	59,885
Lease obligations (Notes 5-(2), 5-(3), 11-(1))	6,450	4,154	53,676
Long-term advances received (Note 2-(16))	22,198	27,628	184,723
Lease/guarantee deposits received	8,019	8,492	66,737
Deferred tax liabilities	253	135	2,112
Reserve for apartment vacancy loss (Note 2-(12))	5,280	9,352	43,940
Liability for retirement benefit	9,351	10,050	77,818
Asset retirement obligations (Note 18)	76	43	639
Others	2,492	2,182	20,743
Total non-current liabilities	65,279	90,037	543,229
Total liabilities	181,801	182,598	1,512,866
Net assets			
Shareholders' equity:			
Common stock: (Note 19)			
Authorized: 500,000,000 shares in 2015 and 2014			
Issued: 267,443,915 shares in 2015 and 2014	75,282	75,282	626,465
Capital surplus	51,501	51,501	428,571
Retained earnings	427	(15,788)	3,555
Treasury stock: 4,569,430 shares in 2015 and 4,569,210 shares in 2014 (Note 19)	(3,660)	(3,660)	(30,461)
Total shareholders' equity	123,550	107,334	1,028,131
Accumulated other comprehensive income:			
Net unrealized gains on "other securities" (Note 2-(4))	379	427	3,159
Foreign currency translation adjustments (Note 2-(21))	3,545	(2,116)	29,507
Remeasurements of defined benefit plans (Notes 3, 13)	(1,021)	(815)	(8,496)
Total accumulated other comprehensive income	2,904	(2,504)	24,170
Share subscription rights	18	18	149
Minority interests	0	13	0
Total net assets	126,473	104,860	1,052,452
Total liabilities and net assets	308,274	287,459	2,565,318

FINANCIAL SECTION

CONSOLIDATED STATEMENTS OF OPERATIONS

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Net sales (Note 22)	483,188	471,089	4,020,875
Cost of sales	407,433	401,510	3,390,472
Gross profit	75,755	69,579	630,403
Selling, general and administrative expenses	60,992	55,906	507,549
Operating profit (Note 22)	14,763	13,673	122,853
Other income (expenses):			
Interest and dividend income	124	110	1,036
Equity in gains of affiliated companies	—	2	—
Equity in losses of affiliated companies	(8)	—	(68)
Foreign exchange gains (losses), net (Note 2-(20))	52	10	438
Interest expenses	(1,143)	(1,574)	(9,518)
Commission fee	(461)	(550)	(3,836)
Gain on sale of property, plant and equipment (Note 14)	6	0	55
Gain from cancellation of contracted work	14	18	120
Gain on adjustment of accounts payable	50	5	422
Refund of fixed asset tax	88	—	735
Loss on sale of property, plant and equipment (Note 15)	(0)	(1)	(2)
Loss on retirement of property, plant and equipment (Note 16)	(309)	(13)	(2,575)
Impairment loss (Notes 2-(7), 8)	(224)	(778)	(1,868)
Others—net	(56)	(120)	(471)
Income before income taxes	12,896	10,781	107,319
Income taxes (Note 2-(18))			
Current	1,016	768	8,454
Refund	(0)	(31)	(0)
Deferred	(2,613)	(5,181)	(21,749)
	(1,597)	(4,444)	(13,295)
Income before minority interests	14,494	15,226	120,615
Minority interests	(13)	(3)	(113)
Net income (Note 23)	14,507	15,229	120,728

The accompanying notes are an integral part of these statements.

FINANCIAL SECTION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Income before minority interests	14,494	15,226	120,615
Other comprehensive income			
Net unrealized gains on "other securities"	(47)	(220)	(396)
Foreign currency translation adjustments (Note 2-(21))	5,660	6,943	47,105
Remeasurements of defined benefit plans	(205)	—	(1,709)
Share of other comprehensive income in affiliates	2	1	18
Total	5,409	6,723	45,017
Comprehensive income	19,904	21,950	165,632
Comprehensive income attributable to shareholders of the parent	19,917	21,953	165,745
Comprehensive income attributable to minority interests	(13)	(3)	(113)

The accompanying notes are an integral part of these statements.

(Note)	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Net unrealized gains on "other securities"			
Amount accrued in the fiscal year	(102)	(342)	(856)
Rearrangements and adjustments	—	—	—
Amount before tax effects adjustments	(102)	(342)	(856)
Tax effects	55	122	459
Net unrealized gains on "other securities"	(47)	(220)	(396)
Foreign currency translation adjustments (Note 2-(19))			
Amount accrued in the fiscal year	5,660	6,943	47,105
Rearrangements and adjustments	—	—	—
Amount before tax effects adjustments	5,660	6,943	47,105
Tax effects	—	—	—
Foreign currency translation adjustments	5,660	6,943	47,105
Remeasurements of defined benefit plans			
Amount accrued in the fiscal year	(348)	—	(2,898)
Rearrangements and adjustments	142	—	1,188
Amount before tax effects adjustments	(205)	—	(1,709)
Tax effects	—	—	—
Remeasurements of defined benefit plans	(205)	—	(1,709)
Share of other comprehensive income of associates accounted for using equity method			
Amount accrued in the fiscal year	2	1	18
Total	5,409	6,723	45,017

FINANCIAL SECTION

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2015 and 2014

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on "other securities"	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share subscription rights	Minority interests	Total net assets
Balance as of April 1, 2013	62,867	39,424	(31,018)	(4,726)	66,546	648	(9,061)	—	(8,413)	18	—	58,151
Net income			15,229		15,229							15,229
Issuance of new shares	12,415	12,415			24,830							24,830
Acquisition of treasury stock				(0)	(0)							(0)
Sales of treasury stock		(338)		1,066	728							728
Net change of items other than shareholders' equity					—	(220)	6,944	(815)	5,908	—	13	5,921
Total change during period	12,415	12,076	15,229	1,066	40,787	(220)	6,944	(815)	5,908	—	13	46,709
Balance as of March 31, 2014	75,282	51,501	(15,788)	(3,660)	107,334	427	(2,116)	(815)	(2,504)	18	13	104,860
Cumulative effects of changes in accounting policies			1,708		1,708							1,708
Restated balance after changes in accounting policies	75,282	51,501	(14,080)	(3,660)	109,042	427	(2,116)	(815)	(2,504)	18	13	106,568
Net income			14,507		14,507							14,507
Issuance of new shares												
Acquisition of treasury stock				(0)	(0)							(0)
Sales of treasury stock												
Net change of items other than shareholders' equity						(47)	5,662	(205)	5,409	—	(13)	5,396
Total change during period	—	—	14,507	(0)	14,507	(47)	5,662	(205)	5,409	—	(13)	19,904
Balance as of March 31, 2015	75,282	51,501	427	(3,660)	123,550	379	3,545	(1,021)	2,904	18	0	126,473

	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, 2014	626,465	428,571	(131,387)	(30,460)	893,188	3,556	(17,614)	(6,787)	(20,844)	149	108	872,602
Cumulative effects of changes in accounting policies			14,215		14,215							14,215
Restated balance after changes in accounting policies	626,465	428,571	(117,172)	(30,460)	907,404	3,556	(17,614)	(6,787)	(20,844)	149	108	886,818
Net income			120,728		120,728							120,728
Issuance of new shares												
Acquisition of treasury stock				(1)	(1)							(1)
Sales of treasury stock												
Net change of items other than shareholders' equity						(396)	47,122	(1,709)	45,015	—	(108)	44,907
Total change during period	—	—	120,728	(1)	120,727	(396)	47,122	(1,709)	45,015	—	(108)	165,634
Balance as of March 31, 2015	626,465	428,571	3,555	(30,461)	1,028,131	3,159	29,507	(8,496)	24,170	149	0	1,052,452

The accompanying notes are an integral part of these statements.

FINANCIAL SECTION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Cash flows from operating activities:			
Income before income taxes	12,896	10,781	107,319
Depreciation	7,736	5,993	64,377
Increase (decrease) in allowance for doubtful accounts	10	(269)	86
Increase (decrease) in reserve for apartment vacancy loss	(4,072)	(4,597)	(33,890)
Interest and dividend income	(124)	(110)	(1,036)
Interest expense	1,143	1,574	9,518
Foreign exchange loss (gain)	(52)	(10)	(438)
Equity in losses (earnings) of affiliated companies	8	(2)	68
Loss (gain) on sale of property, plant and equipment	(6)	0	(52)
Loss on retirement of property, plant and equipment	309	13	2,575
Impairment loss	224	778	1,868
Decrease (increase) in accounts receivable	(734)	(193)	(6,112)
Decrease (increase) in payment for construction in progress	(80)	(161)	(670)
Decrease (increase) in long-term prepaid expenses	3,774	10,067	31,413
Increase (decrease) in accounts payable	4,924	(2,513)	40,980
Increase (decrease) in customer advances for projects in progress	1,114	1,346	9,273
Increase (decrease) in advances received	(9,572)	(8,718)	(79,659)
Increase (decrease) in guarantee deposits received	(529)	(533)	(4,410)
Increase (decrease) in accrued consumption taxes	982	(519)	8,177
Others	(124)	4,628	(1,036)
Subtotal	17,827	17,557	148,352
Interest and dividends received	108	98	905
Interest paid	(1,139)	(1,584)	(9,478)
Income taxes paid	(1,081)	(486)	(9,002)
Net cash provided by operating activities	15,715	15,584	130,777

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Cash flows from investing activities:			
Payment for purchase of property, plant and equipment	(15,532)	(5,480)	(129,258)
Proceeds from sale of property, plant and equipment	230	3	1,916
Payment for purchase of intangible assets	(998)	(963)	(8,307)
Payment for purchase of investment securities	(101)	(216)	(844)
Proceeds from sale of investment securities	86	20	717
Payment for purchase of shares in subsidiaries	(812)	—	(6,762)
Payment for loans	(10)	(15)	(86)
Proceeds from collection of loans	38	36	319
Payments for purchase of time deposits	(600)	(700)	(4,992)
Proceeds from withdrawal of time deposits	500	400	4,160
Others	(349)	(13)	(2,906)
Net cash provided by (used in) investing activities	(17,550)	(6,929)	(146,045)
Cash flows from financing activities:			
Proceeds from short-term borrowings	3,900	—	32,454
Repayment of short-term borrowings	(3,900)	(11,874)	(32,454)
Proceeds from long-term debt	7,261	—	60,424
Repayment of long-term debt	(7,846)	(2,942)	(65,297)
Repayment of finance lease obligations	(1,606)	(1,210)	(13,367)
Proceeds from issuance of bonds	4,500	—	37,446
Payment for redemption of bonds	(560)	(560)	(4,660)
Proceeds from issuance of common stock	—	24,708	—
Proceeds from sales of treasury stock	—	728	—
Payment for purchases of treasury stock	(0)	(0)	(1)
Net cash provided by (used in) financing activities	1,747	8,848	14,545
Effect of exchange rate changes on cash and cash equivalents	441	265	3,672
Net increase (decrease) in cash and cash equivalents	354	17,768	2,949
Cash and cash equivalents at beginning of year	74,150	56,381	617,043
Cash and cash equivalents at end of year (Note 4)	74,504	74,150	619,993

The accompanying notes are an integral part of these statements.

FINANCIAL SECTION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2015 and 2014

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, 2015, which was ¥120.17 to US\$1.00. Such translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange. Certain amounts in the previous year's financial statements have been reclassified to conform to the current fiscal year's presentation.

Figures less than ¥1,000,000 had been rounded to the nearest ¥1,000,000 until the previous fiscal year. However, the Company changed the method of presentation to the statement of figures rounded down to the nearest ¥1,000,000 from the consolidated fiscal year.

2. Summary of Significant Accounting Policies

(1) Consolidation

The accompanying consolidated financial statements as of March 31, 2015 include the accounts of the Company and its 18 (13 as of March 31, 2014) significant subsidiaries (together, the "Companies"). Of these 18 subsidiaries, Leopalace21 (Shanghai) Property Management Co., Ltd., Leopalace21 (Cambodia) Co.,

Ltd., LEOPALACE21 REAL ESTATE (CAMBODIA) Co., Ltd., and Leopalace Energy Corporation have been included in the scope of consolidation because they were established in the consolidated fiscal year. Morizou Co., Ltd. and WING MATE CO., LTD., whose shares were acquired in the consolidated fiscal year, have also been included in the scope of consolidation. On the other hand, Leopalace Travel Co., Ltd. has been excluded from the scope of consolidation as a result of an absorption-type merger that took place in the consolidated fiscal year, through which WING MATE CO., LTD. became the surviving company and Leopalace Travel Co., Ltd. became the dissolved company. Affiliated companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. Investments in 1 affiliate (2 as of March 31, 2014) have been included for the year ended March 31, 2015. All significant intercompany balances and transactions have been eliminated.

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

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

The balance sheet date of Morizou Co., Ltd. is September 30. In preparing the consolidated financial statements, its financial statements based on a provisional settlement as of the consolidated settlement date in accordance with the actual settlement have been used.

(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) Derivative financial instruments and hedge accounting

1. Accounting principles

Fair market value

2. Derivative transactions are accounted for using hedge accounting.

(a) Hedge accounting method

The Company uses the deferred hedge accounting method.

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

(b) Hedging instrument and hedge items

Hedging instrument	Hedge items
Interest rate swaps	Long-term debt

(c) Hedge policy

Interest rate swaps are utilized as a hedge against possible future interest rate increases, in amounts that fall within the range of the particular liability being hedged.

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

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

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

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

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

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

(7) Long-lived assets

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

disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the assets exceeds their recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the assets, or the net selling price at disposition.

(8) Intangible assets

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

(9) Long-term prepaid expenses

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

(10) Allowance for doubtful accounts

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

(11) Liability for retirement benefit

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

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

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

(12) Reserve for apartment vacancy loss

Reserve for vacancy losses on apartment units managed under master lease agreements is calculated according to the projected loss that could occur during a logically

predictable period to prepare for the risk of increased vacancies. It is based on estimated losses resulting from current rental income and expected future occupancy rates for each rental property managed by the leasing division of the Company.

(13) Reserve for warranty obligations on completed projects

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

(14) Reserve for fulfillment of guarantees

In order to provide for losses attributable to its 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.

(15) Revenues and costs of construction contracts

In recognizing construction revenues and costs of constructions in process, the percentage-of-completion method is applied to such contracts in which the outcome of the construction activity is deemed certain by the end of the fiscal year ended March 31, 2015, while the completed contract method is applied to other constructions. Progress of construction is estimated based on the method of the ratio of actual cost incurred to total cost.

(16) Advances received

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

(17) Amortization method and period of goodwill

The Company has adopted a policy whereby goodwill is amortized on a straight-line basis over the period in which the economic benefits are expected to be realized.

However, if the amount is negligible, it is amortized at once when it takes place.

(18) Income taxes

Income taxes comprise corporate, inhabitant and enterprise taxes.

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(19) Leases

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.

(20) Foreign currency transactions

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

(21) Foreign currency financial statements

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

(22) Interest capitalization

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

Capitalized interests included in carrying value of property, plant and equipment were ¥2,260 million (\$18,809 thousand) and ¥2,034 million as of March 31, 2015 and 2014, respectively.

(23) Consumption taxes

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

(24) Earnings per share

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

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

3. Additional Information

(Changes in Accounting Policies)

(Application of accounting policies related to retirement benefits)

The Company has applied paragraph 35 of the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and paragraph 67 of the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, March 26, 2015) since the beginning of fiscal year. The calculation methods of the retirement benefit obligations and service costs have been revised and the method of attributing expected benefit to period has been changed from the straight-line basis to the benefit formula basis. In addition, the method of determining the discount rates has been changed from a method utilizing the discount rate based on the period approximate to the expected average remaining working lives of employees to the use of different discount rates according to the estimated timing of benefit payment.

In accordance with the transitional measures stated in

section 37 of the Accounting Standard for Retirement Benefits, the affected amounts due to changes in the calculation method of retirement benefit obligations and service costs are included in retained earnings as of the beginning of fiscal year.

As a result, liability for retirement benefit has decreased by ¥1,708 million (\$14,215 thousand) and retained earnings have increased by the same amount as of the beginning of fiscal year. The effect on operating income, recurring income and income before taxes and minority interests is insignificant.

Also, net assets per share have increased ¥6.50 (\$0.05) and the effect on net income is insignificant.

(New Accounting Standard and Guidance Not Yet Applied)

- Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013)
- Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013)
- Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013)
- Accounting Standards for Earnings Per Share (ASBJ Statement No. 2, September 13, 2013)
- Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, September 13, 2013)
- Guidance on Accounting Standard for Earnings Per Share (ASBJ Guidance No. 4, September 13, 2013)

(1) Overview

The ASBJ issued amendments with respect to handling changes in parent companies' ownership interests while retaining their controlling interests in their subsidiaries when the additional acquisition of stock from the subsidiaries is undertaken, handling expenses related to the acquisitions, handling the presentation of net income, changes from minority interests to non-controlling interests, and the settlement of provisional accounting treatment.

(2) Effective Dates

The Company will adopt these new accounting standards and amendments from the beginning of the fiscal year ending March 31, 2016.

With respect to handling the settlement of tentative accounting treatment, it will be adopted for any business combination that may be implemented at or after the beginning of the fiscal year ending March 31, 2016.

(3) Effects Arising from Applying New Standard and Guidance

Any impact of the revision of the Accounting Standard for Business Combinations, etc. on the Company's consolidated financial statements is under review at this point.

(Changes in presentation) (Consolidated Statements of Operations)

"Gain on adjustment of account payable," which was included in "Others" in "Non-operating income" in the previous fiscal year, is posted as a separate item in the fiscal year as its amount exceeds 10/100th of non-operating income. Consolidated financial statements for the previous fiscal year have been restated in order to reflect this change in description.

As a result, ¥160 million (\$1,332 thousand) posted as "Others" in "Non-operating income" in the consolidated financial statement of the previous fiscal year has been restated as ¥5 million (\$49 thousand) for "Gain on adjustment of account payable," and ¥154 million (\$1,282 thousand) for "Others."

(Retirement Benefits)

In accordance with the revisions of the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, March 26, 2015), the Company changed the presentation method for notes on retirement benefits based on a multi-employer plan. Accordingly, the consolidated financial statements for the previous fiscal year have been restated in order to reflect this change in presentation.

The contents of the restated consolidated financial statements and the figures for the major items for the previous fiscal year are noted in the corresponding section.

4. Cash and Cash Equivalents

(1) 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
	2015	2014	2015
Cash and cash equivalents in the consolidated balance sheets	75,221	74,767	625,960
Time deposits with original maturities of more than three months	(717)	(617)	(5,966)
Cash and cash equivalents in the consolidated statements of cash flows	74,504	74,150	619,993

(2) Principal assets and liabilities of the company that became a consolidated subsidiary during the consolidated fiscal year:

The breakdown of assets and liabilities at the time of the commencement of consolidation in connection with the new consolidation of Morizou Co., Ltd. with the acquisition of stock and the relationship between the acquisition cost for shares of Morizou Co., Ltd. and expenditure for the acquisition (net) are as follows.

March 31, 2015	Millions of yen	Thousands of U.S. dollars
Current assets	1,363	11,350
Fixed assets	202	1,681
Goodwill	1,684	14,020
Current liabilities	(1,333)	(11,092)
Non-current liabilities	(232)	(1,937)
Minority interests	(0)	(0)
Acquisition price of shares	1,685	14,022
Cash and cash equivalents	(961)	(7,998)
Balance: expenditure for acquisition	723	6,023

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 16 years subsequent to fiscal year end.

The derivative contracts represent interest-rate swap transactions designed to hedge against the risk of future fluctuations in interest rates on

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

(c) Risk management for financial instruments

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

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

The basic policy of derivatives trading is determined by the board of directors, and the

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

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

(d) Supplementary explanations on fair value of financial instruments

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

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

(2) Fair value of financial instruments

The carrying amount on the consolidated balance sheet and fair value of financial instruments as of March 31, 2015 and 2014 as well as the differences between these values are described below. Financial instruments whose fair values appear to be extremely difficult to determine are not included in the table. (See Note (b))

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

March 31, 2014	Millions of yen		
	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	4,472	10
(4) Operating loans	1,429		
Allowance for doubtful accounts (*1)	(106)		
Net	1,323	1,570	247
(5) Long-term loans	562		
Allowance for doubtful accounts (*1)	(96)		
Net	465	465	—
(6) Bad debts	1,420		
Allowance for doubtful accounts (*1)	(1,387)		
Net	32	32	—
Total assets	88,192	88,450	258
(1) Accounts payable and accounts payable for completed projects	14,814	14,814	—
(2) Bonds (*2)	1,480	1,487	7
(3) Long-term debt	30,017	30,017	—
(4) Lease obligations	5,729	5,788	58
Total liabilities	52,041	52,107	65

March 31, 2015	Thousands of U.S. dollars		
	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	625,960	625,960	—
(2) Trade receivables and accounts receivable for completed projects	66,320	66,320	—
(3) Securities and investment securities	37,327	37,474	146
(4) Operating loans	9,448		
Allowance for doubtful accounts (*1)	(875)		
Net	8,572	10,337	1,765
(5) Long-term loans	4,494		
Allowance for doubtful accounts (*1)	(787)		
Net	3,707	3,707	—
(6) Bad debts	10,793		
Allowance for doubtful accounts (*1)	(10,793)		
Net	—	—	—
Total assets	741,888	743,800	1,912
(1) Accounts payable and accounts payable for completed projects	140,236	140,236	—
(2) Short-term borrowings	499	499	—
(3) Bonds (*2)	45,102	45,135	32
(4) Long-term debt (*2)	251,328	251,637	308
(5) Lease obligations	73,274	73,000	(274)
Total liabilities	510,441	510,508	67
Derivative transactions	—	—	—

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

(*2) As of March 31, 2015 and 2014, bonds due within one year of ¥1,460 million (\$12,149 thousand for 2015) and ¥560 million, and current portion of long-term debt of ¥23,005 million (\$191,443 thousand for 2015) and ¥2,940 million are included in bonds and long-term debt, respectively.

Notes:

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

Assets

Cash and cash equivalents

Trade receivables and accounts receivable for completed projects

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

Securities and investment securities

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

quoted price or the price presented by transacting financial institutions.

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

Operating loans

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

Long-term loans

Bad debts

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

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

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

Short-term borrowings, 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).

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).

Derivative transactions

Please refer to "7. Derivative Transactions".

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

Item	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unlisted shares	1,253	1,145	10,430
Unlisted bonds (subordinate corporate bonds)	824	824	6,859
Subordinate beneficiary rights of loans and accounts receivable in trust	891	895	7,415
Contributions to limited investment partnerships	209	280	1,744
Total	3,178	3,145	26,449

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

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

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

March 31, 2014	Millions of yen			
	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	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	—	94	—	895
Operating loans	248	799	336	44
Long-term loans	18	39	22	482
Bad debts	—	—	—	1,420
Total	82,526	2,744	1,502	3,666

March 31, 2015	Thousands of U.S. dollars			
	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	625,960	—	—	—
Trade receivables and accounts receivable for completed projects	66,320	—	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1)Government and municipal bonds	—	7,489	4,160	—
(2)Corporate bonds	—	—	—	—
Other securities with maturities				
(1)Government and municipal bonds	6,316	10,892	—	—
(2)Bonds (Corporate bonds)	—	—	—	6,859
(3)Others	603	—	—	7,415
Operating loans	1,758	6,062	1,346	281
Long-term loans	133	271	163	3,925
Bad debts	—	—	—	10,793
Total	701,092	24,715	5,671	29,275

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

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

March 31, 2014	Millions of yen					
	Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years	Due after 5 years
Bonds	560	560	360	—	—	—
Long-term debt	2,940	27,077	—	—	—	—
Lease obligations	1,575	1,388	1,142	1,023	599	—
Total	5,075	29,026	1,502	1,023	599	—

March 31, 2015	Thousands of U.S. dollars					
	Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years	Due after 5 years
Short-term borrowings	499	—	—	—	—	—
Bonds	12,149	10,485	7,489	7,489	7,489	—
Long-term debt	191,443	6,213	5,490	5,083	4,251	38,846
Lease obligations	19,598	17,821	17,144	13,947	4,726	36
Total	223,690	34,520	30,123	26,520	16,467	38,882

6. Securities

(1) At March 31, 2015 and 2014, information with respect to held-to-maturity debt securities for which market prices were available was summarized as follows:

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

March 31, 2014	Millions of yen		
	Consolidated balance sheet amount	Market value	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Government and municipal bonds	1,232	1,243	10
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	1,232	1,243	10
Securities whose consolidated balance sheet amount not exceeds their acquisition cost:			
Government and municipal bonds	106	106	(0)
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	106	106	(0)
Total	1,339	1,350	10

March 31, 2015	Thousands of U.S. dollars		
	Consolidated balance sheet amount	Market value	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Government and municipal bonds	12,005	12,152	146
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	12,005	12,152	146
Securities whose consolidated balance sheet amount not exceeds their acquisition cost:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	—	—	—
Total	12,005	12,152	146

(2) Investment securities classified as other securities as of March 31, 2015 and 2014 were as follows:

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

March 31, 2014	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Stock	1,128	460	668
Bonds:			
Government and municipal bonds	1,916	1,882	34
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	3,045	2,342	702
Securities whose consolidated balance sheet amount not exceeds their acquisition cost:			
Stock	—	—	—
Bonds:			
Government and municipal bonds	77	77	(0)
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	77	77	(0)
Total	3,122	2,420	702

March 31, 2015	Thousands of U.S. dollars		
	Consolidated balance sheet amount	Acquisition cost	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Stock	8,150	3,828	4,322
Bonds:			
Government and municipal bonds	15,440	15,188	251
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	23,590	19,016	4,573
Securities whose consolidated balance sheet amount not exceeds their acquisition cost:			
Stock	—	—	—
Bonds:			
Government and municipal bonds	1,731	1,736	(4)
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	1,731	1,736	(4)
Total	25,322	20,753	4,568

(Note)

March 31, 2015

¥1,253 million (\$10,430 thousand) of non-listed shares, ¥824 million (\$6,859 thousand) of non-listed company bonds (subordinate corporate bonds), ¥891 million (\$7,415 thousand) of subordinate beneficiary rights to loans and money in trust, and ¥209 million (\$1,744 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. The Company acquired the non-listed company bonds (subordinate corporate bonds) and the subordinate beneficiary rights to loans and money in trust as a result of the securitization of non-recourse apartment loans that financial institutions had loaned to clients as funds for paying charges for jobs contracted to the Company.

March 31, 2014

¥1,145 million of non-listed shares, ¥824 million of non-listed company bonds (subordinate corporate bonds), ¥895 million of subordinate beneficiary rights to loans and money in trust, and ¥280 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. The Company acquired the non-listed company bonds (subordinate corporate bonds) and the subordinate beneficiary rights to loans and money in trust as a result of the securitization of non-recourse apartment loans that financial institutions had loaned to clients as funds for paying charges for jobs contracted to the Company.

(3) Proceeds from sales of other securities and gain or loss on these sales for the years ended March 31, 2015 and 2014 were summarized as follows:

March 31, 2015

None

March 31, 2014

None

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Investment securities (stocks)	34	41	283
Of which, investment in joint venture	34	28	283

7. Derivative Transactions

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

March 31, 2015

None

March 31, 2014

None

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

March 31, 2015

Hedge accounting method: Exceptional accounting treatment for interest rate swaps

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

Major hedged item: Long-term debt

Contract value, etc.: ¥233 million (\$1,944 thousand)

Contract value, etc. lasting longer than one year: ¥133 million (\$1,113 thousand)

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

March 31, 2014

None

8. Long-lived Assets

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Residential properties for rent	57,007	57,830	474,389
Domestic hotels	12,885	13,410	107,223
Head office and branches	24,714	24,193	205,665
Leopalace Resort Manenggon Hills Guam	27,104	23,783	225,551
Westin Resort Guam	15,157	13,773	126,135
Leopalace Power (solar power systems)	13,729	2,973	114,253

(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
	2015	2014	2015
Machinery, equipment, and vehicles	155	155	1,290

(3) The Companies recognized impairment loss on the following asset groups for the years ended March 31, 2015 and 2014:

March 31, 2015

Purpose	Category	Location	Impairment loss	
			Millions of yen	Thousands of U.S. dollars
Rental assets (Apartment buildings and others, 23 units)	Buildings and Structures	Kawaguchi-shi, Saitama, etc.	1	10
	Land		160	1,336
Hotel	Buildings and Structures	Yokkaichi-shi, Mie	58	490
	Land		3	31
Total			224	1,868

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

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

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

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

March 31, 2014

Purpose	Category	Location	Impairment loss
			Millions of yen
Rental assets (Apartment buildings and others, 70 units)	Buildings and Structures	Kobe-shi, Hyogo, etc.	98
	Land		680
Total			778

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.

9. Bad Debts

Bad debts are claims as stipulated under Article 32, Paragraph 1, and Item 10 of the Regulation concerning Financial Statements. Bad debts at March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Claims in the process of bankruptcy	1,066	1,092	8,875
Bad debts	107	186	891
Others	123	141	1,026
Total	1,297	1,420	10,793

10. Income Taxes

(1) Significant components of deferred tax assets and liabilities as of March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deferred tax assets:			
Loss carried forward for tax purposes	43,825	46,999	364,697
Impairment loss	22,858	23,035	190,219
Liability for retirement benefit	3,024	3,581	25,166
Reserve for apartment vacancy loss	1,730	3,333	14,403
Advances from customers for rent income	1,387	2,551	11,549
Loss on devaluation of property, plant and equipment	1,295	1,427	10,778
Elimination of unrealized gain	867	374	7,215
Bonuses payable	811	741	6,753
Allowance for doubtful accounts	654	705	5,448
Deposits received	432	518	3,598
Loss on devaluation of real estate for sale	384	424	3,203
Excess amortization on software	270	278	2,249
Reserve for fulfillment of guarantees	247	207	2,062
Reserve for warranty obligations on completed project	133	82	1,112
Asset retirement obligations	132	125	1,103
Excess depreciation	122	134	1,016
Sales promotion cost	120	183	1,000
Accrued enterprise tax	120	128	999
Other payable	92	77	769
Bad debt loss	80	88	669
Sales discount for construction contracts	18	34	157
Loss on devaluation of securities	14	16	121
Low-value assets	13	12	108
Others	302	244	2,518
Sub-total	78,942	85,311	656,925
Less: valuation allowance	(59,605)	(68,724)	(496,008)
Total deferred tax assets	19,337	16,586	160,916
Deferred tax liabilities:			
Reserve for special depreciation	(301)	(178)	(2,508)
Net unrealized gain on other securities	(181)	(236)	(1,510)
Fixed asset retirement expenses	(6)	(7)	(54)
Total deferred tax liabilities	(489)	(422)	(4,073)
Net deferred tax assets	18,847	16,163	156,842

(2) Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the years ended March 31, 2015 and 2014 were as follows:

	2015	2014
Normal effective statutory tax rate	35.64%	38.01%
Adjustments:		
Effect from decrease in valuation reserve	(94.32)	(95.10)
Impact of change in income tax rates	37.26	4.98
Entertainment and other expenses not deductible for income tax purposes	8.10	9.23
Per capital portion of inhabitants taxes	1.66	1.94
Others	(0.73)	(0.29)
Actual effective tax rate	(12.39)	(41.23)

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

The Act for Partial Revision of the Income Tax Act, etc. (Act No. 9 of 2015) and The Act for Partial Revision of the Local Tax Act, etc. (Act No. 2 of 2015) were promulgated on March 31, 2015. Consequently, the corporate tax rate, etc. is changed from fiscal years beginning on or after April 1, 2015. Accordingly, the effective statutory tax rate used for the calculation of deferred tax assets and liabilities will change from 35.64% to 33.10% for temporary differences expected to be returned or paid in the consolidated fiscal year beginning April 1, 2015, and to 32.34% for temporary differences expected to be returned or paid in the consolidated fiscal years beginning on or after April 1, 2016.

As a result of these changes in tax rates, deferred tax

assets (net of deferred tax liabilities) have decreased ¥1,721 million (\$14,322 thousand), income taxes-deferred have increased ¥1,739 million (\$14,476 thousand), and net unrealized gains on "other securities" have increased ¥18 million (\$154 thousand).

Further, the limit on net operating loss deduction under the carry-forward system for tax losses incurred in consolidated fiscal years beginning on or after April 1, 2015 is reduced to the amount equivalent to 65% of taxable income for the respective year, and to 50% of taxable income for tax losses incurred in consolidated fiscal years beginning on or after April 1, 2017. As a result, the amount of the Company's deferred tax assets decreased by ¥5,615 million (\$46,725 thousand), and income taxes-deferred have increased by the same amount.

11. Short-term Borrowings and Long-term Debt

(1) Short-term borrowings, long-term debt and lease obligations at March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Short-term borrowings, with average interest rate of 0.90%	60	—	499
Current portion of long-term debt, with average interest rate of 2.69%	23,005	2,940	191,443
Current portion of lease obligations, with average interest rate of 5.38%	2,355	1,575	19,598
Long-term debt, due 2016 to 2031, with average interest rate of 0.80%	7,196	27,077	59,885
Lease obligations, long-term, due 2016 to 2021, with average interest rate of 4.82%	6,450	4,154	53,676
Total	39,067	35,747	325,102

(Note)

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

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

Millions of yen	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years
Long-term debt	746	659	610	510
Lease obligations	2,141	2,060	1,676	567

Thousands of U.S. dollars	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years
Long-term debt	6,213	5,490	5,083	4,251
Lease obligations	17,821	17,144	13,947	4,726

(3) Assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Cash and cash equivalents	17	17	141
Securities	—	92	—
Buildings and structures	26,199	56,450	218,016
Land	71,777	81,385	597,299
Investment securities	76	1,128	637
Others in Investments and other assets (Membership right)	420	420	3,495
Total	98,490	139,493	819,590

(4) Secured borrowings with pledge of collateral at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Current portion of long-term debt	22,270	2,940	185,323
Long-term debt	—	27,077	—
Total	22,270	30,017	185,323

(5) Securities and investment securities which have been deposited with the Legal Affairs Bureau at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deposit for operation stipulated in Building Lots and Buildings Transaction Business Act	54	49	456
Deposit for housing construction warranty	891	820	7,414
Deposit for housing defect warranty	115	107	960
Advanced payment certificate in accordance with Payment and Settlement Regulations	920	919	7,661

(6) Bonds at March 31, 2015 and 2014 consisted of the following:

Company name	Name of bond	Issuance date	Millions of yen		Thousands of U.S. dollars
			2015	2014	2015
Leopalace21 Corporation	12th unsecured straight bond	September 30, 2009	920 (560)	1,480	7,655 (4,660)
Leopalace21 Corporation	13th unsecured straight bond	October 31, 2014	4,500 (900)	—	37,446 (7,489)
Total	—	—	5,420 (1,460)	1,480	45,102 (12,149)

Company name	Name of bond	Interest rate (%)	Collateral	Date of maturity
Leopalace21 Corporation	12th unsecured straight bond	1.04	None	September 30, 2016
Leopalace21 Corporation	13th unsecured straight bond	0.39	None	October 31, 2019
Total	—	—	—	—

(Note) Figures in parentheses represent the current portion.

(7) The amounts of bonds maturity in five years from the consolidated settlement of accounts were as follows:

Millions of yen				
Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years
1,460	1,260	900	900	900

Thousands of U.S. dollars				
Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years
12,149	10,485	7,489	7,489	7,489

12. Commitment Line

For efficient procurement of working capital, the Company maintains current account overdraft agreements and commitment line contracts with 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
	2015	2014	2015
Current account overdraft agreements and commitment line	1,000	10,000	8,321
Less amount utilized	—	—	—
Balance available	1,000	10,000	8,321

13. Retirement Benefit Plans

(1) Multi-employer plans

The amount of requested contributions for the employees' pension fund program under multi-employer plans, which is processed with the same accounting method as that for the defined contribution program for the year ended March 31, 2015 and 2014, was ¥1,332 million (\$11,089 thousand) and ¥1,214 million, respectively.

Recent funding status of the multi-employer plan as of March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Pension assets	57,282	50,486	476,679
Total of amount of benefit obligations under pension funding programs and amount of minimum actuarial liabilities (Note)	61,415	53,019	511,073
Difference	(4,133)	(2,533)	(34,394)

(Note) It is stated as "Projected benefit obligation" in the previous fiscal year.

The main components of the difference were unrecognized past service costs of ¥3,612 million (\$30,061 thousand) and ¥3,621 million, and deficiency carried forward of ¥520 million (\$4,332 thousand) and ¥— million for the years ended March 31, 2015 and 2014, respectively. The Companies recognized the special annuity premium of ¥99 million (\$831 thousand) and ¥93 million as an expense for the years ended March 31, 2015 and 2014, respectively.

The deficiency carried forward of ¥520 million (\$4,332

thousand) and ¥— million will be treated by a method such as increasing the ratio of special premiums as necessary based on pension actuarial revaluation. Further, the percentages below do not match the actual percentage borne by the Companies.

Ratio of the Companies in the amount of contributions for the multi-employer program was 35% from April 1, 2014 to March 31, 2015 and 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
	2015	2014	2015
Beginning balance of retirement benefit obligations	10,050	8,634	83,635
Cumulative effect of accounting change	(1,708)	—	(14,215)
Balance at beginning of fiscal year reflecting accounting change	8,342	8,634	69,420
Service cost	1,014	878	8,446
Interest cost	36	74	302
Actuarial gains and losses accrued	348	890	2,898
Retirement benefits paid	(399)	(458)	(3,328)
Past service cost	—	30	—
Increase due to consolidation of additional subsidiary	9	—	80
Closing balance of retirement benefit obligations	9,351	10,050	77,818

(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
	2015	2014	2015
Funded retirement benefit obligations	—	—	—
Pension assets	—	—	—
	—	—	—
Unfunded retirement benefit obligations	9,351	10,050	77,818
Net amount of the liabilities and assets posted in the consolidated balance sheet	9,351	10,050	77,818
Liability for retirement benefit	9,351	10,050	77,818
Net amount of the liabilities and assets posted in the consolidated balance sheet	9,351	10,050	77,818

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Service cost	2,347	2,093	19,536
Interest cost	36	74	302
Amortization of actuarial gain or loss	136	81	1,137
Amortization of past service cost	6	24	50
Retirement benefit expenses related to the defined benefit program	2,526	2,274	21,026

(Notes) 1. Contributions of ¥1,332 million (\$11,089 thousand) and ¥1,214 million, including ¥525 million (\$4,374 thousand) and ¥473 million attributable to employees for the “Japan Housing Construction Industry Employees’ Pension Fund” integrated employees’ pension funds, are included in the service cost for the year ended March 31, 2015 and 2014, respectively.

2. Retirement benefit expenses of domestic consolidated subsidiaries, which are calculated based on a simplified method, are posted as service cost.

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Past service cost	(6)	—	(50)
Actuarial gains/losses	211	—	1,760
Total	205	—	1,709

(e) Cumulative items posted as the remeasurements of defined benefit plans (before deduction of tax effects) were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unrecognized past service cost	—	6	—
Unrecognized actuarial gains/losses	1,021	809	8,496
Total	1,021	815	8,496

(f) Main calculation basis for actuarial assumptions at the end of the fiscal year:

Discount rate for the years ended March 31, 2015 and 2014 were 0.03% to 0.89% and 0.83%, respectively.

14. Gain on Sale of Property, Plant and Equipment

Gain on sale of property, plant and equipment for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Buildings and structures	3	—	25
Machinery, equipment, and vehicles	3	0	28
Land	0	—	1
Total	6	0	55

15. Loss on Sale of Property, Plant and Equipment

Loss on sale of property, plant and equipment for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Land	—	1	—
Others (Intangible assets)	0	—	2
Total	0	1	2

16. Loss on Retirement of Property, Plant and Equipment

Loss on disposal of property, plant and equipment for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Buildings and structures	281	11	2,339
Machinery, equipment, and vehicles	—	0	—
Others (Property, plant and equipment)	8	1	73
Others (Intangible assets)	19	0	162
Total	309	13	2,575

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, 2015 and 2014,

income arising from these rental properties were ¥4,266 million (\$35,506 thousand) and ¥4,057 million, and impairment losses were ¥161 million (\$1,347 thousand) and ¥778 million, respectively.

Also, the changes in book value of rental properties during the year ended March 31, 2015 and 2014, and the fair value as of March 31, 2015 and 2014 were as follows:

March 31, 2015

Millions of yen			
Consolidated balance sheet amount			Fair value as of March 31, 2015
Balance as of April 1, 2014	Increase/Decrease	Balance as of March 31, 2015	
64,030	(210)	63,819	65,435

March 31, 2014

Millions of yen			
Consolidated balance sheet amount			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	62,558

March 31, 2015

Thousands of U.S. dollars			
Consolidated balance sheet amount			Fair value as of
Balance as of April 1, 2014	Increase/Decrease	Balance as of March 31, 2015	March 31, 2015
532,829	(1,753)	531,076	544,524

(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 ¥161 million (\$1,347 thousand) and ¥778 million for the year ended March 31, 2015 and 2014, 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, 2015 were as follows:

Type of shares	Shares			
	April 1, 2014	Increase	Decrease	March 31, 2015
Shares issued				
Common stock	267,443,915	—	—	267,443,915
Total	267,443,915	—	—	267,443,915
Treasury stock				
Common stock	4,569,210	220	—	4,569,430
Total	4,569,210	220	—	4,569,430

(Note) Increase in treasury stock of 220 shares is the purchase of shares less than one unit.

Stock acquisition rights (SAR) and own share options for the year ended March 31, 2015 were as follows:

Type	Class of shares issued upon exercise of SARs	Number of shares issued upon exercise of SARs				Outstanding as of March 31, 2015	
		April 1, 2014	Increase	Decrease	March 31, 2015	Millions of yen	Thousands of U.S. dollars
SARs as stock option	—	—	—	—	—	18	149
Total	—	—	—	—	—	18	149

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

Type of shares	Shares			March 31, 2014
	April 1, 2013	Increase	Decrease	
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	Class of shares issued upon exercise of SARs	Number of shares issued upon exercise of SARs			Outstanding as of March 31, 2014 Millions of yen
		April 1, 2013	Increase	Decrease	
SARs as stock option	—	—	—	—	18
Total	—	—	—	—	18

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, 2015 and 2014, 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
	2015	2014	2015
Acquisition cost			
Equipment	—	651	—
Accumulated depreciation			
Equipment	—	604	—
Net book value			
Equipment	—	47	—

(Note) There are no relevant items because lease agreements subject to the Company's consolidated operating results have been terminated.

(b) The amounts of outstanding future lease payments under finance lease subsequent to March 31, 2015 and 2014 including the interest portion thereon were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Due within one year	—	55	—
Due after one year	—	—	—
Total	—	55	—

(Note) There are no relevant items for the Company's consolidated fiscal year because lease agreements subject to the consolidated operating results have been terminated.

(c) Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2015 and 2014 for finance lease transactions accounted for as operating leases were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Lease payment	56	306	467
Estimated amount of depreciation by the straight-line method over the lease period	47	269	396
Estimated interest cost by the interest method	1	6	9

(d) Method of estimating amount of depreciation:

Amounts corresponding to pro forma depreciation under finance leases were computed by the straight-line 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, 2015 and 2014 were as follows:

March 31, 2015	Millions of yen		
	Future lease payments	Prepaid lease payments	Differences
Due within one year	242,609	2,183	240,426
	(242,595)	(2,183)	(240,412)
Due after one year	343,062	2,499	340,562
	(343,032)	(2,499)	(340,532)
Total	585,672	4,682	580,989
	(585,627)	(4,682)	(580,944)

March 31, 2014	Millions of yen		
	Future lease payments	Prepaid lease payments	Differences
Due within one year	249,304	5,165	244,138
	(249,295)	(5,165)	(244,129)
Due after one year	495,733	3,291	492,441
	(495,713)	(3,291)	(492,422)
Total	745,037	8,457	736,579
	(745,009)	(8,457)	(736,551)

March 31, 2015	Thousands of U.S. dollars		
	Future lease payments	Prepaid lease payments	Differences
Due within one year	2,018,886	18,166	2,000,720
	(2,018,767)	(18,166)	(2,000,601)
Due after one year	2,854,810	20,803	2,834,007
	(2,854,558)	(20,803)	(2,833,755)
Total	4,873,697	38,969	4,834,727
	(4,873,326)	(38,969)	(4,834,356)

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, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Contingent liabilities to financial institutions for customers who have a home mortgage	898	1,126	7,479
Contingent liabilities to financial institutions for customers who have a membership loan	15	15	129
Total	914	1,141	7,609

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, Elderly Care Business and Hotels & Resort Business.

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

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

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

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

(3) Information Regarding Sales, Profits and Losses, Assets, and other Items by Reportable Segment for the years ended March 31, 2015 and 2014 were as follows:

March 31, 2015	Millions of yen								
	Reportable segment					Others	Total	Adjustments	Consolidated Total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Segment Total				
Sales									
Sales to customers	399,316	61,312	10,608	8,951	480,188	2,999	483,188	—	483,188
Inter-segment sales and transfers	790	12,065	—	2,827	15,682	127	15,810	(15,810)	—
Total	400,107	73,378	10,608	11,778	495,871	3,127	498,999	(15,810)	483,188
Segment profit (loss)	20,532	210	(606)	(1,289)	18,848	31	18,879	(4,116)	14,763
Segment assets	98,861	19,895	2,428	50,367	171,554	21,481	193,035	115,239	308,274
Other items									
Depreciation	2,992	170	24	1,872	5,060	1,330	6,390	1,345	7,736
Increase in property, plant, and equipment, and intangible assets	5,551	73	21	1,017	6,663	12,180	18,844	5,514	24,358

(Notes) 1. The "Others" classification is the business segment not included in reportable segments, and comprises the small-claims and short-term insurance business, solar power business, and financing business.

2. Breakdown of adjustments was as follows:

Segment profit (loss)

	Millions of yen	Thousands of U.S. dollars
Inter-segment eliminations	(1,346)	(11,207)
Corporate expenses*	(2,769)	(23,044)
Total	(4,116)	(34,251)

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

Adjustments in segment assets (¥115,239 million, \$958,967 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 (¥5,514 million, \$45,888 thousand) consist of capital investments which do not belong to reportable segments.

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

March 31, 2014	Millions of yen									
	Reportable segment					Segment Total	Others	Total	Adjustments	Consolidated Total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business						
Sales										
Sales to customers	388,768	63,135	10,171	7,571	469,647	1,442	471,089	—	471,089	
Inter-segment sales and transfers	592	6,684	—	2,505	9,782	106	9,889	(9,889)	—	
Total	389,360	69,820	10,171	10,077	479,430	1,548	480,978	(9,889)	471,089	
Segment profit (loss)	15,567	2,954	(610)	(1,118)	16,792	137	16,929	(3,256)	13,673	
Segment assets	98,315	16,121	2,371	50,710	167,519	10,662	178,181	109,277	287,459	
Other items										
Depreciation	2,578	175	40	1,857	4,652	157	4,809	1,184	5,993	
Increase in property, plant, and equipment, and intangible assets	4,698	52	37	437	5,225	6,785	12,011	2,703	14,714	

(Notes) 1. The "Others" classification is the business segment not included in reportable segments, and comprises the small-claims and short-term insurance business, solar power business, and financing business.

2. Breakdown of adjustments was as follows:

Segment profit (loss)

	Millions of yen
Inter-segment eliminations	(641)
Corporate expenses*	(2,614)
Total	(3,256)

*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) 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 (¥2,703 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.

March 31, 2015	Thousands of U.S. dollars								
	Reportable segment					Others	Total	Adjustments	Consolidated Total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Segment Total				
Sales									
Sales to customers	3,322,932	510,216	88,277	74,487	3,995,913	24,962	4,020,875	—	4,020,875
Inter-segment sales and transfers	6,576	100,402	—	23,525	130,504	1,064	131,568	(131,568)	—
Total	3,329,508	610,618	88,277	98,012	4,126,417	26,026	4,152,444	(131,568)	4,020,875
Segment profit (loss)	170,864	1,751	(5,043)	(10,726)	156,845	260	157,105	(34,251)	122,853
Segment assets	822,684	165,562	20,212	419,135	1,427,595	178,755	1,606,351	958,967	2,565,318
Other items									
Depreciation	24,901	1,420	206	15,580	42,108	11,071	53,179	11,197	64,377
Increase in property, plant, and equipment, and intangible assets	46,199	607	181	8,463	55,453	101,358	156,811	45,888	202,699

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, 2015

Millions of yen					
Japan	Trust territory of U.S.A. Guam	People's Republic of China	Kingdom of Thailand	Kingdom of Cambodia	Total
126,835	42,396	3	7	187	169,430

March 31, 2014

Millions of yen				
Japan	Trust territory of U.S.A. Guam	People's Republic of China	Kingdom of Thailand	Total
114,682	37,818	2	0	152,503

March 31, 2015

Thousands of U.S. dollars					
Japan	Trust territory of U.S.A. Guam	People's Republic of China	Kingdom of Thailand	Kingdom of Cambodia	Total
1,055,468	352,806	30	59	1,559	1,409,924

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, 2015

	Millions of yen						Consolidated total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Others	Adjustments	
Impairment loss	161	—	—	62	—	—	224

March 31, 2014

	Millions of yen						Consolidated total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Others	Adjustments	
Impairment loss	778	—	—	—	—	—	778

March 31, 2015

	Thousands of U.S. dollars						Consolidated total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Others	Adjustments	
Impairment loss	1,347	—	—	521	—	—	1,868

Information concerning goodwill amortization and unamortized balance by reportable segments

March 31, 2015

	Millions of yen						Consolidated total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Others	Adjustments	
Goodwill amortization	—	—	—	4	—	—	4
Balance	—	1,684	—	—	—	—	1,684

For the year ended March 31, 2014

Not applicable.

March 31, 2015

	Thousands of U.S. dollars						Consolidated total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Others	Adjustments	
Goodwill amortization	—	—	—	37	—	—	37
Balance	—	14,020	—	—	—	—	14,020

Information concerning gain on negative goodwill by reportable segments

For the years ended March 31, 2015 and 2014

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, 2015 and 2014.

	Yen		U.S. dollars
	2015	2014	2015
Net assets	481.05	398.78	4.00
Net income			
Basic	55.19	67.17	0.46
Diluted	—	—	—

(2) Basis of computation of basic and diluted net income per share for the years ended March 31, 2015 and 2014 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Basic net income per share			
Net income	14,507	15,229	120,728
Amount not attributable to common stock	—	—	—
Net income attributable to common stock	14,507	15,229	120,728
Weighted-average shares during the year (Thousands of shares)	262,874	226,724	
Dilutive securities that didn't have dilutive effects and therefore were not included in the calculation of diluted net income per share.	New stock acquisition rights (650)		

24. Related Party Transactions

The following tables set forth related party transactions for the years ended March 31, 2015 and 2014.

For the year ended March 31, 2015

(a) Unconsolidated subsidiaries and affiliates

None

(b) Directors and major individual shareholders

Attribute	Name	Address	Capital stock		Business or position	Percentage of share ownership	Relation
			Millions of yen	Thousands of U.S. dollars			
Directors and close relatives	Toshiko Miyoshi	—	—	—	—	—	Leasing of land and building

Attribute	Name	Transaction	Transaction amount		Account	Balance	
			Millions of yen	Thousands of U.S. dollars		Millions of yen	Thousands of U.S. dollars
Directors and close relatives	Toshiko Miyoshi	Leasing of apartments	26	216	Prepaid expenses	—	—

(Notes) 1. Consumption taxes were not included in amounts.

2. Conditions of leasing of apartments are the same as transactions with third parties.

3. Toshiko Miyoshi is a close relative of Tadahiro Miyama, Director of the Company.

For the year ended March 31, 2014

(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	2

- (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. Business Combination

(Share Acquisition of WING MATE CO., LTD.)

(1) Outline of the business combination

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

Name of the acquired company: WING MATE CO., LTD.
Business activities: Travel business

(b) Major reasons for the business combination

WING MATE CO., LTD. is a travel agency that provides services of overseas business trip arrangements and business travel management for corporations. It does business with more than 1,300 corporations, including government and municipal offices. On the other hand, in the Leasing business section of the Company, more than 50% of the tenants are corporate tenants and services related to rental housing is provided to approximately 45,000 corporations in Japan.

By adding WING MATE CO., LTD. as a group company, the Company has started overseas business trip arrangements and business travel management as one of our new services. In addition, Leopalace21 aims to obtain the opportunity of providing rental houses to the corporate customers of WING MATE CO., LTD.

(c) Effective date of the business combination

October 31, 2014

(d) Legal form of the business combination

Acquisition of shares

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

No change

(f) Percentage of voting rights acquired

100%

(g) Primary basis for determining the acquiring company

Due to the fact that the Company has acquired the shares of WING MATE CO., LTD. for cash considerations.

(2) Period of business performances of the acquired company to be included in the consolidated financial statements

The balance sheet date of WING MATE CO., LTD is December 31, and since the deemed acquisition date is set as December 31, 2014, the business performances of the acquired company is not included in the consolidated financial statement.

(3) Acquisition cost of the acquired company and its details

		Millions of yen	Thousands of U.S. dollars
Consideration for the acquisition	The market value of the common stock of WING MATE CO., LTD. on the business combination date	65	540
Direct costs required for acquisition	Advisory costs, etc.	16	136
Acquisition cost		81	677

(4) Amount, reason, amortization method and amortization period of goodwill**(a) Amount of goodwill**

¥4 million (\$37 thousand)

(b) Reason of goodwill

Due to the acquisition cost exceeding the market value of net assets on acquisition date.

(c) Amortization method and amortization period of goodwill

All the amount of goodwill as expense

(5) Amounts of assets acquired and liabilities assumed as of the date of the business combination

March 31, 2015	Millions of yen	Thousands of U.S. dollars
Current assets	112	932
Fixed assets	35	292
Total assets	147	1,224
Current liabilities	70	584
Non-current liabilities	—	—
Total liabilities	70	584

(6) Estimated amount of impact on the consolidated financial statement of income for the consolidated fiscal year on the assumption and the method of the calculation of the amount

March 31, 2015	Millions of yen	Thousands of U.S. dollars
Net sales	1,887	15,710
Operating income	1	8
Net income (loss)	(8)	(68)

(Method of calculation of estimated amount)

The difference between the net sales and profit and loss information calculated as if the business combination was completed as of the date of commencement of the consolidated fiscal year and the net sales and profit and loss information in the consolidated profit and loss statement of the acquiring company is defined as the estimated amount of the effect.

Please note that these notes have not received audit certification.

(Share Acquisition of Morizou Co., Ltd.)**(1) Outline of the business combination****(a) Name of the acquired company and its business activities**

Name of acquired company: Morizou Co., Ltd.

Business activities: Design, construction and management of custom-built homes

(b) Major reasons for the business combination

Morizou Co., Ltd. is engaged in the design, construction and management of custom-built detached houses in the Kanto and Chubu regions. On

the other hand, in its construction business, the Company subcontracts the construction of custom-built detached houses, including the homes of approximately 26,000 landowners nationwide.

The Company established a business alliance with Morizou Co., Ltd. in April 2014, and has been providing jointly developed products since then. The business combination is designed to aim to achieve the further advancement of the two companies by further strengthening the collaboration with the Leopalace Group.

(c) Effective date of the business combination

March 30, 2015

(d) Legal form of the business combination

Acquisition of shares

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

No change

(f) Percentage of voting rights acquired

88.2%

(g) Primary basis for determining the acquiring company

Due to the fact that the Company has acquired the shares of Morizou Co., Ltd. for cash considerations.

(2) Period of business performances of the acquired company to be included in the consolidated

financial statements

Since the deemed acquisition date is set as March 31, 2015, the business performance of the acquired company is not included in the consolidated financial statement.

(3) Acquisition cost of the acquired company and its details

The market value of the common stock of Morizou Co., Ltd. at the date of business combination is ¥1,676 million (\$13,950 thousand), and direct costs required for acquisition, including advisory costs, etc. is ¥8 million (\$71 thousand). Total acquisition cost is ¥1,685 million (\$14,022 thousand).

(4) Amount, source, method and period of goodwill amortization

(a) Amount of goodwill

¥1,684 million (\$14,020 thousand)

Since the allocation of the acquisition cost is not complete, a provisional accounting treatment has been conducted based on available and rational information.

(b) Source of goodwill

Due to a reasonable estimation of future excess earning power, which is expected by the future business development.

(c) Method and period of goodwill amortization

Amortization on a straight-line method over ten years

(5) Amounts of assets acquired and liabilities assumed as of the date of the business combination

March 31, 2015	Millions of yen	Thousands of U.S. dollars
Current assets	1,363	11,350
Fixed assets	202	1,681
Total assets	1,566	13,031
Current liabilities	1,333	11,092
Non-current liabilities	232	1,937
Total liabilities	1,565	13,030

(6) Estimated amount of impact on the consolidated financial statement of income for the consolidated fiscal year on the assumption that the business combination was completed at the beginning of the consolidated fiscal year, and the method of the calculation of the amount

March 31, 2015	Millions of yen	Thousands of U.S. dollars
Net sales	4,395	36,574
Operating income (loss)	(89)	(746)
Net income (loss)	(174)	(1,454)

(Method of calculation of estimated amount)

The difference between the net sales and profit and loss information calculated as if the business combination was completed on the date of commencement of the consolidated fiscal year and the net sales and profit and loss information in the consolidated profit and loss statement of the acquiring company is defined as the estimated amount of the effect.

Further, the amount of goodwill amortization is calculated by supposing that goodwill recognized at the time of the business combination occurred at the beginning of the consolidated fiscal year.

Please note that these notes have not received audit certification.

(Transaction under common control, etc.)

(1) Outline of transaction

(a) Names of the companies involved in the business combination and their business activities

(i) Combined Company

Name of acquiring company: WING MATE CO., LTD

Business activity: travel business

(ii) Dissolved Company

Name of acquired company: Leoplace Travel Co., Ltd.

Business activity: travel business

(b) Date of business combination

January 1, 2015

(c) Legal form of business combination

Merger and acquisition with WING MATE CO., LTD. as the surviving company and Leoplace Travel Co., Ltd. as the extinct company.

(d) Name of company after combination

WING MATE CO., LTD

(e) Other matters concerning the outline of the transaction

By consolidating the management resources of the two domestic consolidated subsidiaries engaged in the Hotels & Resort Business, the Companies aims to stimulate the growth of its travel business to capture a wider customer base in addition to the existing customers as well as strengthening the sales channels for the Guam resort business and domestic hotels, improving services to corporate customers through business travel management operations, and pursuing synergies with its overseas business.

(2) Outline of the accounting treatment implemented

For accounting purposes, the Company treated the transaction as a transaction under common control in accordance with the Accounting Standard for Business Combinations (ASBJ Statement No. 21 issued on December 26, 2008) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10 issued on December 26, 2008).

26. Other

The following tables set forth quarterly information for the year ended March 31, 2015.

(Cumulative period)	First quarter	Second quarter	Third quarter	Full-year
Net sales (Millions of yen)	115,626	233,037	350,756	483,188
Income before income taxes (Millions of yen)	2,075	5,273	8,249	12,896
Net income (Millions of yen)	2,048	5,066	7,856	14,507
Net income per share (yen)	7.79	19.27	29.89	55.19

(Accounting period)	First quarter	Second quarter	Third quarter	Full-year
Net income per share (yen)	7.79	11.48	10.62	25.30

(Cumulative period)	First quarter	Second quarter	Third quarter	Full-year
Net sales (Thousands of U.S. dollars)	962,188	1,939,230	2,918,833	4,020,875
Income before income taxes (Thousands of U.S. dollars)	17,268	43,886	68,649	107,319
Net income (Thousands of U.S. dollars)	17,047	42,157	65,381	120,728
Net income per share (dollars)	0.06	0.16	0.25	0.46

(Accounting period)	First quarter	Second quarter	Third quarter	Full-year
Net income per share (dollars)	0.06	0.10	0.09	0.21

27. Subsequent Events

The Company announces that, at the meeting of its Board of Directors held on May 11, 2015, it was resolved to present "Reduction of legal capital surplus and appropriation of surplus" to the 42nd ordinary meeting of shareholders that is scheduled to be held on June 26, 2015. Details are as follows.

(1) Purpose of reduction of legal capital surplus and appropriation of surplus

The Company aims to cover the deficit in retained earnings brought forward, adopt flexible and expeditious capital policies in the future, and secure a structure in which dividend payments will be resumed as soon as possible.

(2) Outline of reduction of legal capital surplus

Based on the provisions set forth in paragraph 1 of Article 448 of the Companies Act, the Company will reduce a legal capital surplus and transferred it to other capital surplus.

(a) Account and amount of a legal capital surplus decrease

Legal capital surplus: ¥5,071,334,538

(b) Account and amount of other capital surplus

Other capital surplus: ¥5,071,334,538

(3) Outline of appropriation of surplus

Based on the provisions set forth in Article 452 of the Companies Act, the Company will cover the deficit by transferring other capital surplus to retained earnings brought forward.

(a) Account and amount of surplus decrease

Other capital surplus: ¥6,266,172,256

(b) Account and amount of surplus increase

Retained earnings brought forward: ¥6,266,172,256

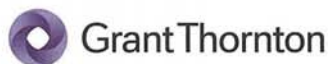
(4) Schedule for reduction of legal capital surplus and appropriation of surplus

(a) Date of resolution at the meeting of the Board of Directors: May 11, 2015

(b) Date of resolution at the meeting of shareholders: June 26, 2015

(c) Effective date: June 26, 2015

Because this accounting is applicable to the requirements set forth in the provision of Paragraph 1 of Article 449 of the Companies Act, no procedures take place for creditors rising objections.



Grant Thornton Taiyo 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, 2015, 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, 2015, 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, 2015 are presented solely for the convenience. Our audit also included the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Grant Thornton Taiyo LLC

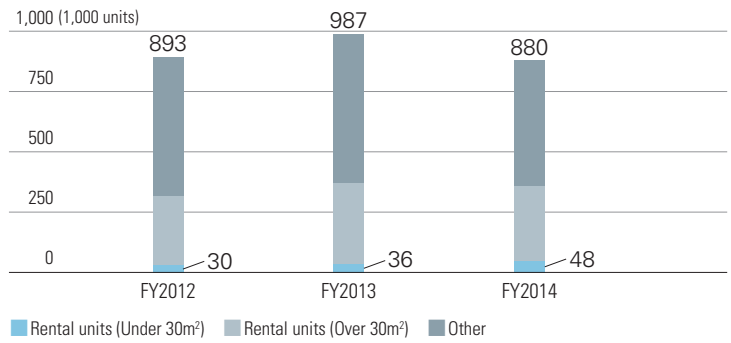
June 26, 2015
Tokyo, Japan

Leopalace21 DATA COMPILATION

External Environment

Number of New Housing Starts

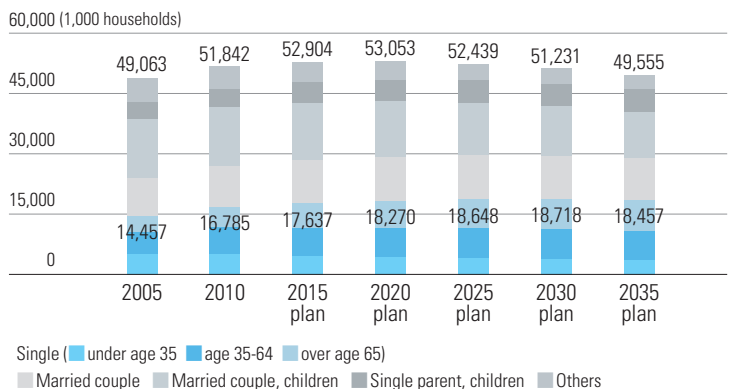
The number of new housing starts for rental units fell for the first time in three years in fiscal 2014, down 3.1% year on year to 358,340 units. Of these, units under 30 square meters aimed mainly at people living alone increased 32.9% year on year to 48,150.



Source: New residential housing construction work commencement statistics, the Ministry of Land, Infrastructure, Transport, and Tourism

Number of Households

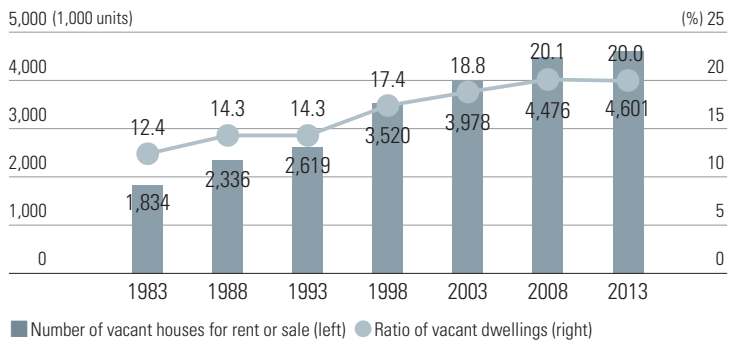
The number of households in Japan is expected to decline from 2020 due to Japan's twin demographic trends of a growing elderly cohort and a low fertility rate. On the other hand, the number of single-person households, including those in our target demographic cohort of ages 15-64 (the productive population), are expected trend sideways from here.



Source: January 2013 estimates on the number of households and forecasts, the National Institute of Population and Social Security Research

Number of Vacant Homes in Japan

Amid the concentration of populations in cities, the number of vacant homes is growing, especially in rural countryside areas. The number of vacant properties in Japan available for rent or sale stands at 4,601,000 units, or one in five homes, according to the fiscal 2013 Housing and Land Survey, the most recently published one.

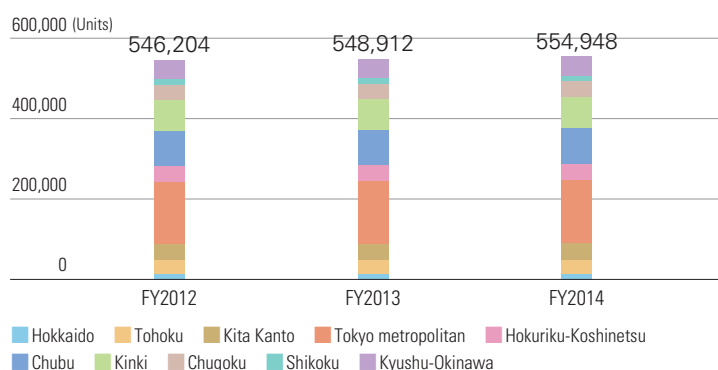


Source: Housing and Land Survey, the Ministry of Internal Affairs and Communications

Leasing Data

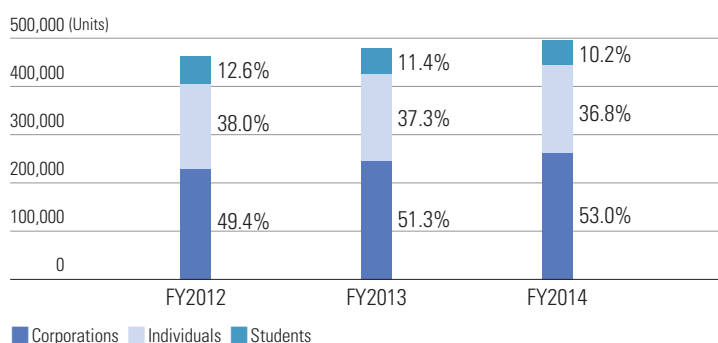
Apartment Rooms under Management

The number of apartment rooms we have under management is the earnings foundation of the Leasing Business. For a second successive year, the number of rooms under management grew, rising to 554,948 as of the end of March 31, 2015. The proportion of our total portfolio located in our focus regions of Kanto, Chubu, and Kinki stands at about 70%.



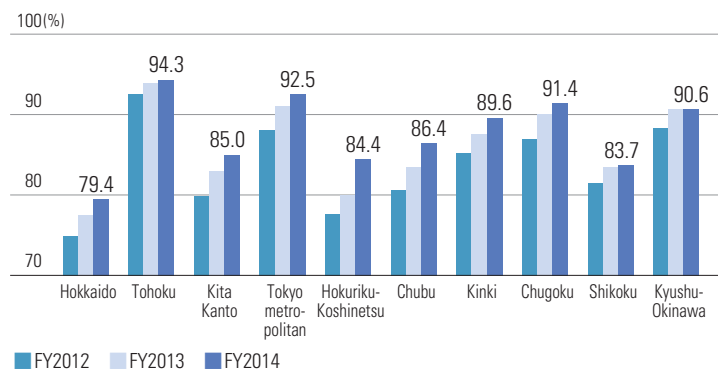
Leases by Contract Type

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 6.6% year on year to 262,577 rooms as of March 31, 2015, keeping corporate contracts at 53.0%, ie, over half our lease portfolio for a second consecutive year.



Fiscal Yearend Occupancy Rates by Region

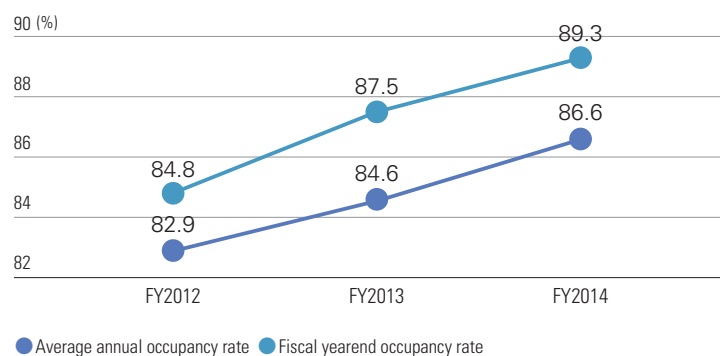
With the economy now fully beyond the slump that followed the global financial crisis, the occupancy rate of our portfolio improved 1.8 percentage points to 89.3% as of March 31, 2015. The occupancy rate of properties located in the regions of Tohoku, Tokyo Metropolitan, Chugoku, and Kyushu-Okinawa all stood at over 90%.



Leasing Data

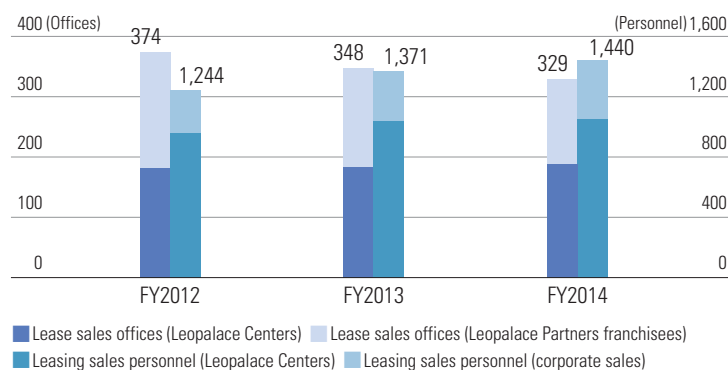
Average Annual Occupancy Rate and Fiscal Yearend Occupancy Rate

Like the fiscal yearend occupancy rate, the average annual occupancy rate recovered during the fiscal year under review. The average annual occupancy rate was 86.6% in fiscal 2014, the fourth successive year of increase. This reflected a rise in long-term lease contracts and a trend toward longer occupancy periods.



Growing Number of Leasing Sales Offices and Sales Personnel

The Leasing Business is forging ahead with building a network balanced between directly run leasing sales offices and franchisee-run offices. On the other hand, we continue to bolster our sales personnel workforce, which grew 5.0% year on year to 1,440 people as of March 31, 2015.

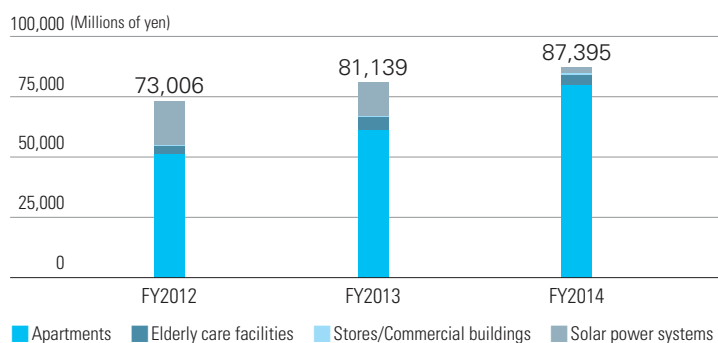


	Fiscal 2012	Fiscal 2013	Fiscal 2014
Security systems installed (cumulative, rooms)	136,064	187,756	226,801
Security cameras installed (cumulative, buildings)	1,323	3,142	5,505
Service centers, no. of incoming calls	590,867	609,877	608,294
Of which, inquiries	394,075	428,293	433,589
Of which, maintenance related	143,476	144,059	137,740
Of which, complaints or claims	53,316	37,525	36,965
Internet tenant response rates (new contracts only)	60,840	53,463	56,692

Construction Data

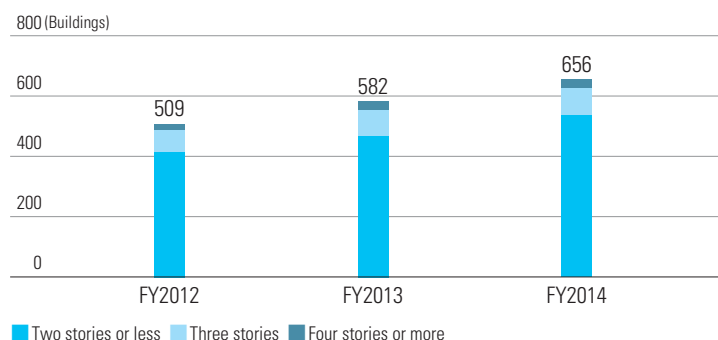
Orders

Orders rose for a third successive year in fiscal 2014, climbing 7.7% year on year to ¥87,395 million. With apartment orders up 25.5% year on year, a recovery is underway, and we are making progress in developing new fields such as elderly care facilities, stores, and commercial buildings.



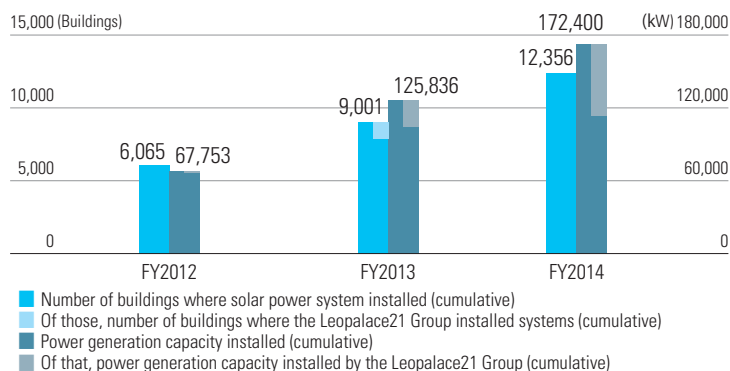
Apartments Completed

The number of apartments completed rose 12.7% year on year to 656 buildings in fiscal 2014. Of those, the mainstay remained two stories or less, but the trend toward a more diverse mix continues, as buildings with at least three stories accounted for about 20% of the total.



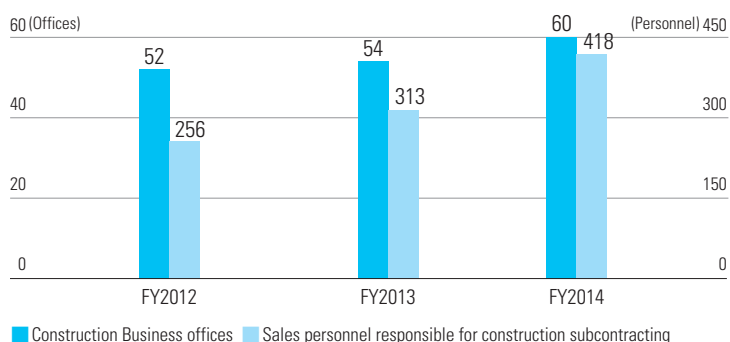
Solar Power Systems Installed, Total kW Capacity Installed

Solar power system installations continue to be one source of earnings growth at the Construction Business. As of March 31, 2015, the cumulative number of buildings where solar power systems have been installed came to 12,356, lifting total power generation capacity to 172,400 kW.



Sales Offices Accepting Construction Orders, Sales Personnel

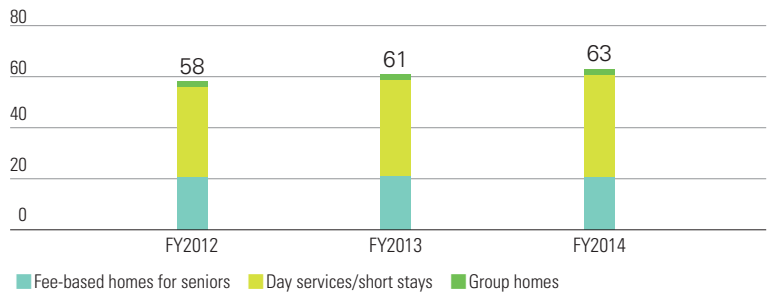
With the frontend of the pivot toward the Leasing Business as part of our business reforms now done, we are adding offices and sales personnel tasked with Construction Business responsibilities, buoyed by the tailwind of a demand recovery driven by Abenomics.



Elderly Care Data

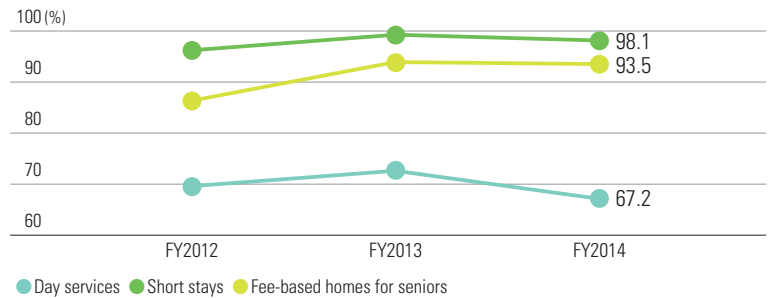
Numbers of Facilities

With a network of about 60 facilities, the Elderly Care Business is based in the Tokyo metropolitan area. In fiscal 2014, it opened two new facilities offering day services and short stays that we expect to be profit generators.



Occupancy Rate

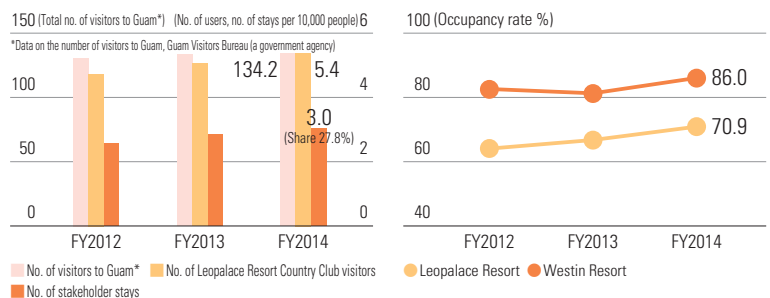
The occupancy rate at short-stay facilities, fee-based homes for seniors, and group homes remains high at above 90%. At day-service facilities, however, the occupancy rate declined in fiscal 2014 with the start of a policy of opening for business on Sundays, which had been a non-business day.



Hotels & Resort Data

Leopalace Resort Guam

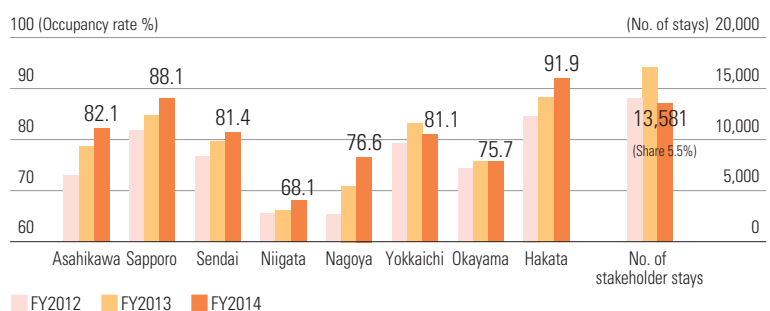
At Leopalace Resort Guam, a resort facility the Company runs in Guam, the occupancy rate improved on efforts to promote usage by stakeholders such as corporate clients.



Leopalace Hotels

Leopalace21 operates hotels across Japan, where there has been progress in promoting usage by stakeholders.

* Hotel Leopalace Yokkaichi was sold in August 2014. Hotel Leopalace Niigata is to be sold in July 2015.



Social KPIs

Employees with Foreign Citizenship, Ratio of Foreign Managers

As one part of our growth strategy, the Company is expanding the Leasing Business into the ASEAN region. As a result, we are hiring more employees with foreign citizenship, and we are gradually adding more managers with foreign citizenship.

Employee data (parent)	Fiscal 2012	Fiscal 2013	Fiscal 2014
No. of employees	5,390	5,781	6,149
Average age	36.2	35.9	35.8
Female employee ratio	26.0	27.6	28.4
Female manager ratio	3.0	3.3	4.1
Disabled employee ratio (consolidated)	2.07	2.07	2.04
No. of employees with foreign citizenship	144	162	175
Ratio of foreign managers	1.2	1.3	1.5
No. of employees who used child care leave	70	77	79
No. of employees on short work-hours schedule	44	68	87
No. of employees who used nursing care leave	1	15	3
No. of labor accident incidents	43	39	50

Ratio of Female Employees

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. The ratio of female employees in our total workforce rose to 28.4% in fiscal 2014.

Employees by age group (parent)	Under age 29	Age 30-39	Age 40-49	Age 50-59	Over age 60	Total
Totals	1,803	2,682	1,067	489	108	6,149
Males	1,024	2,117	829	344	88	4,402
Females	779	565	238	145	20	1,747

CSR initiatives	Fiscal 2012	Fiscal 2013	Fiscal 2014
Cleanup campaign participants	15,534	13,203	15,497
Of which, in the vicinity of existing properties	3,642	3,642	3,203
Of which, in the vicinity of newly built properties	11,892	9,561	12,294
Registered for "Kodomo #110"	193	235	255
Of which, Leopalace Center offices	135	133	134
Of which, Leopalace Partners franchisees	58	65	53
Of which, Azumi En facilities	0	30	61
Of which, Leopalace Hotels	0	7	7
No. of meetings for apartment owners	138	211	193
No. of building tour fairs for students	1	5	5
No. of PET bottle caps collected for Ecocap Movement* (No. of polio vaccines)	1,434,459 1,793	328,661 411	850,952 1,064
No. of students on domestic hotel observation tours	50	50	21
No. of tours, OTJ training accepted at Leopalace Smile**	123	436	609

* 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.

** 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 Leoplace 21 urban apartments
- Capital increases to ¥132 million

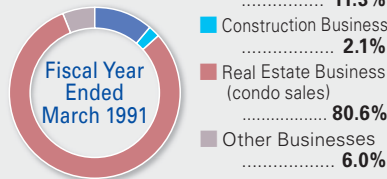
1986

- Capital increases to ¥452 million

1987

- Capital increases to ¥760 million
- Capital increases to ¥2.74 billion

Sales breakdown by business



Before the "Master Lease System" was established, our mainstay was built-for-sale apartments

1991

- Acquire a patent for housing with lofts

1993

- Open Leoplace Resort Guam

1997

- Launch Leoplace Fraternity

1998

- Number of managed properties increases to 100,000
- Leoplace 21 wins 1998 Good Design Award

1999

- Launch Monthly Leoplace Flat service including furniture and consumer electronics



Growth Period

Bubble Period

Post-Bubble Period

Business model transition

Economic growth period

Apartment development/sales business

Establish our business model (Shift from built-for-sale to construction subcontracting)

Full launch of a synergy model combining Construction and Leasing Businesses

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

1995

- Launch corporate membership sales

Business model in transition period

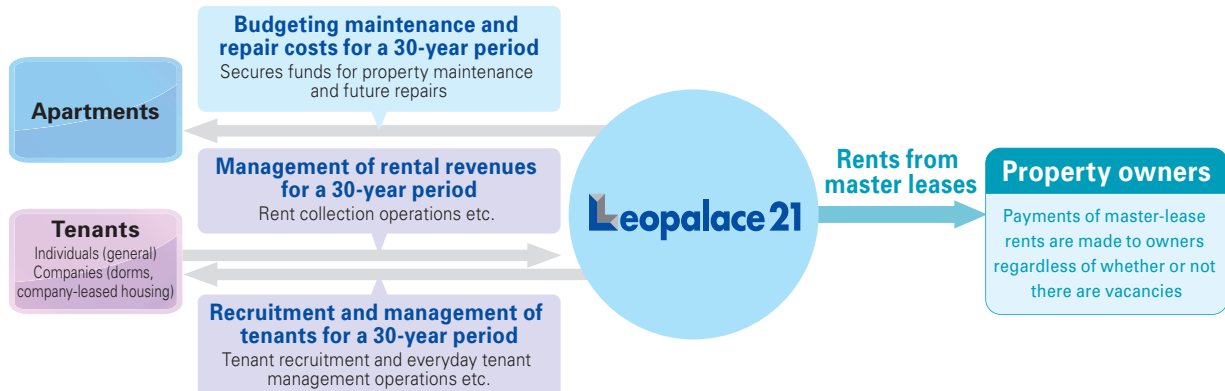
2000

- Capital increases to ¥30.52 billion following third-party allotment of new shares
- Change company name to "Leoplace21 Corporation"

2001

- Launch Leoplace REIT, a series of real estate securitization products

Leoplace21 Developed and Commenced the Industry's First "Master Lease System"



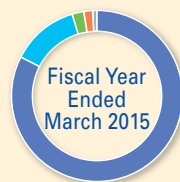
Sales breakdown by business



Leasing Business	43.9%
Construction Business	50.0%
Elderly Care Business	0.9%
Hotels & Resort Business	1.1%
Other Businesses	4.1%

Swift apartment construction demand growth on uptake of the "Master Lease system" turns the Construction Business into mainstay

Sales breakdown by business



Leasing Business	82.6%
Construction Business	12.7%
Elderly Care Business	2.2%
Hotels & Resort Business	1.9%
Other Businesses	0.6%

Leasing Business emerges as mainstay, as shift away from volume to a focus on quality in apartment market translates into earnings

2002

- Capital increases via public offering to ¥37.24 billion
- Start broadband business



- 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
- 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 CollapseGreat East Japan
Earthquake

Economic recovery period

Comprehensive enhancement
of stock-based earnings

Establish New Growth Stage

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



- Established power generation subsidiary "Leopalace Power Corporation"
- Establish "Woori & Leo PMC Co., Ltd." in South Korea
- First exercise of share subscription rights, capital increases to ¥58.31 billion

2013

- Second exercise of share subscription rights, capital increases to ¥60.42 billion
- Third exercise of share subscription rights, capital increases to ¥62.87 billion
- Install our "non-sound system" with improved sound insulation in apartments as standard fixtures
- Established Leopalace21 (Thailand) Co., LTD. and LEOPALACE21 VIETNAM CO., LTD.
- Established elderly care service subsidiary Azu Life Care Co., Ltd.

2014

- Capital increases via public offering and third-party allotment to ¥75.28 billion
- Established Leopalace Energy Corporation, a power producer and supplier (PPS)
- Established Leopalace21 (Shanghai) Property Management Co., Ltd. and Leopalace21 (Cambodia) Co., Ltd.
- Opened a branch in Myanmar
- Converted WING MATE CO., LTD. into a subsidiary via a stock acquisition

2015

- Opened Ha Noi Branch of LEOPALACE21 VIETNAM CO., LTD.
- Converted Morizou Co., Ltd. into a subsidiary via a stock acquisition

CORPORATE PROFILE

Corporate Data

(As of March 31, 2015)

Company Name:

Leopalace21 Corporation

Head Office:

2-54-11 Honcho, Nakano-ku, Tokyo
TEL: +81-3-5350-0001 (Main Line)

Established:

August 17, 1973

Paid-in Capital:

¥75,282.36 million

Operations:

Construction, leasing and sales of apartments, condominiums, and residential housing; development and operation of resort facilities; hotel business; broadband business; and elderly care business, etc.

Number of Employees:

7,339 (consolidated basis)

6,149 (non-consolidated basis)

Members of Board of Directors and Auditors

(As of June 26, 2015)

Directors

President and CEO	Eisei Miyama
Director	Tadahiro Miyama
Director	Yuzuru Sekiya
Director	Hiroshi Takeda
Director	Kazuto Tajiri
Director	Yoshikazu Miike
Director	Hiroyuki Harada
Director (Outside)	Tetsuji Taya
Director (Outside)	Yoshiko Sasao

Auditors

Standing Auditor	Masumi Iwakabe
Standing Auditor	Mutsuhiro Yamada
Auditor (Outside)	Masahiko Nakamura
Auditor (Outside)	Takao Yuhara

Major Shareholders (Top10)

(As of March 31, 2015)

Shareholders	Thousands of Shares	Percentage of Outstanding Shares
1 Japan Trustee Services Bank, Ltd. (Trust Account)	38,281	14.31%
2 The Master Trust Bank of Japan, Ltd. (Trust Account)	16,838	6.30%
3 STATE STREET BANK AND TRUST COMPANY 505225	7,270	2.72%
4 MSIP CLIENT SECURITIES	6,199	2.32%
5 Stockholding Association for Leopalace21's Business Connection	5,721	2.14%
6 Trust & Custody Services Bank, Ltd.	5,669	2.12%
7 GOLDMAN SACHS INTERNATIONAL	5,653	2.11%
8 BNYM SA/NV FOR BNYM CLIENT ACCOUNT MPCS JAPAN	5,240	1.96%
9 BBH FOR FIDELITY LOW-PRICED STOCK FUND (PRINCIPAL ALL SECTOR SUBPORTFOLIO)	4,891	1.83%
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)	37,896 thousand shares
The Master Trust Bank of Japan, Ltd. (Trust Account)	16,668 thousand shares
Trust & Custody Services Bank, Ltd.	5,669 thousand shares

Stock Information

(As of March 31, 2015)

Number of Shares:

Authorized: 500,000,000

Outstanding: 267,443,915

Number of Shareholders:

39,197

Listing:

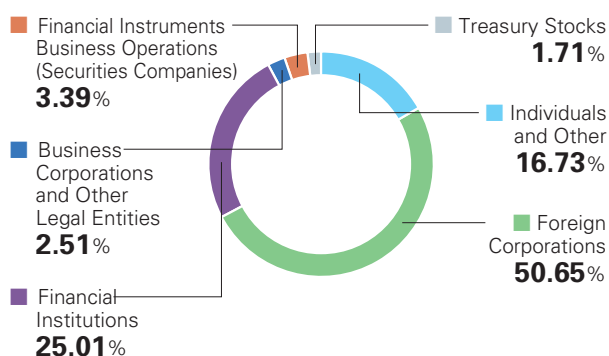
First Section of the Tokyo Stock Exchange
(Security code: 8848)

Transfer Agent:

Mitsubishi UFJ Trust and Banking Corporation

Shareholder Composition

(As of March 31, 2015)



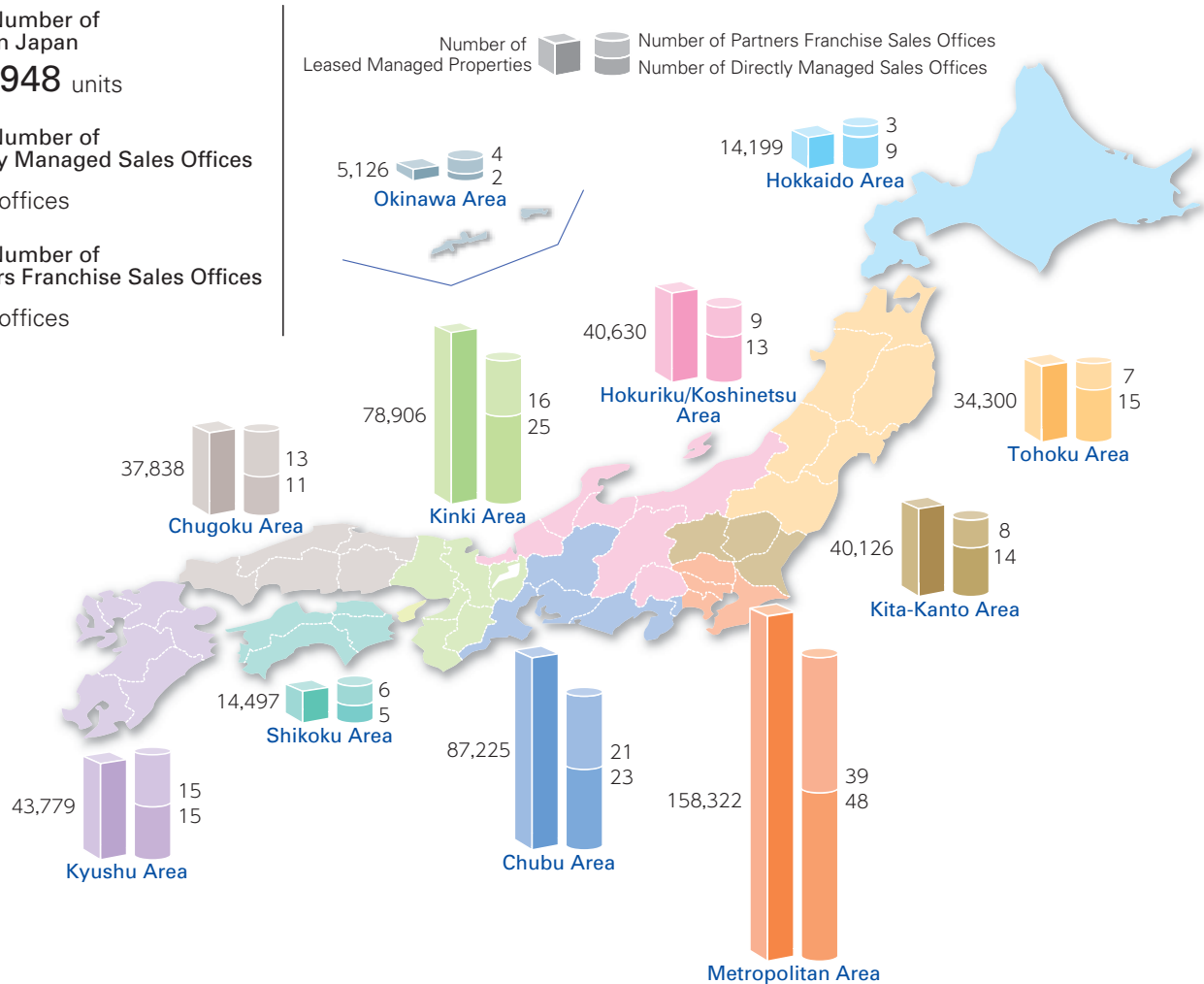
Number of Apartment Units under Management and Domestic Leasing Sales Offices by Areas

(As of March 31, 2015)

Total Number of Units in Japan
554,948 units

Total Number of Directly Managed Sales Offices
180 offices

Total Number of Partners Franchise Sales Offices
141 offices



Share Price and Trading Volume

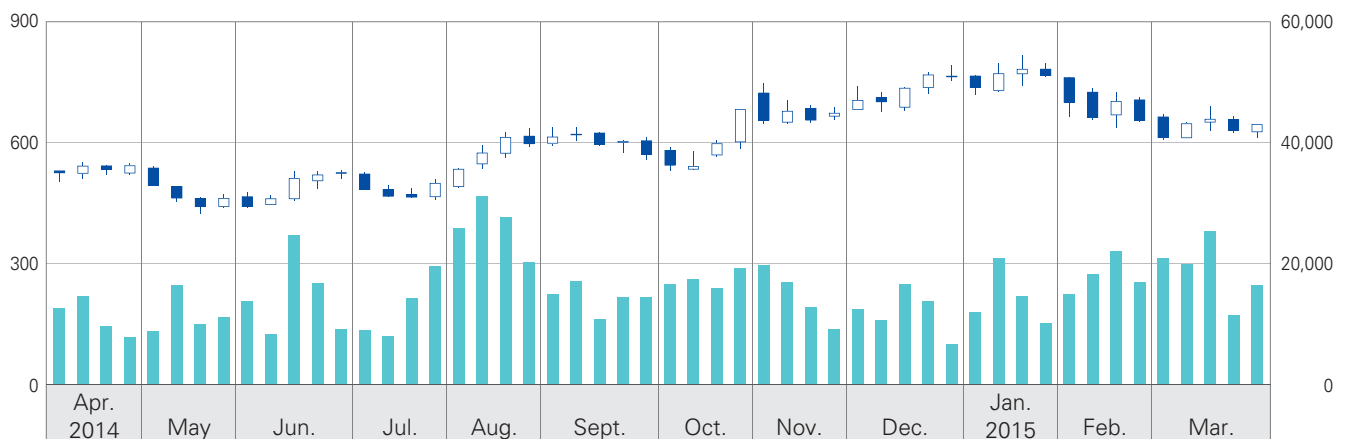
(As of March 31, 2015)

Share Price

(Yen)

Trading Volume

(Thousand shares)



Leopalace21 Corporation

2-54-11 Honcho, Nakano-ku, Tokyo 164-8622, Japan

TEL: +81-3-5350-0001 (Main Line)

<http://eg.leopalace21.com/>