



Leopalace 21

Creative Evolution

Annual Report 2017

For the fiscal year ended March 31, 2017

Profile

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

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

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

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

Contribute to society by creating and providing new value based on the theme of “housing.”

Corporate Philosophy

“Creating New Value”

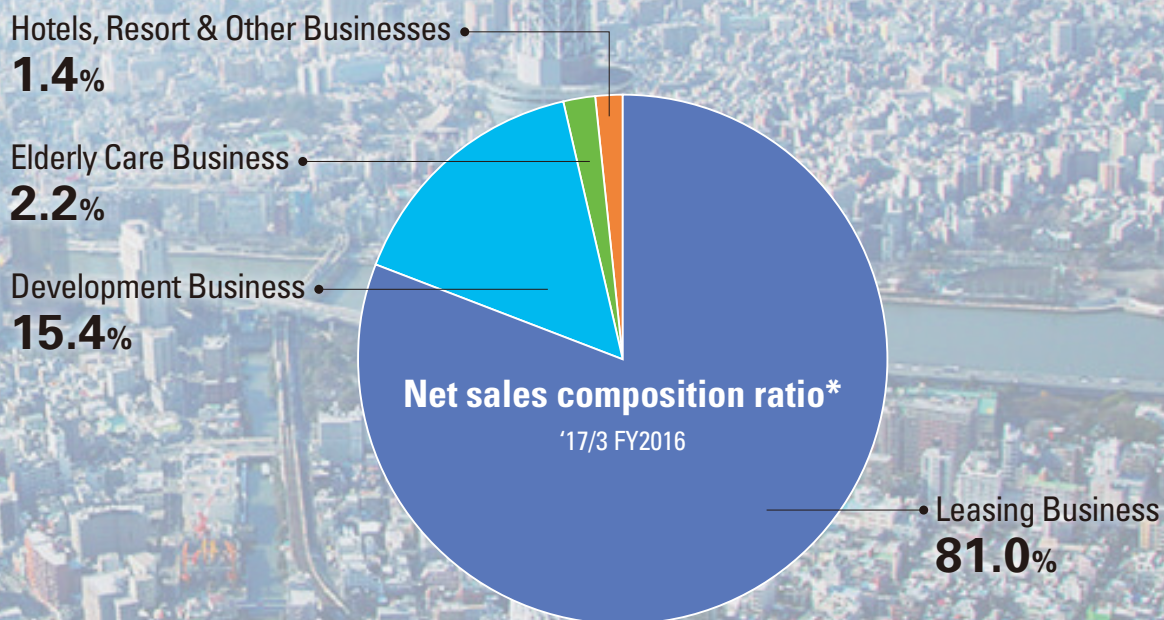
1. We keep a close eye on modern-day needs, and strive to create new value in our own unique way, through flexible thinking and dynamic, inclusive teamwork.
2. We are only happy if our customers are happy. We are constantly working to improve our products, services and technologies and to grow as a company.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

Mission Statement

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

Adopted on December 16, 2016

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



*Numbers are used under new business segments.

Contents

Leopalace21: Who We Are

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

- 03 To Our Stakeholders
- 04 Trajectory of Growth
- 06 Business Model and Strength

Responding to Social Challenges and Creating Value

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

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Editorial Policy

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

This report covers the fiscal year from April 1, 2016 through March 31, 2017 (fiscal year 2016). The scope is Leopalace21 Corporation and its consolidated subsidiaries in Japan and overseas. Our aim is to publish to the extent possible the latest information available as of the publication date. With the aim of promoting deeper reader comprehension, the report includes macro-economic data relating to our businesses, and the "Data Compilation" section enables readers to understand trends to date. We take care to explain what we present in ways that are readily understandable so that the report serves as an effective communication tool that reaches our many stakeholders.

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

Reference Guidelines

- ISO26000
- GRI (Global Reporting Initiative)
Fourth-generation (G4) of sustainability reporting guidelines

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Forward-looking Statements

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

To Our Stakeholders

Based on the theme of “housing,” we create new value and contribute to making lives even better in the future by providing “housing.”

In fiscal 2016 (fiscal year ended March 31, 2017), amid improving environments for employment and incomes, the Japanese economy remained in a mild recovery stage. In the housing sector, the fallback in demand following the consumption tax hike has ebbed, and with the supply of apartments and other rentals increasing as more landowners seek to lighten their inheritance tax burden, new housing starts and new rental housing starts rose for a second successive year.

Amid this environment, we strove to maximize earnings in the final fiscal year of the most recently finished medium-term management plan. We did so by raising occupancy rates through efforts to add more tenant services, adding more variations in building categories such as elderly care facilities, buildings with commercial space, and custom-built homes, and extending our branch network across Asia.

As a result, consolidated net sales in fiscal 2016 fell short of our initial forecast but rose 1.8% year on year to ¥520.4 billion. Operating profit and recurring profit both reached their targets, with operating profit climbing 8.6% year on year to ¥22.8 billion and recurring profit rising 12.3% year on year to ¥22.3 billion. Profit attributable to owners of the parent grew 3.9% to ¥20.4 billion.

As for returning profits to shareholders, we reinstated dividends for the first time in seven years in fiscal 2015, paying a year-end dividend of ¥10 per share. In fiscal 2016, we also paid an interim dividend, with the combined full-year dividend payment up ¥12 year on year to ¥22 per share. The dividend payout ratio came to 28.3%.

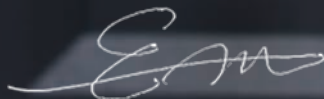
In fiscal 2017, we released our new three-year medium-term management plan “Creative Evolution 2020.” We will advance measures based on our basic policy of “supporting continuous growth of core businesses in ways that further increase corporate value while constructing a base for growth areas.” Its year-one consolidated targets are for net sales of ¥540.0 billion, operating profit of ¥23.5 billion and profit attributable to owners of the parent of ¥14.2 billion.

The one constant in this world is change, and we seize on that to create social value at the same time we increase our corporate value by addressing problems involving people and housing.

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

June 2017

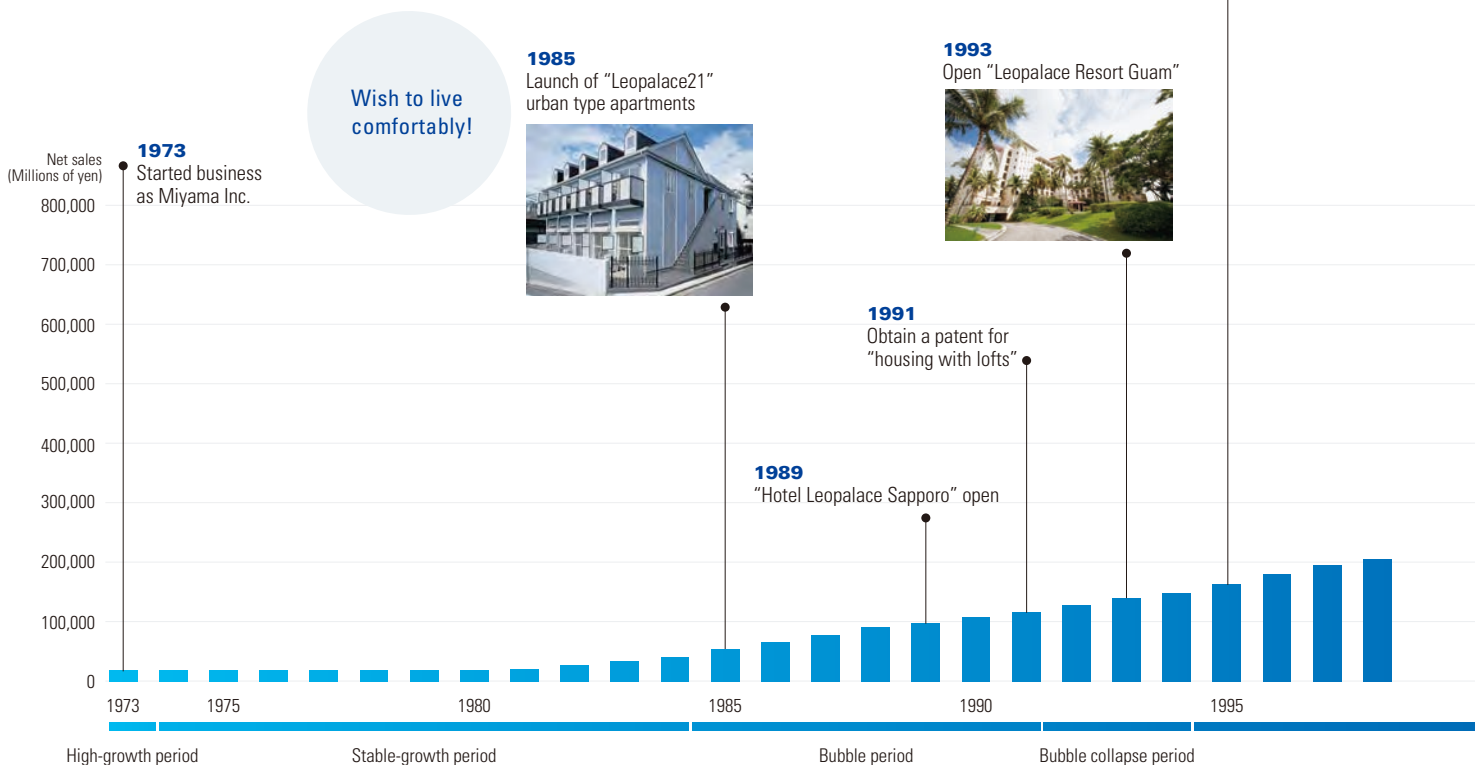
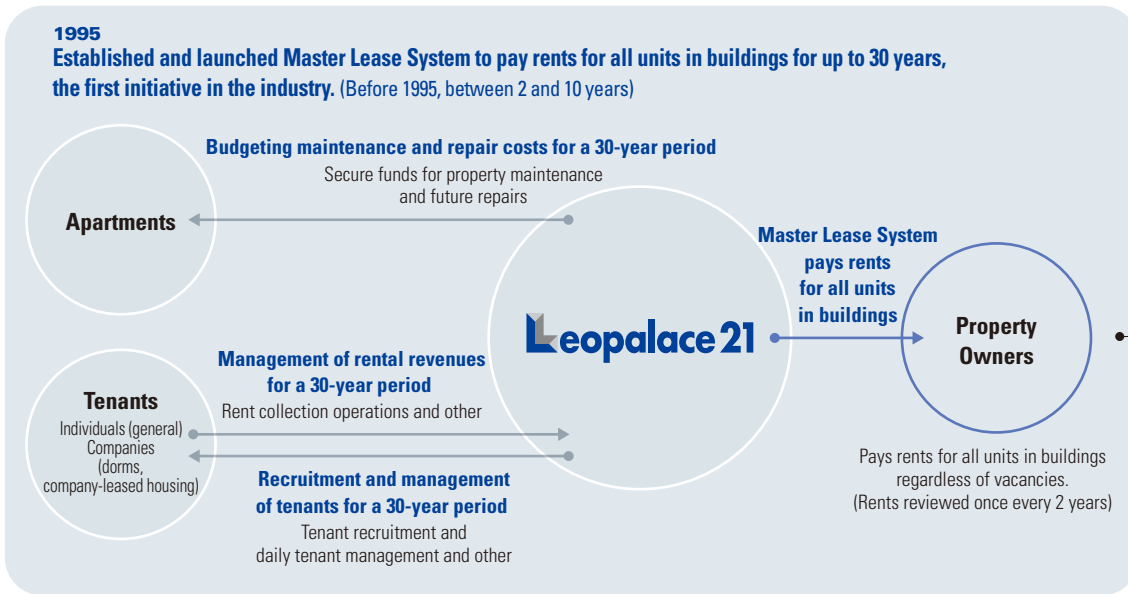
Eisei Miyama
President and CEO




Trajectory of Growth

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

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



History of Overseas Expansion

2002

- Open Leopalace Center Seoul

2006

- Open Leopalace Center Taipei and Leopalace Center Busan

2007

- Open Leopalace Center Jongno

2009

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

2010

- Open Dalian Branch and Guangzhou Branch

2012

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

2013

- Establish one overseas subsidiary in Thailand and one in Vietnam

2014

- Establish overseas subsidiary in Cambodia
- Open Myanmar Branch

2015

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

2016

- Start operating serviced office in Myanmar
- Establish overseas subsidiary in Singapore
- Start operating serviced apartment in Vietnam

2017

- Scheduled to start operating serviced apartment in Cambodia

Want to enjoy living alone to the full extent

1999

Launch "Monthly Leopalace" furnished with furniture and home appliances



Want to freely rearrange my room

2012

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



Want to live in a room safe and secured for female

2011

Start "Security System" installations for apartments



2015

Adopt computerized lease agreement

Want to enjoy internet in my room

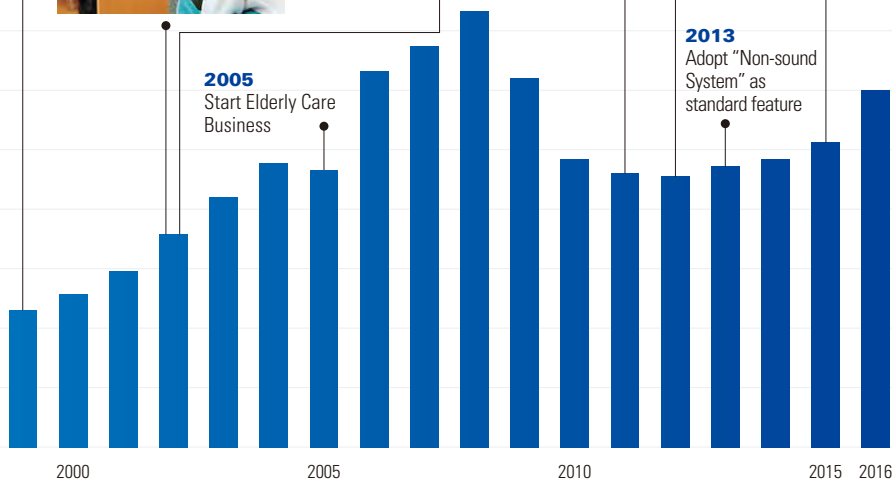
2002

Start broadband business



2005
Start Elderly Care Business

2013
Adopt "Non-sound System" as standard feature



Four strengths of Leopalace21

Innovative Vision

Innovative Products

Core Competence Real Estate Know-how

Owner-Tenant Matching Capabilities

Large Stock of Managed Apartment

Fiscal year ended March 31

Economic uptrend period

Global recession period

Economy recovery period

Business Model and Strength

Leopalace21's unique business model led by four strengths

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

1 Innovative Vision

Establish and launch the first Master Lease System in the industry
Open Leopalace Resort Guam
Start the Elderly Care Business

2 Innovative Products

Start selling monthly apartments furnished with furniture and home appliances
Install security system for apartments
Start "my DIY" service
Promote smart apartments (IoT-ready infrastructure)

Four Strengths

3 Owner-Tenant Matching Capabilities

Diversified channels to attract tenants
Meticulous sales approach to each industry
Consulting in cooperation with professionals such as lawyers, accountants and other

4 Large Stock of Managed Apartment

No.3 in Japan in lease management units
No.1 in Japan in lease management of one-room type units!



Leopalace21 Value Creation

Create various values of housing and living places using our unique and exclusive business model

Taking into account social challenges and needs relating to housing and living places, Leopalace21 delivers values responding to such challenges and needs harnessing our four strengths based on the core competence of real estate know-how.

Business Environment and Housing-related Social Challenges and Needs



Increase in single-person households



Increase in the risk of lower rent and higher vacancy rate caused by a hefty load of apartment supplies



Increase in vacant housings nationwide



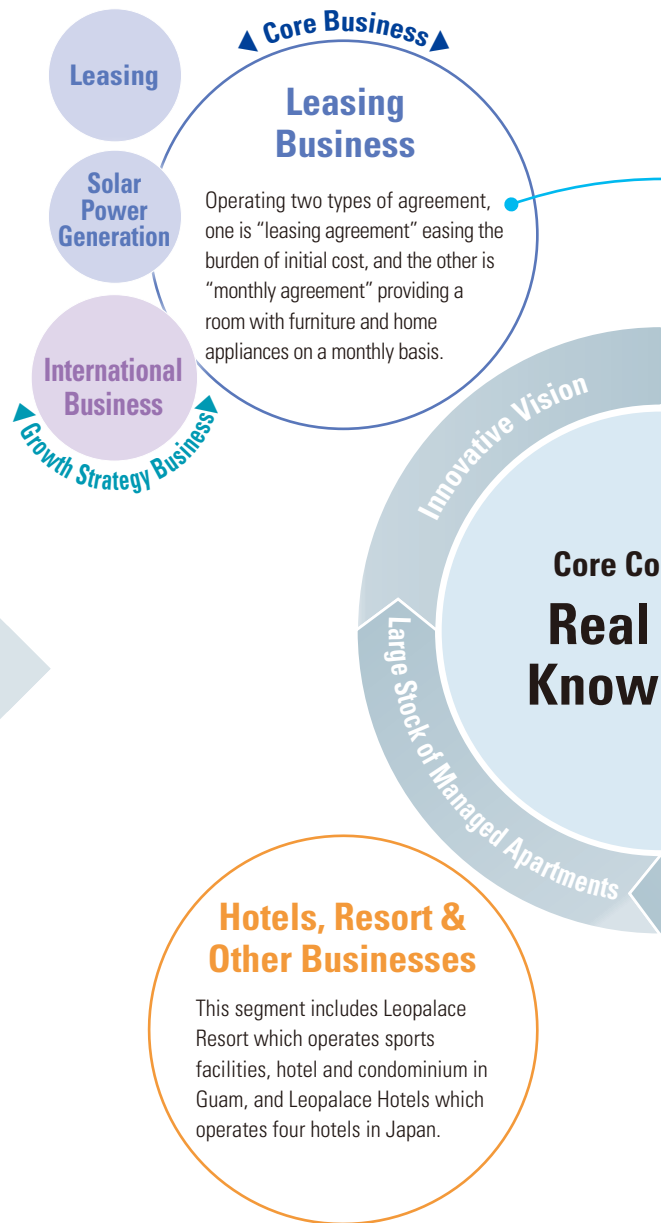
Hiring interest of companies is improving due to economic recovery



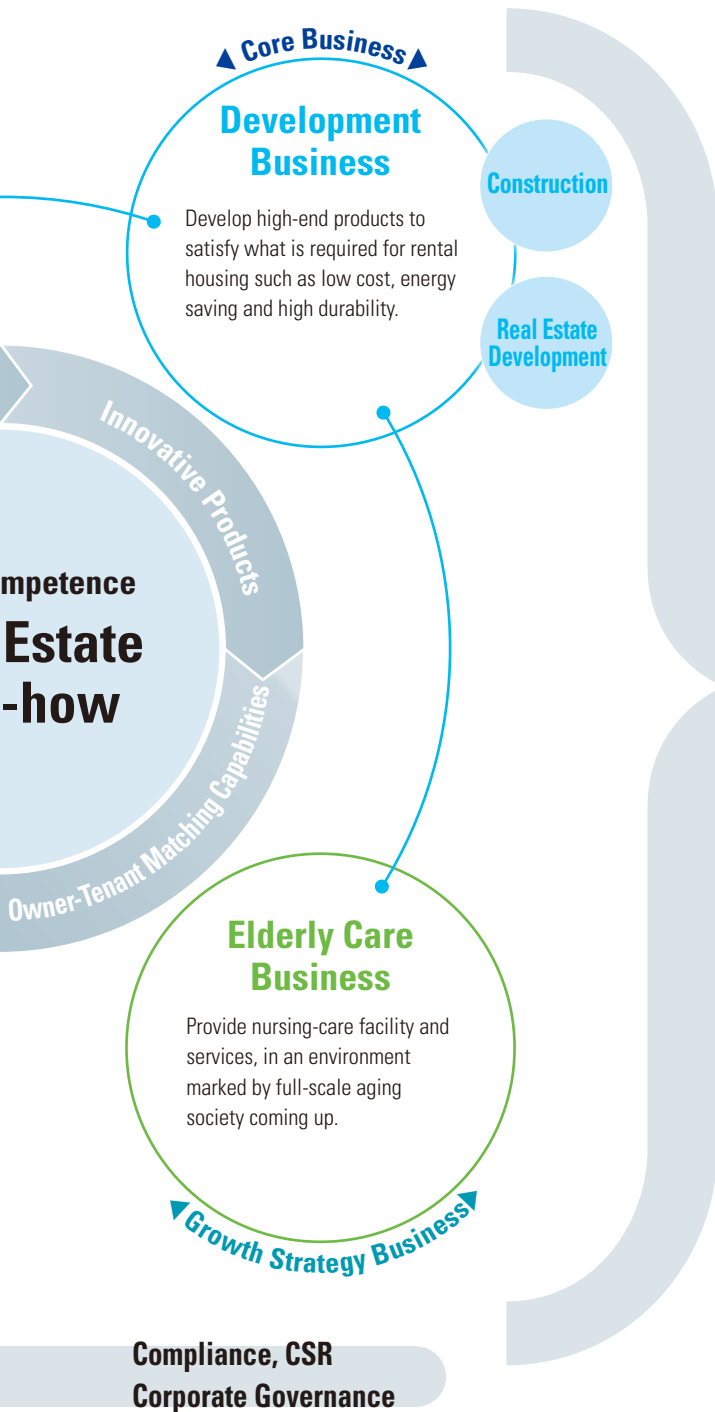
Increase in the number of people over 65 years old with the arrival of super-aging society



Acceleration of Japanese-affiliated companies going international



Corporate Philosophy
Corporate Ethics Charter



Business Environment and Housing-related Social Challenges and Needs



Expand services such as providing IoT-ready infrastructure for tenants



Limit new apartment supply to 3 major metro areas where high rental demand can be expected in the future



Make proposals of alternative usage of land, other than apartments, to eliminate anxieties of owners



Provide comfortable and pleasant dormitories and corporate housings to companies without burden



Provide safe and comfortable nursing care facilities for affluent post-retirement years



Provide total support for overseas assignments

Leopalace21 Value Creation Responding to Social Challenges and Needs

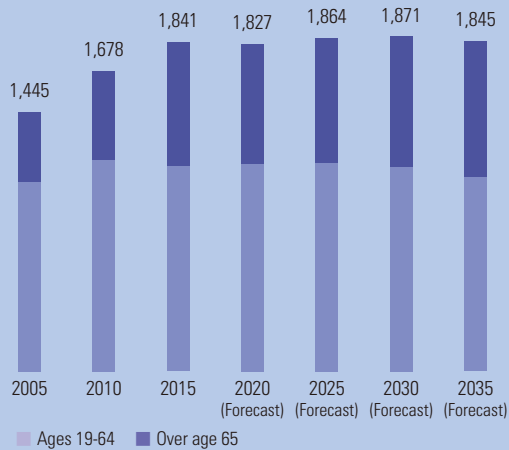
Value Creation in Core Businesses

Perceiving accurately what's happening in the environment where single-person households and vacant housings are increasing nationwide, Leopalace21 creates values by making good use of its competitive superiority.

External Environment

Increasing single-person households due to change in marriage and household formation behaviors

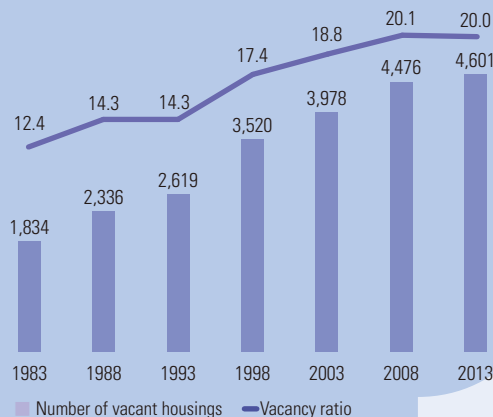
Trend in single-person households (10,000 households)



*According to the Year 2013 "Household Projection for Japan" of National Institute of Population and Social Security Research

Increase in vacant housings due to a hefty load of supplies in housings for rent

Number of vacant housings for rent in Japan (1,000 housings) and trend in vacancy ratio



*According to the FY2013 "Housing and Land Survey" of Ministry of Internal Affairs and Communications

What's Happening

Increase in needs of one-room type housings for single-person households

Number of new housings under construction (housings for rent) (1,000 housings)



*According to the "number of new housing starts statistics" of Ministry of Land, Infrastructure, Transport and Tourism

Mass-migration into metro areas found by analysis

Top 5 prefectures with migration in excess

Prefectures	Excessive number of people migrated in 2016
Tokyo	74,324
Saitama	21,702
Kanagawa	16,093
Chiba	13,163
Aichi	8,968

*According to the "Report on Internal Migration in Japan" of Ministry of Internal Affairs and Communications

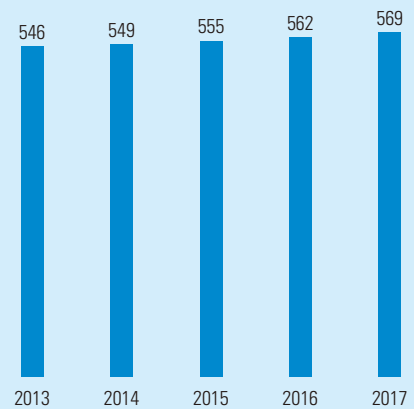
Value Creation & Competitive Superiority of Leopalace21

Specialize in one-room type with furniture and home appliances



One of Japan's largest landlord (Number of rooms under management in Japan: 568,739)

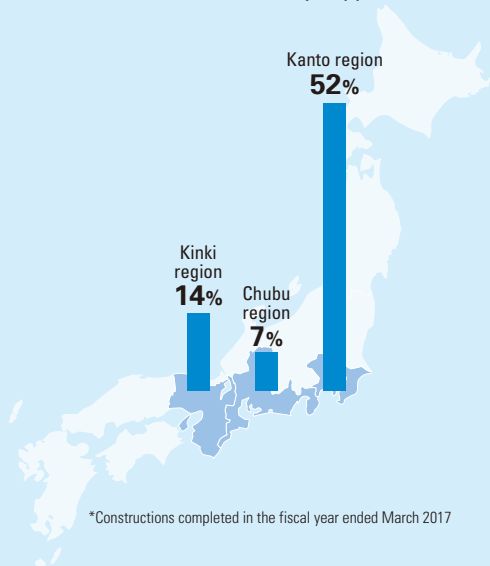
Trend in the number of rooms under management (1,000 rooms)



*As of March end

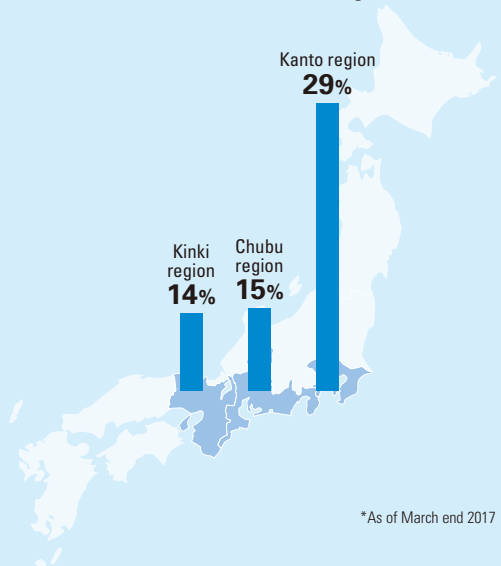
Focused on metro areas

Number of rooms newly supplied



*Constructions completed in the fiscal year ended March 2017

Number of rooms under management



*As of March end 2017

Leopalace21 Value Creation Responding to Social Challenges and Needs

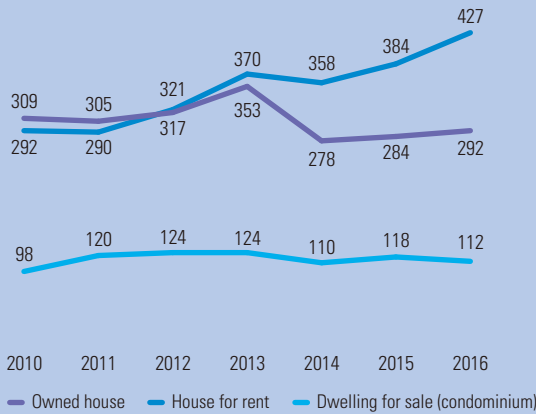
Value Creation in Core Businesses

Perceiving accurately what's happening in the environment where the risk of lower rent and higher vacancy rate is increasing due to a hefty load of apartment supplies, and where the hiring interest of companies is mounting due to economic recovery, Leopalace21 creates values by making good use of its competitive superiority.

External Environment

The risk of lower rent and higher vacancy rate is increased due to a hefty load of supplies in housings for rent

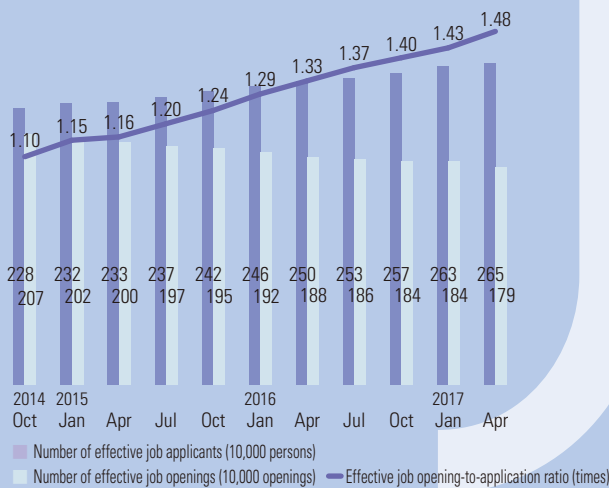
Trend in the number of newly constructing housings (1,000 housings) by segment



*According to the "number of housing starts statistics" of Ministry of Land, Infrastructure, Transport and Tourism

Hiring interest of companies is mounting due to economic recovery

Effective job opening-to-application ratio (seasonal adjustment value, including part-time)



*According to the "general employment placement situation" of Ministry of Health, Labor and Welfare

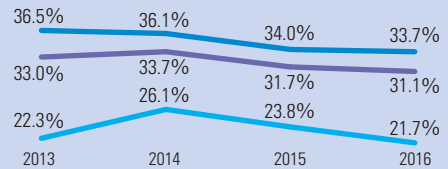
What's Happening

Increase in the number of potential owners with anxiety about constructing apartments

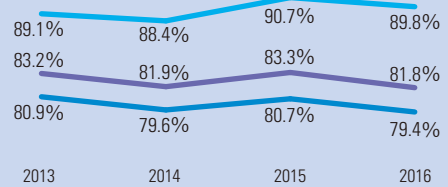


Increase in the needs of dormitories and corporate housings

Trend in company owned corporate housing ratio



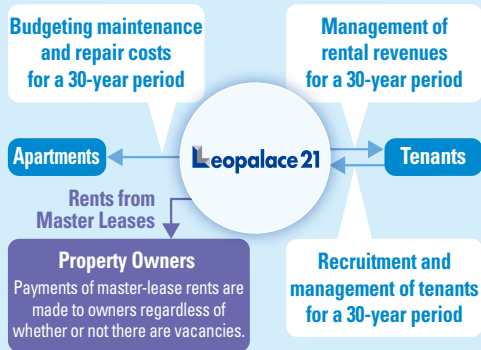
Trend in occupancy rate of corporate housings



*According to "Junkan Fukurikousei" of ROUKEN (Work Research Institute)

Value Creation & Competitive Superiority of Leopalace21

Industry-first Master Lease System developed



Channel strategies to attract tenants



Value improvement measures for existing properties

Customize and rearrange room as you like "my DIY"



STB device "Life Stick"



IoT-ready "Leo Remocon"



Security system

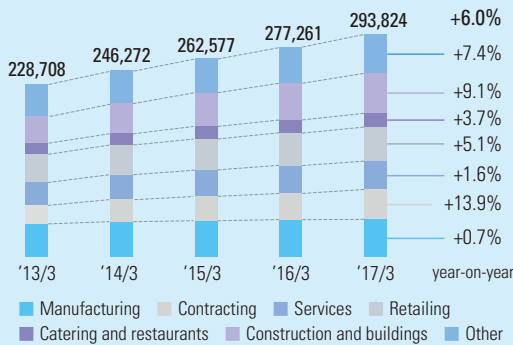
Total **273,620** housings



Leopalace21 × **SECOM** **ALSOX**

Strengthen corporate sales (develop meticulous and exclusive sales approach for each industry)

Contract number of units by category of industry



Transactions with listed companies
Approx. 80%

Usage rate of corporate customers
56.4%

LeoLeopalace21 Value Creation Responding to Social Challenges and Needs

Customer's Voice

Leopalace21 has provided housing solutions to a vast number of people. Here, we showcase feedback from apartment owners and tenants who have actually used our services, as well as from corporations who have used our properties as employee housing.



Future-looking proposal for a place of many memories

Mr. Hiromi Noguchi

Tokyo

I inherited an old house that my aunt, a former schoolteacher, bought 60 years ago. I didn't have any funds reserved, and I wasn't thinking about doing anything new with the property.

But when I heard about land use from Leopalace21, I began thinking that maybe there was something I could do with it. After that, we met several times until I was sure of my decision. In the end, I decided to build apartments on the property.

A lot of problems came up building the apartments, but Leopalace21 stuck in my corner, and thanks to some timely handling of issues, we were able to complete construction. It was almost unbelievable seeing that old one-story house transformed into shiny new apartments. I am filled with gratitude for the truly fantastic support of Leopalace21.

↑ Apartment Owner's Voice

Tenant's Voice ↓



You helped my daughter find a place that we could be happy with

Mr. Soichi Suto

Saitama

Leopalace21 helped my daughter find a place to live on her own for the first time. We had been getting discouraged because we couldn't find a place, but the representative from Leopalace21, Ms. Unoki, was really cheerful and encouraged us. She asked us about everything, from desired conditions to the school activities my daughter was involved in. She showed us a great apartment that seemed to tick off everything on our list, so we applied right away.

After that, however, our family objected because the apartment was on the first floor, so we had to rethink our choice, and had Ms. Unoki show us some more places. After spending a day comparing apartments and talking it over with my daughter, we decided to stick with the apartment we had originally put in an application for.

We were able to decide on an apartment we could be satisfied with thanks to Ms. Unoki, who spent an entire day helping us in our search. Please pass on my thanks.



Greatly reduced our burden in terms of cost and labor

Mr. Hitoshi Kinebuchi

Section Manager, General Affairs Division
AOKI Holdings Inc.

In the past, we used to rent ordinary housing, and house three to four employees per unit. However, problems with things like privacy, noise, and handling of facilities were stressing our employees.

That was our situation when Leopalace21's staff from the corporate sales department told us about an arrangement where we could get single-occupancy apartments with no leasehold deposits or key money, complete with furniture and electrical appliances. Thanks to this, our expenses and the amount of labor upon accounting were greatly reduced. It solved all the issues we were facing. It's hard to estimate the burden we would be bearing if we had continued with our previous way of managing employee housing.

Our employees give the apartments high marks for being furnished and having good security. I'm very happy that we switched. It resulted in high satisfaction for the company and our employees.

Corporate Customer's Voice



The selling points are the support and system different from ordinary rentals

Mr. Shinya Nishida

Executive Officer, General Manager of General Affairs Department
Tama Home Co., Ltd.

I've been struck by the quality of this service since we introduced employee housing in 2002. The biggest benefits are the reductions in cost and administrative load.

When we were opening stores nationwide, we had a lot of employees repeatedly being transferred for short durations. Leopalace21 was able to greatly reduce our expenses because they don't require a leasehold deposit. Also, the ability to create a comprehensive agreement covering hundreds of units reduced our administrative load as well. Our employees appear very satisfied with the fact that units are fully furnished, and have good security as well. In addition to employee housing, we also use Leopalace Hotels, and it is so popular with our employees that we have repeat customers. We hope to continue to partner in many ways in addition to employee housing.

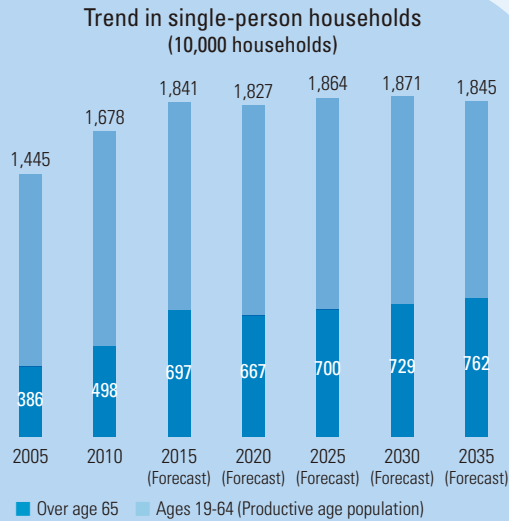
Leopalace21 Value Creation Responding to Social Challenges and Needs

Value Creation in Growth Strategy Business

Perceiving accurately what's happening in the environment where the number of people over age 65 is increasing with the arrival of a super-aging society, and where the movement of Japanese-affiliated companies going international is accelerated, Leopalace21 creates values by making good use of its competitive superiority.

External Environment

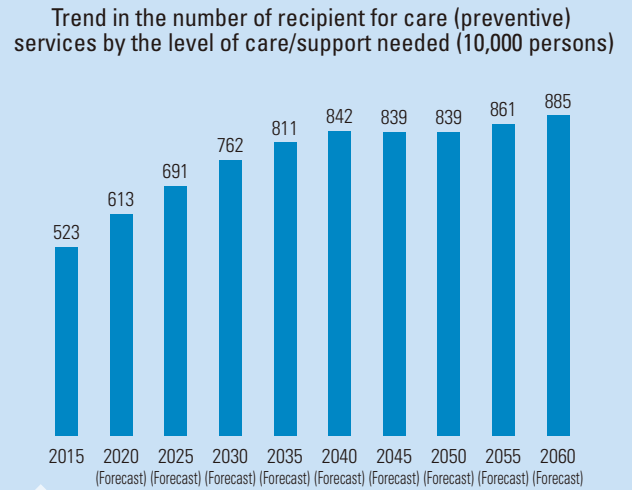
Increase in the number of people over age 65 with the arrival of super-aging society



*According to the year 2013 "Household Projection for Japan" of National Institute of Population and Social Security Research

What's Happening

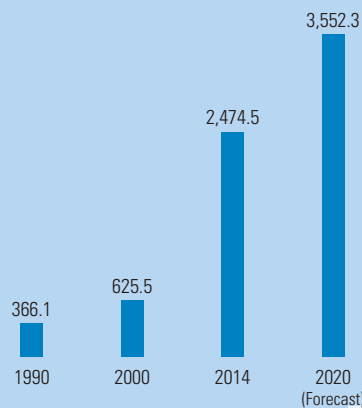
Increase in the needs of nursing care facilities



*According to the "Population Projection for Japan as of Jan 2012" of National Institute of Population and Social Security Research, drafted by the Ministry of Economy, Trade and Industry based on the "FY2014 Population Projections for Japan" of Ministry of Internal Affairs and Communications and the "FY2014 Long-term Care Benefit Expenditure Survey" of Ministry of Health, Labor and Welfare

Rapid economic growth prevailing in ASEAN nations

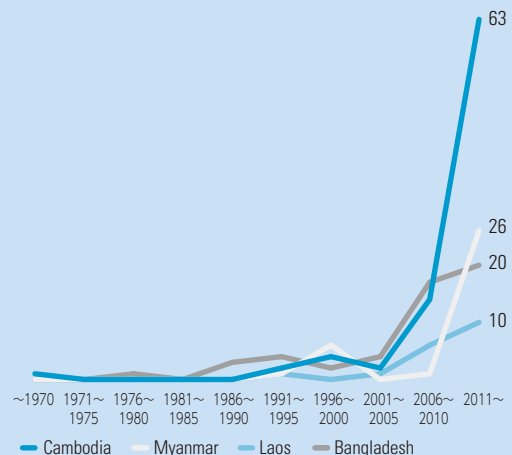
Change in GDP in ASEAN nations (Billions of Dollars)



*IMF "World Economic Outlook"

Increase in the number of Japanese-affiliated companies expanding business to ASEAN nations

Number of companies expanding business into ASEAN



*According to the "Results of JETRO's FY2015 Survey on Business Conditions of Japanese Companies in Asia and Oceania-Intention to expand business reaches point of saturation" of JETRO

Value Creation & Competitive Superiority of Leopalace21

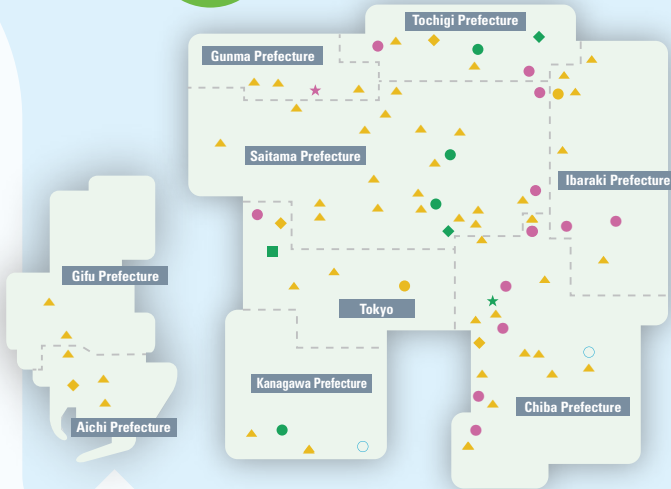
Elderly Care Business

Planning to increase nursing care facilities

April 1, 2017

March end 2019

78 facilities → 86 facilities



International Business

Start serviced apartment business overseas

Developing business in 16 cities overseas



- Offices where we introduce and consummate contracts for properties located in Japan
- Offices where we introduce and broker the properties located on-site in Asia
- Offices where we perform both of the aforementioned functions
- Offices where we collect and research information for investment



Ten-Year Consolidated Financial Highlights

For the years ended March 31				
	'08/3 FY2007	'09/3 FY2008	'10/3 FY2009	'11/3 FY2010
Net sales	¥ 672,973	¥ 733,235	¥ 620,376	¥ 483,537
Leasing Business	302,731	334,560	342,316	355,752
Construction Business	327,540	359,154	237,062	107,821
Elderly Care Business	11,173	7,952	8,812	7,785
Hotels & Resort Business	6,071	5,610	6,734	6,491
Other Businesses	25,456	25,956	25,451	5,686
Cost of sales	511,053	589,833	570,749	448,392
Selling, general and administrative expenses	90,516	93,244	79,354	59,605
Operating income (loss)	71,402	50,156	(29,727)	(24,460)
Leasing Business	3,036	(1,538)	(47,875)	(30,865)
Construction Business	73,267	70,112	29,744	11,888
Elderly Care Business	1,261	(1,538)	(1,994)	(1,508)
Hotels & Resort Business	(1,116)	(805)	(1,324)	(1,973)
Other Businesses Adjustments	(5,046)	(16,072)	(8,278)	(2,002)
EBITDA (Operating income + depreciation)	76,565	55,939	(23,432)	(18,009)
Net income (loss)	342	9,951	(79,075)	(41,742)

At year-end:				
Total assets	¥ 493,956	¥ 467,300	¥ 396,511	¥ 298,274
Net assets	170,155	146,442	70,979	32,187
Interest-bearing debt	49,710	44,188	61,318	43,858

Cash flow:				
Cash flow from operating	¥ 11,745	¥ 62,843	¥ (12,990)	¥ (28,337)
Cash flow from investing	148	(10,048)	(8,889)	13,143
Cash flow from financing	(26,779)	(33,885)	15,281	(15,890)

Amounts per share: (Yen)				
Net assets	¥ 1,036.43	¥ 967.40	¥ 466.76	¥ 190.84
Net income (loss)	2.15	63.54	(521.91)	(266.48)
Cash dividend	80.00	30.00	—	—

Ratio:				
Units under management	442,025	506,742	551,773	571,656
Average annual occupancy rate (%)	92.36	88.51	82.25	80.09
Orders received (Millions of yen)	463,044	337,883	250,247	80,338
Equity ratio (%)	33.4	31.3	17.9	10.8
Return on equity (ROE) (%)	0.2	6.4	(72.8)	(81.0)
Return on assets (ROA) (%)	0.1	2.1	(18.3)	(12.0)
Payout ratio (%)	3,720.9	47.2	—	—
Debt/equity ratio (%)	0.3	0.3	0.9	1.4
Number of employees	8,678	9,926	8,582	7,114

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

(Notes) 1. U.S. dollar amounts are translated from yen at the rate of ¥112.19 = U.S. \$1, the approximate rate prevailing at March 31, 2017.

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

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

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

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

Reorganized Business Portfolio

Reorganized into Four Businesses, from Five Previously

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

Until Fiscal 2016 (Year ended March 31, 2017)

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

(Millions of yen)						(Thousands of U.S. dollars)	
	'12/3 FY2011	'13/3 FY2012	'14/3 FY2013	'15/3 FY2014	'16/3 FY2015	'17/3 FY2016	'17/3 FY2016
	¥ 458,220	¥ 454,285	¥ 470,883	¥ 483,247	¥ 511,513	¥ 520,488	\$ 4,639,347
	379,091	383,637	388,562	399,375	410,641	416,594	3,713,291
	62,913	53,369	63,135	61,312	74,160	74,566	664,641
	8,845	9,482	10,171	10,608	10,798	11,536	102,834
	6,228	6,657	7,571	8,951	11,427	7,244	64,574
	1,142	1,137	1,442	2,999	4,485	10,546	94,004
	403,572	396,508	401,510	407,433	422,604	427,820	3,813,355
	51,278	50,299	55,906	60,992	67,823	69,769	621,890
	3,369	7,477	13,467	14,822	21,085	22,898	204,101
	4,052	8,750	15,364	20,590	22,848	22,459	200,191
	4,290	2,748	2,951	211	3,340	5,051	45,029
	(855)	(742)	(610)	(606)	(1,354)	(1,650)	(14,714)
	(1,663)	(1,005)	(1,118)	(1,289)	(697)	(768)	(6,850)
	(2,454)	(2,272)	(3,119)	(4,084)	(3,051)	(2,193)	(19,554)
	9,416	13,161	19,460	22,558	30,700	32,235	287,325
	372	13,398	15,730	15,175	19,631	20,401	181,843
	¥ 264,783	¥ 261,649	¥ 288,165	¥ 308,882	¥ 327,609	¥ 337,828	\$ 3,011,220
	31,761	56,145	103,354	124,928	144,865	158,870	1,416,083
	51,654	49,026	37,227	44,487	50,824	49,918	444,945
	¥ (3,174)	¥ 6,069	¥ 15,584	¥ 15,715	¥ 22,104	¥ 27,504	\$ 245,158
	(3,537)	(6)	(6,929)	(17,550)	(11,087)	(8,653)	(77,133)
	7,245	9,148	8,848	1,747	1,374	(14,048)	(125,220)
	¥ 187.50	¥ 265.32	¥ 393.05	¥ 475.17	¥ 550.94	¥ 603.76	\$ 5.38
	2.21	74.85	69.38	57.73	74.68	77.61	0.69
	—	—	—	—	10.00	22.00	0.20
	556,207	546,204	548,912	554,948	561,961	568,739	—
	81.16	82.94	84.58	86.57	87.95	88.53	—
	50,019	73,006	81,139	87,395	86,439	87,139	\$ 776,713
	12.0	21.5	35.9	40.4	44.2	47.0	—
	1.2	30.5	19.7	13.2	14.6	13.4	—
	0.1	5.1	5.7	5.1	6.2	6.1	—
	—	—	—	—	13.4	28.3	—
	1.6	0.9	0.4	0.4	0.4	0.3	—
	6,165	6,277	6,758	7,339	7,846	7,695	—

From Fiscal 2017 (Year started April 1, 2017)

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

Leasing Business

Reference: Fiscal 2016 (Millions of yen)

Net sales	Operating income
421,342	23,009

- Custom-built homes
- Real estate development

Development Business

80,321 5,786

- Elderly care business

Elderly Care Business

11,536 (1,667)

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

Hotels, Resort, and Other Businesses

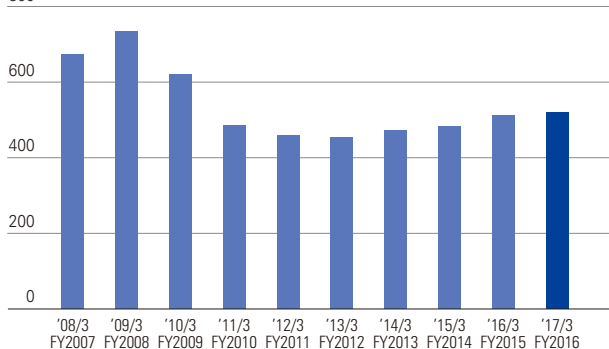
7,287 (417)

Consolidated Financial Highlights

Net Sales

↑ **520.4** billion yen
Up 1.8% y/y

(Billions of yen)
800

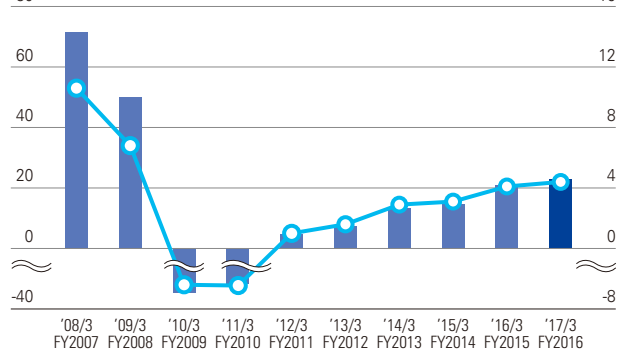


As a result of the fall in occupancy rates due to the global financial crisis triggered by the 2008 collapse of Lehman Brothers, we have pushed through business structural reforms in the fiscal year ended March 2010 in order to control Construction Business by restricting the supply of apartments to specific areas as well as to enhance Leasing Business earnings. Since then net sales is demonstrating an upward trend, led by the Leasing Business. Construction Business has also been on the increase with the rise in demand of construction of apartments since the fiscal year ended March 2014 and achieved revenue growth for 4 consecutive years at March end in 2017.

Operating Profit (Loss)

↑ **22.8** billion yen
Up 8.6% y/y

(Billions of yen)
80



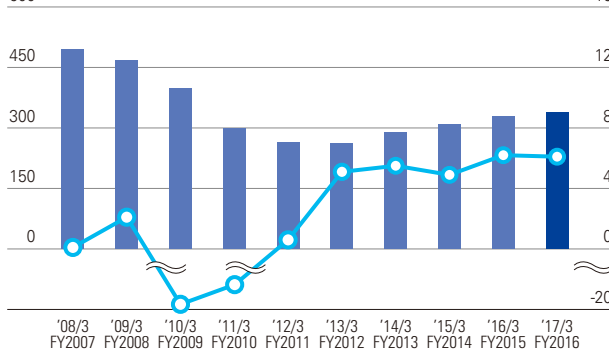
■ Operating profit (loss) (left axis) ○ Operating margin (right axis)

As for the net sales, the earnings of Leasing Business has deteriorated due to the global financial crisis triggered by the 2008 collapse of Lehman Brothers, which led to the fall into the red for 2 consecutive years ended March 2010 and March 2011. After the progress of business structural reforms, overall profits are continuing to rise steadily for 6 consecutive years since the fiscal year ended March 2012, in Leasing Business for 5 consecutive years and in Construction Business for 2 consecutive years.

Total Assets

↑ **337.8** billion yen
Up 3.1% y/y

(Billions of yen)
600



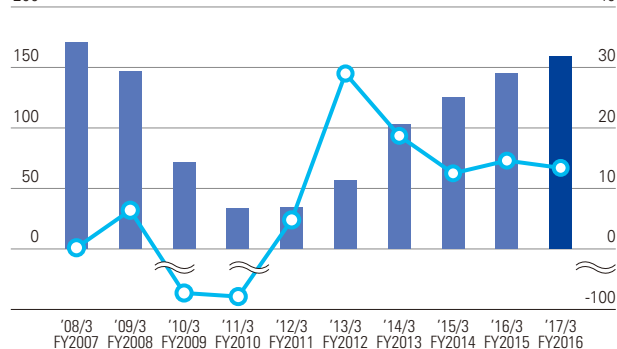
■ Total assets (left axis) ○ ROA (right axis)

After ROA recorded negative in the fiscal years ended March 2010 and March 2011, structural reforms led to rapid recovery with a steady increase to around 5-6% since the fiscal year ended March 2013. ROA was 6.1% at the end of March 2017.

Net Assets

↑ **158.8** billion yen
Up 9.7% y/y

(Billions of yen)
200

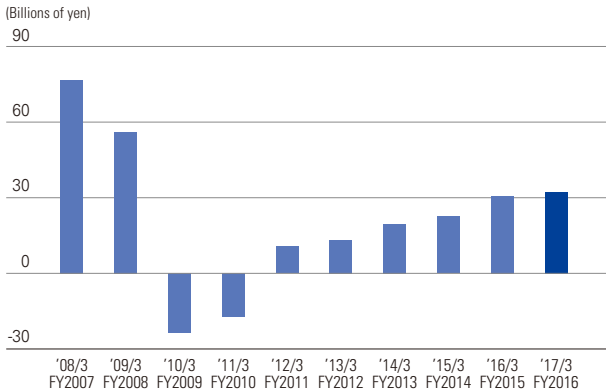


■ Net assets (left axis) ○ ROE (right axis)

ROE recorded negative in the fiscal years ended March 2010 and March 2011, but recovered rapidly to mark 29.0% in the fiscal year ended March 2013. This was a temporary phenomenon attributed to high debt ratio, rather than a growth in profits. After that, as a result of decrease in financial leverage from compression of interest-bearing debt as well as the expansion of earnings, ROE has been hovering around 10%, down slightly in the fiscal year ended March 2017 when compared with the previous year.

EBITDA (Operating Profit + Depreciation)

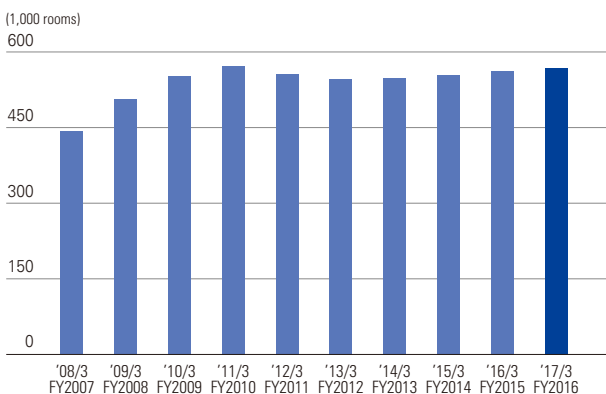
↑ 32.2 billion yen
Up 5.0% y/y



EBITDA, the combination of operating profit and depreciation, has been steadily increasing since the fiscal year ended March 2012 attributed to the continuous growth of operating profit resulted from recovery in earnings and to the increase in depreciation and amortization stemmed from the capital investment increase in new businesses such as solar power generation business and serviced apartments business in ASEAN nations. EBITDA increased for 6 consecutive years at March end in 2017.

Rooms under Management

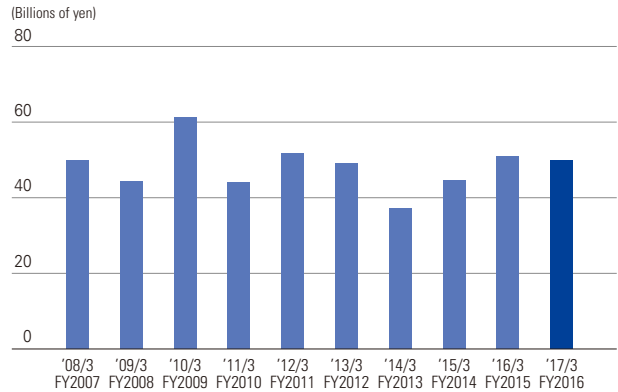
↑ 568,739 rooms
Up 1.2% y/y



We believe increasing the number of rooms under management strengthens the base of earnings as we regard revenue from the assets we manage in our Leasing Business as core revenue. We will continue to supply apartments in areas where we expect strong tenant demand, concentrating on the three major metro areas where net population inflows continue.

Interest-bearing Debt (incl. Lease Obligations)

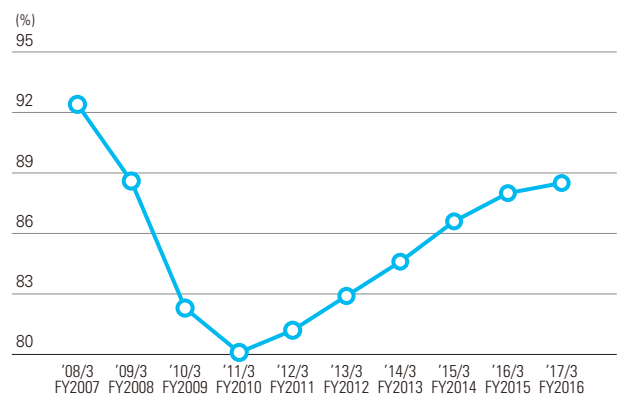
↓ 49.9 billion yen
Down 1.8% y/y



We have focused on reducing debt ratio in consideration of repayment capacity as well as compression of liabilities since interest-bearing debt marked 61.3 billion yen at March end in 2010, the highest record in the last 10 years. Upward trend after March end in 2015 is coming mainly from our capital investments toward new businesses which we assessed as affordable risks. Debt ratio hovers around 0.4 times.

Average Annual Occupancy Rate

↑ 88.5 %
Up 0.6 points y/y

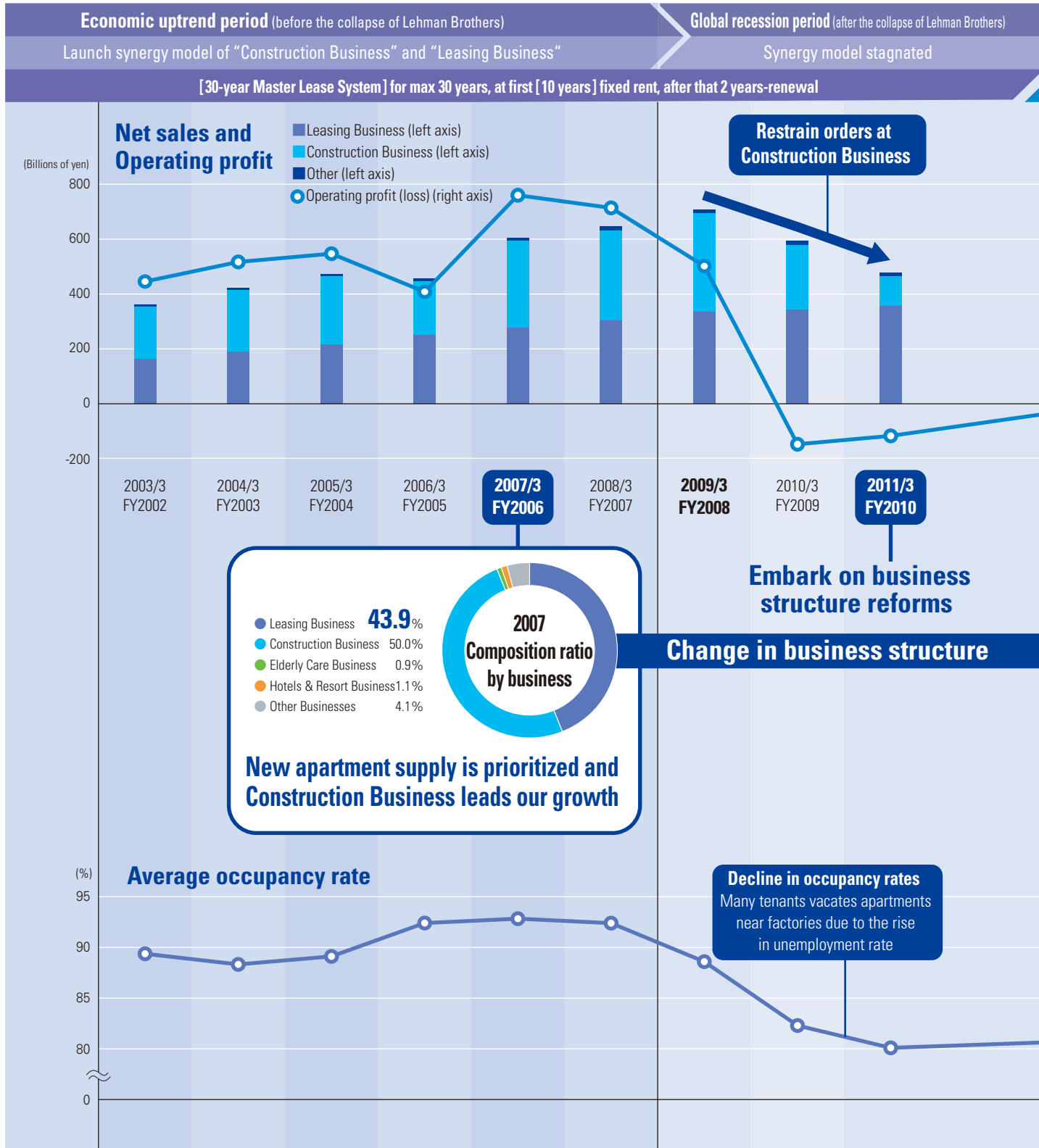


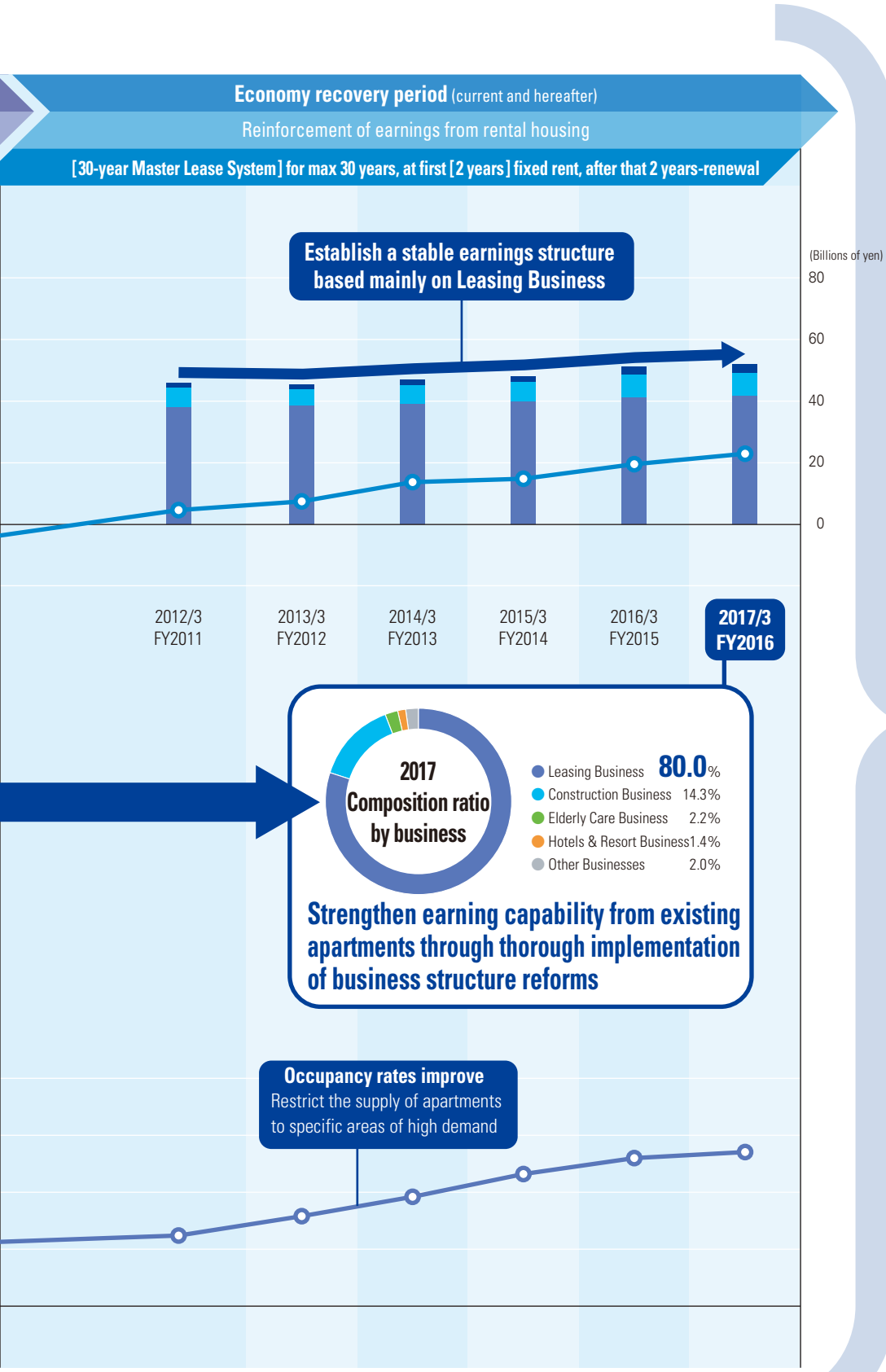
There is a tendency of occupancy rates for rental housing repeating the cycle, to mark the highest in March when students newly enroll in schools and when new grads enter into companies, decrease in April then move up gradually after May. In order to promote long-term occupancy, we have been improving the value of properties and developing the measures which do not impact the seasonal cycle. Accordingly, the average annual occupancy rate during the fiscal year under review is on uptrend, showed increase for 6 consecutive years at March end in 2017.

Business Model Transition

In the period of economic uptrend, our Construction Business drove our growth, sharply expanding new apartment supply. Following the global financial crisis triggered by the 2008 collapse of Lehman Brothers, we recorded operating losses as orders at the Construction Business declined. However, with the business structure reforms we implemented in the year ended March 2011, we have been steadily returning to a stable financial structure.

Our aim amid the current economic recovery period and beyond is to thrive by shifting to a stable earnings model that achieves a balanced earnings mix from the Leasing Business and Development Business while expanding our growth fields of Elderly Care Business and International Business sections.





for the NEXT STAGE

We will focus on the growth businesses grounded on the core businesses for the next stage

Medium-Term Management Plan Transition

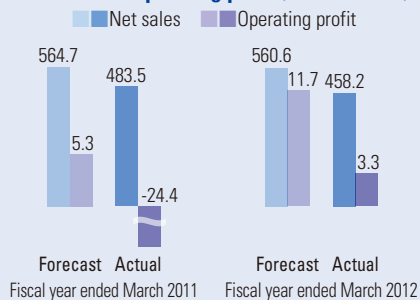
Post Change for NEXT

(Period: Fiscal year ended March 2011—
Fiscal year ended March 2013)

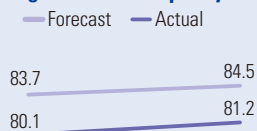
Overview

The plan was revised in 2 years with an unexpected change in business environment.

Net sales & Operating profit (Billions of Yen)



Average annual occupancy rate (%)



Fiscal year ended March 2011 Fiscal year ended March 2012

Basic policy

Changing to a stable financial structure achieving a balanced earnings mix of the Construction Business and Leasing Business

Achievement

- After 3 years achieved surplus in the year ended March 2012
- The Leasing Business turned into surplus
- Low-cost structure established

Challenges

- Attracting individual tenants and promoting long-term occupancy
- Surplus in the Leasing Business excluding the reversal of loss reserve for vacancies
- Diversification of supply properties (Expansion of orders other than Master Lease apartments)

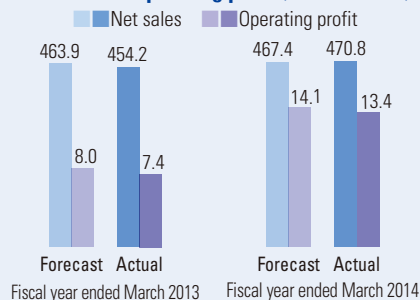
Creating Future

(Period: Fiscal year ended March 2013—
Fiscal year ended March 2015)

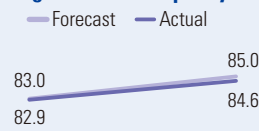
Overview

The plan was revised in 2 years after achieving most of the target goals in the second year.

Net sales & Operating profit (Billions of Yen)



Average annual occupancy rate (%)



Fiscal year ended March 2013 Fiscal year ended March 2014

Basic policy

Establish a stable financial structure achieving a balanced earnings mix of the Leasing Business and Construction Business

Achievement

- Increase in profit by improving the earnings in the Leasing Business and other
- Promote measures for added-values of properties such as solar power generation system, security system and other
- Promote orders and construction of the elderly care/commercial facilities other than apartments

Challenges

- Attract individual tenants
- Improve profitability of the Construction Business
- Drive the growth of new businesses including overseas expansion and other
- Expanding the Elderly Care Business

Let us introduce the history of the changes made on our Medium-Term Management Plan. During the periods of “Post Change for NEXT” and “Creating Future,” the business environment surrounding us went through a degradation to an unexpected upturn. Accordingly both plans were revised before reaching to the third year. In contrast, we were able to achieve most of the target values and goals in “EXPANDING VALUE,” as we clarified key issues and challenges we should address based on the substantial recognition of the external environment and incorporated into our plan at the outset.

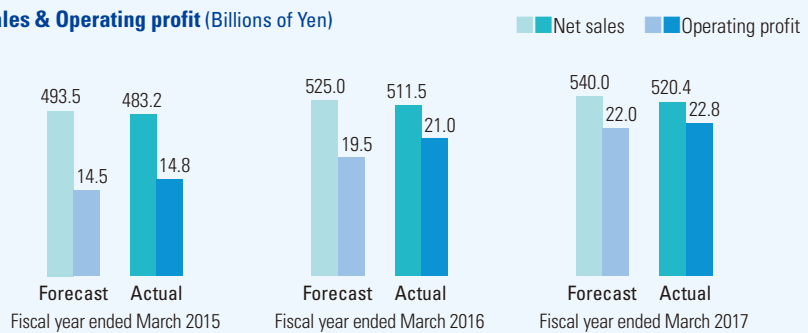
EXPANDING VALUE

(Period: Fiscal year ended March 2015—Fiscal year ended March 2017)

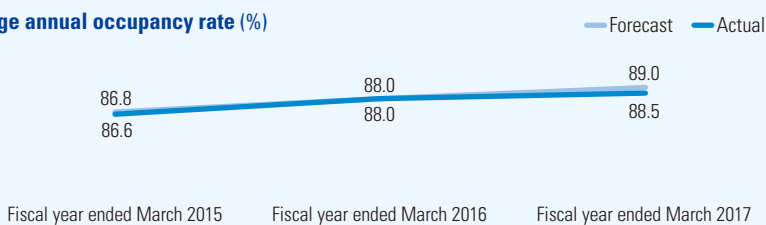
Overview

Achieved all of target values and goals set in the 3-year plan by understanding the business environment properly and by clarifying the key issues and challenges we should address.

Net sales & Operating profit (Billions of Yen)



Average annual occupancy rate (%)



Basic policy

Challenge into new fields of business, with a strong base structured by Core Businesses

Achievement

- **Achieved profit plan (Established the base for rental housing stock business)**
3-year operating profit plan of ¥56 billion vs. actual result of ¥58.8 billion
- **Recommended dividend payments (from the fiscal year ended March 2016)**

Challenges

- **Establish the base for growth areas (Elderly Care Business, International Business)**
- **Enhance profit contribution of affiliate companies**
- **Improve Balance Sheet (Enhancing asset and capital efficiency)**

Top Interview

We are venturing overseas, drawing on the foundation of trust and experience we built in Japan as housing professionals. Through our provision of residences where people, whether Japanese or from overseas, can lead healthy lives, we are working to increase our corporate value.

1. Creating Shared Value at Leopalace21

2. Corporate Culture at Leopalace21

3. Our Previous Medium-Term Business Plan

4. Future Direction of Market Trends

5. New Medium-Term Management Plan

6. Growth Businesses

7. Corporate Governance

8. Message to Shareholders and Investors

1) Creating Shared Value at Leopalace21



Looking back at the path Leopalace21 has followed since its founding, the Company has created social value by addressing public concerns that emerge from society's changing structure such as the uptrend in single-person households and the onset of an aging society by harnessing the real estate-related know-how its people have. At the same time, this approach has enabled the Company to increase its corporate value. It seems Leopalace21's corporate philosophy contains the notion of creating shared value (increasing its corporate value by addressing social value concerns). The Company formulated a mission statement in 2016. Please share with us your thoughts on these themes.

Since its founding, Leopalace21's core competence has been its real estate-related know-how. Looking back, I think we have come this far by leveraging this know-how to provide various services that address an array of "gaps" relating to housing. When we tried to express in words that we have done over the years, the mission statement we drew up last year was the result. We have more employees now, and I thought we needed to put forth clearly our policies from a managerial viewpoint to our stakeholders, so we

devised the mission statement. The one constant in this world is change, and we seize on that to create value and increase our corporate value. Our mission statement is composed of four lines to convey the notion it is only when what we are doing for our business is also done on behalf of society that we are empowered to run our business.



Eisei Miyama

President and CEO,
Leopalace21

Corporate Philosophy and Mission Statement

“Creating New Value”

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

Mission Statement

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

2) Corporate Culture at Leopalace21



I understand you are the fourth president in the company's history. Can you share your thoughts about Leopalace21's corporate culture now?

The tenures of the second and third presidents were short, and it was the founder who built up the Company's foundation. Leopalace21 had a wholly top-down culture at that time. The founder would watch what was going on in society at large and develop his read so he could create new services and swiftly launch them. Projects that did not fare well were quickly dropped while those that went well were built upon and steadily advanced. Our capacity to act with speed is a valuable legacy we have inherited from our founding era. On the flipside, because of a top-down



culture where employees tended to act only after receiving instructions from above, very few of our employees had the inclination to think up ideas on their own.

What is starkly different between now and then is we are now a completely bottom-up organization. I now feel the culture we had on was very out of place on that aspect. Our employees in the field are the closest to our customers and thus have the best read of their needs. I constantly tell them they need to swiftly develop services that satisfy those needs, and I feel a culture of bottom-up initiative is at last taking root at the Company.

Our culture now also differs in one more way from then when the organization was vertically segregated into silos. We are now a horizontal organization where information flows across divisions. At Leopalace21, the vice president is the head of a divisional structure under which all departments and divisions are situated. About once a week a cross-divisional meeting is held where employees come together to share information. At these meetings, employees discuss many topics at the level of ideas with each other so when we move to the implementation phase, what we come up with hardly ever diverges markedly from customer needs.

3) Our Previous Medium-Term Management Plan



The "Expanding Value" Medium-term Management Plan commenced in April 2014. Can you share with us the achievements of and still-not-fully-resolved issues from the concluded plan?

Business structure reforms were advanced, and under the recently concluded management plan, "quality" has improved. What do I mean by quality? Our presumption until then was that boosting sales would also boost profits, but our thinking

has shifted to focusing on generating profits rather than sales growth. In so doing, we noticed the burden of the costs of sales was greater than we thought, so we decided to put more weight on reviewing costs in implementing the plan. As a result, net

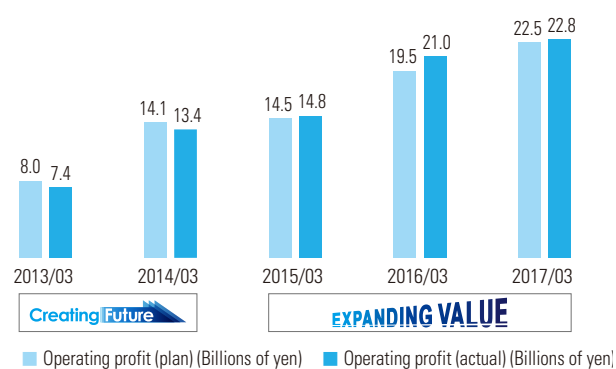
Review of Previous Medium-term Management Plan

Achievements

- **Achieved profit targets** (Established solid base for stock business)
Three-year cumulative operating profit: Plan 56.0 billion yen vs. Actual 58.8 billion yen
- **Recommended dividend payments** from FY2015 (FY ended March 2016)

Future tasks

- **Establish base for growth areas** (Elderly Care Business and International Business)
- **Improve profitability of subsidiaries**
- **Improve balance sheet** (Greater asset and capital efficiency)



sales fell short of the plan's target but operating profit attained the plan's target.

As for unresolved issues, one was the small profit contribution from Group companies. The new medium-term management plan clearly identifies growth areas but it will be a while before those areas generate profit, so the profit contribution from Group companies is vital. Another is our inability to increase corporate

value in the absence of improvements to capital and asset efficiency. The new management plan, which starts in fiscal 2017, is centered on advancing capital and asset efficiency. Moreover, paying stable dividends to return profits to shareholders should also boost our share price, and steps such as these will, I think, meet shareholder expectations.

4) Future Direction of Market Trends



Some are voicing concerns about vacant rental dwellings, subleasing and related issues and an oversupply of apartments. Where do you see market trends heading in the years to come?

As for the Leasing Business environment, I think new apartments will eventually no longer be built in low populations areas. Leopalace21 has stopped doing so since I became president in 2010. In the past when large companies in the countryside were on a tear, company towns boomed and many apartments were built and people came to live in them. Many of those buildings have become empty shells, so there has been a 180-degree reversal in the environment in these company towns.

The migration of people to large cities has grown even more pronounced amid the decline in Japan's overall population. Given these circumstances, our direction will be to steadily raise

the occupancy rates of buildings we manage and refrain from building new apartments in rural locations. Based on that view, we have concentrated on the three large metro regions since the Lehman Brothers collapse.

As for the Elderly Care Business environment, Japan's population over age 65 is expected to reach about 30% by 2025. When that happens, the stock of care facilities across Japan at present will hardly be sufficient, so we expect needs for new facilities to increase. We plan to some extent to work on building new nursing care facilities.

External Environment: Key Issues and Opportunities for Leopalace21 Group to Address

Recognition of External Environment

Demographic Trends

- Number of households in Japan is expected to decline but single-person households in our target cohort of ages 15-64 (productive population) is expected to **trend sideways for nearly the next twenty years**
- **Net domestic migration inflow** into three major metro regions continues to overrun
- The 2025 problem: **population over age 65 is expected to reach about 30%** by 2025

Leasing & Construction

- **New rental housing** starts in FY2016 **increased 11.4% year on year**, a brisk trend
- **Number of vacant rental units** in Japan has **risen continuously**
- Reduction in the basic deduction on inheritance taxes in the January 2015 inheritance tax revision has **sharply increased the number of heirs who are subject to inheritance taxes**

Key Issues and Opportunities

- **Bolster development of services and products** that accurately perceive the market environment of increasing single-person households
- **Supply apartments in three major metro regions where rental demand is strong**
- Work to expand the Elderly Care Business in concert with Japan's evolution as an aging society (**new construction of nursing care facilities**)

- **Differentiating our products from competitors** is important amid growth in rental units
- **Limit new apartment supply to three major metro regions where rental demand is strong**
- Increase in landowners subject to inheritance taxes **spurs medium-and-long-term demand for apartment construction** as a way to lighten tax burden



5) New Medium-Term Management Plan



The three-year span of the “Creative Evolution 2020” Medium-term Management Plan started in April 2017. Please tell us about the basic policy, strategies and numerical targets in the new plan.

The basic policy of the “Creative Evolution 2020” Medium-term Management Plan is to aim to support continuous growth of our core businesses while striving to construct a base for growth areas.

Medium-Term Management Plan: Key Points and Strategy

Basic Policy

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

Business Strategies (Value creation via cash flow generation)

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

Financial Strategies (Value creation via balance sheet management)

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

The consolidated earnings plan assumes core businesses will grow 3% on an annualized basis. This plan is in no way premised on stretched assumptions, and the source of profits is expected to come from further extending what was achieved in the previous medium-term plan.

In the growth areas, i.e., the International Business and Elderly Care Business, in contrast, we consider the span of the new medium-term plan to be a time for seeding. The plan is for these businesses to move into profit in year three and then finally to start contributing to profits in the next medium-term plan. Over the new plan's three-year span we will focus on doing as much as we can across the board to expand profits at Group companies. The profit weighting of Group companies in the new plan's earnings targets are

actually set on the high side. As I stated earlier, turning the businesses in growth areas profitable will take time so we expect Group companies to make an extra effort. In particular, we have high expectations for Life Living Co., Ltd., the real estate development company we converted into a Group company in July 2016.

Numerical Targets (consolidated)

(Billions of yen)	2017/3 (FY2016) (Actual)	2018/3 (FY2017) (Plan)	2019/3 (FY2018) (Plan)	2020/3 (FY2019) (Plan)
Sales	520.4	540.0	556.0	575.0
Operating profit	22.8	23.5	24.5	26.0
Net income* ¹	20.4	14.2	15.0	16.0
Adjusted net income* ²	18.4	18.4	19.0	20.0
ROIC* ³	7.1%	—	—	8%~10%
Adjusted ROE* ⁴	12.0%	—	—	Maintain 12%

The Leopalace21 Group expects to reverse deferred tax assets during the span of the “Creative Evolution 2020” medium-term management plan; management indicators are calculated based on normalized earnings that exclude one-off gains or losses.

*1 Profit attributable to owners of the parent is shown as “net income”

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

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

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

We also decided to adopt ROIC as a key management indicator. We will concentrate on how efficiently we can generate profit using ROIC, putting more focus on managing our balance sheet properly rather than on single-year profit-loss performance. I doubt we can increase corporate value unless we keep efficiency in mind, so we decided to adopt ROIC as a key metric and introduced it into our new medium-term plan. Starting with the management teams at Group companies, we are working to disseminate the fresh thinking underlying the new plan to all our employees.

6) Growth Businesses

Elderly Care Business



What is the strategy for the Elderly Care Business in concrete terms?

In the previous medium-term plan, I said we would continue to build new care facilities but in the new plan we decided to stop new construction temporarily and focus on improving and reinforcing operations at existing facilities. If we kept building new

facilities (tangible), our focus would invariably be pulled in that direction, so the speed at which we could improve services (intangible) would not increase.

More than 40% of employees at care facilities are currently

full-timers, so this ratio is the biggest obstacle to improving profits. As shown in the new medium-term plan, we plan to reduce this ratio to about 35% by the plan's last fiscal year. The full-timer ratio at other companies in the nursing care industry is about 20%, so only about one in five workers is a full-time employee. Rightsizing

the composition of the workforce at facilities will enable us to restrain personnel costs, enabling facilities to move closer to a profit at which point we will reset. Then, under the next medium-term management plan, we will start gradually adding new facilities.

Elderly Care Business

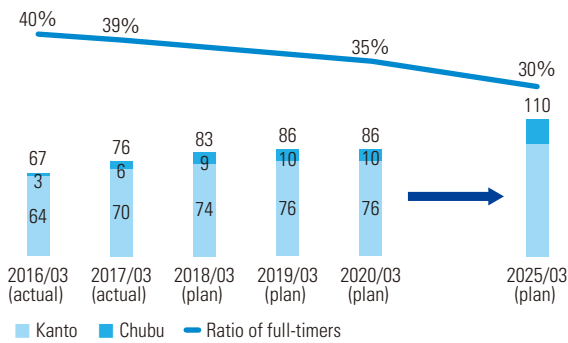
External Environment

- **The 2025 problem:** population over age 65 is expected to reach about 30% by 2025

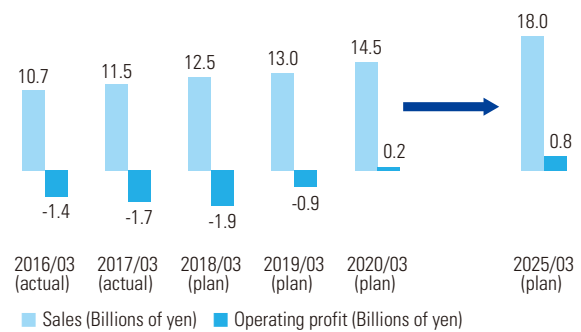
Issues and Opportunities

- Elderly Care Business is designated as a **growth business and focal point**
- New facilities that have not reached the break even point will continue to have **cumulative losses**, so we will temporarily stop construction after facilities which open by the end of FY2018 (86 facilities total)
- Improve earnings power of existing facilities through **optimal worker composition**

No. of Facilities



Numerical Targets



International Business



What is the strategy for the International Business in concrete terms?

As a foundation for overseas expansion, we have built a branch network, so the biggest goal we set for this business in the new medium-term plan is building income-generating properties. We now have three serviced apartments, including one under construction, and two serviced offices, so our portfolio is just five properties at present. Our serviced apartment in Cambodia is scheduled to commence operations from September 2017. At present, we are introducing customers to buildings overseas we did not develop on our own and there is ample need from companies for Japanese-style apartments with some home-country touches built in. Companies sending employees to live and work overseas want their employees to be able to live in a proper apartment since they are sent on assignment at the company's request. Yet there is a shortage of such apartments at present. Our goal is to help meet this demand by developing such properties.

Under the previous medium-term plan, we built a branch network, and under the new medium-term plan, we will plant seeds for growth. Our long-term vision is to proceed to harvest the fruits of those efforts in the ensuing years.



International Business (Included in Leasing Business for reporting purposes)

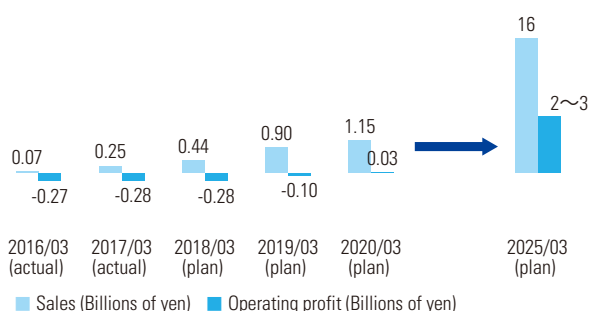
External Environment

- More companies entering ASEAN nations

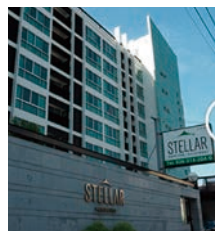
Issues and Opportunities

- Offer **high-quality buildings, facilities and services**
- Since rental unit brokerage is a flow business, we will **expand management and operation of income properties** (EXIT policy after a certain period of time)

Numerical Targets



Overview of Service Apartments



Serviced Apartment in Sriracha, Thailand

Opened: November 2015
 Building: 72 rooms with eight floors above ground
 Occupancy rate: 87.5% (as of March 31, 2017)



Serviced Apartment in Ha Noi, Vietnam

Opened: August 2016
 Building: 56 rooms with ten floors above ground, one floor below ground
 Occupancy rate: 92.9% (as of March 31, 2017)



Serviced Apartment in Phnom Penh

Scheduled opening: Summer 2017
 Building: 56 rooms with 14 floors above ground, one floor below ground

7) Corporate Governance

On the Addition of Another Outside Director



Tadashi Kodama joined the Board as an outside director in July 2016. Please tell us about the circumstances that led Leopalace21 to add another outside director to its Board.

Leopalace21 did not have even one outside director until 2008. As for my personal standard for inviting an outside director to join, I do not agree with the notion that we must assemble a certain number of outside directors to meet the Tokyo Stock Exchange's criteria merely because it issued a rule. My view is not to select an outside director because we received a recommendation backing him or her. If I find someone I want to become an outside director, I go to him (or her) and ask him (or her) directly myself to join our Board.

Mr. Taya is a partner at Industrial Growth Platform, Inc., which is a corporate revitalization firm. He came to Leopalace21 when we were restructuring, and since then has served as an outside director on our Board.

Leopalace21 believes it is necessary to move forward in offering thorough education and training to our human resources. In the past when we hired about 1,000 people a year we did not focus too much on education because we felt we did not need people who could not keep up on their own. This was a period when the majority of the people we hired left the company in a few years.

After joining Recruit Co., Ltd., Ms. Sasao subsequently moved on to new challenges such as becoming the president of a nursing care business. How to train and develop people is something she has thought about and put into practice for many years. In particular, at TEPCO PARTNERS Co., Inc., where she took charge as president at a difficult time, she became involved in the nursing care business as a specialty, and built a record in reviving the business. She makes statements such as "how should the company develop employees?," "company should make effective use of its female employees," "we are not making good use of the talents of female employees in this company. We can make a better and greater company if we raise the potentiality of female workers."

While that theme of motivating and harnessing female workers is now fashionable in business circles for some reason or other, we do not do something just because it is popular. I thought she was necessary, so I invited Ms. Sasao to join our Board.

Mr. Kodama, who joined our Board in 2016, has an impressive record as an executive in his years at Aioi Nissay Dowa Insurance Co., Ltd. and I thought at the time that it would be a

good idea to ask him to join our Board around the time of his retirement. He understands risk management well, he delved deeply into detailed numbers when checking our latest medium-term management plan, and he looked carefully at whether the plan was thoroughly conceived.

Leopalace21 does not have any ornamental outside directors with scholarly airs. Board meetings are lengthy, boisterous affairs and where the discussion lands in the end is where it settles. That is also a form of governance. Some people react poorly when someone else raises questions about their pre-conceived beliefs but Board members must have the patience to listen to people’s opinions. I think it is valuable for executive officers to face questioning about the methods they selected to calculate their data sets as it offers them a good opportunity to provide such strong verification that they can assert from an objective viewpoint a project will fare well if their framework were adopted. It is a mistake to forge ahead relying just on intuition, so that is what I would like outside directors to check very rigorously and carefully.



Bolstering Corporate Governance: Adding Outside Directors

Enhance checking functions to ensure continuous value creation

All three outside directors are corporate executives

Ratio of outside directors who are or have been corporate executives

100%



Gradual increase in weighting of outside directors and auditors

Ratio of outside directors and auditors at BoD Meeting and ASB Meeting

33%



* Audit & Supervisory Board (ASB)
**From July 2017, the number of outside directors and auditors is to increase from five to six (40% of total)

How Meetings of the Board of Directors are Conducted



All of Leopalace21’s outside directors have distinguished careers as outstanding performers at the frontlines of business, so I’m sure they have offered valuable proposals that helped increase corporate value at venues such as Board meetings. Can you provide us with illustrations of what the three outside directors have proposed?

Mr. Taya is the one who first started proposing we invest overseas. If a certain level of return can be earned, new people will appear to invest in such opportunities. Owning such assets can erode portfolio balance, so assets are sold and proceeds reinvested. Opportunities overseas have opacities and there are also high risk segments but succumbing to fear results in paralysis. Considering this, we set up local branches in relevant markets so we can gather information and avoid mistakes. Mr. Taya advised the Board to increase the Company’s level of investment if it can earn a return above a certain level. If we sell a building but provide property management

services, this will generate stable revenues. We located an office in Singapore to collect information because of its flexible access across the region and information flows.

We have started to hire from outside the Company the human resources we need for our International Business. Banks have people with experience working overseas in ASEAN nations, so we brought in three or four people with detailed working knowledge in this area as department heads or executive officers but we still do not have enough, so we plan to hire more in the future.

On the Nomination and Compensation Committee



Apart from the president, all members on the Nomination and Compensation Committee are outside directors. Please share with us the aim of the committee's composition, what points committee members keep in mind, and how far along the company is in educating and training next-generation management leadership.

It is possible for outside directors to request a meeting if they want to get a sense of a person's character and personality, and the committee holds interviews when deciding on executive officers. Even if we tried to make personnel decisions to keep factions in balance, that sort of approach is not fashionable these days, so we feel we ought to weigh each person's merits in making personnel decisions and have done so.

In addition, we hear an array of opinions about all matters concerning our compensation. What we debated and determined is that setting salaries according to seniority like in past eras does not accord with the times. I think the compensation system ought to be one where incentives work as intended so employees work to increase corporate value as if they were owners. We have had committee members look closely at how well our incentives fit together with our compensation system.

As for developing the capabilities of our employees, we are increasing courses for them to obtain various kinds of knowledge on academic topics and the like and we have invited various speakers to lecture us on what management should aspire to as a profession. Even if people retain what they study, however, it will not amount to much if they do not put it into practice, so I think it is necessary to provide implementation training to department managers and deputy department managers below the level of executive officers. As a result, we plan to assign some to subsidiaries in the future to provide them with actual management experience because I think they will come to understand many things if they try their hand at management. To use a driving license as an allegory, it would be as if they had just received their provisional

license but felt uncertain about getting behind the steering wheel and driving when asked to do so. At a driving school, it is fine for an instructor to intervene with a student driver and tell them what to do and not do but when the driver goes out to drive on public streets and roads, he or she may feel intimidated and get cold feet. In such cases, the best way to learn is to go out and try. That is when what the person has learned will come back to them. I think our human resources development efforts are now at that stage.

Strengthening Alignments: Compensation System with an Earnings Focus

Aligning the conduct of each director and executive officer for value creation

Leopalace21 Directors and Executive Officers

Increase ratio of performance-linked compensation: Bonuses and stock options (revised)

- Raise from standard ratio of 25% to 40% (47% for the president)
- Embed incentives in the medium-term management plan (new)

Group Company Directors and Executive Officers

- Create performance-linked compensation system: Bonuses and stock options (new)

Group Employees

- Personnel system policies based on posts and job descriptions (adopted since FY2014)
- Performance-linked bonuses (adopted since FY2011)
- 73.3% of employees participate in an employee stock ownership plan (as of May 10, 2017)

8) Message to Shareholders and Investors



Leopalace21 reinstated dividends in fiscal 2015 for the first time in seven years and paid an interim dividend in fiscal 2016. Please tell us about the Company's policies on returning profits to shareholders and capital allocation.

Our aim is to raise our total return ratio of 50% by fiscal 2019. This means 50% including share buybacks, which is what we would like to realize at a minimum. We have accumulated large holdings of cash and do not plan to increase retained earnings, so we need to find the right balance in allocating between effective reinvestment and the return of profits to shareholders.

Compared with earlier eras, more M&A proposals have recently flowed in our direction. I think our decision to spell out our policies on M&A has become known far and wide. Whether a merger or acquisition yields synergies with our

core businesses has become one criterion we consider in such cases. We also investigate proposals on the basis of whether investing our capital would produce benefits for both the M&A candidate and for the Group.

June 2017
Eisei Miyama
President and CEO

Special Feature 1: Leopalace21's Challenge For Great Progress in Growth Businesses

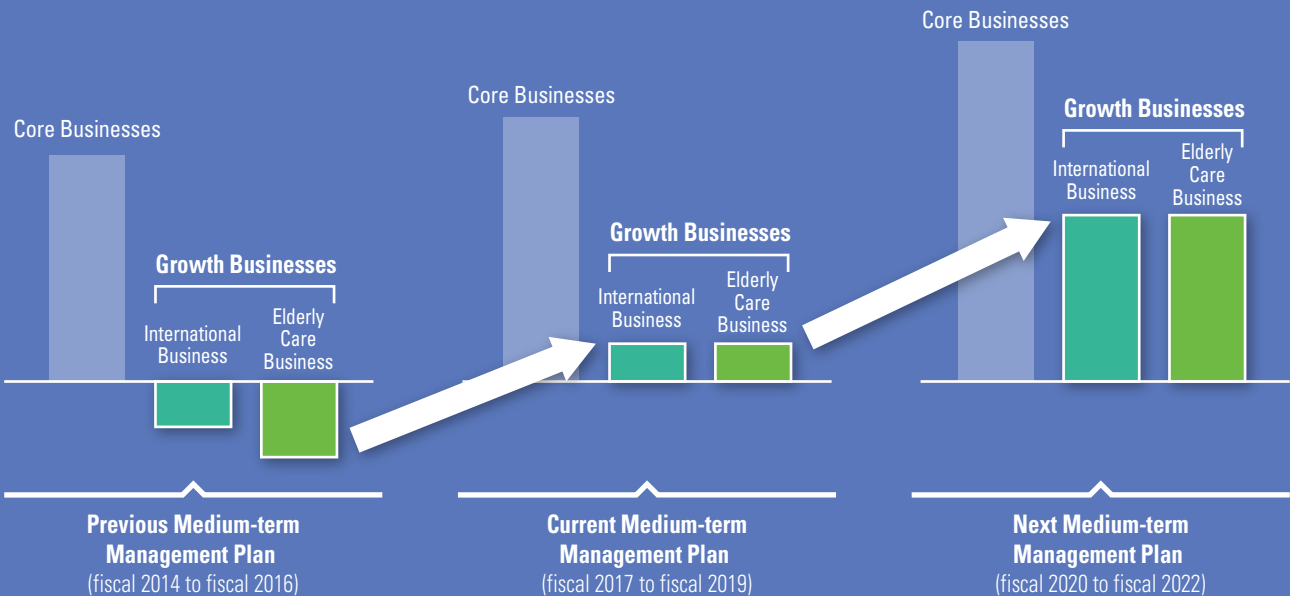


International Business Strategy



Elderly Care Business Strategy

We are aiming for long-term growth by identifying the challenges and needs of an increasingly global and aging society, and providing values that respond to them.



Special Feature 1 International Business Strategy

Expanding our International Business drawing on know-how honed in Japan

International Business Strategy

Business Environment

Results of Need-based Initiative 1

Quantitative targets (Billions of yen)



Remarkable ASEAN growth

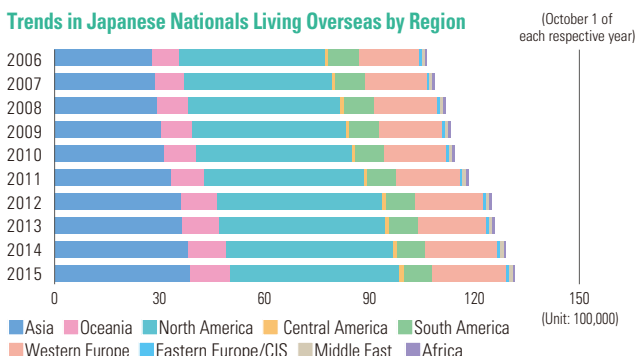
It is expected that factors such as growing populations and rising labor productivity will lead to development in the ASEAN region. As major growth cannot be expected in Japan due to falling birthrates and the aging population, many Japanese companies are expanding to this region, where significant growth is expected, and as a result, the number of Japanese living there is also growing. Over the past few years, about 70% of all overseas expansions by Japanese companies have been to Asia. In addition to the long-time major destinations of Thailand, Malaysia, and Singapore, recent years have also seen increasing expansion into such regions as Vietnam, Cambodia, and Myanmar.

Opening information-gathering office in Singapore

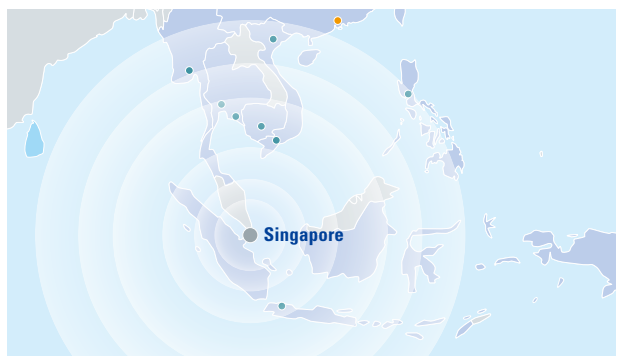
In response to this business environment, Leopalace21 is building on the real estate-related know-how it has developed in Japan to provide real estate brokerage and introduction services in the ASEAN region targeting Japanese and Japanese companies, in addition to its current services of introducing property in Japan to foreign nationals.

In fiscal 2016, we established a subsidiary in Singapore as a base to gather information about real estate investment projects. Our Singapore-based subsidiary gathers information about a variety of businesses in the ASEAN region, and we aim to use it as a base for growing our business in this region, where major growth is expected.

Trends in Japanese Nationals Living Overseas by Region



Source: Annual reports of statistics on Japanese nationals overseas, Trends in Japanese nationals living overseas by region, MOFA





Operating serviced apartments and serviced offices, and offering World Business Support

The increased number of Japanese companies expanding into the ASEAN region is creating growing needs for comfortable housing there. Leopalace21 offers high-quality buildings, facilities, and services in the region based on these needs. In addition to opening serviced offices in the Philippines and Myanmar, we operate serviced apartments in Thailand, Vietnam, and Cambodia*. We also offer World Business Support, which provides end-to-end support to employees of Japanese companies assigned overseas.

* Our serviced apartments in Cambodia are scheduled to open in September 2017.



1 Manage more properties throughout the ASEAN region

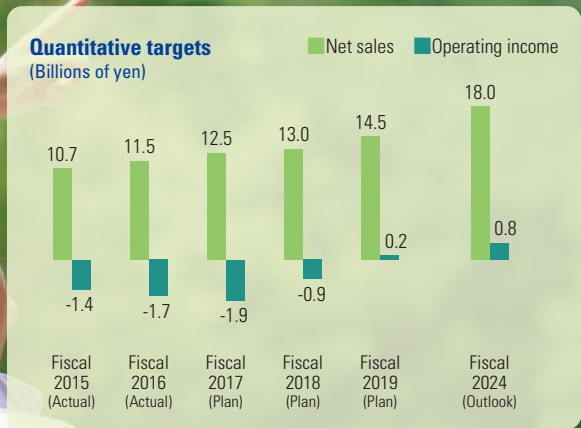
As in Japan, we are aiming to manage more properties in the ASEAN region, and expand our stock business.

2 We will build a track record with our serviced apartments and serviced offices, converting them to funds or REITs, or selling them to investors, to focus solely on property management.



Special Feature 1 Elderly Care Business Strategy

Providing value to customers who require nursing care with our original philosophy



Elderly Care Business Strategy

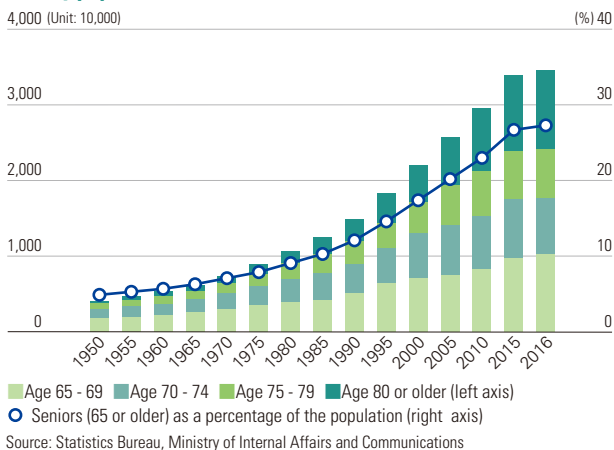
Business Environment

Results of Need-based Initiative 1

Seniors aged 65 or older will represent approximately 30% of the population by 2025

2025 is the year that the massive "baby boomer generation" will reach late elderly age, further driving the problem of Japan's declining birth-rate and aging population. This problem is expected to advance rapidly in urban areas including the Tokyo metropolitan area in the future. Therefore it is said that 2025 is the year that a variety of problems will surface, including more seniors with dementia, and problems concerning nursing care, medical treatment, social security costs, and housing.

Elderly population and ratio



Making the Elderly Care Business into a strategic growth business

With consideration for the future external environment, the Leopalace21 Group has positioned the Elderly Care Business as a strategic growth business and moved to increase the number of its facilities. In addition to day services (same-day service), short-stays (short-term overnight stays), elderly homes with nursing care services/residential style elderly homes (move-in), and group homes (residents with dementia live together), we are also developing services such as home visits, in-home bathing assistance, home visits and nursing care with regular visits and 24 hour support, and in-home support. As of April 1, 2017, we operate 78 facilities, with plans to increase this to a total of 86 facilities centered on areas that need them.



Day services/Short-stays

- Offers same-day or overnight services such as meals, bathing, recreation, and functional training.



Elderly homes with nursing care services/ Residential style elderly homes

- We operate elderly homes with nursing care services where on-site staff provides nursing care service and residential style elderly homes where patients can use in-home services such as day services and home visits.



Group Homes

- Elderly patients with dementia are accepted and given nursing care with attention to detail.
- All residents have their own individual rooms to ensure privacy.

あずみ苑

AZUMI EN



“Azumi En” Facility Network

	Facilities
Day-service, short-stay centers	54
Sites including fee-based nursing homes	22
Group homes	2
Total	78

*As of April 1, 2017

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

Results of Need-based Initiative 2

Future Goals

Improve profitability through cost control

Leopalace21 is forging ahead with initiatives to expand the size of its network by adding more facilities while working to improve the costs of sales so each individual facility becomes profitable. While it plans to increase the number of facilities to 86 by March 31, 2019, it is working to achieve profitability at the level of individual facilities by controlling the costs of sales, so as not to rely on economies of scale for earnings from expansion alone.



1

Increase facilities

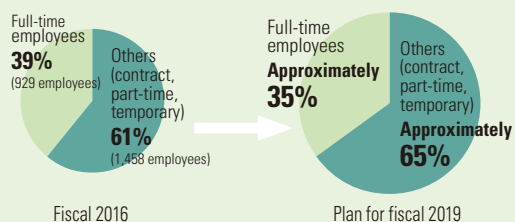
We will increase the number of facilities in order to meet the growing demand for nursing care, and to address the social issue of a lack of nursing care facilities.



2

Reform cost structure

We will secure revenue by optimizing personnel costs.



Special Feature 2 Leopalace21's Work-style Reform

Work-style reform to keep creating value in the long term



Enactment
of the law



Results of
Leopalace21's
Initiatives
1

Government-driven work-style reform

Currently, full-scale work-style reform has started under the guidance of the government, including reforming the significance and behavior of not only women's but men's work styles. Legislation has already taken shape, and is expected to be enacted in 2019.

The direction of work-style reform in nine fields

1 Improved treatment for irregular workers	Equal pay for equal work
2 Increased wages	Raise the minimum wage approximately 3% per year to ¥1,000 per hour
3 Rectify long hours	Set limits on overtime with penalties, introduce interval regulations (obligation to make efforts to reform)
4 Support for job-changing and reemployment	Increase aid for companies to hire mid-career employees, provide more information
5 Flexible work-styles	Increase telecommuting, promote dual or side employment
6 Empowerment of women and youth	Increase opportunities to go back to school, support for the generation with inadequate employment opportunities
7 Promoting employment of the elderly	Increase support for continued employment of employees 65 years or older and for delayed retirement
8 Support balance between child-care/nursing care and work	Improve wages and treatment of childcare and nursing care staff
9 Employment of foreign workers	Begin examination comprehensively throughout the government

Leopalace21 is accelerating through government driven initiatives the work-style reform it has promoted thus far, and working to develop human resources who will support medium-term growth.

Recognized as "Semi-Nadeshiko Brand"!

Leopalace21 was recognized as a "Semi-Nadeshiko Brand" enterprise, a brand promoted jointly by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange. This was due to being rated highly for putting an emphasis on realizing work-life balance such as by reducing overtime work hours and achieving a high rate of employees taking their annual paid leave, as well as on training for the development of female managers.

1. Reduced overtime hours/higher rate of taking annual paid leave
2. Training to promote the empowerment of female employees
3. Introduction of telecommuting
4. Encouraging male employees to take childcare leave
5. Holding diversity forums



Employees benefitting from work-style reform

— **How is it taking childcare leave at Leopalace21?** I am currently working reduced hours in investor relations after taking childcare leave for the second time. I did this with the understanding of people in my workplace, so I wasn't worried about taking childcare leave, but to make sure that I could return to work smoothly, I consciously acquired new information by checking newspapers and the company website during my leave, and by communicating with my superiors and coworkers.

— **What efforts have you made in order to balance work and family?** My time is limited, so I assign order of priority to tasks in order to do my work efficiently. In case I have to leave work suddenly to deal with family issues, I share my job with coworkers thoroughly to keep work from getting backed up.



Tsukasa Sako
Corporate Management Department,
IR Promotion Office



Masahiko Tsurumoto
Office Manager, Yamato Branch, Kanagawa-
nishi Marketing Department, Leasing Business

— **What is it like taking childcare leave as a male manager?** I am the manager of a sales office in the leasing business, and I took childcare leave because my wife was in poor health after she gave birth, so I decided that I didn't want to leave her with the burden. But I was really worried about how the office could make up for my work during my leave.

— **How was the office managed while you took childcare leave?** I took childcare leave for three weeks, but while I was absent from the office, my subordinates came to feel that they had to work harder, and they kept work on schedule and operated the office. I think this system also helped to train my subordinates.

— **What work are you currently engaged in?** The Corporate Business Promotion Division, which I currently work, is involved in initiatives including company-wide operational improvements and planning new measures, as well as holding corporate seminars. The other day, we held the first seminar for women aiming to become executives, where women from various companies spoke about systems and initiatives, so it was a very stimulating event.

— **What do you focus on when training subordinates?** I try to make male and female employees alike take on new challenges. I also think it's important for them to face challenges without fear of failure, so I always give them a job a little bit above their current level. At Leopalace21, both men and women can take the lead on the same stage, so there are a lot of women active in the workplace.



Mayumi Hayashima
Department Chief, Corporate Business
Promotion Division

Results of
Leopalace21's
Initiatives
2

**Recognized under "2017 Certified Health and Productivity Management Organization Recognition Program (White 500)"!
Joined the "Iku-Boss Corporate Alliance"!**

Leopalace21 has been recognized under the "2017 Certified Health and Productivity Management Organization Recognition Program (White 500)," organized by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi. We were evaluated highly for using experts to offer health support, holding health forums to check the health conditions of employees, and promoting work-life balance. Leopalace21 has also joined the "Iku-Boss Corporate Alliance" which has the goal of training "iku-bosses," who care about the work-life balance of subordinates and other staff at their workplace and support their careers and lives while also producing good results for the company and enjoying their own work and personal lives.

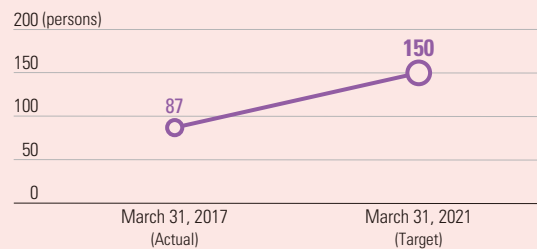


**Future
Goals**

1

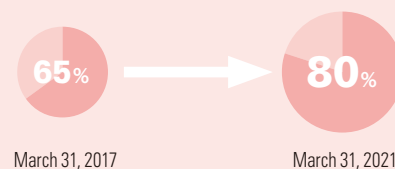
150 female managers by March 31, 2021

Female managers (persons)



2

Raise the ratio of average working years of women to average working years of men to 80% or higher



Business Overview

At a Glance

Leasing Business

➔42P



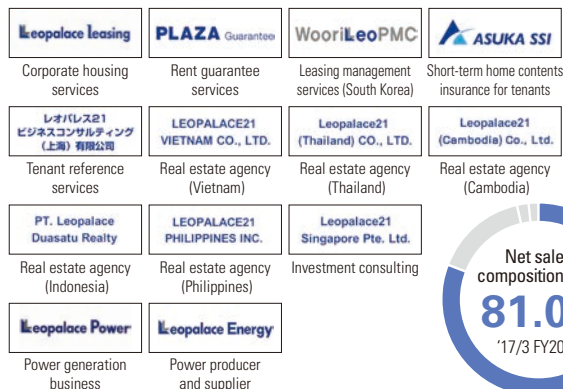
Segment Overview

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

We seek to secure tenants using our direct offices, franchise sales offices, cooperative real estate agents and other to raise occupancy rates by offering a richer array of services that improve tenant satisfaction.

We also develop solar power generation business to earn profits from selling the electric power generated from solar panel installed on leased rooftops of the apartments.

Main Group Companies



Development Business (Construction Business + Real Estate Development Business)

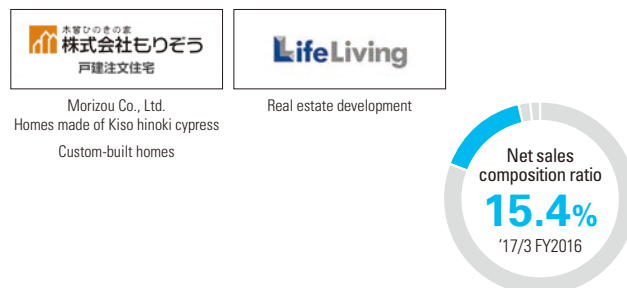
➔44P



This business engages in construction of mainly apartments and real estate development. We are working to bolster our product competitiveness, offering products designed from a perspective of female tenants who are the major customers of our specialty of one-room type and those for young people as well. Outside of apartments, we are expanding the construction of commercial properties and elderly care facilities. We also plan to expand the construction of custom-built homes and residences for one block sale.

Morizou Co., Ltd., our subsidiary company, develops custom-built homes made of Kiso hinoki cypress and Life Living Co., Ltd., another subsidiary company of ours, develops designer-brand condos of "Branche" series in order to provide the best method to utilize land.

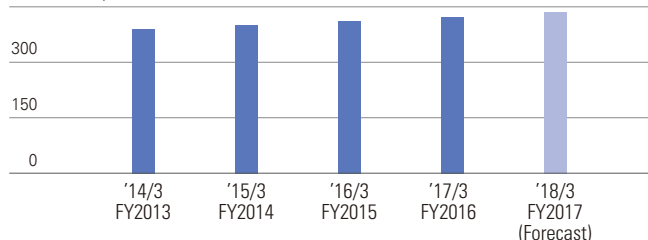
Main Group Companies



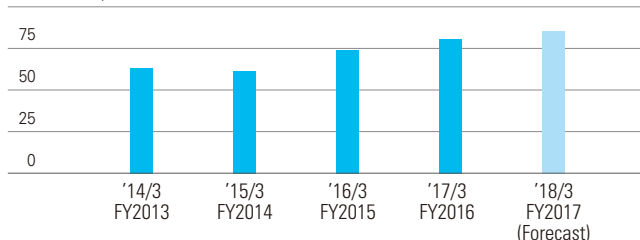
Sales Trend

2017/3 FY2016 Actual and 2018/3 FY2017 Forecast are under new business segments,

450 (Billions of yen)



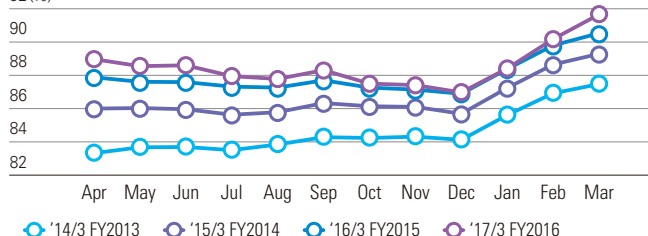
100 (Billions of yen)



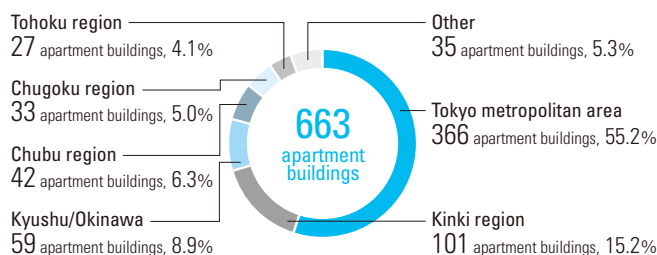
Key Data

Occupancy Rates

92 (%)



Master Lease Apartment Completions (during '17/3 FY2016)



Elderly Care Business ➔46p

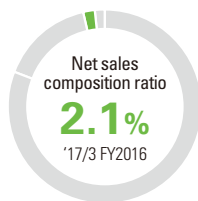


Under the brand name "Azumi En," our network of community-based nursing care businesses spanned 78 locations in the Kanto areas as of April 1, 2017. We manage fee-based nursing homes, centers offering day services and short stays, and group homes as well as businesses offering home visits by nursing care staffs and in-home nursing care support and other. We are especially focusing on ambulatory-type operations such as day services and short stays.

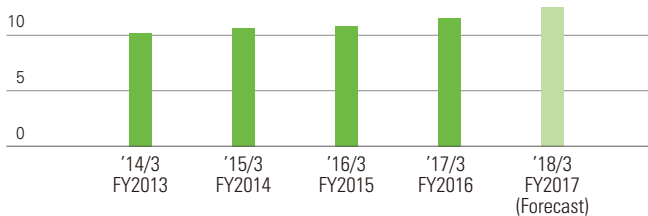
Main Group Companies



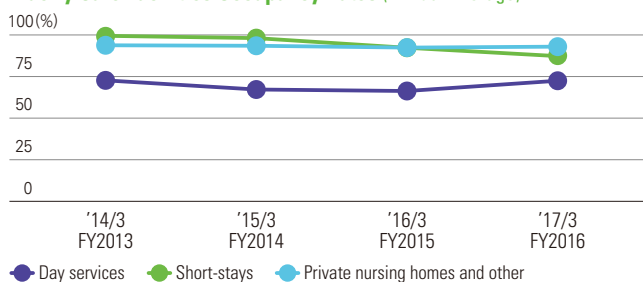
Azu Life Care Co., Ltd.
Elderly care



15 (Billions of yen)



Elderly Care Facilities Occupancy Rates (Annual Average)



Hotels, Resort & Other Businesses ➔48p



Hotels, Resort and Other Businesses involve in the management of domestic hotels, management and operation of resort facilities on the island of Guam, administrative and clerical services and other.

Main Group Companies



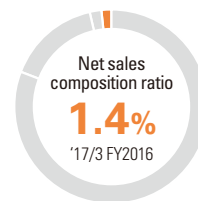
Resort business



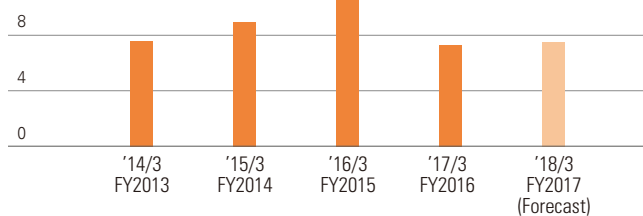
Travel agency services



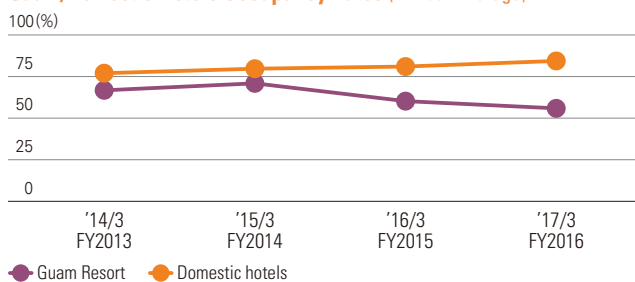
Special subsidiary company



12 (Billions of yen)



Guam/Domestic Hotels Occupancy Rates (Annual Average)



Business Overview

Leasing Business



SWOT Analysis

- No. 1 in studio (one-room type) apartments managed
- Apartments equipped with furniture, electric appliances, Internet, and IoT
- Corporate contracts make up approx. 55% of total contracts
- Contracts with individuals sluggish

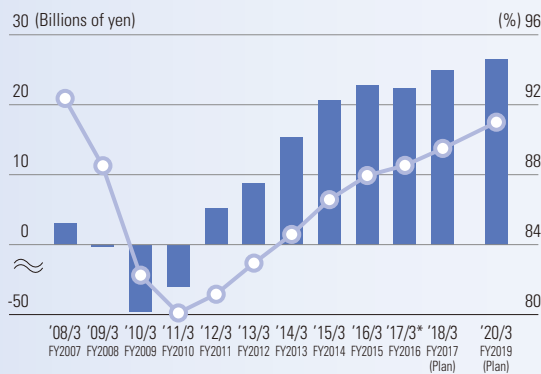


- Population of single productive workers expected to remain unchanged in next 20 years
- Three major metropolitan areas continue to enjoy net population influx
- Increase in corporate recruiting due to labor shortages
- Growing number of Japanese companies entering Southeast Asia
- Declining population
- Consistent increases in rental apartment vacancies across Japan
- Geopolitical risks in Southeast Asia

Performance

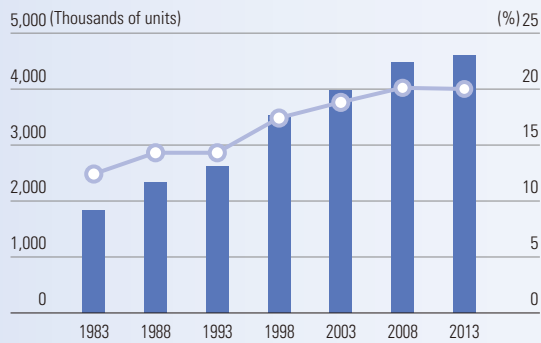
In the year ended March 2017, sales in the Leasing Business amounted to ¥421,342 million, up 1.5% from the previous year, and operating income totaled ¥23,172 million, up 0.4%. During the year, we sought to generate steady income by promoting measures to raise property values and encourage long-term residence. We also addressed demand for corporate dormitories and corporate housing and enhanced our support system for foreign residents. As a result, the number of units under management at fiscal year-end was 568,739, up 6,778 from a year earlier, and the fiscal year-end occupancy rate was 91.66%, up 1.13 points. Average occupancy for the year was 88.53%, up 0.58 point from the previous year.

Operating Income (Loss) and Average Occupancy Rates



■ Operating income (loss) (left axis)
○ Average annual occupancy rate (right axis)
* Former segments used until March 2017 fiscal year; new segment classification used thereafter.

Rental Housing Vacancy Numbers and Rates (Japan)



■ Vacancy number (rental and for-sale) (left axis)
○ Vacancy rate (right axis)
Source: "Housing and Land Survey" (Ministry of Internal Affairs and Communications)

Business Conditions and Issues

In the rental housing market, the number of new construction starts increased for the second consecutive year amid a prolonged environment of low interest rates and steady demand for apartment construction as a measure to save inheritance taxes. However, the number of vacant rental houses in Japan has been consistently increasing, so a recovery in nationwide demand is unlikely. Under such circumstances, we believe a differentiation strategy based on provision of value-added services is important. This means deploying our unique strengths, which include concentrated supply of properties in areas where high occupancy rates can be expected in the future, as well as supply of studio apartments and those with furniture and household appliances. In addition to discouraging tenant outflow, it is necessary to adopt other measures, such as proper maintenance and management of properties, optimization of rental prices based on market factors, and periodic reviews of routine property management tasks.

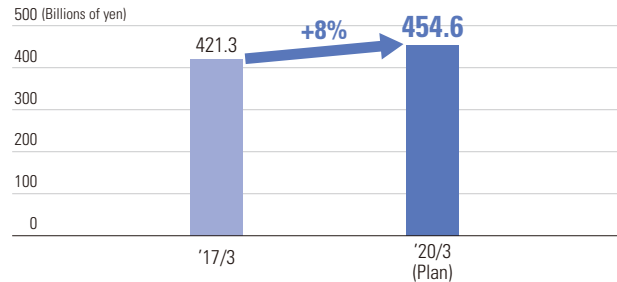
Overview of New Medium-Term Management Plan (FY2017-FY2019)

A look at the leasing business environment over the period of our new medium-term management plan reveals that the overall number of households in Japan is expected to decline but the number of single-person houses in our target cohort of the productive population (aged 15–64) will trend sideways for the next 20 years (see page 10). Moreover, Japan’s three major metropolitan areas, which represent our target geographical market, continue to enjoy a net population influx (see page 10). In addition, we expect companies to continue hiring people due to shortage of manpower, and we forecast increasing need for dormitories and company residences (see page 12).

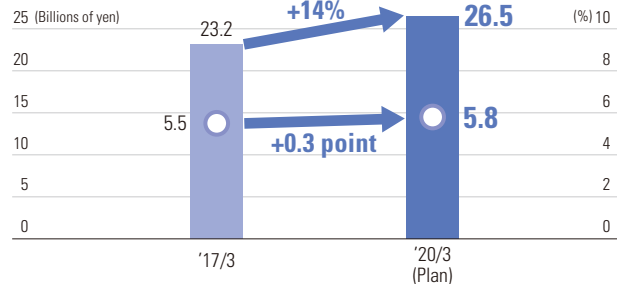
Under these circumstances, Leopalace21 will deploy its key strength—around 570,000 units under management—to enhance its presence as a one-stop solutions provider that addresses the various needs of corporate clients. At the same time, we will encourage long-term residence, restrict tenant outflow, embrace demand from foreign students, and expand female residential occupancies.

In addition, we will broaden our international operations, especially in Southeast Asia, through the supply of serviced apartments in high-quality buildings with excellent facilities and services.

Sales



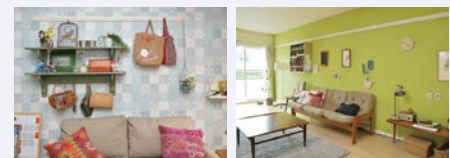
Operating Income



Key Products and Services

“my DIY”

Even rental properties can be customized to one’s liking. The number of contracts for our “my DIY” service, which allows tenants to change the wallpaper on one wall for free, has already reached 32,240. With this service, we aim to promote long-term occupancy by enabling tenants to personalize and form attachments to their rooms.



Industry-first electronic lease contract service

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



Promoting “smart” apartments

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



Security systems

With “24-hour, 365-day safety and security” as our motto, we have partnered with two major nationwide security companies to install security systems in properties we manage. The number of security systems installed has now reached 270,000. We are also focusing on security cameras, and the number of buildings with cameras in place now exceeds 10,000.



Business Overview

Development Business (Construction Business + Real Estate Development Business)



SWOT Analysis

- High-quality, high-value-added products (including strong sound insulation)
- Reduced construction costs through separate ordering and industrialization
- Diversifying business to include construction of elder care facilities, commercial facilities, and customized houses, in addition to apartment buildings
- Still gathering know-how outside of low-rise apartment buildings

Strengths

Opportunities

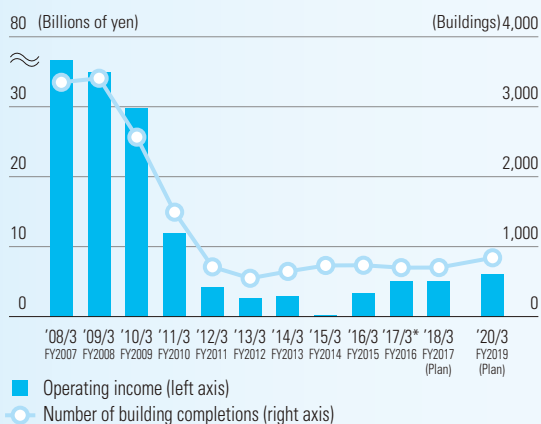
- Major increase in taxable people due to inheritance tax revision
- New rental housing construction starts steady

Weaknesses

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

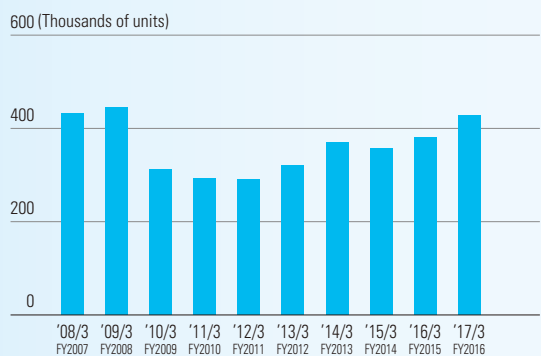
Threats

Operating Income, Trend in Building Completions



* Former segments used until March 2017 fiscal year; new segment classification used thereafter.

Number of New Rental Housing Starts



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

Performance

In the year ended March 2017, orders received in the Development Business amounted to ¥87,139 million, up 0.8% from the previous year, and sales totaled ¥80,316 million, up 8.3%. Operating income jumped 72.4% year on year, to ¥5,758 million.

During the year, we focused on attracting orders in Japan's three major metropolitan areas, where populations continue to increase and high occupancy rates are expected in the future, while strategically investing in high-quality, cutting-edge products. We also launched a new brand aimed at strengthening competitiveness and refreshing our image among tenants. In addition, we expanded construction variations to optimize land usage while reviewing product prices and supply channels in order to improve profitability, with segment operating income growing significantly as a result.

Business Conditions and Issues

Thanks to recoveries in the domestic economic and our performance, conditions for our Development Business are improving. Moreover, rental housing construction starts have increased for two consecutive years amid brisk demand for apartments due to prolonged low interest rates and adoption of measures to reduce inheritance taxes. However, vacancy rates are increasing consistently across Japan, and the rental housing market is saturated when assessed at the national level. In this environment, we will identify areas where high occupancy rates are likely and implement a more detailed supply plan, including in Japan's three largest metropolitan areas, aimed at expanding orders. At the product level, we will bolster competitiveness by incorporating tenants' perspectives into product development while strengthening earthquake resistance and improving sound insulation and security.

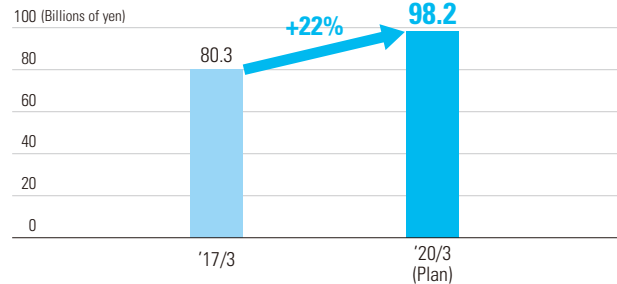
Overview of New Medium-Term Management Plan (FY2017-FY2019)

Over the period of our new medium-term management plan, our Development Business will benefit from healthy new rental housing construction starts, but the number of vacant units continues to rise across Japan (see page10). Moreover, construction demand is peaking ahead of the 2020 Tokyo Olympics, and construction costs are rising, especially with respect to labor and materials.

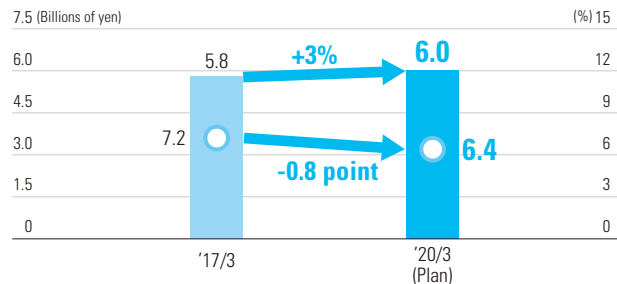
Responding to these challenges, Leopalace21 will continue supplying high-quality, high-value-added products and services in its quest to become the partner of choice among customers. We will also restrict the geographical coverage for rental housing supply to Japan's major metropolitan areas, with particular attention to accelerating supply in Tokyo. Meanwhile, we will diversify into areas outside of rental properties, such as private housing, commercial facilities, elder care facilities, and multifunctional complexes.

At the same time, we will address the issue of rising construction costs by promoting cost-reduction efforts, such as separated ordering of materials and acceptance of technical trainees from Vietnam.

Sales



Operating Income



Key Products and Services

MIRANDA

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



CLEINO

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



TAIGA (Morizou Co., Ltd.)

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



Branche (Life Living Co., Ltd.)

With an emphasis on design and function, Branche rental apartment buildings are compact and can be constructed efficiently on small and odd-shaped lots as little as 165 square meters. Here, we employ the patented "TEN-FOUR CUBE Construction Method" enabling us to incorporate four stories in a 10-meter-high building, which would be normally limited to three stories using regular construction methods.



Business Overview

Elderly Care Business

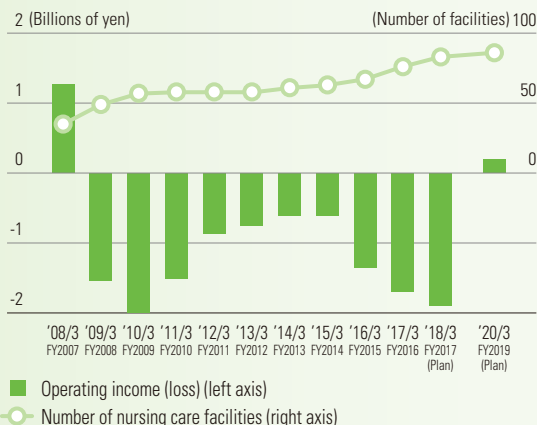


SWOT Analysis

<ul style="list-style-type: none"> • Operation of 78 facilities in Kanto and Chubu regions • Addressing various needs, including day service, short stay, and fee-based nursing 	<ul style="list-style-type: none"> • High labor-cost burden
<ul style="list-style-type: none"> • People 65 and over to reach 30% of total population by 2025 	<ul style="list-style-type: none"> • Reduced nursing care fees following review of nursing care insurance system

Strengths **S** **W** **Weaknesses**
Opportunities **O** **T** **Threats**

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



Performance

In the Elderly Care Business, which runs the “Azumi En” network of nursing care facilities, sales in the year ended March 2017 totaled ¥11,536 million, up 6.8% from the previous year. The business reported an operating loss of ¥1,650 million, up ¥296 million, due to a run-up in new facility operating costs.

Positioning elderly care as a strategic growth business, we have expanded and upgraded our facilities in recent years. As of April 1, 2017, we operated 78 nursing care facilities, having opened 11 new facilities over the previous one-year period.

Business Conditions and Issues

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

Key Products and Services

Azumi En

As of April 1, 2017, we managed 78 “Azumi En” facilities in the Kanto and Chubu regions. Services at each facility include fee-based homes for seniors that offer support for their daily lives in a family-like atmosphere; group homes with daily-living support through meticulous nursing care; and day and short-stay services where elderly people living in their own homes can access services for temporary stays.



Business Overview

Hotels, Resort and Other Businesses



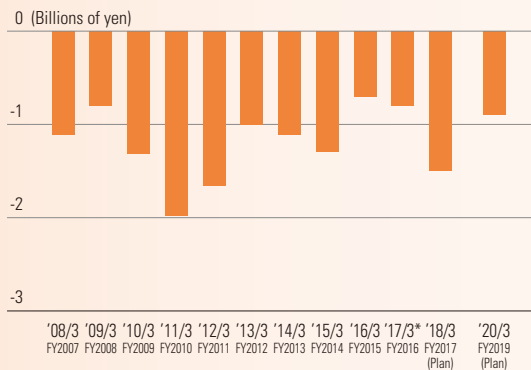
SWOT Analysis

- Business synergies with stakeholders
- Inadequate marketing to general customers other than stakeholders

Strengths	S	W	Weaknesses
Opportunities	O	T	Threats

- Japan: Hotel industry booming due to economic growth and inbound demand
- Guam: Stable for Japanese travelers; South Korean market showing remarkable growth
- Decreasing foreign visitors to Japan due to yen's appreciation
- Burden of regular investments to renew facilities

Operating Income (loss)



*Former segments used until March 2017 fiscal year; new segment classification used thereafter.

Performance

In the year ended March 2017, sales in our Hotels, Resort and Other Businesses amounted to ¥7,289 million, down 36.5% from the previous year, and operating loss was ¥752 million, up ¥59 million. During the year, we sold Hotel Leopalace Asahikawa and Hotel Leopalace Okayama in Japan, as well as Westin Resort Guam.

Business Conditions and Issues

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

Key Products and Services

Leopalace Hotels

We currently operate four Leopalace Hotels in Japan (Sapporo, Sendai, Nagoya, and Hakata). Aimed at both long-term and short-term stays, these hotels run restaurants under the direct management of Leopalace21 and provide free laundry services.



Leopalace Resort Guam

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



Corporate Governance Dialogue: Toward Increasing Corporate Value



Tetsuji Taya

Leopalace21 Outside Director
Industrial Growth Platform, Inc.
Partner

Tadashi Kodama

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

Building an effective corporate governance system is vital for the company to drive sustainable growth. Leopalace21 has to date invited people with know-how in different fields to join our Board of Directors as outside directors. Our three outside directors discuss below how the form of our governance increases corporate value.

Circumstances behind Selection of Outside Directors at Leopalace21

Kodama I am an experienced corporate executive and have some knowledge about Leopalace21, so President Miyama came to me and asked me to join the Board as an outsider who can look at Leopalace21 with a fresh perspective. This invitation is what led me to joining the Board of Directors as an outside director. In my previous job, I served as vice chairman of the Board of Directors at a large nonlife insurer and that, in turn, led to my appointment as chairman of the General Insurance Association of Japan. What was toughest about serving as the industry association chairman was dealing with missed or unpaid claims payments and over-priced policy premiums. Faced with such issues within a broader social context of placing greater importance on compliance, the Board was forced to think hard about how to change the company

to put customers first, and it devoted enormous energy to changing the corporate culture. I think such experiences are what led me to put a high importance on governance, compliance and risk management.

Taya The origins of my involvement with Leopalace21 go back to when Lehman Brothers collapsed. This sharply depressed earnings and forced Leopalace21 to launch a reassessment that included business model reform. It was at this juncture that I came on board as an outside advisor. Amid efforts to revamp its business plan, it was felt an outside perspective would be needed in the implementation phase and so I joined as Leopalace21's first outside director.



Three Outside Directors Discuss How Our Form of Governance Increases Corporate Value

Yoshiko Sasao

Leopalace21 Outside Director
Executive Officer, Hasegawa Holdings Co., Ltd.
Representative Director and President, Hasegawa Social Works Co., Ltd.

Sasao Leopalace21 has been working to improve female motivation and prominence in the workplace as part of its approach to diversity management and President Miyama sought a female outside director to join the Board. Since I have executive experience in running a business, I came on board as an outside

director. Leopalace21 has been putting remarkable effort into training personnel in the past few years, a field I am enthusiastic about, and I am well versed in the nursing care business. I think all three of these were factors in my selection.

Protocols and Setting the Tone in Meetings of the Board of Directors

Kodama The environment in Board meetings is one where members can express themselves without much in the way of constraints. In that sense, the Board of Directors is resolutely advancing a transformation in business decision-making.

Taya What sets the tone for the Board is how the president, who is also chair, administers meeting protocols as well as the directors who participate. I think meetings are run in a way that creates a positive environment for debate and achieves a healthy balance.

Sasao When outside directors express their views on a management issue, for example, management at times changes tack very swiftly. If the Board develops a positive view on a matter, it quickly looks to move to an action plan. It surprised me that a company as responsive as Leopalace21 exists. My sense is once the Company is convinced, it will continue down the path of change.

What are Leopalace21's Strengths? What Weaknesses Does It Need to Overcome?

Regarding strengths

Kodama Touching on what Ms. Sasao said earlier, I think management can move fast and decision-making is swift. In business circles, people talk about “big company disease” but there are no signs of that ailment at Leopalace21. If management is convinced by an argument, including ones from outside directors, it immediately moves to put the idea into practice or the plan into implementation. The Company’s foot work is impressive.

Taya I also feel management speed is a strength for Leopalace21. One thing I have started to sense recently is the Company is highly motivated to tackle new things. Large companies in Japan tend as a general rule to have a strongly negative reaction to proposals coming from an external party and they are even less likely to consider a proposal when it comes from a venture company. Yet Leopalace21 is open to investigating promising ideas in a way that is common to companies that are still growing. The combination of this openness with swift decision-making enables the Company to move in a positive way.

Sasao When it sets objectives, Leopalace21 has a remarkable capacity for execution and locomotion. This is the case not merely for sales and profits but with regards to its capacity to change its corporate culture and organization. For example, the usage rate of paid vacation days has risen to 72% from about 30% a few years ago, which highlights this capacity for change,



When it sets goals, Leopalace21 has a remarkable capacity for execution and locomotion.

Regarding Risk Management

Kodama While there is naturally debate about this issue, as I mentioned earlier regarding the Company’s weaknesses, I think there are a few frailties in the Company’s foundation given its rapid growth, so it will be important to apply heat, soon if possible, to reveal where those frailties are.

Taya The Company has been directly confronted with risk in the past as an organization, so it formed the Risk Management Committee. Outside directors, along with external experts, serve on the committee, so it has a robust composition. There are still

although in an aspect that falls outside its sales activities. There are hardly any companies listed on the first section of the Tokyo Stock Exchange that change this much, and overtime hours worked at the Company is now in a declining trend. In view of the steady increase in earnings, I think these trends in vacation days and overtime hours worked are wonderful.

Regarding weaknesses

Kodama Leopalace21 is still in some areas at a growth stage, so I feel some sections of its foundation are a little fragile. Companies in general must manage an array of risks, for example, but Leopalace21 did not have a framework in place to address risks such as threats to reputation, for example, when such a scenario emerges. In view of this, Leopalace21 established a public relations department in April 2017. I think it faces pressure to slowly turn these fragilities into rock-solid sources of strength.

Taya I feel depth of its human capital pool is on the shallow side. Leopalace21’s core businesses are clearly identified, so people that come up the ranks at the core businesses become its leadership core. Yet when there is a phase shift and the Company tries something new such as a merger or acquisition and seeks to turn that into a success, I think there is a shortage of people who can fill such roles. It is at present recruiting and hiring from outside the Company mainly for positions in new fields but the depth of its human resources for such roles remains insufficient. Developing its workforce to the point where more employees can step into such roles is also an important issue.

Sasao The business model of Leopalace21’s existing businesses is outstanding, so I think the Company should aim to move forward while spelling out its grand vision for the future. It should rapidly pursue specific goals that are within its immediate grasp but it is not so effective at forging ahead while articulating a “big picture” vision in my opinion.

many areas where the committee has room to improve, and as Mr. Kodama mentioned, the committee is still learning as it goes. With this framework in place, it is important to remain alert to the changing environment as this infrastructure is put to use.

Sasao Leopalace21 has many positives and it does not realize what those are in some cases. It has rapidly adopted new things such as products and IoT devices but it does not make an effort to showcase this in a way that appeals to the public. In the area of work styles, the Company is a trailblazer but it has not

been very effective at communicating this side of its efforts to a broad public audience. If Leopalace21 sincerely draws on public relations to show this side of itself while keeping in mind how

this appears to the public at large, I think it would be able to avoid many risks.

New Medium-Term Management Plan “Creative Evolution 2020”

The way forward for Leopalace21’s core businesses amid a shrinking population

Kodama The core operations of leasing and development are lifelines for Leopalace21. Despite a shrinking overall population with a growing elderly cohort, the population living in the large metro regions continues to grow. Its regional strategy is to apply selectivity and focus tests so it can clearly identify where to direct its resources and where not to direct them. Moreover, a channel strategy will be necessary. Leopalace21 has excellent products, so I think the Company could make better use of public relations to let people know this. Leopalace21 has one of the largest stock of rental units in the industry. If it could align this stock with strategy, I think it could pursue even more share and various needs such as renovation would emerge as opportunities. If it could combine these effectively, I think the Company could attract new business.

Taya The macro environment is characterized by fiercer competition and the rental market is crowded and saturated. While there is still room to grow, there is a shared recognition by the Board and senior executive officers that this will not be the case forever. Yet the total size of the market pie is large, so putting the stock of rental units it manages to effective use, including replacements for existing stock, will be an major theme. With the market starting to shake out losers, the Company will be tested



Leopalace21 will be tested on its overall capabilities, from differentiation and efficiency to sales capabilities and marketing, as it seeks to survive a market shakeout.

on its overall capacity to deliver, ranging from differentiation and efficiency to sales capabilities and marketing, as it seeks to survive and thrive in such an environment. The new medium-term management plan is precisely the vehicle to tell investors what it plans to do to succeed in such an environment and it has. I think it is headed in the right direction.

Sasao Leopalace21 has introduced many innovative work style options while making progress in streamlining many operations via conversion to digital formats and introducing products, services and IoT devices. Moreover, its productivity per hour worked is very high. If it were seen as a leader in the rental housing sector with innovative work arrangements, I think that could well become a source of differentiation.

Where Growth Businesses are Strong, Where They Need to Improve

Developing the Elderly Care Business

Kodama The Elderly Care Business is undoubtedly a growth area. The elderly population in the greater Tokyo metro area, where the Company is above all directing its efforts, is projected to nearly double in the near future. There will thus be many opportunities in this region but what will be most important to locking in those opportunities is human resources. Yet people are reluctant



It will be important to create environments where the elderly feel welcomed and workers enjoy working while making use of tools like robots.

to enter this field of work. Given this, to attract many elderly users, it will be important to create environments where users feel welcomed and workers enjoy working while making some use of tools like robots. I believe going this route will enable us to attract more users in the greater Tokyo metro area. In rural regions of the country, nursing care businesses may well be squeezed out but there is still scope for growth in the large metro regions.

Taya Unlike our core businesses, the Elderly Care Business is still growing as a market but the very low profit margins in the field are a problem. In an environment of fierce competition and thin margins, only companies that can build profitable operations will be able to survive. Leopalace21 is doing its best to identify answers to this challenge but it remains a struggle. Unless it can develop a scheme to achieve this sooner than the rest, it is unlikely to be profitable even if it can expand sales. Streamlining

operational parts of the business and building a profitable structure will be the biggest challenges.

Sasao The Elderly Care Business is a revenue growth business, and the business itself has CSR elements, so I would like to see the Company move forward rapidly on this front. A major mission identified in the new medium-term management plan is moving the business into profit from losses over the plan's three-year span (fiscal year 2017-fiscal year 2019). I would like the Company to attain this goal and build on know-how it gains in making operations profitable during the current plan so it can be applied to a stage of further growth over the span of the next medium-term management plan. When I first joined TEPCO PARTNERS, a nursing care provider, it teetered on the brink of collapse, so I learned it is important to instill a sense of crisis in management. Thereafter, I required each worker to clearly set goals and openly shared information with the workforce, and in doing so, I helped raise the motivation of each worker. In this way, I was able to make TEPCO PARTNERS profitable just two years after I came on as an executive.

Factors for making the International Business a success

Taya The target for the International Business is Asia, where the market for serviced apartments has plenty of growth potential. A key factor to succeeding in this business will be securing human resources. Like with M&A, the question of who is going to perform key roles is important. Without the right people, success will not be possible. Moreover, like with the Elderly Care Business, the question of whether it can build a profitable model for this business is crucial. Another key factor is risk management. Several large companies listed on the first section of the Tokyo Stock Exchange have recently wobbled or fallen apart after an overseas acquisition. That even companies with ample experience and resources could fall into such traps should be an object lesson for Leopalace21 when making decisions.



In risk management, it needs to swiftly grasp risks in each country, and to expand in local markets, it needs to quickly hire and develop good local people.

Kodama I think Leopalace21's focus on ASEAN nations in expanding overseas is the right approach. Per capita GDP in the ASEAN region is about US\$1,000-\$3,000 at present, and the pace of GDP growth is expected to be spectacular until it reaches the \$10,000 per-head level. With a core focus on serviced apartments and serviced offices, the Company seeks to lock in demand from Japanese and overseas multinational companies. I also think it could also be very lucrative to connect local exchange students to its leasing business in Japan. Each transaction is still small but creating a system where the Company can quickly earn large profits with this business model will be a key challenge. In risk management, it needs to swiftly grasp risks in each country, and to expand this business in local markets, it needs to quickly hire and develop good local people. In the near term, what will be important is how fast it can raise occupancy rates and fetch profits.

Sasao Each country has its own customs and ways of doing business, so I think building networks in each country will be extremely important. Leopalace21 is sound on investments, and I think there may be a way to go in all at once while making big investments such as M&A.

Switch Our Focus to Efficient Use of Assets and Capital with an Eye on B/S Improvement, from a P/L Tilt

Taya Leopalace21 is working to reshuffle its asset mix with a focus on adding higher-quality assets to its balance sheet. In the recent past, it sold Westin Resort Guam and domestic hotels but it is building a new hotel wing in Japan and rebalancing its



Keeping in mind what level of performance investors require for metrics such as ROE and ROIC will be important for management.

asset mix not only in apartments but also with such purchases as condo properties for single persons. I think this is the direction it will continue to go. From an investor's perspective, it will mean improving asset and investment efficiency. As for the resulting boost to profits, it will be important to allocate the marginal increase between growth investments and returning profits to shareholders in a way that is suitably balanced. To reflect this approach in management decision-making, I think it will be important for management to keep in mind what level of performance for metrics such as ROE and ROIC investors require. This means growing while keeping in mind balance sheet effects. That's what it aims to do under the new medium-term management plan.

Human Resources Necessary for Future Sustainable Growth

Kodama For further growth in the future, it must hire a diverse array of people, and if there is an internal shortage of human resources, it will be necessary to invite in people from outside the Company. Even if there are management challenges, the Company must continue to bring on board a minimum number of people every year to maintain balance in the distribution of years of service in the workforce. In most cases companies facing trying circumstances cut back hiring to a bare minimum for about five years. When the small cohorts hired in those years become its middle layer a decade or so later, however, this creates a “gap” in the years-of-service distribution of the workforce and severs the link between generations. It can hire people with specialist capabilities from outside the Company but even if it makes a concerted effort to bring in mid-career hires, they often do not mesh well into core businesses. The challenge facing Leopalace21 is how well it can clear such hurdles. With our business-es expanding, I think it will be necessary to remake our education system. Leopalace21 is a company that is devoted to education and training, and I think a somewhat broader education will be necessary.

Taya Regarding the training system, the Company for the past few years has built in a budget for training, bolstering the entire menu from programs for new graduate hires to those for the management level. Leopalace21 is a sales company and budgets goals every fiscal year and is good at attaining them. Yet this pattern results in employees focusing on the short term. What is in short supply in this context are people with medium-and-long-term horizons who look at the world with a broader view.

Sasao I agree with Mr. Taya. I think it must train people who think like managers. I think that is why it needs an education system. I think it is very important to test their mettle as managers in a variety of situations such as making them the president of a Group company, seconding them to another company to work as an executive or sending them to an overseas business.

Diversity Initiatives Warrant an “Semi-Nadeshiko Brand” Ranking

Sasao In terms of diversity, Leopalace21 is actively seeking to create a workplace that motivates women to aim higher in their careers. In a conventional company, a program to promote female advancement in the workplace would mean the president issuing an order to increase the number of women in managerial positions, so the focus would be merely on increasing numbers. Yet a program genuinely aimed at motivating women to aim higher in their careers would mean creating a corporate culture that is inclusive and changing how jobs are structured and, on that basis, mentoring women who would like to aim for a managerial post. Leopalace21 has been able to anticipate such tendencies and so has gone further than simply trying to increase the number of female managers. It established the Work-Life Balance Promotion Office, which is still a rarity in Japan, and assigned eight people to staff it, versus the two or three employees a conventional company would assign to such an office. Members of this office also survey all its sites across Japan to check if employees are unsatisfied with their workplaces and if overtime work hours are declining. The Company is also introducing very innovative initiatives. It has sought, for example, to increase overall employee motivation while organizing an event on the theme of raising female employee motivation after about a year of preparation. In an effort to let its stakeholders and the public know about its initiatives, I suggested to Leopalace21 putting information about them on its website. I think such efforts have been seen in a positive light by external parties. Its earnings are solid, and the depth of its initiatives on



A survey of Leopalace21 female employees showed 30% want to advance in their careers, a level well above the overall average in Japan.

this front rank among the best, so I think its initiatives have gone over well in the industry. On training, about twenty sessions instilling a career orientation were conducted towards female employees in the leader-class. On this basis, Leopalace21 was selected as a “Semi-Nadeshiko Brand” for its programs that raise female employee motivation. I think it should aim higher to become a fully fledged “Nadeshiko Brand” but in a way that goes beyond merely moving up the rankings. What I mean is the Company should aim to build a track record as a place where female employees succeed. In a survey of female employees on whether they seek to be promoted, 30% at Leopalace21 answered affirmatively, a level well above the overall average in Japan and the single digit percentage common at conventional companies. In that sense, I think the Company attracts many ambitious women who want to improve themselves.

Returning Profits to Shareholders, Collaborating with Stakeholders

Kodama Leopalace21 has teetered on the edge of financial collapse several times in its history but it has been able to rise again like Phoenix from the ashes. The Company has finally replenished its level of shareholders' equity and reinstated dividends as a way to return profits to shareholders, after refraining from paying dividends following Lehman Brothers' collapse. Investors increasingly expect companies to return profits to shareholders, and the Company believes many opportunities to return profits to shareholders will emerge as it reshuffles its asset mix. I think it is important to set forth measures in a constructive manner and win the understanding and trust of shareholders. In contrast, I think the Company needs to accelerate initiatives to provide value to stakeholders, including employees.

Taya The Company is finally at a point where it is generating stable cash flow, as was stated earlier. Against this backdrop, while senior management will increasingly need to factor in environment, governance and social (ESG) considerations, I think it should allocate a portion of the cash flow generated by its

businesses to investing in growth opportunities that increase its corporate value and a portion to returning funds to shareholders. I think senior management pays considerable attention to the latter point, including the dividend payout ratio and measures to return profits to shareholders.

Kodama I think it will be necessary to increase the dividend a little. At a minimum, I think the shareholder payout ratio will need to be raised to about 30% to 40%, and the total return ratio will need to be raised to about 50%.

Sasao Sector leaders tend to return a thick slice of profits to shareholders, so I think the Company needs to move closer to that level but it may also need to reinvest in growth opportunities. President Miyama is tilting heavily toward reinvesting a large chunk of profits into growth opportunities and he is outstanding at execution and takes responsibility for what he says. I think communicating with shareholders and the market while finding a way to keep a good balance are the most important considerations.

Proposals for Realizing Aims of the Corporate Governance Code from the Viewpoint of Outside Directors

The Code recognizes stakeholders such as employees, suppliers and local communities provide resources and make contributions that enable companies to grow sustainably and create corporate value over the medium-and-long term, and it encourages companies to strive for proper collaboration with such stakeholders

Kodama I reckon stakeholders would like to see outside directors perform the role of building support for risk-taking. It is simple to put a brake on things. When the time comes to make a new growth investment, it is our mission to create an environment that enables risk taking, and it is important to carefully watch risks. Unless outside directors adopt such an approach, it seems growth opportunities in the years ahead will be few and scarce.

Taya For companies to grow over the medium-and-long term, it is vital to build up bonds of trust over the medium-and-long term with stakeholders. I feel making stakeholders, including workers and owners, feel more satisfied will be supportive of corporate value. I believe it is important to not look out for only one stakeholder group but to find the proper balance among all stakeholder groups.

Sasao In a context where the Company is delving deeper in its existing businesses, I think outside directors should facilitate more robust communication with stakeholders. One more point to watch when offering advice on how to increase corporate value is that there is little value in doing so like an art critic or pundit. Outside directors need to understand the conditions facing the key people at the business and make an effort to offer concrete views by asking ourselves what can be done to make the business run better.



There is little value in offering vague advice like a pundit when proposing ways to increase corporate value.

Nurturing Candidates for Next-Generation Management Roles

Kodama This theme is one of the most important for any Company. I think, for starters, it is important for the Personnel Department to establish a program for each generation for the purpose of developing a management team. Leopalace21 has many Group companies and unless employees are actively given opportunities to demonstrate their capabilities and mettle in many fields, no middle management layer that can see the business like a top executive will emerge. One major challenge is developing young candidates for management-level positions by assigning them to executive posts at Group companies and, on occasion, naming one to a top position.

Taya I think it is difficult to develop employees into a management-level human resource unless they have the requisite experiences and sufficient standing. A person who has never made important management decisions will not be able to run an organization even if he or she is put in charge. As Mr. Kodama says, I think it is necessary to construct a program and create routes for mentoring each generation to ensure promising employees gain the necessary standing, authority and experience. From the perspective of cognitive diversity, I think it is important to look outside the Company



It is difficult to develop employees into a management-level human resource unless they have the requisite experiences and sufficient standing. A person who has never made important management decisions will not be able to run an organization even if he or she is put in charge.

for management-level human resources but not developing internal candidates for top posts would be a personnel development failure. In particular, to identify candidates for the post of president of a company as large as Leopalace21, it is necessary to test a smaller group of candidates in various situations to find ones who can perform such a role.

Sasao The Nomination and Compensation Committee has been well run, so I think the Company is nearing a point where it can compile a list of candidates for senior management posts and discuss how to mentor them.

CSR Activities



If Leopalace21 could widen the scope of its activities and make more effective use of PR, I think the effects of such efforts vis-à-vis stakeholders would increase.

Kodama CSR activities are an area where Leopalace21 is making considerable effort but its use of public relations to bring its CSR activities to public attention has been clumsy. Especially in the areas of “contributing to the local community” and “creating an environmentally friendly society,” I think the Company has fared well in putting its ideas into practice. It generates electricity from solar panels installed on rooftops leased from apartment owners, it has sharply reduced gasoline use by its sales vehicle fleet, and it has reduced paper use volumes by 10% for color paper and 5% for general-use paper. Leopalace21 is an eco-friendly company as the statistics on the results of these programs show, and I think this is something it should do more to let its stakeholders and the public know about.

The neighborhood cleanup campaign it promotes could perhaps be extended beyond new graduate hires and locals in the neighborhood to include mass mobilizations of the entire workforce, including veteran employees, once or twice a year. Cleanup campaigns are highly visible, so I think they are a reliable way to

appeal to local communities and would increase the satisfaction of participating employees. If Leopalace21 could widen the scope of its activities more and makes more effective use of public relations, I think the effects these activities vis-à-vis stakeholders and the public would increase.

Taya I would like to focus on the remarkable improvements in the working environment at the Company over the past few years. I have been surprised at the scale of the changes, even when seen from the standpoint of individual indicators such as the decline in the rate of employee turnover or the vertiginous decline in overtime hours worked, and bonuses have increased. I think it is wonderful that such changes can be executed in a short span.

Sasao Companies in non-financial sectors normally do not change this much. Leopalace21 has impressive initiatives both in terms of working environment and diversity. I hope in the future the structure in place for growth businesses such as the Elderly Care Business will support sufficient profit generation. There are many ways to focus on improving care for those with dementia. To contribute to comprehensive community care systems, the Company could hold lectures on dementia and increase the number of people who complete a course in dementia care and are awarded the orange wrist band as “community dementia leaders.” If the Company forges ahead with the Elderly Care Business as a focus, I think it will be able to further improve its image in CSR-related matters.

Corporate Governance

Strengthening Governance for Sustainable Growth

Leopalace21 aims to realize its corporate philosophy, achieve management plans, and improve medium- to long-term corporate value through the strengthening of corporate governance.

Progress Towards Strengthening Governance

Leopalace21 has stated its corporate philosophy as “creating new value,” and in December 2016, it formulated the mission statement, “Constant reform, relentless creation, higher value, for all of society.”

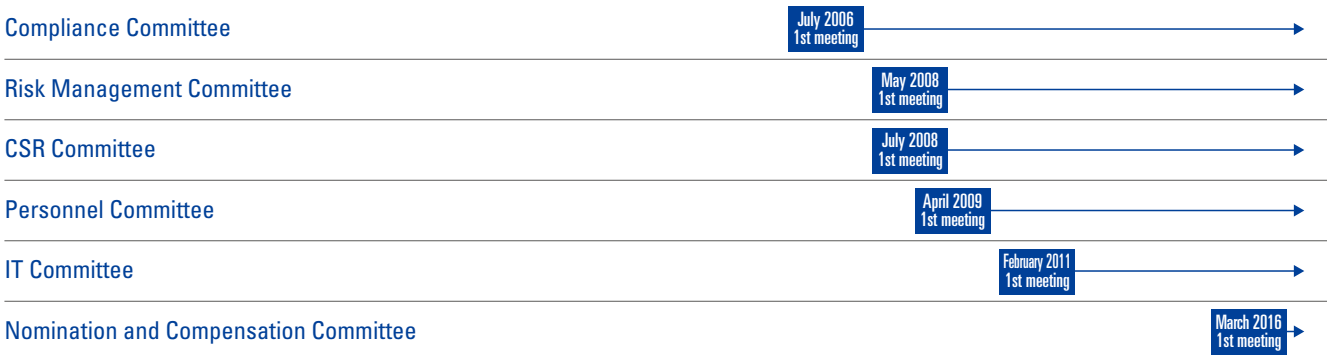
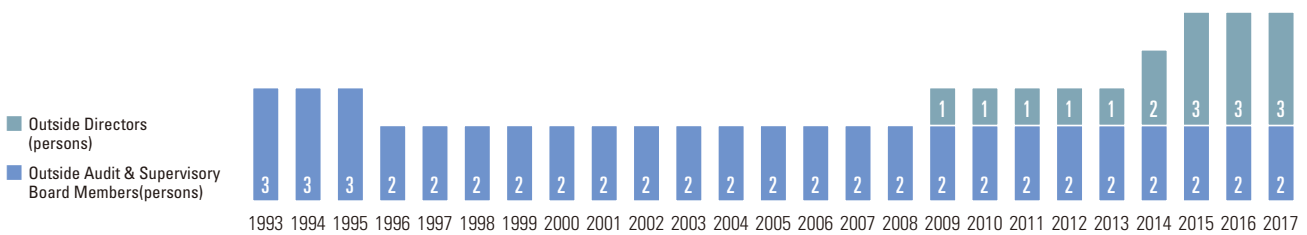
We believe that it is possible to improve value for all of our stakeholders including customers and shareholders by striving to embody this corporate philosophy and mission statement, and contributing to more comfortable living and a more prosperous society.

In order to realize this, it is critical that we establish a corporate governance system that is efficient, fair, and highly transparent, so we regard developing and strengthening that system as one of our most important management tasks. Our company is organized as a company with an Audit & Supervisory Board, where outside directors and Audit & Supervisory Board members who meet the conditions of independent officers are appointed to strengthen the management oversight functions. Furthermore, committees are established in order to examine the primary management issues in the company.

Leopalace21, which contributes to society by creating living environments, has a governance system that includes a Board of Directors, one third of which are outside officers who offer objective points of view. The outside directors in particular utilize their practical and specialized perspectives cultivated through corporate management experience in various industries in order to realize proper decision-making and management oversight.

Our committees include the Nomination and Compensation Committee responsible for discussing the selection of officers and deciding their compensation, the Risk Management Committee responsible for dealing with risks that arise in business operations, the CSR Committee responsible for working to resolve CSR challenges, the Compliance Committee responsible for developing and operating our legal compliance system, the Personnel Committee responsible for discussing the utilization of human resources, and the IT Committee responsible for developing our IT environment. Committee members discuss matters including outside experts.

Major Corporate Governance Initiatives



Four Characteristics of Leopalace21's Governance

1 All three outside directors have corporate management experience

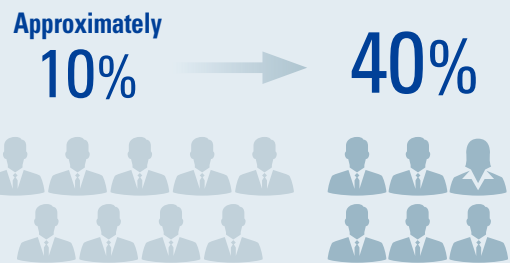
Outside directors with corporate management experience



All three outside directors of the Company have corporate management experience, including one management consulting company partner, one former nursing care business company executive, and one former non-life insurance company executive. They offer advice and supervision mainly in the Corporate Management Council and Board of Directors meetings from broad, diverse perspectives.

2 Gradually increasing the ratio of outside officers

Ratio of outside officers



In addition to appointing outside Audit & Supervisory Board members since 1993, the Company has also invited outside directors since 2009. As of July 2017, there are six outside officers appointed, including three outside directors and three outside Audit & Supervisory Board members, so the ratio of outside officers has been raised significantly since our founding.

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

Members of the Nomination and Compensation Committee



Selecting officers and deciding their compensation is a very important element of building a strong foundation for management, and it is inadvisable to decide these matters with just the logic inside the company. Leopalace21's Nomination and Compensation Committee consists entirely of outside directors except for the President and CEO, in order to select and decide compensation for officers objectively, transparently, and fairly.

4 Reflecting the opinions of institutional investors, analysts, and shareholders on management

Shareholders/ investors Management team

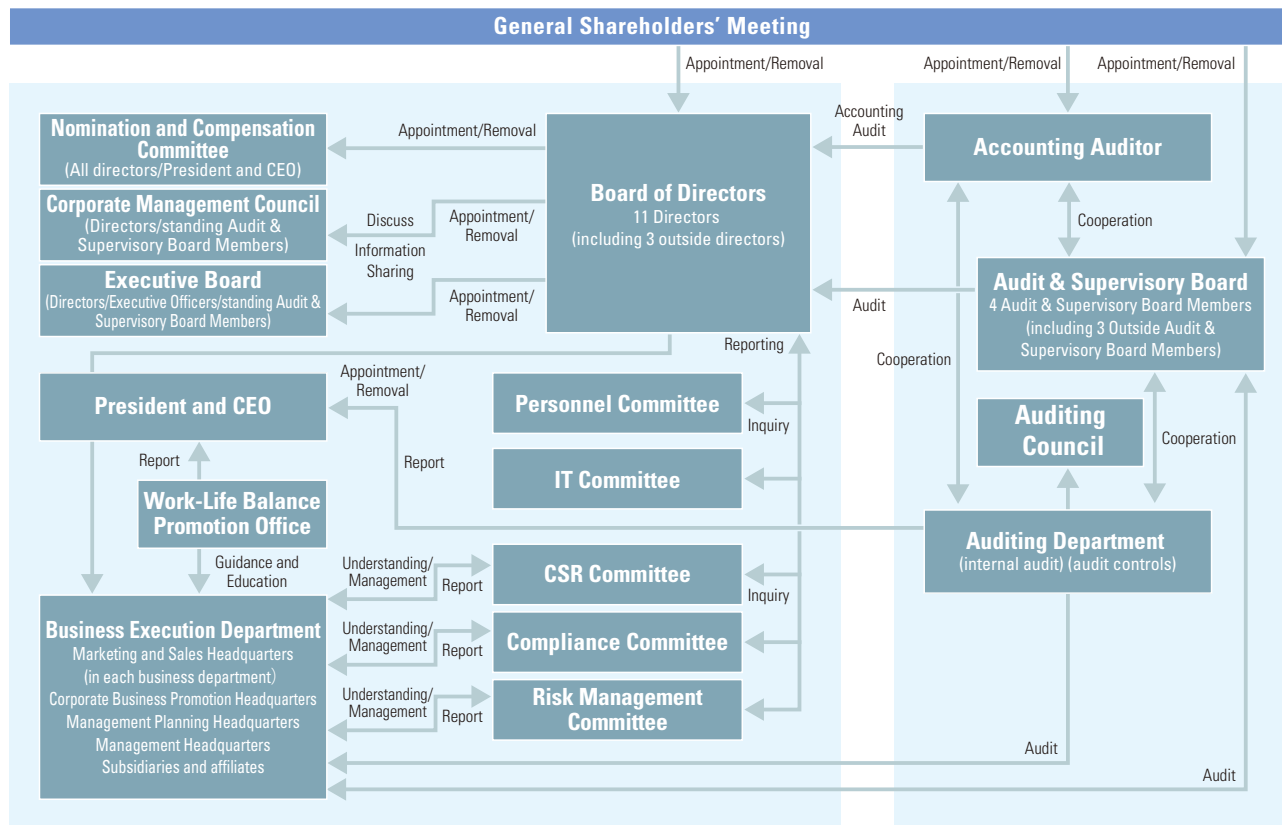


The IR Promotion Office plays the role of bridging the gap between capital markets and the management team, and it holds over 200 dialogues with investors and shareholders among others annually. They earnestly communicate the vision and strategy Leopalace21 is working to achieve, collect opinions from investors and others, and give feedback to executives in order to build a virtuous cycle of corporate management.

Corporate Governance

Corporate Governance System and Initiatives

As of June 29, 2017



Governance System

Board of Directors

(Meetings convened 16 times in fiscal 2016)

The Board of Directors is focused on both ensuring the mobility of management and enhancing its supervisory functions. It currently consists of eleven directors including three outside directors. We consider proper appointment of directors to be important for improving corporate value, thus we include discussing this matter in the Nomination and Compensation Committee composed of outside directors, together with determining compensation, in the decision-making process.

The President and CEO serves as the Chairman of the Board of Directors. In addition to regular monthly meetings, the Board also holds meetings flexibly as necessary to decide important matters concerning management, as well as monitor the status of business performance and supervise the execution of duties by directors.

Audit & Supervisory Board

(Meetings convened 9 times in fiscal 2016)

The Audit & Supervisory Board is focused on strengthening the supervision of directors' execution of their duties, and currently consists of four Audit & Supervisory Board members including three outside Audit & Supervisory Board members. Based on the audit plan of the Audit & Supervisory Board, the Board has a system to enhance the effectiveness of audits such as by appearing at important meetings including the Board of Directors, investigating business conditions, and maintaining proper collaboration with the Auditing Department, Accounting Auditors, and outside directors. Resolutions of the Audit & Supervisory Board are implemented with a majority votes of Audit & Supervisory Board members following deliberation based on adequate evidence. The Audit & Supervisory Board also works to deepen mutual recognition with the President and CEO, such as by regularly meeting with the President and CEO to exchange opinions on challenges the company should tackle and important matters to discuss in the auditing process.

Nomination and Compensation Committee (Meetings convened 3 times in fiscal 2016)

The Nomination and Compensation Committee selects directors, Audit & Supervisory Board members, and executive officers, and decides the compensation of these officers. To make the best selections and decisions of compensation in order to achieve management plans and improve corporate value in the medium to long term, the Nomination and Compensation Committee consists of three outside directors and the President and CEO. Making full use of the perspectives of these outside directors who constitute the majority, the Committee conducts careful deliberations with an emphasis on transparency and fairness. It has also established a mechanism where members of the Nomination and Compensation Committee meet with each candidate and determine their true quality when appointing officers.

Corporate Management Council (Meetings convened 12 times in fiscal 2016)

The Corporate Management Council discusses important matters concerning the overall execution of business so as to accelerate management decision-making and facilitate business execution. The Council is composed of all directors and standing Audit & Supervisory Board members, and is conducted by the President and CEO generally once per month, or more often as necessary. Specific matters for discussion in the Corporate Management Council include matters discussed by the Board of Directors, important matters concerning overall management, matters requiring approval that concern important business operations, and other matters raised by the President and CEO. Other stakeholders can attend as necessary.

Risk Management Committee (Meetings convened 12 times in fiscal 2016)

The Risk Management Committee was established as an advisory body to the Board of Directors in order to comprehensively understand and manage risks faced by the Leopalace21 Group, and the Committee manages the Group's risk. The Committee is composed of members including outside experts such as lawyers, with the President and CEO as chairman of the Committee. In addition to checking the status of risk management, the Committee plans and implements programs such as training in order to reduce and prevent risk. Each department finds and analyzes risk concerning its own business, then formulates risk countermeasures to manage risk and reports this to the Risk Management Committee.

IT Committee (Meetings convened 4 times in fiscal 2016)

The IT Committee is operated in order to optimize IT investment by the Group for the purpose of improving operational efficiency. This Committee meets once every quarter, and is chaired by the General Manager of the Management Headquarters. It mainly discusses IT operation policy in the new medium-term management plan, including the use of AI and IoT, etc. to advance initiatives such as ecosystem, innovation, and open data, with the goal of shifting from our current computerization focused on improving and expanding the business to digital innovation that will enable new creation.

Officer Compensation

Deliberation in the Nomination and Compensation Committee to ensure fairness and transparency

Compensation for directors comprises four categories: basic remuneration, stock options, annual bonuses, and medium-term business plan period bonuses. Our basic policy is a compensation system that contributes to improved performance and corporate value in diverse ranges, and compensation is decided following deliberation by the Nomination and Compensation Committee.

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

(Millions of yen)

	Total remuneration	Total remuneration, etc. across categories		
		Basic remuneration	Stock options	Bonuses
8 Directors (excludes outside directors)	370	312	58	—
3 Audit & Supervisory Board members (excludes outside Audit & Supervisory Board members)	31	31	—	—
5 Outside directors/Audit & Supervisory Board members	54	54	—	—

* The above includes one Audit & Supervisory Board member who resigned as of June 29, 2016 and one Audit & Supervisory Board member who resigned as of June 29, 2017.

Outside Officers

Ensuring the Effectiveness of Governance with Outside Perspectives

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

Reasons for appointment of outside directors and Audit & Supervisory Board members and career summary, etc.

Tadashi Kodama (Outside Director)

Reason for appointment	The Company expects that he will provide advice on the overall management of the Company, using his abundant insight as a senior manager of a listed company.
Career summary	<p>April 1970 Joined The Dai-Tokyo Fire & Marine Insurance Co., Ltd. (now Aioi Nissay Dowa Insurance Co., Ltd.)</p> <p>June 2001 Director, Aioi Insurance Co., Ltd. (now Aioi Nissay Dowa Insurance Co., Ltd.)</p> <p>April 2004 Representative Director, President, Aioi Insurance Co., Ltd.</p> <p>April 2010 Representative Director, Executive Officer, MS&AD Insurance Group Holdings, Inc.</p> <p>October 2010 Representative Director, Vice Chairman of the Board of Directors, Aioi Nissay Dowa Insurance Co., Ltd.</p> <p>June 2015 Retired from Aioi Nissay Dowa Insurance Co., Ltd.</p> <p>June 2016 Director, the Company (current)</p>
Attendance at Board of Directors meetings	Board of Directors meetings: 13 of 13 meetings

Tetsuji Taya (Outside Director)

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

Yoshiko Sasao (Outside Director)

Reason for appointment	The Company expects that she will supervise business execution of the Company from an independent and fair perspective, using her keen insight as a senior manager of business corporations and her deep knowledge and experience in corporate management.
Career summary	<p>April 1984 Joined Recruit Co., Ltd.</p> <p>April 2000 Joined RECRUIT STAFFING CO., LTD. on loan</p> <p>April 2004 Joined RECRUIT STAFFING CO., LTD. Manager of Marketing Support 1 Division</p> <p>April 2006 Joined Tokyo Electric Power Company, Incorporated</p> <p>November 2007 Joined TEPCO PARTNERS Co., Inc. on loan, Managing Director</p> <p>July 2010 Representative Director, TEPCO PARTNERS Co., Inc.</p> <p>June 2015 Director, the Company (current)</p> <p>June 2015 Representative Director, SHIDAX BEAUTY CARE MANAGEMENT CORPORATION</p> <p>April 2017 Executive Officer, Hasegawa Holdings Co., Ltd. Representative Director, Hasegawa Social Works Co., Ltd.</p>
Attendance at Board of Directors meetings	Board of Directors meetings: 16 of 16 meetings

Masahiko Nakamura (Outside Audit & Supervisory Board Member)

Reason for appointment	The Company expects that he will supervise the Company's management from an objective perspective, using his abundant experience and wealth of expertise in the fields of tax administration and financial accounting accumulated as an employee of the National Tax Agency and a certified tax accountant.
Career summary	<p>April 1966 Joined Sendai Regional Taxation Bureau, National Tax Agency</p> <p>July 1994 Deputy District Director of Musashino Tax Office, National Tax Agency</p> <p>July 2002 District Director of Suginami Tax Office, Tokyo Regional Taxation Bureau, National Tax Agency</p> <p>July 2006 Assistant Regional Commissioner (Fourth Large Enterprise Examination), Tokyo Regional Taxation Bureau, National Tax Agency</p> <p>August 2007 Established Masahiko Nakamura Certified Tax Accountant Office, Representative, Masahiko Nakamura Certified Tax Accountant Office (Current)</p> <p>June 2010 Audit & Supervisory Board Member, the Company (Current)</p> <p>July 2015 Outside Audit & Supervisory Board Member, HOMENET Co., Ltd. (Current)</p>
Attendance at Board of Directors meetings and Audit & Supervisory Board meetings	Board of Directors meetings: 16 of 16 meetings Audit & Supervisory Board meetings: 9 of 9 meetings

Takao Yuhara (Outside Audit & Supervisory Board Member)

Reason for appointment	The Company expects that he will supervise the Company's management from an objective perspective, using his high level of knowledge in many fields and abundant experience and expert knowledge as an audit & supervisory board member of several companies.
Career summary	<p>May 1971 Joined Sony Corporation</p> <p>June 2003 Corporate Senior Vice President and Group CFO, Corporate Executive Officer, Sony Corporation</p> <p>December 2007 Managing Executive Officer, Zensho Co., Ltd. (now ZENSHO HOLDINGS CO., LTD.)</p> <p>June 2008 Audit & Supervisory Board Member, Ricoh Company, Ltd. (Current)</p> <p>May 2011 Managing Executive Director and CFO, Zensho Co., Ltd.</p> <p>June 2013 Audit & Supervisory Board Member, mofirra Corporation (Current)</p> <p>June 2014 Auditor, KAMEDA SEIKA CO., LTD. (Current)</p> <p>June 2015 Audit & Supervisory Board Member, the Company (Current)</p> <p>December 2015 Auditor, T.HASEGAWA CO., LTD.</p>
Attendance at Board of Directors meetings and Audit & Supervisory Board meetings	Board of Directors meetings: 12 of 13 meetings Audit & Supervisory Board meetings: 9 of 9 meetings

Jiro Yoshino (Outside Audit & Supervisory Board Member)

Reason for appointment	The Company believes that Mr. Jiro Yoshino will appropriately supervise the Company's management from an objective perspective, using his abundant experience and wealth of expertise accumulated as an executive officer and Audit & Supervisory Board member of a listed company.
Career summary	<p>April 1978 Joined Dai-Tokyo Fire and Marine Insurance Co., Ltd.</p> <p>April 2001 General Manager, Market Development Department, Aioi Insurance Co., Ltd.</p> <p>April 2012 Managing Executive Officer, Aioi Nissay Dowa Insurance Co., Ltd.</p> <p>June 2013 Standing Audit & Supervisory Board member, MS&AD Insurance Group Holdings, Inc.</p> <p>June 2017 Audit & Supervisory Board Member, the Company (Current)</p>
Attendance at Board of Directors meetings and Audit & Supervisory Board meetings	Because Mr. Yoshino accepted this post in June 2017, he has not yet attended meetings of the Board of Directors or the Audit & Supervisory Board.

Compliance and Risk Management

Leopalace21 strives to identify and correct problems by setting compliance with laws and regulations and social ethics as the base for corporate activities.

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

includes lawyers and other external experts. As one plank in our platform 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.

With regard 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.

Directors (As of June 29, 2017)



Back row, left to right/ Outside Director Tadashi Kodama, Outside Director Tetsuji Taya, Outside Director Yoshiko Sasao, Director Yoshikazu Miike, Director Hiroyuki Harada, Director Bunya Miyao
Bottom row, left to right/ Director Hiroshi Takeda, Director Tadahiro Miyama, President and CEO Eisei Miyama, Director Yuzuru Sekiya, Director Kazuto Tajiri

Executive Officers (As of June 29, 2017)



Back row, left to right/ Executive Officer Kazunori Tanimoto, Executive Officer Yasushi Mizuno, Executive Officer Tatsuya Sasaki, Executive Officer Yoshiyuki Ichikawa
Bottom row, left to right/ Executive Officer Hideki Matsunaga, Managing Executive Officer Naomichi Mochida, Managing Executive Officer Motoyoshi Ohishi, Executive Officer Seiji Shinozaki, Executive Officer Shu Ikeda



Back row, left to right/ Executive Officer Minoru Wada, Executive Officer Katsuhiko Nanameki, Executive Officer Kiyoshi Arai, Executive Officer Hidetoshi Hara
Bottom row, left to right/ Executive Officer Shigeru Ashida, Managing Executive Officer Fujio Sato, Senior Executive Officer Satoshi Abe, Managing Executive Officer Hiroshi Ito, Executive Officer Kenichiro Samejima

Leopalace21's Management Plan and CSR Activities

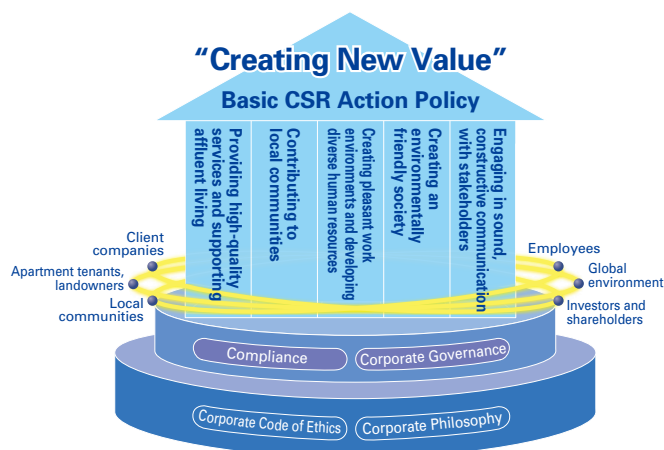
Based on our corporate philosophy of “creating new value,” Leopalace21 strives to meet the expectations of all our stakeholders and continues to be a contributor to building a sustainable society in ways that suit the needs of the times.

Basic CSR Action Policy

In 2013, we devised a new Basic CSR Action Policy with five themes in response to the changing needs of our stakeholders, social and environmental problems, and the requirements of ISO26000 and other standards and guidelines.

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

We update our key performance indicators (KPIs) and key topics for our CSR initiatives from time to time to address CSR issues that are linked to our businesses and change in concert with the currents of the times. The new KPIs established in fiscal 2016 have been introduced to the relevant divisions and departments.



CSR Management

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

Key topics and KPIs are approved by the CSR Committee, and these are periodically reported to the Board of Directors.

Stakeholder's Voice

Even more than before, stakeholders call on companies to advance meaningful initiatives on environment, social and governance (ESG) themes. In environmental and social fields, we confirm the progress of initiatives at the quarterly meeting of the CSR Committee, and the committee has been able to effectively calibrate the administration of such initiatives



Yuzuru Sekiya
Director, Senior Executive Officer, CSR Committee Chairman




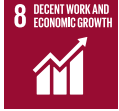




such as receiving reports only from divisions and departments tasked with specific initiatives on items where they fall short of target. We take seriously the expectations of society such as United Nations Social Development Goals (SDGs) in our efforts to contribute to creating better societies.

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

Sustainable Development Goals: Our SDG Initiatives

At a United Nations summit held in September 2015, the Sustainable Development Goals (SDGs) were unanimously agreed upon as a framework for action plans through 2030 for the sake of people, the planet and prosperity. In response to social needs and demand, we aim to contribute to addressing challenges through initiatives aligned with our basic CSR action policies.



Basic CSR Action Policy	SDGs to which We Aim to Contribute		
<p>Providing high-quality services and supporting affluent living</p>	Goal 4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	
	Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable	
<p>Creating pleasant work environments and developing diverse human resources</p>	Goal 5	Achieve gender equality and empower all women and girls	
	Goal 8	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	
<p>Contributing to local communities</p>	Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable	
<p>Creating an environmentally friendly society</p>	Goal 7	Ensure access to affordable, reliable, sustainable and modern energy for all	
	Goal 13	Take urgent action to combat climate change and its impacts	
<p>Engaging in sound, constructive communication with stakeholders</p>	Goal 12	Ensure sustainable consumption and production patterns	

Basic CSR Action Policy

Providing High-Quality Services and Supporting Affluent Living

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

Our Basic View: Lifestyle Diversification

Attendant with shifting family composition reflecting the twin demographic trends of a growing elderly cohort and a low fertility rate and changing times, the number of single-person households continues to grow. At 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. At Leopalace21, we are responding to social needs arising from the growing diversity of lifestyles, and we see such changes as offering opportunities to develop products and services in tune with the times.

Examples of Our Initiatives

1 > Promoting Smart Apartments

“Leo Lock” Smart Lock Installations

We developed jointly with smart lock marketer Glamo Inc. a smart lock customized to match Leopalace21 specifications called “Leo Lock.” We will install these locks in Leopalace21 apartments completed after October 2017 on orders received as far back as April 2017, with plans in the works to install them in about 10,000 rooms per year in the rollout’s initial phase. We expect Leopalace21 to be the largest provider in Japan of rental housing with network-linked smart locks and home appliance controls. With Leo Lock functionality, the Company can remotely manage key cylinder replacements, key handovers, and responses to lost key inquiries so it can sharply reduce administrative costs as well as make life more convenient for tenants. Moreover, Leo Lock coupled with Leo Remocon makes it possible to confirm remotely whether the main door lock is open or locked, change the default setting for in-room lighting to automatically switch on or shut off depending on whether this lock is open or locked, and control home appliances.



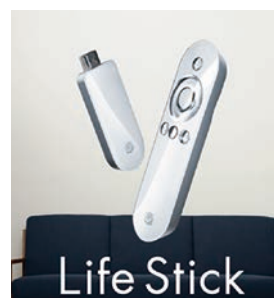
“Leo Remocon” a Standard Feature in All New-Build Apartments

Installed in the apartments of new buildings completed after October 2016, Leo Remocon is a device that enables tenants to use their smartphones to remotely control home appliances with a remote control infrared receiver while also displaying in-room temperature, humidity, and illumination. We provide dedicated apps for Leo Remocon so tenants can use proprietary functions such as “Life Stick” compatibility.



New Services Using “Life Stick”

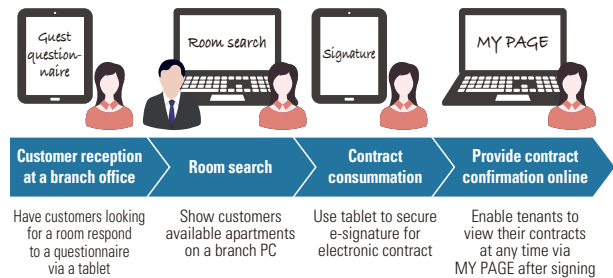
The recently developed “Life Stick” is a remote control for set top box (STB) devices and can access apps for Android TV via the LEONET internet service platform we provide tenants. It has been a standard feature in Leopalace21 apartments since July 2016, when rollout to the 560,000 rooms we manage across Japan began. With smart devices accelerating a diversifying trend in consumer lifestyles, we aim to provide services that align with this trend such as daily life information like weather data and Wi-Fi access points.



2 > Promoting Our Electronic Contract Service

We launched Leo-sign, the first electronic contract service in the rental housing industry, for tenants on corporate contracts in January 2015 and for those on individual contracts in November 2015. The cumulative number of corporate contracts facilitated via this service was 29,878 as of March 31, 2017, with registered companies reaching 778. The cumulative number of individual contracts facilitated is 62,291, or 73.5% of electronic contracts facilitated.

Sequence of steps for rental apartment contracts (individual contracts)



Selected as "Competitive IT Strategy Company"

In May 2017, Leopalace21 was recognized as a "Competitive IT Strategy Company" by a program jointly promoted by the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange (TSE) that selects listed companies with initiatives that actively use IT to create value, introduce management innovation, increase profit levels and improve productivity. Initiatives such as our industry-first electronic contract service and adoption of IoT devices in rental housing we manage have enabled Leopalace21 to differentiate itself, and we will further expand services we offer customers using IT.



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

Across multiple dimensions, we provide support to enable international tenants to live comfortably. We hold get-togethers for exchange students and orientations on tenant manners where we inform tenants about key dos and don'ts for contracts, move-ins, and departures, and in fiscal 2016, 620 people came to gatherings such as these held at 47 sites across Japan. In our personnel assignments to our domestic offices, we are proactively assigning employees with foreign citizenship (171 employees as of March 31, 2017) as we continue to help people coming to Japan by supporting convenient apartment searches and comfortable living.



Main Activities and Targets the CSR Committee Oversees

Main Activities	FY2016 Targets	FY2016 Results	Self-assessments	FY2017 Targets	
Provide value-added services to tenants	Introduce new tenant services	20 services	11 services	○	12 services 36 events
	Implement events for tenants	20 events	33 events		
Partner with corporations	Form tie-up plans with corporations	18 cases	32 cases	◎	40 cases
Support schools and students via industry-academia-government cooperation	Host events	18 events	8 events	×	18 events
Host get-togethers for exchange students		70 meeting sites	47 meeting sites	×	70 meeting sites
Reduce incoming calls to service centers	Incoming call ratio (monthly avg.) vis-à-vis total no. of tenants		8.8%	◎	Below 8.5%
Devise and market products that take surroundings into account	Cumulative security system installations	270,400 rooms	279,609 rooms	◎	287,634 rooms 12,058 buildings
	Cumulative security camera installations	9,700 buildings	10,223 buildings		

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

Basic CSR Action Policy

Creating Pleasant Work Environments and Developing Diverse Human Resources

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

Our Basic View: Diversifying Work Styles and Human Resources

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

Examples of Our Initiatives

At Leopalace21, we are promoting “a health management strategy” based on “the Leopalace21 Group health and productivity management declaration.”

1

> Recognized as 2017 Outstanding Health and Productivity Management Organization

Leopalace21 was named a “2017 outstanding health and productivity management organization” in the large enterprise category (White 500) in a February 2017 announcement recognizing companies that excel in this field by the Ministry of Economy, Trade and Industry (METI) and Nippon Kenko Kaigi. The certification system in particular celebrates corporations such as large companies and small and mid-sized enterprises (SMEs) that put outstanding health management into practice based on initiatives linked to regional health issues and health promotion initiatives advanced by Nihon Kenko Kaigi.



Our Main Initiatives

Health Support Using Experts

With the establishment of a health management office at the head office, Leopalace21 disseminates recommendations from public health nurses for follow-ups after initial check-ups and, through public health guidance, encourages disease prevention and preventative measures to keep disorders from becoming serious. We also implement workplace improvement activities and line care training through stress checks.



Training for managers on promoting the role of women in the workplace

Health Forums

Employees can check their health status using “smart health check” measurement instruments that estimate skin age and brain age at events we hold several times a year. Lectures on health matters, courses on yoga and breathing methods, and health consultations with public health nurses are among the features of forums we organize.



Training for female employees

Promoting Work-Life Balance

The number of employees working long hours has declined sharply through monitoring of work hours and surveys on regular work at business sites we operate with the launch of the Work-Life Balance Promotion Office in January 2014. With use of the summer and winter five-day annual vacation plan and the “refresh” three-day vacation plan, which can be used at anytime throughout the year, the paid vacation day usage rate came in at 72.2%, the second successive year it stayed above 70%.



Training for female employees

2 > Recognized as a “Semi-Nadeshiko Brand” Enterprise

Leopalace21 was recognized as a “Semi-Nadeshiko Brand” enterprise for its efforts to promote female success in the workplace by a joint program run by the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange (TSE). The program, which launched five years ago and added the Semi-Nadeshiko Brand category in 2017, evaluates companies listed on the TSE first section and recognizes those in each sector that stand out for promoting the role of women in the workplace, including their efforts to foster an environment that encourages women to continue working, as “Nadeshiko Brand” enterprises. Along with the mainstay category, the program now also names one “Semi-Nadeshiko Brand” enterprise in each sector, with the total in the new category coming to 25 companies. For the real estate sector, Leopalace21 was named in the new category. We will continue to strive to create working environments where employees can do their best work and realize their potential through measures that lead to improved work-life balance and promote female success in the workplace.

3 > Joined “Iku Boss” Corporate Alliance

In March 2017, Leopalace21 joined the “Iku Boss” Corporate Alliance established by NPO Fathering Japan.

The alliance is aimed at socializing managers (i.e., bosses) to deliver results for the organization and still find time to enjoy their work and private lives while keeping in mind the work-life balance of employees reporting to them. It is a company network that aims to transform the way managers and executives think about such matters.



Stakeholder's Voice

The Work-Life Balance Promotion Office, a unit that reports directly to the president, was established to foster improvement in long working hours, an issue especially prevalent in the real estate sector. Through initiatives, the office has achieved much in bringing about changes in the way our employees view their work such as changing what is valued from long hours to productivity and sharply reducing the employee turnover rate.



Hiroyuki Harada
Management Headquarters,
Vice General Manager
Director

We will continue to strive to improve the working environment so we can show the value our employees create in their work.

4 > Employee Training System

The regular training system splits 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

	FY2014	FY2015	FY2016
No. of participants	2,739	3,220	6,510
Per-head training costs (yen)	77,087	81,218	51,397

Main Activities and Targets the CSR Committee Oversees

Main Activities	FY2016 Targets		FY2016 Results	Self-assessments	FY2017 Targets
Accommodate diverse working styles	Paid vacation day usage rate	70%	72.2%	○	70%
Implement planned employee training	No. of training participants	5,064 persons	6,510 persons	◎	5,184 persons
Provide compliance training	e-learning enrollment rate	over 90%	82.3%	△	Compliance hotline Total no. of calls fielded in FY2017: 110 calls
Hire diverse human resources	Disabled employee ratio	over 2.29%	2.27%	○	Over 2.40%
Contribute to fields involving disabled persons	No. of disabled who joined workplace tours No. who received OTJ training No. of offsite lectures	250 persons 355 persons 3 times	375 persons 242 persons 2 times	○	250 persons 245 persons 3 times

Basic CSR Action Policy

Contributing to Local Communities

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

Our Basic View: Our Businesses Help Strengthen Local Community

With more people living in dense cities and the rural countryside becoming depopulated, connections within communities are becoming more tenuous, and these trends have given rise to many problems such as elderly people dying alone and more crime targeting children. At Leopalace21, we are promoting initiatives to contribute to local communities through our businesses and employees and hands-on interaction with local communities, an important stakeholder group. We think such contributions will build confidence in our operations in local communities. Our aim is to become a welcomed, trusted company.

Examples of Our Initiatives

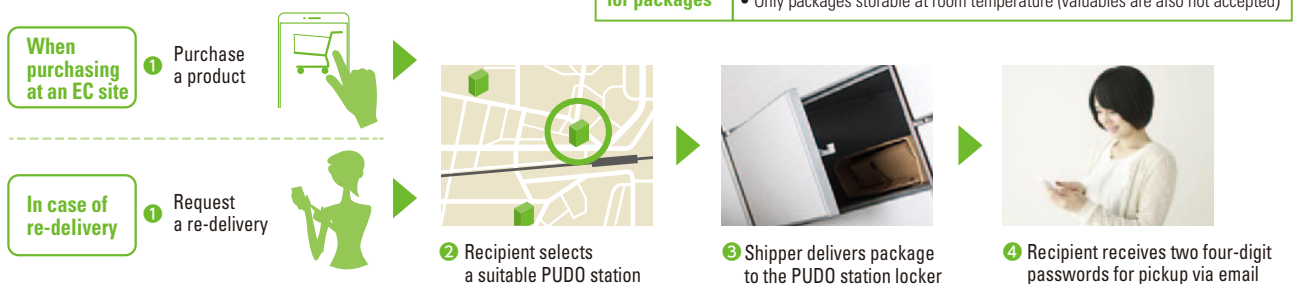
1 > Lockers for Around-the-Clock Package Pickups and Drop-offs

PUDO stations, run by Packcity Japan, a joint venture between France's Neopost Shipping S.A. and Japan's Yamato Transport Co., Ltd., are lockers that accept deliveries that recipients can pick up at any time. A recipient tells the sender the PUDO station where a package should be delivered, and once the delivery has been made, the recipient only needs to input two passwords to pick up the delivery. As of March 2017, Leopalace21 has installed PUDO stations

in twelve buildings, starting with Leopalace RX Nakano Sakaue in September 2016. As the lockers can be used by all residents living nearby, they not only make life more convenient for Leopalace21 apartment tenants but also contribute to the community. We plan to install many more PUDO stations with the aim of increasing sites with these lockers to as many as 100 in total as of March 31, 2018.

Sequence for Pickups

Tell Sender the PUDO Station where a Package Should Be Delivered



Recipient Picks Up Package at PUDO Station



2 > Sports Promotion

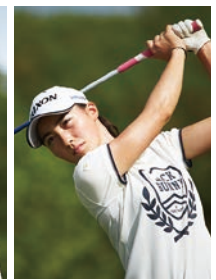
We support many pro athletes through provision of our facilities. We aim to contribute to society with sports promotions that advance competitive athletic sports through our sponsorships. We are sponsors of the Japan national swimming team and the Japan Swimming Federation, a public interest incorporated federation, and the Japan Weightlifting Association, a public interest incorporated federation. We have been the title sponsor of “Leopalace21 Myanmar Open,” a golf tournament for professional male golfers in the ASEAN region where we are expanding, for two successive years in a bid to increase our name recognition there. The Guam Governor’s Cup, a golf tournament for professional female golfers whose main sponsor is the Guam Visitors Bureau, is held at Leopalace Resort Guam.



Golfer Marika Komiya
(Champion of 15th GGC)



Golfer Hikari Fujita



Golfer Risa Murata

3 > Special Supporter of “Iki Ultra Marathon 2016”

Leopalace21 is an official sponsor of the Iki Ultra Marathon, a first-time event held in Nagasaki Prefecture in October 2016. As a way to showcase Iki city’s appeal with the aim of contributing to tourism promotion and the regional economy, the ultra marathon is held on the island of Ikinoshima, which Japan’s Agency for Cultural Affairs certified as a Japan Heritage story in 2015, to commemorate its part in the certified “Ancient Bridge to the Continent” story. We will strive to stimulate regional economies and foster regional revitalization by contributing to regional communities through sports promotions.



Main Activities and Targets the CSR Committee Oversees

Main Activities	FY2016 Targets	FY2016 Results	Self-assessments	FY2017 Targets
Implement cleanup campaigns	No. of cleanup events at construction sites 5 participants per site	5.1 persons per site	○	5 persons per site
	No. of companywide cleanup campaigns held 4 times	3 times	△	4 times
	Total no. of participants A total of 3,780 persons	A total of 1,939 persons		A total of 3,780 persons
	No. of cleanup events at domestic hotels 24 times	21 times	△	24 times
Collect charitable contributions	Support for UNHCR (UN institutions supporting refugees) ¥800,000	¥624,672	△	¥800,000
	Contributions from property owners 660 “Leo Miles” point packages donated	858 point packages	◎	760 points packages
	Donations from “volunteer” vending machines ¥1,520,000	¥1,649,867	○	¥1,600,000
Register our network for “Kodomo #110”	All domestic hotels remain registered	All hotels registered	○	Finished
	No. of sales offices registered 190 offices	191 offices	○	Finished
	Azumi En facilities are registered when newly opened	76 facilities	○	Finished

Basic CSR Action Policy

Creating an Environmentally Friendly Society

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

Our Basic View: Lowering Our Environmental Impact by Reducing CO₂ Emissions

The Paris Agreement reached at the COP21 in Paris in 2015 adopts a long-term target to reduce greenhouse gas (GHG) emissions from human activities to effectively zero. We will be hands on in taking responsibility for reducing our environmental impacts. Our aim is to be a firm that grows sustainably in harmony with society through effective resource use and the provision of value-added goods and services that factor in environmental considerations.

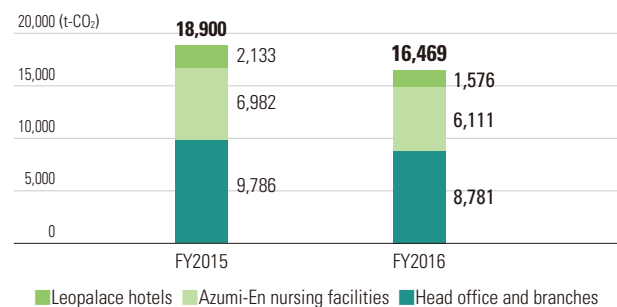
Examples of Our Initiatives

> Reducing Our Environmental Impact via Business Activities

We are working to reduce the environmental burden of our business activities. In fiscal 2016, like in fiscal 2015, we implemented a "Cool Biz" dress code for summer and an Eco-green cards program, executed an initiative to reuse discarded materials, added more mini-cars to our fleet, and converted more facilities to LED lighting.

The head office monitors electricity usage, and we continue to advance ambitious initiatives in recognition of the large size of the impacts of our business activities on the environment. The solar power generation systems we installed on roofs of properties we manage reduced CO₂ emissions by an estimated 55,000t CO₂, and within that, the systems installed on company-owned properties reduced CO₂ emissions by an estimated 19,000t CO₂. The reduction via company-managed properties is equivalent to the amount of CO₂ absorbed per year by about six million Japanese cedar trees (assumes a forty-year life span for Japanese cedar trees), and the reduction via company-owned buildings is equivalent to the amount of CO₂ absorbed per year by about two million Japanese cedar trees. (Our conversion estimates are based on Forestry Agency calculations).

CO₂ Emissions for Gas and Electricity



Main Activities and Targets the CSR Committee Oversees

Main Activities	FY2016 Targets	FY2016 Results	Self-assessments	FY2017 Targets
Spread solar power generation systems	Reduction in CO ₂ emissions at owned properties via solar power generation 23,000t CO ₂	19,235t CO ₂	○	23,000t CO₂
Tree-planting events	Promote CO ₂ reduction and forest conservation by organizing tree-planting events as a part of our Guam tour programs	—	—	100 participants
Reuse discarded materials	Reuse 5,125 boxes of documents past their retention date Purchased 36,000 rolls of recycled toilet paper	980 boxes 38,972 rolls	○	2,199 boxes 42,000 rolls

Basic CSR Action Policy

Engaging in Sound, Constructive Communication with Stakeholders

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

Our Basic View: Importance of Dialogue and Disclosure

We recognize the creation of corporate value over the medium- and long-term and our sustainable growth as an enterprise stemming from our provision of resources and contributions to customers, business partners, local communities, employees, shareholders, and creditors. We are working to disclose financial and non-financial information in a timely, transparent manner to a wide range of stakeholders, including our shareholders. Through continued proactive dialogue with various stakeholders, we aim to deliver new value via our corporate activities by grasping social needs with greater precision.

Leopalace21's Main Stakeholders



Main Activities and Targets the CSR Committee Oversees

Main Activities	FY2016 Targets	FY2016 Results	Self-assessments	FY2017 Targets
Build positive relationships with owners	No. of meetings for owners 250 times	231 times	△	250 times
Offer programs for students to support their career development	No. of sessions in student programs to support career development 35 times + all leasing offices across Japan	28 times	○	28 times
Conduct proactive IR activities	No. of meetings for individual investors, including IR fairs 20 times	21 times	○	22 times

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Financial Section

Management's Discussion and Analysis

1. Operating Environment

During the subject consolidated fiscal year, the domestic economy showed gradual progression supported by improvements in corporate earnings, employment, and corporate earnings.

New housing starts of leased units have increased for two consecutive years (up 11.4% year-on-year), due to the prolonged period of low interest rates and strong demand for apartment construction as a strategy to reduce inheritance taxes. On the other hand, as the number of vacant houses continues to increase and recovery in nationwide demand becomes difficult, achieving stable occupancy rates requires constructing apartments in areas with high demand, in addition to providing high-quality products and services that meet tenants' needs.

Under these conditions, the Leopalace21 Group (the "Companies") aimed to achieve targets of the Medium-term Management Plan "EXPANDING VALUE," by building a solid management structure focusing on the core businesses, made up of Leasing and Construction. In addition, the Group aims to establish new businesses that will contribute to future growth.

2. Analysis of Business Results

(1) Net Sales

Net sales during the fiscal year were 520,488 million yen (up 1.8% year-on-year). In the Leasing Business, net sales was 416,594 million yen (up 1.4% year-on-year), and net sales in the Construction Business was 74,566 million yen (up 0.5% year-on-year).

Net Sales by Segment

(Millions of Yen)	FY2015	FY2016	Change
Leasing	410,641	416,594	5,952
Construction	74,160	74,566	406
Elderly Care	10,798	11,536	738
Hotels & Resort	11,427	7,244	(4,183)
Others	4,485	10,546	6,060
Total	511,513	520,488	8,974

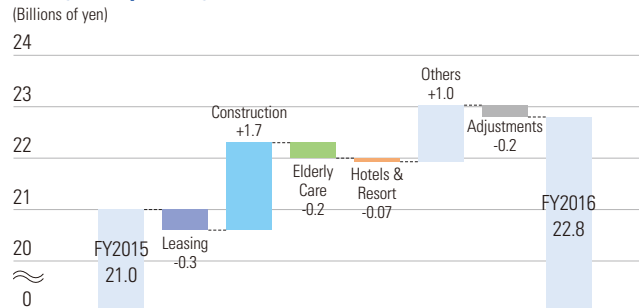
(2) Earnings

Gross profit was 92,668 million yen (up 4.2% year-on-year), operating profit was 22,898 million yen (up 8.6% year-on-year), recurring profit was 22,355 million yen (up 12.3% year-on-year), and net income attributable to shareholders of the parent was 20,401 million yen (up 3.9% year-on-year).

Operating Profit by Segment

(Millions of Yen)	FY2015	FY2016	Change
Leasing	22,848	22,459	(389)
Construction	3,340	5,051	1,711
Elderly Care	(1,354)	(1,650)	(296)
Hotels & Resort	(697)	(768)	(70)
Others	337	1,432	1,095
Adjustments	(3,388)	(3,626)	(238)
Total	21,085	22,898	1,812

Change in Operating Profit



(3) Segment Information

Leasing Business

The occupancy rate at the end of the consolidated fiscal year was 91.66% (up 1.13 points from the end of last fiscal year) and the average occupancy rate for the fiscal year was 88.53% (up 0.58 points from last fiscal year).

In the Leasing Business, to establish stable occupancy, the Companies provided wealth of value-added life to their tenants such as "my DIY" (formerly known as "Room Customize") which enable tenants to arrange their rooms, providing an internet service "LEONET" website for tenants, and security system installations in alliance with large security companies as well as further strengthening sales for corporate customers and increase foreign tenants by refining customer support. The number of units under management at the end of the consolidated fiscal year was 568 thousand (increasing 6 thousand from the end of last fiscal year), and the number of direct offices was 189 (no change). The number of franchise offices was 119 (decreasing 11).

As a result of the above, net sales amounted to 416,594 million yen (up 1.4% year-on-year), and operating profit was 22,459 million yen (down 1.7% year-on-year).

Construction Business

Orders received during the consolidated fiscal year were 87,139 million yen (up 0.8% from last fiscal year) and the orders received outstanding at the end of the consolidated fiscal year stood at 67,257 million yen (up 1.4% from last fiscal year).

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

Also, subsidiary Morizou Co., Ltd., provides luxury custom-built homes made with Kiso-hinoki.

As a result, net sales came to 74,566 million yen (up 0.5% year-on-year), and operating profit was 5,051 million yen (up 51.2% year-on-year).

Elderly Care Business

Net sales were 11,536 million yen (up 6.8% year-on-year), and operating loss was 1,650 million yen (increasing loss of 296 million yen year-on-year).

Hotels & Resort Business

Net sales in resort facilities in Guam and hotels in Japan were 7,244 million yen (down 36.6% year-on-year), and the operating loss was 768 million yen (increasing loss of 70 million yen year-on-year).

Westin Resort Guam was sold in April 2016.

Other Businesses

In Other Businesses such as the real estate business, the solar power generation business, and the small-claims and short-term insurance business, net sales were 10,546 million yen (up 135.1% year-on-year), and operating profit was 1,432 million yen (up 324.6% year-on-year).

3. Analysis of Financial Position

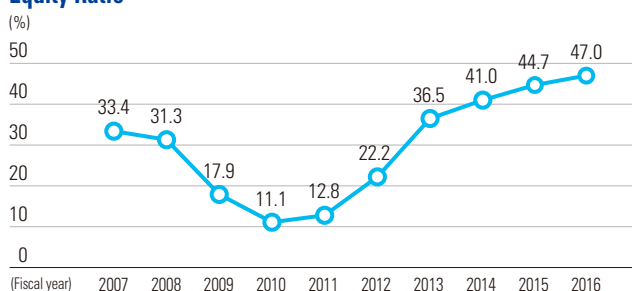
(1) Position of Assets, Liabilities, and Net assets

Total assets at the end of the fiscal year increased 10,219 million yen from the end of the previous fiscal year to 337,828 million yen. This was mainly attributable to an increase of 16,389 million yen in cash and cash equivalents, 4,234 million yen in leased assets (net), 4,223 million yen in investment securities, 3,011 million yen in deferred tax assets, and, despite a decrease of 16,152 million yen in buildings and structures (net) and 3,852 million yen in land.

Total liabilities decreased 3,785 million yen from the end of the previous fiscal year to 178,958 million yen. This primarily reflected a decrease of 5,579 million yen in borrowings and bonds, 3,099 million yen in long and short term advances received, despite an increase in lease obligations of 4,673 million yen and 1,070 million yen in liability for retirement benefit.

Net assets increased 14,004 million yen from the end of the previous fiscal year to 158,870 million yen, due to a recording of 20,401 million yen in net income attributable to shareholders of the parent despite a payment of dividends of 5,257 million yen and a decrease in foreign currency translation adjustments of 1,624 million yen. The ratio of shareholders' equity to assets rose 2.8 points from the end of the previous fiscal year to 47.0%.

Equity Ratio



(2) Cash Flow Position

Cash flow from operating activities was a net inflow of 27,504 million yen (an increase of 5,399 million yen in net inflow from the previous fiscal year). This was mainly due to 21,622 million yen of income before taxes and minority interests, and 9,336 million yen of depreciation, despite a decrease in advances received of 3,141 million yen and income taxes paid of 3,839 million yen.

Cash flow from investing activities was a net outflow of 8,653 million yen (a decrease of 2,433 million yen in net outflow from the previous fiscal year). This was primarily due to payment for deposit of fixed deposits of 11,878 million yen, payment for purchase of shares in subsidiaries of 5,402 million yen, payments for the purchase of property, plant and equipment of 4,318 million yen, despite 16,744 million yen of proceeds from sale of property, plant and equipment.

Cash flow from financing activities was a net outflow of 14,048 million yen (net inflow of 1,374 million yen in the previous fiscal year). This was chiefly due to payment of dividend of 5,257 million yen, repayment of debt and redemption of bonds of 5,578 million yen (after deduction of proceeds from debt), and a repayment of finance lease obligations of 3,212 million yen.

As a result, cash and cash equivalents at the end of the consolidated fiscal year under review stood at 91,766 million yen, an increase of 4,940 million yen from the end of the previous fiscal year.

4. Fundamental Policy on the Distribution of Earnings and Dividends

To increase shareholders' value, the Companies will not only distribute profit earned from business measures in the form of dividends, but will maximize mid- to long-term corporate value and increase EPS (earnings per share) through investments in matters such as real estate, overseas businesses, mergers and acquisitions, IT, and research and development. Concerning the dividend payout ratio, the Companies will set a medium-term goal of 30% (in respect to consolidated net income), in addition to maintaining a stable dividend.

For the subject fiscal year, the Companies have paid a year-end dividend of 12 yen. A mid-term dividend was 10 yen, meaning a total of 22 yen and 28.3% of dividend payout ratio.

For the next fiscal year, the Companies plan a mid-term dividend of 10 yen, a year-end dividend of 12 yen, with a total of 22 yen.

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

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

(1) Management Policies

Under our corporate philosophy of "creating new value," our aims are as follows: 1) we keep a close eye on modern-day needs, and strive to

create new value in our own unique way, through flexible thinking and dynamic, inclusive teamwork; 2) we are only happy if our customers are happy; we are constantly working to improve our products, services and technologies and to grow as a company; and 3) we provide new value throughout society as a leading company within the industry and (seek) to help create a more comfortable and affluent society.

(2) Business Environment and Key Issues to Address

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

The trend in new rental housing starts is robust, and we expect apartment construction demand to grow over the medium and long terms as the reduction in the basic deduction for inheritance taxes in the January 2015 tax revision has sharply increased the number of heirs who are subject to inheritance taxes.

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

Business Strategies (Create value via cash flow generation)

Core businesses:

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

Growth Strategies:

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

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

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

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

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

Financial Strategies (Create value through balance sheet management)

Introduce ROIC*-based management:

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

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

Rebalance our asset holdings:

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

Improve and strengthen distributions to shareholders:

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

(3) Management Metrics Cited in Management Plan as Targets

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

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

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

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

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

Financial Section

Consolidated Balance Sheets

Leopalace21 Corporation and consolidated subsidiaries
March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
ASSETS			
Current assets:			
Cash and cash equivalents (Notes 2-(2), 4, 5-(2), 11-(3))	104,432	88,043	930,851
Trade receivables (Note 5-(2))	6,547	6,779	58,357
Accounts receivable for completed projects (Note 5-(2))	2,355	1,992	20,998
Operating loans (Note 5-(2))	675	885	6,022
Securities (Notes 2-(4), 5-(2), 6)	121	880	1,078
Real estate for sale	421	21	3,759
Real estate for sale in process	1,849	—	16,489
Payment for construction in progress (Note 2-(14))	518	785	4,625
Raw materials and supplies	526	588	4,693
Prepaid expenses	2,827	2,847	25,200
Deferred tax assets (Notes 2-(19), 10)	8,636	6,377	76,984
Other accounts receivable	831	1,630	7,413
Others	4,228	4,283	37,688
Allowance for doubtful accounts (Notes 2-(11), 5-(2))	(186)	(212)	(1,660)
Total current assets	133,786	114,904	1,192,501
Non-current assets:			
Property, plant and equipment: (Notes 2-(6), 2-(23), 8)			
Buildings and structures (Note 17)	102,680	130,653	915,233
Accumulated depreciation	(60,852)	(72,673)	(542,405)
Net	41,827	57,979	372,827
Machinery, equipment, and vehicles	21,741	23,369	193,789
Accumulated depreciation	(7,535)	(7,264)	(67,163)
Net	14,206	16,105	126,626
Land (Note 17)	80,388	84,241	716,542
Leased assets (Notes 2-(20), 20)	24,795	17,663	221,010
Accumulated depreciation	(11,143)	(8,246)	(99,323)
Net	13,652	9,417	121,687
Construction in progress	3,911	2,444	34,863
Other	9,770	11,850	87,091
Accumulated depreciation	(8,489)	(10,001)	(75,667)
Net	1,281	1,848	11,423
Total property, plant and equipment	155,267	172,036	1,383,970
Intangible fixed assets:			
Goodwill (Note 2-(18))	3,181	1,530	28,357
Others (Note 2-(8))	8,461	7,804	75,418
Total intangible fixed assets	11,642	9,334	103,775
Investments and other assets:			
Investment securities (Notes 2-(4), 5-(2), 6, 11-(3))	12,453	8,230	111,004
Long-term loans (Note 5-(2))	516	544	4,601
Bad debts (Notes 5-(2), 9)	1,246	1,256	11,106
Long-term prepaid expenses (Note 2-(9))	3,820	3,686	34,057
Deferred tax assets (Notes 2-(19), 10)	17,486	16,734	155,865
Others	3,129	2,232	27,891
Allowance for doubtful accounts (Notes 2-(11), 5-(2))	(2,073)	(2,023)	(18,478)
Total investments and other assets	36,579	30,661	326,048
Total non-current assets	203,489	212,033	1,813,793
Deferred assets:			
Bond issuance cost	552	671	4,924
Total deferred assets	552	671	4,924
Total assets (Note 22)	337,828	327,609	3,011,220

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable (Note 5-(2))	2,826	2,606	25,193
Accounts payable for completed projects (Note 5-(2))	12,186	12,193	108,623
Short-term borrowings (Notes 5-(2), 5-(3), 11)	—	265	—
Current portion of long-term debt (Notes 5-(2), 5-(3), 11)	1,263	1,412	11,259
Bonds due within one year (Notes 5-(2), 5-(3), 11)	3,966	4,326	35,350
Lease obligations (Notes 5-(2), 5-(3), 11)	4,647	3,054	41,425
Accounts payable—other	19,066	19,229	169,945
Accrued expenses	1	5	12
Accrued income taxes	2,544	2,919	22,676
Advances received (Note 2-(17))	40,003	40,766	356,569
Customer advances for projects in progress	5,381	5,026	47,967
Reserve for warranty obligations on completed projects (Note 2-(14))	412	447	3,680
Reserve for fulfillment of guarantees (Note 2-(15))	1,082	860	9,645
Asset retirement obligations (Note 18)	43	34	386
Others	4,099	4,301	36,542
Total current liabilities	97,524	97,449	869,279
Non-current liabilities:			
Bonds (Notes 5-(2), 5-(3), 11)	16,035	20,001	142,927
Long-term debt (Notes 5-(2), 5-(3), 11)	13,267	14,106	118,260
Lease obligations (Notes 5-(2), 5-(3), 11)	10,739	7,659	95,722
Long-term advances received (Note 2-(17))	16,614	18,950	148,093
Lease/guarantee deposits received	7,152	7,516	63,754
Deferred tax liabilities	148	208	1,324
Reserve for apartment vacancy loss (Note 2-(13))	3,183	3,802	28,373
Liability for retirement benefit (Notes 2-(12), 12)	11,295	10,224	100,682
Asset retirement obligations (Note 18)	77	69	690
Others	2,920	2,754	26,028
Total non-current liabilities	81,433	85,294	725,857
Total liabilities	178,958	182,743	1,595,137
Net assets			
Shareholders' equity:			
Common stock: (Note 19)			
Authorized: 500,000,000 shares in 2017 and 2016			
Issued: 267,443,915 shares in 2017 and 2016	75,282	75,282	671,025
Capital surplus	45,235	45,235	403,202
Retained earnings	39,923	24,779	355,852
Treasury stock: 4,569,920 shares in 2017 and 4,569,520 shares in 2016 (Note 19)	(3,660)	(3,660)	(32,630)
Total shareholders' equity	156,779	141,636	1,397,449
Accumulated other comprehensive income:			
Net unrealized gains on "other securities" (Note 2-(4))	574	435	5,124
Foreign currency translation adjustments (Note 2-(22))	2,027	3,651	18,071
Remeasurements of defined benefit plans (Note 12)	(668)	(895)	(5,961)
Total accumulated other comprehensive income	1,933	3,190	17,235
Share subscription rights	136	18	1,219
Non-controlling interests	20	20	178
Total net assets	158,870	144,865	1,416,083
Total liabilities and net assets	337,828	327,609	3,011,220

The accompanying notes are an integral part of these statements.

Financial Section

Consolidated Statements of Operations

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net sales (Note 22)	520,488	511,513	4,639,347
Cost of sales	427,820	422,604	3,813,355
Gross profit	92,668	88,909	825,992
Selling, general and administrative expenses	69,769	67,823	621,890
Operating profit (Note 22)	22,898	21,085	204,101
Other income (expenses):			
Interest and dividend income	199	121	1,777
Equity in losses of affiliated companies	(6)	(9)	(60)
Foreign exchange gains (losses), net (Note 2-(21))	36	(267)	324
Interest expenses	(734)	(944)	(6,542)
Commission fee	(46)	(171)	(412)
Gain on sale of property, plant and equipment (Note 14)	408	26	3,645
Amortization of deposits received income	21	102	189
Compensation income	—	61	—
Gain (losses) on valuation of investment securities (Note 2-(4))	166	55	1,485
Loss on sale of property, plant and equipment (Note 15)	(314)	(1)	(2,801)
Loss on retirement of property, plant and equipment (Note 16)	(149)	(147)	(1,335)
Impairment loss (Note 2-(7), 8)	(589)	(616)	(5,254)
Bond issuance cost (Note 2-(10))	(241)	(165)	(2,152)
Loss on disaster (Note 2-(25))	(88)	—	(789)
Others—net	62	18	552
Income before income taxes	21,622	19,150	192,727
Income taxes (Note 2-(19))			
Current	3,245	2,999	28,931
Refund	(3)	(19)	(28)
Deferred	(2,031)	(3,458)	(18,108)
	1,210	(478)	10,794
Net income	20,411	19,628	181,933
Net income attributable to non-controlling interests	10	(2)	89
Net income attributable to shareholders of the parent (Note 23)	20,401	19,631	181,843

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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net income	20,411	19,628	181,933
Other comprehensive income			
Net unrealized gains on "other securities"	139	55	1,245
Foreign currency translation adjustments (Note 2-(22))	(1,624)	107	(14,483)
Remeasurements of defined benefit plans	226	125	2,023
Share of other comprehensive income of entities account for using equity	0	(1)	4
Total	(1,257)	286	(11,209)
Comprehensive income	19,153	19,915	170,723
Comprehensive income attributable to shareholders of the parent	19,143	19,917	170,633
Comprehensive income attributable to non-controlling interests	10	(2)	90

The accompanying notes are an integral part of these statements.

(Note)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net unrealized gains on "other securities"			
Amount accrued in the fiscal year	201	96	1,795
Rearrangements and adjustments	—	(30)	—
Amount before tax effects adjustments	201	65	1,795
Tax effects	(61)	(10)	(549)
Net unrealized gains on "other securities"	139	55	1,245
Foreign currency translation adjustments (Note 2-(22))			
Amount accrued in the fiscal year	(1,631)	107	(14,545)
Rearrangements and adjustments	6	—	61
Amount before tax effects adjustments	(1,624)	107	(14,483)
Tax effects	—	—	—
Foreign currency translation adjustments	(1,624)	107	(14,483)
Remeasurements of defined benefit plans			
Amount accrued in the fiscal year	(135)	(96)	(1,211)
Rearrangements and adjustments	362	221	3,234
Amount before tax effects adjustments	226	125	2,023
Tax effects	—	—	—
Remeasurements of defined benefit plans	226	125	2,023
Share of other comprehensive income of entities account for using equity			
Amount accrued in the fiscal year	0	(1)	4
Total	(1,257)	286	(11,209)

Financial Section

Consolidated Statements of Changes in Net Assets

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income				Share subscription rights	Non-controlling interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on "other securities"	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of April 1, 2015	75,282	51,501	427	(3,660)	123,550	379	3,545	(1,021)	2,904	18	0	126,473
Cumulative effects of changes in accounting policies			(1,545)		(1,545)							(1,545)
Restated balance after changes in accounting policies	75,282	51,501	(1,117)	(3,660)	122,005	379	3,545	(1,021)	2,904	18	0	124,928
Deficit disposition		(6,266)	6,266		—							—
Net income attributable to shareholders of the parent			19,631		19,631							19,631
Acquisition of treasury stock				(0)	(0)							(0)
Net change of items other than shareholders' equity						55	105	125	286	—	20	306
Total change during period	—	(6,266)	25,897	(0)	19,631	55	105	125	286	—	20	19,937
Balance as of March 31, 2016	75,282	45,235	24,779	(3,660)	141,636	435	3,651	(895)	3,190	18	20	144,865
Dividend of surplus			(5,257)		(5,257)							(5,257)
Net income attributable to shareholders of the parent			20,401		20,401							20,401
Acquisition of treasury stock				(0)	(0)							(0)
Net change of items other than shareholders' equity						139	(1,624)	226	(1,257)	118	(0)	(1,138)
Total change during period	—	—	15,143	(0)	15,143	139	(1,624)	226	(1,257)	118	(0)	14,004
Balance as of March 31, 2017	75,282	45,235	39,923	(3,660)	156,779	574	2,027	(668)	1,933	136	20	158,870

	Thousands of U.S. dollars (Note 1)											
	Shareholders' equity					Accumulated other comprehensive income				Share subscription rights	Non-controlling interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on "other securities"	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of March 31, 2016	671,025	403,202	220,871	(32,628)	1,262,470	3,878	32,548	(7,984)	28,442	160	180	1,291,254
Deficit disposition			(46,862)		(46,862)							(46,862)
Net income attributable to shareholders of the parent			181,843		181,843							181,843
Acquisition of treasury stock				(2)	(2)							(2)
Net change of items other than shareholders' equity						1,245	(14,476)	2,023	(11,207)	1,059	(1)	(10,149)
Total change during period	—	—	134,981	(2)	134,978	1,245	(14,476)	2,023	(11,207)	1,059	(1)	124,829
Balance as of March 31, 2017	671,025	403,202	355,852	(32,630)	1,397,449	5,124	18,071	(5,961)	17,235	1,219	178	1,416,083

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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes	21,622	19,150	192,727
Depreciation	9,336	9,614	83,223
Amortization of goodwill	428	154	3,818
Increase (decrease) in allowance for doubtful accounts	201	180	1,792
Increase (decrease) in reserve for apartment vacancy loss	(619)	(1,477)	(5,519)
Interest and dividend income	(199)	(121)	(1,777)
Interest expense	734	944	6,542
Foreign exchange loss (gain)	(36)	267	(324)
Equity in losses (earnings) of affiliated companies	6	9	60
Loss (gain) on valuation of investment securities	(166)	(58)	(1,485)
Loss (gain) on sale of property, plant and equipment	(94)	(24)	(843)
Loss on retirement of property, plant and equipment	149	147	1,335
Impairment loss	589	616	5,254
Loss on disaster	88	—	789
Decrease (increase) in accounts receivable	633	32	5,647
Decrease (increase) in real estate for sale in progress	(139)	—	(1,246)
Decrease (increase) in payment for construction in progress	272	(138)	2,424
Decrease (increase) in long-term prepaid expenses	324	643	2,894
Increase (decrease) in accounts payable	(883)	(2,701)	(7,872)
Increase (decrease) in customer advances for projects in progress	296	(1,903)	2,646
Increase (decrease) in advances received	(3,141)	(5,477)	(28,000)
Increase (decrease) in guarantee deposits received	(407)	(448)	(3,635)
Increase (decrease) in accrued consumption taxes	(6)	911	(54)
Others	2,770	3,961	24,696
Subtotal	31,760	24,284	283,093
Interest and dividends received	273	89	2,440
Interest paid	(690)	(937)	(6,155)
Income taxes paid	(3,839)	(1,331)	(34,219)
Net cash provided by operating activities	27,504	22,104	245,158

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash flows from investing activities:			
Payment for purchase of property, plant and equipment	(4,318)	(9,053)	(38,492)
Proceeds from sale of property, plant and equipment	16,744	666	149,253
Payment for purchase of intangible assets	(959)	(754)	(8,554)
Payment for purchase of investment securities	(2,761)	(1,515)	(24,610)
Proceeds from sale of investment securities	14	93	127
Payment for purchase of shares in subsidiaries (Note 25-(8))	(5,402)	—	(48,158)
Payment for loans	(22)	(58)	(202)
Proceeds from collection of loans	22	21	200
Payments for purchase of time deposits	(11,878)	(1,100)	(105,874)
Proceeds from withdrawal of time deposits	1,200	600	10,696
Others	(1,292)	12	(11,517)
Net cash provided by (used in) investing activities	(8,653)	(11,087)	(77,133)
Cash flows from financing activities:			
Proceeds from short-term borrowings	200	399	1,782
Repayment of short-term borrowings	(265)	(176)	(2,362)
Proceeds from long-term debt	235	8,544	2,103
Repayment of long-term debt	(1,423)	(23,244)	(12,688)
Repayment of finance lease obligations	(3,212)	(2,397)	(28,631)
Proceeds from share issuance to non-controlling shareholders	—	23	—
Proceeds from issuance of bonds	—	21,220	—
Payment for redemption of bonds	(4,326)	(2,993)	(38,559)
Payment for purchases of treasury stock	(0)	(0)	(2)
Cash dividends paid	(5,257)	—	(46,862)
Dividends paid to non-controlling interests	—	(0)	—
Net cash provided by (used in) financing activities	(14,048)	1,374	(125,220)
Effect of exchange rate changes on cash and cash equivalents	137	(70)	1,229
Net increase (decrease) in cash and cash equivalents	4,940	12,321	44,034
Cash and cash equivalents at beginning of year	86,826	74,504	773,919
Cash and cash equivalents at end of year (Note 4)	91,766	86,826	817,953

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, 2017 and 2016

1. Basis of Presenting Consolidated Financial Statements

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

The accompanying consolidated financial statements have been reformatted and translated into English (with certain expanded disclosure) from the consolidated financial statements of the Company prepared in accordance with accounting principles generally accepted in Japan and filed with the Financial Services Agency as required by the Financial Instruments and Exchange Act of Japan.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2017, which was 112.19 yen to US\$1.00. Such translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange. Certain amounts in the previous year's financial statements have been reclassified to conform to the current fiscal year's presentation.

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

2. Summary of Significant Accounting Policies

(1) Consolidation

Names of significant subsidiaries (21 in total)

Leopalace Leasing Corporation

Plaza Guarantee Co., Ltd.

Leopalace21 Business Consulting (Shanghai) Co., Ltd.

LEOPALACE21 VIETNAM CO., LTD.

Leopalace21 (Thailand) CO., LTD.

Leopalace21 (Cambodia) Co., Ltd.

LEOPALACE21 REAL ESTATE (CAMBODIA) Co., Ltd.

LEOPALACE21 PHILIPPINES INC.

PT. Leopalace21 Properti Manajemen

PT. Leopalace Duasatu Realty

Leopalace21 Singapore Pte. Ltd.

Morizou Co., Ltd.

Azu Life Care Co., Ltd.

Leopalace Guam Corporation

WING MATE CO., LTD.

Life Living Co., Ltd.

Leopalace Power Corporation

Leopalace Energy Corporation

ASUKA SSI

Leopalace Smile Co., Ltd.

The accompanying consolidated financial statements as of March 31, 2017 include the accounts of the Company and its 21 (21 as of March 31, 2016) subsidiaries (together, the "Companies"). Of these 21 subsidiaries, Leopalace21 Singapore Pte. Ltd. has been included in the scope of consolidation because it was established in this consolidated fiscal year, and Life Living Co., Ltd. whose shares were acquired in the consolidated fiscal year under review, has also been included in the scope of consolidation. Leopalace21 (Shanghai) Property Management Co., Ltd. has been excluded from the scope of consolidation as a result of completion of liquidation. Also, shares of Leopalace Guam Service Corporation has been transferred, and therefore has been excluded from the scope of consolidation. Affiliated companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity method. Investments in 1 affiliate (1 as of March 31, 2016) have been included for the year ended March 31, 2017. All significant intercompany balances and transactions have been eliminated.

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

The balance sheet date of Leopalace21 Business Consulting (Shanghai) Co., Ltd., LEOPALACE21 VIETNAM CO., LTD., Leopalace21 (Thailand) CO., LTD., Leopalace21 (Cambodia) Co., Ltd., LEOPALACE21 REAL ESTATE (CAMBODIA) Co., Ltd., LEOPALACE21 PHILIPPINES INC., PT. Leopalace21 Properti Manajemen, PT. Leopalace Duasatu Realty, Leopalace21 Singapore Pte. Ltd., Leopalace Guam Corporation, Leopalace Guam Distributing Corporation, and WING MATE CO., LTD. is December 31, and Morizou Co., Ltd. is February 28. Since the difference between the Company's fiscal year end is less than three months, their financial statements as of that date are used in the preparation of the Company's consolidated financial statement. When significant transactions occur at those subsidiaries between their fiscal year end and the Company's fiscal year end, these transactions are included in consolidation as necessary.

(2) Cash and cash equivalents

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

with negligible risk of fluctuation in value and maturities of less than three months.

(3) Inventories

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

(4) Securities

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

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

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

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

(5) Derivative financial instruments and hedge accounting

1. Accounting principles

Fair market value

2. Derivative transactions are accounted for using hedge accounting.

(a) Hedge accounting method

The Company uses the deferred hedge accounting method.

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

(b) Hedging instrument and hedged items

Hedging instrument	Interest rate swaps
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Hedged items	Long-term debt
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(c) Hedge policy

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

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

Cumulative interest rate fluctuations and changes in cash flows are compared to evaluate the effectiveness of

hedged item and hedging instrument. However, evaluation as of the date of settlement of the effectiveness of interest rate swaps that meet specific matching criteria is omitted.

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

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

Property, plant and equipment other than buildings for rent of the Company and domestic consolidated subsidiaries are stated at cost. Depreciation is computed generally by the declining-balance method. However, buildings (excluding accompanying facilities) obtained on or after April 1, 1998, and building accessories and structures obtained on or after April 1, 2016, are depreciated by the straight-line method. The range of useful lives is principally from 15 to 50 years for buildings and structures, 17 years for machinery, equipment and vehicles, and 5 to 10 years for tools, furniture and fixtures.

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

(7) Long-lived assets

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

(8) Intangible assets

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

(9) Long-term prepaid expenses

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

(10) Bond issuance costs

Bond issuance costs are amortized evenly until maturity.

(11) Allowance for doubtful accounts

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

(12) Liability for retirement benefit

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

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.

(13) Reserve for apartment vacancy loss

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

(14) Reserve for warranty obligations on completed projects

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

(15) Reserve for fulfillment of guarantees

In order to provide for losses due to its rent obligation guarantees business, the Company's consolidated subsidiary, Plaza Guarantee

Co., Ltd., records the amount of loss expected based on the rate of past guarantee fulfillments.

(16) 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, 2017, 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.

(17) 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.

(18) 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.

(19) 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.

(20) Leases

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

(21) 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.

(22) Foreign currency financial statements

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

(23) 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 345 million yen (\$3,081 thousand) and 2,194 million yen as of March 31, 2017 and 2016, respectively.

(24) 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.

(25) Loss on disaster

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

(26) Earnings per share

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

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

3. Additional Information**(Changes in Accounting Policies)****(Change in revenue recognition standard)**

Plaza Guarantee Co., Ltd., a consolidated subsidiary of Leopalace21 Corporation, had previously recognized revenue from guarantee

fees as a bulk amount at the time of concluding contracts. From this fiscal year, by referencing Accounting Practice Committee Research Report No. 13 "Research Report on Revenue Recognition in Japan (Interim report)" from the Japanese Institute of Certified Public Accountants, the Company has decided to recognize revenue over a reasonably determined period.

The Company has determined that this change is appropriate in reflecting the economic actualities of the business, and that it is possible since a certain period of time has passed from the start of the guarantee business, and the average guarantee period can be reasonably determined. This change in accounting policy has been retrospectively applied to the consolidated financial statements for the previous fiscal year.

As a result, an increase of 718 million yen (\$6,406 thousand) of deferred tax asset and 2,064 million yen (\$18,403 thousand) of advanced received, despite a decrease of 1,345 million yen (\$11,997 thousand) of retained earnings as compared with the figures prior to the retrospective application in the consolidated balance sheet of the previous year. Net sales, operating profit, and income before income taxes each increased by 88 million yen (\$792 thousand), and net income attributable to shareholders of the parent increased by 199 million yen (\$1,774 thousand). Income before income taxes and others in cash flows from operating activities increased by 88 and 1 million yen (\$792 and 11 thousand), respectively, and advances received decreased by 90 million yen (\$804 thousand). Net assets at the beginning of the previous fiscal year reflected the cumulative effects, which resulted in a decrease of 1,545 million yen (\$13,771 thousand) in retained earnings.

(Application of the Practical Solution on Accounting on a Change in Depreciation Method Due to Tax Reform 2016)

Following the revision of the Corporation Tax Act, the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (ASBJ PITF No. 32, June 17, 2016) was adopted effective from the fiscal year under review. The depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 was also changed from the declining balance method to the straight line method. As a result, operating profit and income before income taxes during the subject fiscal year each increased by 9 million yen (\$85 thousand).

(Changes in presentation)**(Consolidated Statements of Operations)**

"Bond issuance cost," which was included in "Other" under "Non-operating expenses" for the previous fiscal year, exceeds ten hundredths (10/100) of the total amount of non-operating expenses.

It has therefore been decided to present the “Bond issuance cost” separately. To reflect this change in the presentation method, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, 300 million yen (\$2,679 thousand) shown under

“Other,” “Non-operating expenses” in the consolidated statements of operations for the previous fiscal year is reclassified as 165 million yen (\$1,475 thousand) under “Bond issuance cost” and 135 million yen (\$1,203 thousand) under “Other.”

4. Cash and Cash Equivalents

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and cash equivalents in the consolidated balance sheets	104,432	88,043	930,851
Time deposits with original maturities of more than three months	(12,666)	(1,217)	(112,897)
Cash and cash equivalents in the consolidated statements of cash flows	91,766	86,826	817,953

5. Financial Instruments

(1) The financial instruments and related disclosures

(a) Policy for financial instruments

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

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

Operating receivables and loans outstanding are exposed to credit risk.

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

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

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

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

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

(c) Risk management for financial instruments

Credit risk management for operating receivables and loans outstanding follows the “Receivables management rules.” While each business division manages the extension of credit to its customers, it is also organized for early detection and loss reduction of accounts where collection is doubtful due 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 value on the consolidated balance sheet and fair value of financial instruments as of March 31, 2017 and 2016 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, 2017	Millions of yen		
	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	104,432	104,432	—
(2) Trade receivables and accounts receivable for completed projects	8,903	8,903	—
(3) Securities and investment securities	3,777	3,798	20
(4) Operating loans	675		
Allowance for doubtful accounts (*1)	(95)		
Net	580	720	140
(5) Long-term loans	516		
Allowance for doubtful accounts (*1)	(97)		
Net	419	419	—
(6) Bad debts	1,246		
Allowance for doubtful accounts (*1)	(1,246)		
Net	—	—	—
Total assets	118,112	118,273	161
(1) Accounts payable and accounts payable for completed projects	15,012	15,012	—
(2) Short-term borrowings	—	—	—
(3) Bonds (*2)	20,001	20,041	40
(4) Long-term debt (*2)	14,530	14,610	79
(5) Lease obligations	15,386	15,548	162
Total liabilities	64,931	65,212	281
Derivative transactions	—	—	—

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

March 31, 2017	Thousands of U.S. dollars		
	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	930,851	930,851	—
(2) Trade receivables and accounts receivable for completed projects	79,356	79,356	—
(3) Securities and investment securities	33,673	33,860	186
(4) Operating loans	6,022		
Allowance for doubtful accounts (*1)	(852)		
Net	5,170	6,420	1,250
(5) Long-term loans	4,601		
Allowance for doubtful accounts (*1)	(866)		
Net	3,735	3,735	—
(6) Bad debts	11,106		
Allowance for doubtful accounts (*1)	(11,106)		
Net	—	—	—
Total assets	1,052,787	1,054,224	1,437
(1) Accounts payable and accounts payable for completed projects	133,817	133,817	—
(2) Short-term borrowings	—	—	—
(3) Bonds (*2)	178,277	178,634	356
(4) Long-term debt (*2)	129,519	130,226	706
(5) Lease obligations	137,147	138,591	1,444
Total liabilities	578,762	581,269	2,507
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, 2017 and 2016, bonds due within one year of 3,966 million yen (\$35,350 thousand for 2017) and 4,326 million yen, and current portion of long-term debt of 1,263 million yen (\$11,259 thousand for 2017) and 1,412 million yen are included in bonds and long-term debt, respectively.

Notes:**(a) Matters concerning the calculation method for the fair value of financial instruments, securities, and derivative transactions****Assets****Cash and cash equivalents****Trade receivables and accounts receivable for completed projects**

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

Securities and investment securities

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

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

Operating loans

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

Long-term loans**Bad debts**

The fiscal year-end outstanding balances are calculated

mainly using expected future cash flows of the potentially recoverable principal and interest.

Liabilities**Accounts payable and accounts payable for completed projects****Short-term borrowings**

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

Bonds

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

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

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

Derivative transactions

Please refer to "7. Derivative Transactions."

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

Item	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unlisted shares	4,566	2,815	40,701
Unlisted bonds (subordinate corporate bonds)	824	824	7,346
Subordinate beneficiary rights of loans and accounts receivable in trust	879	886	7,839
Contributions to limited investment partnerships	2,526	125	22,521
Total	8,796	4,652	78,409

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, 2017	Millions of yen			
	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	104,432	—	—	—
Trade receivables and accounts receivable for completed projects	8,903	—	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1)Government and municipal bonds	50	1,020	300	—
(2)Corporate bonds	—	—	—	—
Other securities with maturities				
(1)Government and municipal bonds	71	1,042	—	—
(2)Bonds (Corporate bonds)	—	—	—	824
(3)Others	—	—	—	879
Operating loans	165	429	56	23
Long-term loans	10	32	13	459
Bad debts	—	—	—	1,246
Total	113,631	2,524	370	3,433

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

March 31, 2017	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	930,851	—	—	—
Trade receivables and accounts receivable for completed projects	79,356	—	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1)Government and municipal bonds	445	9,091	2,674	—
(2)Corporate bonds	—	—	—	—
Other securities with maturities				
(1)Government and municipal bonds	632	9,287	—	—
(2)Bonds (Corporate bonds)	—	—	—	7,346
(3)Others	—	—	—	7,839
Operating loans	1,474	3,831	505	211
Long-term loans	92	291	120	4,097
Bad debts	—	—	—	11,106
Total	1,012,852	22,502	3,300	30,601

(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, 2017	Millions of yen					
	Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years	Due after 5 years
Bonds	3,966	3,966	3,966	3,066	3,066	1,971
Long-term debt	1,263	1,205	1,098	995	967	9,000
Lease obligations	4,647	4,327	3,299	2,208	903	—
Total	9,876	9,498	8,364	6,270	4,937	10,971

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

March 31, 2017	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
Bonds	35,350	35,350	35,350	27,328	27,328	17,568
Long-term debt	11,259	10,745	9,790	8,877	8,625	80,222
Lease obligations	41,425	38,570	29,411	19,684	8,055	—
Total	88,035	84,666	74,552	55,889	44,010	97,790

6. Securities

(1) At March 31, 2017 and 2016, information with respect to held-to-maturity debt securities for which market prices were available was summarized as follows:

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

March 31, 2016	Millions of yen		
	Consolidated balance sheet amount	Market value	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Government and municipal bonds	1,502	1,533	30
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	1,502	1,533	30
Securities whose consolidated balance sheet amount does not exceed their acquisition cost:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	—	—	—
Total	1,502	1,533	30

March 31, 2017	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	12,424	12,610	186
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	12,424	12,610	186
Securities whose consolidated balance sheet amount does not exceed their acquisition cost:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	—	—	—
Total	12,424	12,610	186

(2) Investment securities classified as other securities as of March 31, 2017 and 2016 were as follows:

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

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

March 31, 2017	Thousands of U.S. dollars		
	Consolidated balance sheet amount	Acquisition cost	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Stock	11,281	4,100	7,180
Bonds:			
Government and municipal bonds	9,627	9,421	206
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	20,908	13,521	7,387
Securities whose consolidated balance sheet amount does not exceed their acquisition cost:			
Stock	—	—	—
Bonds:			
Government and municipal bonds	340	341	(1)
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	340	341	(1)
Total	21,249	13,863	7,386

(Note)

March 31, 2017

4,566 million yen (\$40,701 thousand) of non-listed shares, 824 million yen (\$7,346 thousand) of non-listed company bonds (subordinate corporate bonds), 879 million yen (\$7,839 thousand) of subordinate beneficiary rights to loans and money in trust, and 2,526 million yen (\$22,521 thousand) of contributions to silent partnerships are not included in the other securities given above because they have no market value and assigning them fair market prices is recognized to be extremely difficult. The Company acquired the non-listed company bonds (subordinate corporate bonds) and the subordinate beneficiary rights to loans and money in trust as a result of the securitization of non-recourse apartment loans that financial institutions had loaned to clients as funds for paying charges for jobs contracted to the Company.

March 31, 2016

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

(3) Proceeds from sales of other securities and gain or loss on these sales for the years ended March 31, 2017 and 2016 were summarized as follows:

March 31, 2017

None

March 31, 2016

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
	2017	2016	2017
Investment securities (stocks)	63	23	563
Of which, investment in joint venture	63	23	563

7. Derivative Transactions

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

March 31, 2017

None

March 31, 2016

None

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

March 31, 2017

Hedge accounting method	Type of transaction	Major hedged item	Contract value, etc.	
			Millions of yen	Thousands of U.S. dollars
Exceptional accounting treatment for interest rate swaps	Interest rate swaps, floating received rate and fixed paid rate	Long-term debt	58	519

Contract value, etc. lasting longer than one year		Fair value
Millions of yen	Thousands of U.S. dollars	
8	74	(Note)

(Note)

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

March 31, 2016

Hedge accounting method	Type of transaction	Major hedged item	Contract value, etc.
			Millions of yen
Exceptional accounting treatment for interest rate swaps	Interest rate swaps, floating received rate and fixed paid rate	Long-term debt	158

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

(Note)

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

8. Long-lived Assets

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Residential properties for rent	53,145	57,007	473,708
Domestic hotels	10,913	12,563	97,278
Head office and branches	24,226	24,340	215,940
Leopalace Resort Manenggon Hills Guam	26,193	27,223	233,477
Westin Resort Guam	—	14,561	—
Leopalace Power (solar power systems)	13,003	14,735	115,902

(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
	2017	2016	2017
Machinery, equipment, and vehicles	155	155	1,381

(3) The Companies recognized impairment loss on the following asset groups for the years ended March 31, 2017 and 2016:

March 31, 2017

Purpose	Category	Location	Impairment loss	
			Millions of yen	Thousands of U.S. dollars
Rental assets (Apartment buildings and others, 21 units)	Buildings and Structures	Ohita-shi, Ohita, etc.	131	1,170
	Land		458	4,084
Total			589	5,254

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

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

as impairment losses.

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

March 31, 2016

Purpose	Category	Location	Impairment loss
			Millions of yen
Rental assets (Apartment buildings and others, 21 units)	Land	Odawara-shi, Kanagawa, etc.	605
Idle assets	Buildings and Structures	Miura-shi, Kanagawa, etc.	4
	Land		7
Total			616

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

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

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

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

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, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Claims in the process of bankruptcy	1,050	1,066	9,359
Bad debts	73	73	659
Others	121	116	1,086
Total	1,246	1,256	11,106

10. Income Taxes

(1) Significant components of deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Loss carried forward for tax purposes	33,800	38,265	301,278
Impairment loss	21,012	21,947	187,292
Liability for retirement benefit	3,458	3,130	30,829
Bonuses payable	1,536	1,321	13,699
Loss on devaluation of property, plant and equipment	1,164	1,226	10,382
Reserve for apartment vacancy loss	980	1,172	8,736
Elimination of unrealized gain	815	877	7,272
Asset adjustments	769	—	6,860
Advances received	702	—	6,259
Allowance for doubtful accounts	695	691	6,200
Advances from customers for rent income	445	727	3,974
Reserve for fulfillment of guarantees	374	298	3,342
Loss on devaluation of real estate for sale	358	364	3,196
Excess amortization on software	332	277	2,962
Deposits received	324	388	2,892
Accrued enterprise tax	291	273	2,594
Other payable	259	205	2,316
Asset retirement obligations	136	125	1,217
Reserve for warranty obligations on completed project	125	138	1,118
Sales promotion cost	110	120	983
Others	543	428	4,842
Sub total	68,239	71,981	608,252
Less: valuation allowance	(41,772)	(49,344)	(372,335)
Total deferred tax assets	26,467	22,636	235,917
Deferred tax liabilities:			
Reserve for special depreciation	(203)	(249)	(1,817)
Net unrealized gain on other securities	(253)	(192)	(2,261)
Fixed asset retirement expenses	(35)	(9)	(313)
Total deferred tax liabilities	(492)	(451)	(4,392)
Net deferred tax assets	25,974	22,185	231,524

(2) Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016
Normal effective statutory tax rate	30.9%	33.1%
Adjustments:		
Effect from decrease in valuation reserve	(29.8)	(53.9)
Impact of change in income tax rates	—	12.5
Entertainment and other expenses not deductible for income tax purposes	4.6	6.6
Per capital portion of inhabitants taxes	1.1	1.2
Tax deduction based on Tax Credits for Salary Growth	(1.1)	(1.1)
Others	(0.1)	(0.3)
Actual effective tax rate	5.6	(1.9)

11. Short-term Borrowings and Long-term Debt

(1) Short-term borrowings, long-term debt and lease obligations at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Short-term borrowings	—	265	—
Current portion of long-term debt, with average interest rate of 1.49%	1,263	1,412	11,259
Current portion of lease obligations, with average interest rate of 3.90%	4,647	3,054	41,425
Long-term debt, due 2018 to 2031, with average interest rate of 1.41%	13,267	14,106	118,260
Lease obligations, long-term, due 2018 to 2021, with average interest rate of 3.37%	10,739	7,659	95,722
Total	29,917	26,497	266,667

(Note)

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

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

Millions of yen	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years
Long-term debt	1,205	1,098	995	967
Lease obligations	4,327	3,299	2,208	903

Thousands of U.S. dollars	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years
Long-term debt	10,745	9,790	8,877	8,625
Lease obligations	38,570	29,411	19,684	8,055

(3) Assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and cash equivalents	17	17	151
Investment securities	55	55	492
Total	72	72	644

(4) Securities and investment securities which have been deposited with the Legal Affairs Bureau at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deposit for operation stipulated in Building Lots and Buildings Transaction Business Act	45	45	402
Deposit for housing construction warranty	1,045	976	9,316
Deposit for housing defect warranty	109	109	976
Advanced payment certificate in accordance with Payment and Settlement Regulations	628	678	5,597

(5) Bonds at March 31, 2017 and 2016 consisted of the following:

Company name	Name of bond	Issuance date	Millions of yen		Thousands of U.S. dollars
			2017	2016	2017
Leopalace21 Corporation	12th unsecured straight bond	September 30, 2009	—	360 (360)	—
Leopalace21 Corporation	13th unsecured straight bond	October 31, 2014	2,700 (900)	3,600 (900)	24,066 (8,022)
Leopalace21 Corporation	14th unsecured straight bond	September 30, 2015	9,401 (1,666)	11,067 (1,666)	83,795 (14,849)
Leopalace21 Corporation	15th unsecured straight bond	September 30, 2015	7,900 (1,400)	9,300 (1,400)	70,416 (12,478)
Total	—	—	20,001 (3,966)	24,327 (4,326)	178,277 (35,350)

Company name	Name of bond	Interest rate (%)	Collateral	Date of maturity
Leopalace21 Corporation	12th unsecured straight bond	—	—	—
Leopalace21 Corporation	13th unsecured straight bond	0.19	None	October 31, 2019
Leopalace21 Corporation	14th unsecured straight bond	0.12	None	September 30, 2022
Leopalace21 Corporation	15th unsecured straight bond	0.63	None	September 30, 2022
Total	—	—	—	—

(Note) Figures in parentheses represent the current portion.

(6) 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
3,966	3,966	3,966	3,066	3,066

Thousands of U.S. dollars				
Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years
35,350	35,350	35,350	27,328	27,328

12. Retirement Benefit Plans**(1) Outline of retirement benefit plans**

In addition to implementing a lump-sum retirement distribution plan, the Companies has been a member of the "Japan Housing Construction Industry Employees' Pension Fund" integrated employees' pension funds. However, this pension fund has been dissolved on March 22, 2016 under the approval of the Minister of Health and Labour and Welfare. The Company has adopted a defined contribution plan as of April 2016.

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

With regards to integrated employees' pension funds, since the amount of contribution by the Companies corresponding to the pension assets cannot be reasonably determined, the necessary contribution amount is recorded as a retirement benefit expense.

(2) 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 the defined contribution program for the year ended March 31, 2016, was 1,300 million yen.

Recent funding status of the multi-employer plan as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Pension assets	—	64,010	—
Total of amount of benefit obligations under pension funding programs and amount of minimum actuarial liabilities	—	68,960	—
Difference	—	(4,950)	—

The main components of the difference were unrecognized past service costs of 3,572 million yen and deficiency carried forward of 1,378 million yen for the years ended March 31, 2016. The Companies recognized the special annuity premium of 96 million yen as an expense for the year ended March 31, 2016.

The deficiency carried forward of 1,378 million yen will be

treated by a method such as increasing the ratio of special premiums as necessary based on pension actuarial revaluation. Further, the percentages below do not match the actual percentage borne by the Companies.

Ratio of the Companies in the amount of contributions for the multi-employer program was 35% from April 1, 2015 to March 31, 2016.

(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
	2017	2016	2017
Beginning balance of retirement benefit obligations	10,224	9,351	91,139
Service cost	1,252	1,164	11,163
Interest cost	45	37	404
Actuarial gains and losses accrued	135	96	1,211
Retirement benefits paid	(363)	(425)	(3,237)
Closing balance of retirement benefit obligations	11,295	10,224	100,682

(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
	2017	2016	2017
Funded retirement benefit obligations	—	—	—
Pension assets	—	—	—
	—	—	—
Unfunded retirement benefit obligations	11,295	10,224	100,682
Net amount of the liabilities and assets posted in the consolidated balance sheet	11,295	10,224	100,682
Liability for retirement benefit	11,295	10,224	100,682
Net amount of the liabilities and assets posted in the consolidated balance sheet	11,295	10,224	100,682

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	1,252	2,464	11,163
Interest cost	45	37	404
Amortization of actuarial gain or loss	362	221	3,234
Retirement benefit expenses related to the defined benefit program	1,660	2,724	14,803

- (Notes) 1. Contributions of 1,300 million yen, including 516 million yen attributable to employees for the "Japan Housing Construction Industry Employees' Pension Fund" integrated employees' pension funds, are included in the service cost for the year ended March 31, 2016.
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
	2017	2016	2017
Actuarial gains/losses	(226)	(125)	(2,023)
Total	(226)	(125)	(2,023)

(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
	2017	2016	2017
Unrecognized actuarial gains/losses	668	895	5,961
Total	668	895	5,961

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

Discount rates for the years ended March 31, 2017 and 2016 were 0.03% to 0.89%.

(4) Defined contribution plan

The necessary contribution amount for the defined contribution plan was 503 million yen (\$4,483 thousand) for the year ended March 31, 2017.

13. Stock Options

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Selling, general and administrative expenses	118	—	1,059

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

(a) Outline of stock options:

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

(Note) Reported by converting to the number of shares

(b) Stock options granted and activities:

Number of stock options as of the fiscal year ended March 31, 2017 are reported by converting to the number of shares.

Number of stock options:

	2009 Stock Option	2016 Stock Option
None-vested (number of shares)		
Previous fiscal year-end	—	—
Granted	—	252,700
Forfeited	—	—
Vested	—	252,700
Outstanding	—	—
Vested (number of shares)		
Previous fiscal year-end	65,000	—
Vested	—	252,700
Exercised	—	—
Forfeited	—	—
Outstanding	65,000	252,700

Price information (yen):

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

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

2016 Stock options granted in the fiscal year ended March 31, 2017 were valued using the Black-Scholes option pricing model and the assumptions were as follows:

	2016 Stock Option
Expected volatility (note 1)	57.345%
Expected life of option (note 2)	15 years
Expected dividends (note 3)	10 yen per share
Risk-free interest rate (note 4)	0.073%

- (Notes)
1. Estimated based on the actual stock prices of 15 years from August 2001 to August 2016.
 2. The expected life of option could not be estimated rationally due to an insufficient amount of data. Therefore, it was estimated assuming that the options are exercised at the middle point of the exercise period.
 3. Based on actual dividends for the fiscal year ended March 31, 2016.
 4. Yield Japanese government bond of corresponding to the expected life of option.

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

Only the actual number of forfeited stock options is reflected because it is difficult to rationally estimate the actual number of stock options that will be forfeited in the future.

14. Gain on Sale of Fixed Assets

Gain on sale of fixed assets for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Buildings and structures	328	23	2,928
Machinery, equipment, and vehicles	4	2	36
Land	74	—	666
Other (Property, plant, and equipment)	1	—	14
Total	408	26	3,645

15. Loss on Sale of Fixed Assets

Loss on sale of fixed assets for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Buildings and structures	48	—	433
Machinery, equipment, and vehicles	0	—	2
Land	259	0	2,312
Construction in progress	2	—	22
Others (Property, plant and equipment)	3	0	30
Others (Intangible assets)	—	0	—
Total	314	1	2,801

16. Loss on Retirement of Property, Plant and Equipment

Loss on disposal of property, plant and equipment for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Buildings and structures	82	139	739
Construction in progress	4	—	36
Others (Property, plant and equipment)	2	3	18
Others (Intangible assets)	60	4	542
Total	149	147	1,335

17. Rental Properties

The Company possesses rental apartments in major cities and regions throughout Japan. As a subsidiary company, Leopalace Guam Corporation possesses rental housing within resorts, Leopalace21 (Thailand) CO., LTD. and Leopalace21 (Cambodia) Co., Ltd. possesses and develops serviced apartments, and Plaza Guarantee Co., Ltd. possesses buildings for rent. For the years

ended March 31, 2017 and 2016, income arising from these rental properties were 4,152 million yen (\$37,011 thousand) and 4,302 million yen, and impairment losses were 589 million yen (\$5,254 thousand) and 605 million yen, respectively.

Also, the changes in book value of rental properties during the year ended March 31, 2017 and 2016, and the fair value as of March 31, 2017 and 2016 were as follows:

March 31, 2017

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

March 31, 2016

Millions of yen			
Consolidated balance sheet amount			Fair value as of March 31, 2016
Balance as of April 1, 2015	Increase/Decrease	Balance as of March 31, 2016	
63,819	339	64,159	66,145

March 31, 2017

Thousands of U.S. dollars			
Consolidated balance sheet amount			Fair value as of March 31, 2017
Balance as of April 1, 2016	Increase/Decrease	Balance as of March 31, 2017	
571,879	(21,513)	550,365	570,350

- (Notes) 1. Carrying value recorded on the consolidated balance sheets is the amount after deducting accumulated depreciation and accumulated impairment loss from acquisition cost.
2. For the years ended March 31, 2017 and 2016, the main increase was the acquirement and development of serviced apartments of 649 million yen (\$5,785 thousand) and 1,278 million yen, and the main decreases was the sale of rental properties of 1,652 million yen (\$14,733 thousand) and - million yen and an impairment loss of 589 million yen (\$5,254 thousand) and 605 million yen, respectively.
3. Fair value as of the end of the current consolidated fiscal year is calculated by the Company mainly based on "Real-estate appraisal standards."

18. Asset Retirement Obligations

Omitted due to immateriality

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

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

Type of shares	Shares			
	April 1, 2016	Increase	Decrease	March 31, 2017
Shares issued				
Common stock	267,443,915	—	—	267,443,915
Total	267,443,915	—	—	267,443,915
Treasury stock				
Common stock	4,569,520	400	—	4,569,920
Total	4,569,520	400	—	4,569,920

(Note) Increase in treasury stock of 400 shares is the purchase of shares less than one unit.

Stock acquisition rights (SAR) and own share options for the year ended March 31, 2017 were as follows:

Type	Class of shares issued upon exercise of SARs	Number of shares issued upon exercise of SARs				Outstanding as of March 31, 2017	
		April 1, 2016	Increase	Decrease	March 31, 2017	Millions of yen	Thousands of U.S. dollars
SARs as stock option	—	—	—	—	—	136	1,219
Total	—	—	—	—	—	136	1,219

Matters concerning dividends for the year ended March 31, 2017 were as follows:

(1) Amount of dividends paid:

(Resolution)	Class of shares	Total amount of dividends	
		Millions of yen	Thousands of U.S. dollars
June 29, 2016 General shareholders' meeting	Common stock	2,628	23,431
November 4, 2016 Board of Directors' Meeting	Common stock	2,628	23,431

Source of dividend	Dividends per share		Basis date	Effective date
	Yen	U.S. dollars		
Retained earnings	10	0.08	March 31, 2016	June 30, 2016
Retained earnings	10	0.08	September 30, 2016	December 12, 2016

(2) Dividends which basis dates are in the current consolidated year but have effective dates in the next year:

(Resolution)	Class of shares	Total amount of dividends	
		Millions of yen	Thousands of U.S. dollars
June 29, 2017 General shareholders' meeting	Common stock	3,154	28,117

Source of dividend	Dividends per share		Basis date	Effective date
	Yen	U.S. dollars		
Retained earnings	10	0.08	March 31, 2017	June 30, 2017

Shares issued and treasury stocks for the year ended March 31, 2016 were as follows:

Type of shares	Shares			
	April 1, 2015	Increase	Decrease	March 31, 2016
Shares issued				
Common stock	267,443,915	—	—	267,443,915
Total	267,443,915	—	—	267,443,915
Treasury stock				
Common stock	4,569,430	90	—	4,569,520
Total	4,569,430	90	—	4,569,520

(Note) Increase in treasury stock of 90 shares is the purchase of shares less than one unit.

Stock acquisition rights (SAR) and own share options for the year ended March 31, 2016 were as follows:

Type	Class of shares issued upon exercise of SARs	Number of shares issued upon exercise of SARs				Outstanding as of March 31, 2016 Millions of yen
		April 1, 2015	Increase	Decrease	March 31, 2016	
SARs as stock option	—	—	—	—	—	18
Total	—	—	—	—	—	18

Matters concerning dividends for the year ended March 31, 2016 were as follows:

(1) Amount of dividends paid: None

(2) Dividends which basis dates are in the current consolidated year but have effective dates in the next year:

(Resolution)	Class of shares	Total amount of dividends
		Millions of yen
June 29, 2016 General shareholders' meeting	Common stock	2,628

Source of dividend	Dividends per share	Basis date	Effective date
	Yen		
Retained earnings	10	March 31, 2016	June 30, 2016

20. Leases

(1) Finance lease transactions

The Companies primarily lease furniture and electronic appliances, for apartments of their leasing business. Leases are depreciated by the straight-line method over the lease-term of respective assets as their useful lives with no residual value.

(2) Operating lease transactions

Future minimum lease payments related to non-cancelable operating leases subsequent to March 31, 2017 and 2016 were as follows:

	Millions of yen		
	Future lease payments	Prepaid lease payments	Differences
March 31, 2017			
Due within one year	238,120 (237,983)	1,144 (1,144)	236,975 (236,839)
Due after one year	155,147 (154,864)	2,569 (2,569)	152,577 (152,294)
Total	393,267 (392,848)	3,714 (3,714)	389,552 (389,133)

	Millions of yen		
	Future lease payments	Prepaid lease payments	Differences
March 31, 2016			
Due within one year	242,226 (242,209)	1,315 (1,315)	240,911 (240,893)
Due after one year	240,091 (240,070)	2,723 (2,723)	237,367 (237,346)
Total	482,317 (482,279)	4,039 (4,039)	478,278 (478,239)

	Thousands of U.S. dollars		
	Future lease payments	Prepaid lease payments	Differences
March 31, 2017			
Due within one year	2,122,474 (2,121,255)	10,202 (10,202)	2,112,272 (2,111,053)
Due after one year	1,382,895 (1,380,376)	22,907 (22,907)	1,359,988 (1,357,469)
Total	3,505,370 (3,501,631)	33,109 (33,109)	3,472,260 (3,468,522)

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, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Contingent liabilities to financial institutions for customers who have a home mortgage	734	838	6,543
Contingent liabilities to financial institutions for customers who have a membership loan	3	3	32
Total	737	841	6,576

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

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

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

(Change in revenue recognition standard)

As stated in the changes in accounting policies, Plaza Guarantee Co., Ltd., a consolidated subsidiary of Leopalace21 Corporation, has changed its revenue recognition standard starting this fiscal year. This change in accounting policy has been retrospectively applied to the consolidated financial statements for the previous fiscal year. As a result, for fiscal year ended March 2016, sales in the Leasing Business has increased 88 million yen. Segment profit (loss) has increased 87 million yen in the Leasing Business, 1 million yen in the Construction Business, 0 million yen in the Elderly Care Business, 0 million yen in the Hotels & Resort Business, and 0 million yen in "Others."

(3) Information Regarding Sales, Profits and Losses, Assets, and other Items by Reportable Segment for the years ended March 31, 2017 and 2016 were as follows:

March 31, 2017	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	416,594	74,566	11,536	7,244	509,942	10,546	520,488	—	520,488
Inter-segment sales and transfers	951	610	—	3,058	4,620	173	4,793	(4,793)	—
Total	417,545	75,176	11,536	10,302	514,562	10,720	525,282	(4,793)	520,488
Segment profit (loss)	22,459	5,051	(1,650)	(768)	25,091	1,432	26,524	(3,626)	22,898
Segment assets	101,312	15,808	2,918	53,436	173,475	26,835	200,310	137,517	337,828
Other items									
Depreciation	4,608	179	81	1,374	6,244	1,855	8,129	1,207	9,336
Increase in property, plant, and equipment, and intangible assets	9,078	84	123	1,934	11,221	952	12,173	1,568	13,741

- (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	(277)	(2,472)
Corporate expenses*	(3,349)	(29,854)
Total	(3,626)	(32,326)

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

Adjustments in segment assets (137,517 million yen, \$1,225,759 thousand) consist mainly of surplus operating funds, long-term investment capital, and assets which do not belong to reportable segments.

Adjustments in the increase of property, plant, and equipment, and intangible assets (1,568 million yen, \$13,979 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, 2016	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	410,641	74,160	10,798	11,427	507,028	4,485	511,513	—	511,513
Inter-segment sales and transfers	944	2,614	—	3,640	7,199	149	7,349	(7,349)	—
Total	411,586	76,774	10,798	15,068	541,228	4,635	518,863	(7,349)	511,513
Segment profit (loss)	22,848	3,340	(1,354)	(697)	24,136	337	24,474	(3,388)	21,085
Segment assets	100,048	16,755	2,657	55,246	174,707	23,076	197,784	129,825	327,609
Other items									
Depreciation	3,740	205	49	2,013	6,009	2,059	8,069	1,544	9,614
Increase in property, plant, and equipment, and intangible assets	6,245	91	271	1,850	8,459	3,917	12,376	1,599	13,976

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

	Millions of yen
Inter-segment eliminations	(320)
Corporate expenses*	(3,067)
Total	(3,388)

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

Adjustments in segment assets (129,825 million yen) consist mainly of surplus operating funds, long-term investment capital, and assets which do not belong to reportable segments.

Adjustments in the increase of property, plant, and equipment, and intangible assets (1,599 million yen) 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, 2017	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	3,713,291	664,641	102,834	64,574	4,545,342	94,004	4,639,347	—	4,369,347
Inter-segment sales and transfers	8,481	5,438	—	27,260	41,180	1,550	42,730	(42,730)	—
Total	3,721,773	670,080	102,834	91,835	4,586,523	95,554	4,682,077	(42,730)	4,639,347
Segment profit (loss)	200,191	45,029	(14,714)	(6,850)	223,655	12,772	236,428	(32,326)	204,101
Segment assets	903,042	140,905	26,010	476,306	1,546,265	239,194	1,785,460	1,225,759	3,011,220
Other items									
Depreciation	41,079	1,598	730	12,252	55,659	16,802	72,461	10,761	83,223
Increase in property, plant, and equipment, and intangible assets	80,920	751	1,099	17,246	100,018	8,486	108,505	13,979	122,484

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, 2017

Millions of yen									
Japan	Trust territory of U.S.A. Guam	People's Republic of China	Kingdom of Thailand	Socialist Republic of Vietnam	Kingdom of Cambodia	Republic of the Philippines	Republic of Indonesia	Singapore	Total
127,111	26,193	1	1,200	6	656	86	9	0	155,267

March 31, 2016

Millions of yen									
Japan	Trust territory of U.S.A. Guam	People's Republic of China	Kingdom of Thailand	Socialist Republic of Vietnam	Kingdom of Cambodia	Republic of the Philippines	Republic of Indonesia	Total	
128,355	41,785	1	1,283	6	468	120	15	172,036	

March 31, 2017

Thousands of U.S. dollars									
Japan	Trust territory of U.S.A. Guam	People's Republic of China	Kingdom of Thailand	Socialist Republic of Vietnam	Kingdom of Cambodia	Republic of the Philippines	Republic of Indonesia	Singapore	Total
1,133,005	233,477	9	10,701	61	5,855	769	89	0	1,383,970

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, 2017

	Millions of yen						Consolidated total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Others	Adjustments	
Impairment loss	589	—	—	—	—	—	589

March 31, 2016

	Millions of yen						Consolidated total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Others	Adjustments	
Impairment loss	605	—	—	—	—	11	616

March 31, 2017

	Thousands of U.S. dollars						Consolidated total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Others	Adjustments	
Impairment loss	5,254	—	—	—	—	—	5,254

Information concerning goodwill amortization and unamortized balance by reportable segments

March 31, 2017

	Millions of yen						Consolidated total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Others	Adjustments	
Goodwill amortization	—	168	—	—	259	—	428
Balance	—	1,361	—	—	1,819	—	3,181

March 31, 2016

	Millions of yen						Consolidated total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Others	Adjustments	
Goodwill amortization	—	154	—	—	—	—	154
Balance	—	1,530	—	—	—	—	1,530

March 31, 2017

	Thousands of U.S. dollars						Consolidated total
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Others	Adjustments	
Goodwill amortization	—	1,501	—	—	2,316	—	3,818
Balance	—	12,139	—	—	16,217	—	28,357

Information concerning gain on negative goodwill by reportable segments

For the years ended March 31, 2017 and 2016

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, 2017 and 2016.

	Yen		U.S. dollars
	2017	2016	2017
Net assets	603.76	550.94	5.38
Net income attributable to shareholders of the parent			
Basic	77.61	74.68	0.69
Diluted	77.56	—	0.69

- (Notes)
1. Diluted net income attributable to shareholders of the parent per share for the fiscal year ended March 31, 2016 is omitted since there were no dilutive securities that have dilutive effects.
 2. Basis of computation of basic and diluted net income per share for the years ended March 31, 2017 and 2016 was as follows.
 3. As noted in "Changes in Accounting Policies," the change in accounting policy applied in the fiscal year ended March 31, 2017 has been retrospectively applied to the consolidated financial statements for the fiscal year ended March 31, 2016. As a result, net assets per share has decreased 5.12 yen (\$0.05) and net income attributable to shareholders of the parent per share has increased 0.76 yen (\$0.01) compared with the figures prior to the retrospective application in the consolidated balance sheet of the previous year.

(2) Basis of computation of basic and diluted net income per share for the years ended March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Basic net income per share			
Net income attributable to shareholders of the parent	20,401	19,432	181,843
Amount not attributable to common stock	—	—	—
Net income attributable to common stock	20,401	19,432	181,843
Weighted-average shares during the year (Thousands of shares)	262,874	262,874	262,874
Diluted net income per share			
Net income attributable to shareholders of the parent	—	—	—
Increase in the number of common stock (Thousands of shares)	156	—	—
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, 2017 and 2016.

For the year ended March 31, 2017

(a) Unconsolidated subsidiaries and affiliates

None

(b) Directors and major individual shareholders

Attribute	Name	Address	Capital stock		Business or position	Percentage of share ownership	Relation
			Millions of yen	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	232	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, 2016**(a) Unconsolidated subsidiaries and affiliates**

None

(b) Directors and major individual shareholders

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

Attribute	Name	Transaction	Transaction amount	Account	Balance
			Millions of yen		Millions of yen
Directors and close relatives	Toshiko Miyoshi	Leasing of apartments	26	Prepaid expenses	—

- (Notes) 1. Consumption taxes were not included in amounts.
 2. Conditions 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 Combinations**Business Combination through Acquisitions****(1) Outline of the business combination:**

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

Name of the acquired company: SBI Life Living Co., Ltd.

Business activities: Real estate business (planning, architect, development, and sales of investment income properties)

(b) Major reasons for the business combination:

To strengthen its core Leasing and Construction Businesses and expand into new business fields by leveraging Life Living Co., Ltd.'s excellent development records in the Tokyo metropolitan, Nagoya, and Fukuoka areas, as well as its unique product lineup, which includes four-story reinforced concrete condominiums and three-story wooden apartments.

(c) Effective date of the business combination:

July 1, 2016

(d) Legal structure of the business combination:

Stock acquisition

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

Life Living Co., Ltd. has changed in its business name from SBI Life Living Co., Ltd. as of July 1, 2016

(f) Percentage of voting rights acquired by Leopalace21:

100%

(g) Primary basis for determining the acquirer:

Due to the fact that Leopalace21 has acquired Life Living Co., Ltd. through stock acquisition with cash considerations.

(2) Period of business performances of the acquired company to be included in the Consolidated Statements of Operations in the fiscal year ended March 2017:

From July 1, 2016 to March 31, 2017

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

	Millions of yen	Thousands of U.S. dollars
Consideration for the acquisition (cash)	5,700	50,806
Acquisition cost	5,700	50,806

(4) Main contents of acquisition-related costs:

	Millions of yen	Thousands of U.S. dollars
Advisory cost, etc.	92	828

(5) Amount, source, method and period of goodwill amortization:

(a) Amount of goodwill:

	Millions of yen	Thousands of U.S. dollars
Amount of goodwill	2,079	18,534

(b) Source of goodwill:

Calculated based primarily on a reasonable estimation of future excess earning power expected from the expansion of Life Living Co., Ltd.'s investment-type condominium development business.

(c) Method and period of goodwill amortization:

Straight-line method (six years)

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

	Millions of yen	Thousands of U.S. dollars
Current assets	2,771	24,700
Fixed assets	1,130	10,079
Total assets	3,901	34,779
Current liabilities	232	2,073
Long-term liabilities	48	433
Total liabilities	281	2,507

(7) Estimated amount of impact on the consolidated statements of operations for the fiscal year ended March 2017 based on the assumption that the business combination was completed on the first day of the consolidated fiscal year under review, as well as the calculation method thereof:

	Millions of yen	Thousands of U.S. dollars
Net sales	547	4,884
Operating profit (loss)	(83)	(742)
Recurring income (loss)	(82)	(732)
Net income (loss) attributable to shareholders of the parent	(85)	(759)

(Calculation method for the estimated amount)

The estimated amount of impact is the difference between net sales and profit/loss information calculated based on the assumption that the business combination was completed on the first day of the consolidated fiscal year under review and the net sales and profit/loss

information presented in the consolidated statements of operations of the acquiring company. In addition, the amortized amount has been calculated based on the assumption that the goodwill recognized when the business combination was completed had been generated on the first day of the consolidated fiscal year under review.

(8) Breakdown of major assets and liabilities of Life Living Co., Ltd.:

The breakdown of major assets and liabilities of Life Living Co., Ltd. as of the start of the acquisition as well as the acquisition cost and acquisition-related costs are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	2,771	24,700
Fixed assets	1,130	10,079
Goodwill	2,079	18,534
Current liabilities	(232)	(2,073)
Long-term liabilities	(48)	(433)
Acquisition cost	5,700	50,806
Cash and cash equivalents	(432)	(3,857)
Balance: total acquisition-related costs	5,267	46,948

26. Other

The following tables set forth quarterly information for the year ended March 31, 2017.

(Cumulative period)	First quarter	Second quarter	Third quarter	Full-year
Net sales (Millions of yen)	125,998	255,190	380,634	520,488
Income before income taxes (Millions of yen)	5,304	11,476	15,517	21,622
Net income attributable to shareholders of the parent (Millions of yen)	4,429	9,688	12,854	20,401
Net income per share (yen)	16.85	36.85	48.90	77.61

(Accounting period)	First quarter	Second quarter	Third quarter	Full-year
Net income per share (yen)	16.85	20.00	12.05	28.71

(Cumulative period)	First quarter	Second quarter	Third quarter	Full-year
Net sales (Thousands of U.S. dollars)	1,123,082	2,274,631	3,392,762	4,639,347
Income before income taxes (Thousands of U.S. dollars)	47,285	102,292	138,311	192,727
Net income attributable to shareholders of the parent (Thousands of U.S. dollars)	39,785	86,353	114,581	181,843
Net income per share (U.S. dollars)	0.15	0.32	0.43	0.69

(Accounting period)	First quarter	Second quarter	Third quarter	Full-year
Net income per share (U.S. dollars)	0.15	0.17	0.10	0.25

27. Subsequent Events

Not applicable



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 SHEETS as at March 31, 2017, 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, 2017, 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, 2017 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

July 13, 2017
Tokyo, Japan

Member of Grant Thornton International Ltd

Data Compilation

External Environment

<Number of New Housing Starts>

In the year ended March 2017, the number of new housing starts increased for the second consecutive year. Rental housing starts also grew for the second successive year, rising 11.4% to 427,275 units. Starts of rental units less than 30 square meters aimed mainly at single-person households remained robust, surging 25.5% year on year to 76,428 units.

	(1,000 units)		
	FY2014	FY2015	FY2016
Rental units	358	384	427
Of which, rental units under 30m ²	48	61	76
Other	522	537	547
Total	880	921	974

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 the nation's trends of aging population and low fertility rate. On the other hand, the number of single-person households, including in our target cohort of the productive population (aged 15–64), are expected to trend sideways from here.

	(1,000 households)						
	2005	2010	2015 (forecast)	2020 (forecast)	2025 (forecast)	2030 (forecast)	2035 (forecast)
Single-person households	14,458	16,784	17,637	18,270	18,648	18,718	18,456
Of which, under 25	2,178	2,060	1,952	1,885	1,760	1,645	1,515
Of which, age 25-34	2,971	2,999	2,721	2,531	2,441	2,311	2,147
Of which, age 35-64	5,444	6,745	6,956	7,175	7,440	7,464	7,172
Of which, age 65 or older	3,865	4,980	6,008	6,679	7,007	7,298	7,622
Married couples	9,637	10,269	10,861	11,037	10,973	10,782	10,500
Married couples with children	14,646	14,474	14,274	13,814	13,132	12,340	11,532
Single-parent with children	4,112	4,535	4,982	5,338	5,558	5,648	5,645
Others	6,212	5,779	5,150	4,594	4,127	3,743	3,421
Total	49,063	51,842	52,904	53,053	52,439	51,231	49,555

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

<Number of Vacant Homes in Japan>

Amid the concentration of populations in cities, the number of vacant homes is growing, especially in regional 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 most recent Housing and Land Survey, published in fiscal 2013.

	1983	1988	1993	1998	2003	2008	2013
Number of vacant houses for rent or sale (1,000 units)	1,834	2,336	2,619	3,520	3,978	4,476	4,601
Ratio of vacant dwellings (%)	12.4	14.3	14.3	17.4	18.8	20.1	20.0

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

Leasing Business Data

<Apartment Rooms under Management >

As of March 31, 2017, apartments under management—the earnings foundation for our Leasing Business—numbered 568,739, rising for the fourth consecutive year. The proportion of our portfolio located in our focus regions of Kanto, Chubu, and Kinki remained high at around 70%.

	(Rooms)		
	FY2014	FY2015	FY2016
Hokkaido	14,199	14,132	14,088
Tohoku	34,300	34,843	35,270
Kita-Kanto	40,126	40,381	40,553
Tokyo metro area	158,322	161,756	165,590
Hokuriku-Koshinetsu	40,630	40,643	40,639
Chubu	87,225	87,711	88,086
Kinki	78,906	79,790	80,715
Chugoku	37,838	38,439	38,798
Shikoku	14,497	14,535	14,671
Kyushu-Okinawa	48,905	49,731	50,329
Total	554,948	561,961	568,739

<Leases by Contract Type>

We are strengthening our marketing efforts aimed at corporations, where we can expect stable, long-term income. As of March 31, 2017, the number of corporate contracts for apartments stood at 293,824 units, up 6.0% from a year earlier. The composition ratio was 56.4%, accounted for more than 50% of our lease portfolio for the fourth consecutive year.

<Average Annual Occupancy Rate>

Similar to the year-end occupancy rate, the average annual occupancy rate is on a recovery path. The average annual occupancy rate in the year under review was 88.5%, rising for the sixth consecutive year. This in part reflected a rise in long-term lease contracts and a progressive trend towards longer occupancy periods.

<Fiscal Yearend Occupancy Rates by Region>

Japan has now emerged from the recession following the global financial crisis. As of March 31, 2017, our overall occupancy rate was 91.7%, up 1.2 points from a year earlier. The occupancy rate exceeded 90% in all regions, except Hokkaido and Kita-Kanto.

<Number of Leasing Sales Offices and Sales Personnel>

The Leasing Business is forging ahead with building a network balanced between directly managed leasing sales offices and franchisee-run offices. Meanwhile, we continue to bolster our sales force, which totaled 1,701 people as of March 31, 2017, up 2.3% year on year.

	FY2014		FY2015		FY2016	
	Units	%	Units	%	Units	%
Corporations	262,577	53.0	277,261	54.5	293,824	56.4
Individuals	182,142	36.8	183,008	36.0	180,617	34.6
Students	50,768	10.2	48,451	9.5	46,857	9.0
Total	495,487	100.0	508,720	100.0	521,298	100.0

	FY2014	FY2015	FY2016
Average annual occupancy rate	86.6	88.0	88.5

	End-FY2014	End-FY2015	End-FY2016
Hokkaido	79.4	81.8	84.7
Tohoku	94.3	94.4	94.1
Kita-Kanto	85.0	85.5	87.2
Tokyo metro area	92.5	92.8	92.6
Hokuriku-Koshinetsu	84.4	88.3	90.0
Chubu	86.4	89.1	91.1
Kinki	89.6	90.6	91.3
Chugoku	91.4	92.5	93.8
Shikoku	83.7	87.0	90.0
Kyushu-Okinawa	90.6	90.7	93.9
Total	89.3	90.5	91.7

	FY2014	FY2015	FY2016
No. of lease sales offices	329	319	308
Of which, Leopalace Centers	188	189	189
Of which, Leopalace Partners (franchisees)	141	130	119
No. of leasing sales personnel	1,558	1,662	1,701
Of which, Leopalace Centers	1,110	1,183	1,174
Of which, corporate sales	448	479	527

	FY2014	FY2015	FY2016
Security systems installed (cumulative, rooms)	226,801	256,900	279,609
Security cameras installed (cumulative, buildings)	5,505	7,848	10,223
Services centers, no. of incoming calls	608,294	576,764	530,804
Of which, inquiries	433,589	412,947	373,062
Of which, maintenance related	137,740	129,614	125,734
Of which, complaints or claims	36,965	34,203	32,008
Tenant response rates from Internet (new contracts only)	54,455	57,556	45,673

Development Business Data

<Orders>

In fiscal 2016, orders increased for the first time in two years, reaching 87,139 million yen. In addition to mainstay apartments, orders for detached housing at subsidiary Morizou Co., Ltd. were healthy. The balance of orders at fiscal year-end stood at 67.2 billion yen.

(Millions of yen)

	FY2014	FY2015	FY2016
Building categories			
Apartments	79,798	77,004	79,424
Elderly care facilities	4,343	2,872	2,377
Stores & commercial space	536	2,040	562
Custom-built homes*	—	4,502	4,763
Solar power systems	2,715	18	13
Total	87,395	86,439	87,139

*Subsidiary Morizou

<Apartments Completions>

The number of apartments completed declined 3.2% year on year, to 663 in fiscal 2016. Of these, completions of mainstay two-story models decreased, but we enjoyed an increase in completions of buildings with three stories, where demand is high in urban areas. Together, three- and four-story buildings accounted for around one-quarter of our total completions.

(Buildings)

	FY2014	FY2015	FY2016
Two stories	537	513	485
Three stories	92	125	154
Four stories or more	27	47	24
Total	656	685	663

(Buildings)

<Apartment Completions by Region>

Our sales activities focus on Japan's three major largest metropolitan areas due to strength of demand. Among these, the number of apartment completions in the Tokyo area continues to increase. However, completions are declining in the Tohoku region, where restoration demand related to the Great East Japan Earthquake has tapered, as well as in Chubu, Chugoku, Kyushu, and Okinawa.

	FY2014	FY2015	FY2016
Tohoku	45	46	27
Kita Kanto	28	20	21
Tokyo metro area	306	342	366
Hokuriku-Koshinetsu	5	5	5
Chubu	66	57	42
Kinki	90	98	101
Chugoku	54	39	33
Shikoku	3	7	9
Kyushu-Okinawa	59	71	59
Total	656	685	663

(Cumulative)

<Solar Power Systems Installed, and Total Kilowatt Capacity Installed>

During the year, we continued promoting solar power system installations as a source of earnings growth for the Construction Business. Within our portfolio, however, the number of buildings suitable for solar power installation is limited, and for this reason the number of such installations remained mostly unchanged from the previous fiscal year.

	FY2014	FY2015	FY2016
No. of buildings with solar power systems installed	12,356	12,964	12,987
Of which, no. of buildings with systems installed by LP21 Group	3,969	4,493	4,495
Power generation capacity installed (kW)	172,399	182,070	182,465
Of which, power capacity installed by LP21 Group (kW)	58,694	67,060	67,099

<Sales Offices Accepting Construction Orders, Sales Personnel>

Demand for apartment construction has been recovering nationwide in recent years. In this environment, our strategy is to concentrate on regions in which strong demand can be expected.

	FY2014	FY2015	FY2016
Sales offices responsible for construction orders (offices)	60	60	60
Sales personnel responsible for construction orders (personnel)	418	427	381

Elderly Care Business Data

<Number of Facilities>

The Elderly Care Business had a network of over 60 facilities, mainly in the Tokyo Metropolitan Area. Positioning this segment as a growth business, we are also expanding in the Chubu region, with a focus on facilities offering day services and short stays.

	(Facilities)		
	FY2014	FY2015	FY2016
Fee-based homes	21	21	21
Day services, Short stays	40	44	53
Group homes	2	2	2
Total	63	67	76

<Utilization Rate>

The utilization rate at fee-based homes for seniors and group homes remained high at over 90%. In this business, we are focusing on temporary-type offerings, notably day services and short stays. The utilization rate for day services improved but the rate for short stays declined.

	(Utilization rate, %)		
	FY2014	FY2015	FY2016
Day services	67.2	66.3	72.5
Short stays	98.1	92.3	87.6
Fee-based homes & group homes	93.5	92.4	93.0

Hotels and Resort Business Data

<Leopalace Resort Guam>

Leopalace Resort Guam, a resort operated in Guam, continues to improve profitability through efforts to encourage usage by the Company's stakeholders, including corporate clients.

	2014**	2015	2016
No. of visitors to Guam* (thousands)	1,343	1,409	1,535
No. of visitors to Leopalace Resort Country Club (users)	54,000	52,000	50,000
No. of stakeholder visitors (people who stayed, recreational facility users)	30,000	44,000	47,000 (30.0% of the total)

* Data on the number of visitors to Guam, Guam Visitors Bureau (a government agency)
** Leopalace Resort Guam's fiscal year corresponds with the calendar year.

	(Utilization rate, %)		
	2014**	2015	2016
Leopalace Resort Guam	71.0	60.2	55.9
Westin Resort Guam	86.0	82.6	—

* We sold Westin Resort Guam in April 2016.

<Leopalace Hotels>

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

(Utilization rate, %)	FY2014	FY2015	FY2016
Asahikawa***	82.1	79.1	75.0
Sapporo	88.1	87.9	90.4
Sendai	81.4	78.0	78.1
Niigata**	68.1	62.9	—
Nagoya	76.6	80.5	80.9
Yokkaichi*	81.1	—	—
Okayama***	75.7	73.3	75.9
Hakata	91.9	94.2	94.8
No. of stakeholder stays (persons)	13,581	11,648	11,168 (7.1% of the total)

* Hotel Leopalace Yokkaichi was sold in August 2014.

** Hotel Leopalace Niigata was sold in July 2015.

*** Hotel Leopalace Asahikawa and Okayama was sold in August 2016.

Social Key Performance Indicators

<Governance>

	FY2014	FY2015	FY2016
Outside directors	1	2	3
Female directors	0	1	1
Yakuin* remuneration (millions of yen)	329	347	455
Directors (excludes outside directors)	277	280	370
Audit & Supervisory Board members (excludes outside ASB members)	32	32	31
Outside directors and ASB members	20	34	54

*In this table, "yakuin" refers to directors, Audit & Supervisory Board members, and outside directors.

<Employee Composition (Parent company)>

	FY2014			FY2015			FY2016		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
No. of employees	6,149	4,402	1,747	6,413	4,491	1,922	6,541	4,551	1,990
No. of career-track employees	5,668	4,193	1,475	5,961	4,274	1,687	6,086	4,335	1,751
No. of temporary hires	481	209	272	452	217	235	455	216	239
Average age	35 years, 10 months	36 years, 8 months	33 years, 8 months	35 years, 11 months	36 years, 11 months	33 years, 7 months	36 years, 3 months	37 years, 4 months	33 years, 10 months
Average cumulative years of service	7 years, 6 months	8 years, 6 months	4 years, 11 months	7 years, 9 months	8 years, 11 months	5 years, 0 months	8 years, 3 months	9 years, 5 months	5 years, 6 months

<Work-life Balance (Parent company)>

	FY2014			FY2015			FY2016		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
Comparison of total working hours	192.8	/	/	184.2	/	/	178.4	/	/
Overtime work hours	27.8	/	/	22.4	/	/	20.0	/	/
No. of employees on short work-hours schedules	125	5	120	128	4	124	154	5	149
No. of employees on childcare leave	137	0	137	116	3	113	149	5	144
Ratio of paid vacation usage	33.0%	23.9%	58.0%	70.1%	64.2%	85.1%	72.2%	68.4%	81.7%
Rate of workforce turnover	10.3%	/	/	8.7%	/	/	7.5%	/	/
Ratio of new hires	14.4%	/	/	10.9%	/	/	7.8%	/	/

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

	FY2014	FY2015	FY2016
No. of disabled employees (average annual rate)	116.9	123.5	137.2
No. of employees on childcare leave (average annual rate)	2.04%	2.05%	2.14%
No. of mandatory retirees that have been rehired*	25	28	27
No. of employees with foreign citizenship	215	277	298
No. of foreign managers	22	19	19
Ratio of females of employee hiring	55.1%	61.0%	61.4%
No. of female managers	60	75	87
Female manager ratio	4.1%	4.9%	5.3%

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

<Support for Employees Seeking to Obtain Qualifications >

	FY2014	FY2015	FY2016
No. using support for obtaining qualifications	96	490	1,003
No. using support system for obtaining specified qualifications	—	364	875
No. in program for language skills improvement	—	21	21
No. using a discount program for text-books for the Takken real estate transaction specialist exam	52	52	51
No. awarded a bonus for obtaining Takken qualification	44	53	56

*Takuchi tatemono torihiki shi" or "Takken": This qualification recognizes those who passed a test on Japanese building lots and transactions law.

<Certified Employees (as of May 2017)>

Real estate broker	678
Rental property manager	316
General insurance solicitor (basic course/fire insurance course)	1,372
Architect (first-class, second-class)	453
Building construction management engineer (1st Grade, 2nd Grade)	367
Certified skilled worker of financial planning (1st Grade, 2nd Grade)	142
Land surveyor	35
Care worker	496
Care manager	184
Home care worker	375

<Community Contributions>

	FY2014	FY2015	FY2016
No. of cleanup campaign participants	15,497	14,239	14,143
Of which, in vicinity of existing properties	3,203	3,598	1,939
Of which, in vicinity of construction sites	12,294	10,641	12,204
Total sum of donations (thousands of yen)	2,254	2,577	2,509
Leopalace21-affiliated offices etc. registered for "Kodomo #110**"	255	256	271
No. joining observation tours and OTJ training at Leopalace Smile**	609	571	571

* "Kodomo #110" is a program where private-sector businesses register to provide emergency refuge to children who feel threatened or troubled.

** Leopalace Smile Co., Ltd. is a special subsidiary set up to employ the disabled under Article 44 of the Act for Employment Promotion etc. of Persons with Disabilities.

<Labor Safety and Health>

	FY2014	FY2015	FY2016
No. of labor accidents	49	28	37
Accidents requiring time off work	18	8	16
Accidents not requiring time off work	31	20	21

<Stakeholder Communication Initiatives>

	FY2014	FY2015	FY2016
No. of owner meetings	193	257	231
No. of IR events (meetings for individual investors, etc.)	17	19	21
Career-support activity programs	—	31	28

<Efforts to Reduce our Environmental Impact>

	FY2014	FY2015	FY2016
Annual CO ₂ emissions of the Group (t-CO ₂)	—	18,900	16,468
Solar power generation capacity (kW)	172,399	182,070	182,465
CO ₂ reduction via solar power generation (t-CO ₂)	52,010	54,927	55,047

**Independent Assurance Statement**

June 16, 2017

Mr. Eisei Miyama
President and CEO
Leopalace21 Corporation

1. Purpose

We, Sustainability Accounting Co., Ltd., have been engaged by Leopalace21 Corporation ("the Company") to provide limited assurance on the Company's environmental performance data disclosed in the item under Efforts to Reduce our Environmental Impact in Leopalace 21 of the Data Compilation section of the Company's Annual Report 2017 ("the Environmental performance data"). The purpose of this task is to carry out our assurance procedures and express our conclusion on whether the Environmental performance data were calculated in accordance with the Company's standards. The Company's management is responsible for calculating the Environmental performance data. Our responsibility is to independently express our assurance conclusion.

2. Procedures Performed

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

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

3. Conclusion

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

We have no conflict of interest relationships with the Company.

Takashi Fukushima
Representative Director
Sustainability Accounting Co., Ltd.

Corporate Profile

Corporate Data

(As of March 31, 2017)

Company Name:

Leopalace21 Corporation

Head Office:

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

Established:

August 17, 1973

Paid-in Capital:

75,282.36 million yen

Operations:

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

Number of Employees:

7,695 (consolidated basis)
6,542 (non-consolidated basis)

Members of Board of Directors and Auditors

(As of June 29, 2017)

Directors

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

Audit & Supervisory Board Members

Standing Audit & Supervisory Board Member	Atsunori Nasu
Standing Audit & Supervisory Board Member (Outside)	Jiro Yoshino
Audit & Supervisory Board Member (Outside)	Masahiko Nakamura
Audit & Supervisory Board Member (Outside)	Takao Yuhara

Major Shareholders (Top10)

(As of March 31, 2017)

Shareholders	Thousands of Shares	Percentage of Outstanding Shares
1 Japan Trustee Services Bank, Ltd. (Trust Account)	40,952	15.57%
2 BNYML - NON TREATY ACCOUNT	12,002	4.56%
3 The Master Trust Bank of Japan, Ltd. (Trust Account)	10,788	4.10%
4 STATE STREET BANK AND TRUST COMPANY 505225	6,063	2.30%
5 Stockholding Association for Leopalace21's Business Connection	5,682	2.16%
6 Trust & Custody Services Bank, Ltd.	4,920	1.87%
7 TAIYO HANEI FUND,L.P.CEO & FOUNDING PARTNER BRIAN K HEYWOOD	4,876	1.85%
8 BBH FOR FIDELITY LOW-PRICED STOCK FUND (PRINCIPAL ALL SECTOR SUBPORTFOLIO)	4,562	1.73%
9 STATE STREET BANK AND TRUST COMPANY 505019	4,504	1.71%
10 BBH FOR FIDELITY SMALL CAP STOCK FUND	4,169	1.58%

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)	40,050 thousand shares
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,470 thousand shares
Trust & Custody Services Bank, Ltd.	4,920 thousand shares

Stock Information

(As of June 29, 2017)

Number of Shares:

Authorized: 500,000,000
Outstanding: 263,443,915

Number of Shareholders:

64,976 (As of March 31, 2017)

Listing:

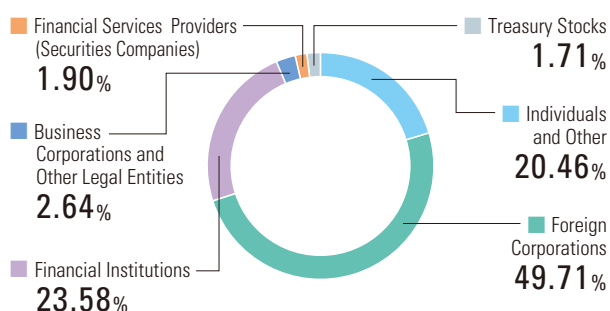
First Section of the Tokyo Stock Exchange
(Security code: 8848)

Transfer Agent:

Mitsubishi UFJ Trust and Banking Corporation

Shareholder Composition

(As of March 31, 2017)

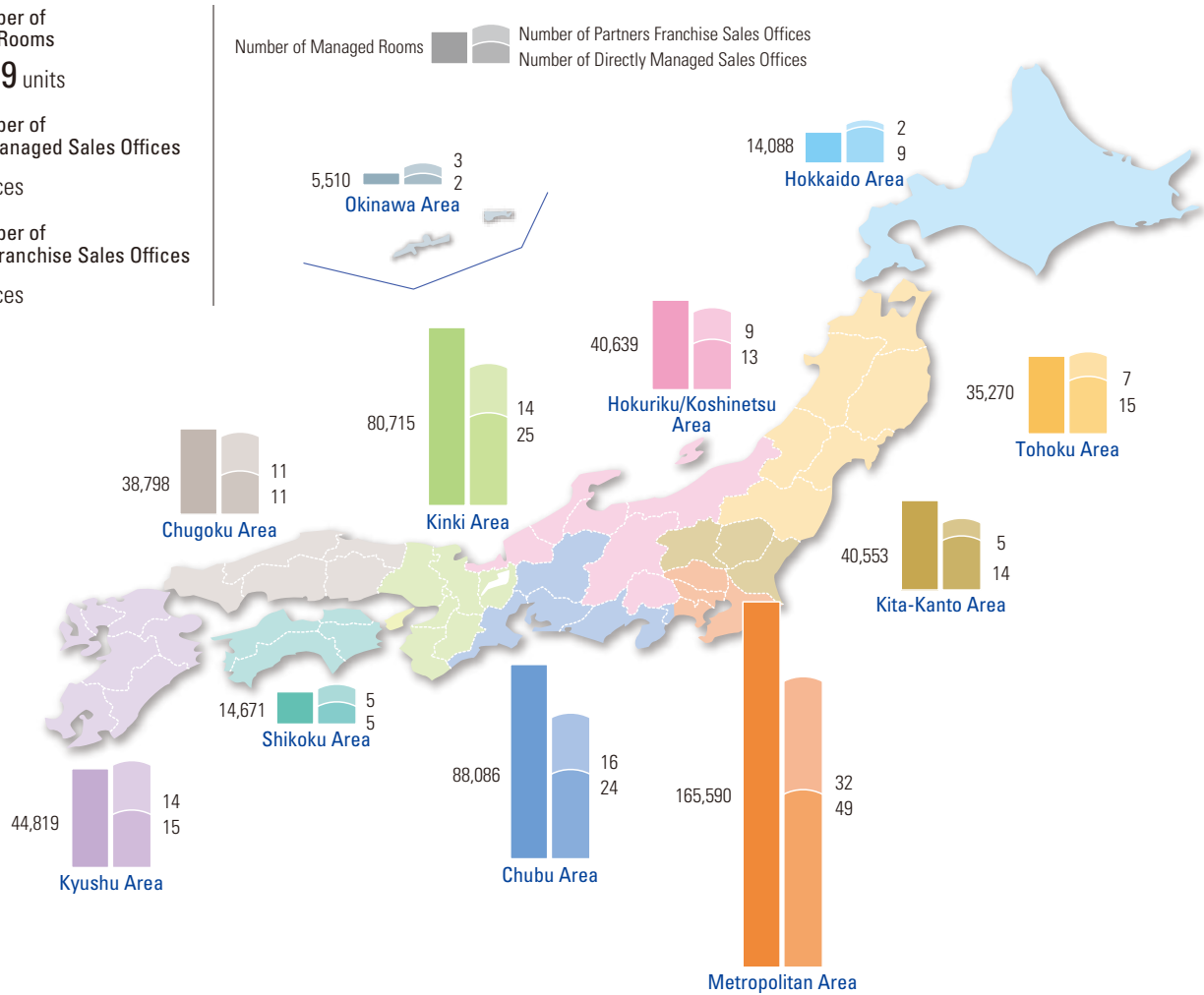


Number of Apartment Rooms under Management and Domestic Leasing Sales Offices by Area (As of March 31, 2017)

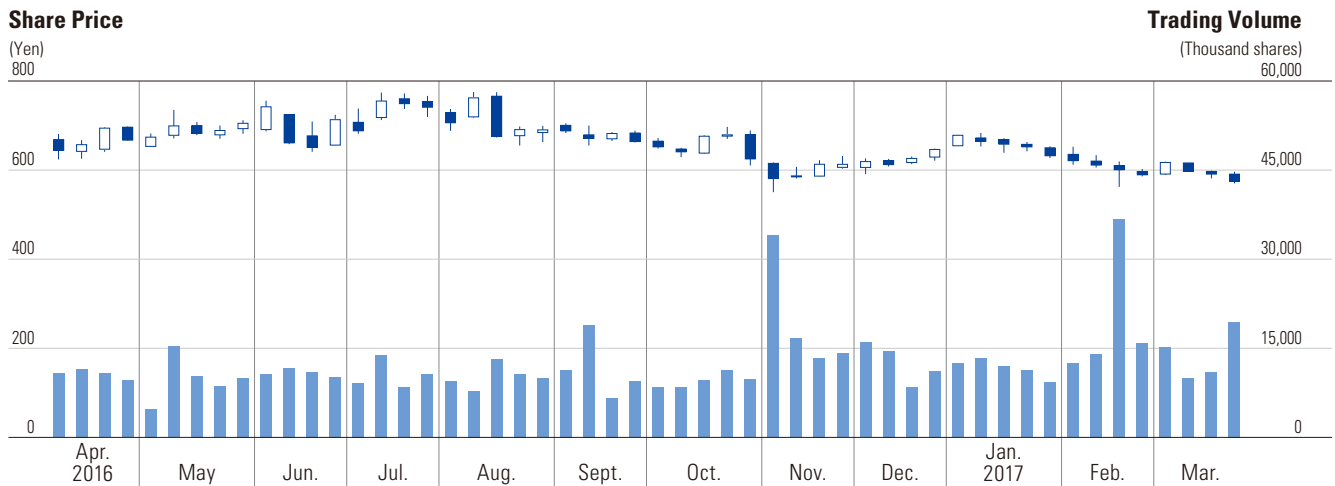
Total Number of Managed Rooms
568,739 units

Total Number of Directly Managed Sales Offices
182 offices

Total Number of Partners Franchise Sales Offices
118 offices



Share Price and Trading Volume (As of March 31, 2017)



Leopalace21 Corporation

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

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

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