Integrated Report 2020

For the fiscal year ended March 31, 2020

Leopalace21 Corporation

To Our Stakeholders

I believe the purpose and social mission of the Leopalace21 Group is to carefully protect and expand the social infrastructure of approximately 570,000 units under management, developed thus far in partnership with 28,000 apartment owners.

In the fiscal year ended March 31, 2020, earnings for the Leopalace21 Group fell sharply into the red for the second straight year, mainly reflecting work undertaken to address construction defects and lack of recovery in occupancy rates caused by this very problem. I offer my deepest apologies to all our stakeholders for the serious distress and inconvenience caused.

In light of this situation, we set about examining how we could drastically restructure our business strategies. Accordingly, in June 2020 we formulated a business plan (medium- to long-term strategy) underpinned by the following three key policies: **(1) rebuilding our business foundation through selective concentration; (2) implementing structural reforms; and (3) regaining the trust of society.**

Up until June 2020, our strategy had been focused on business diversification, but in order to rebuild our business foundation, we shifted to a strategy of selective concentration to once again position the Leasing Business as our core business and focus on bolstering its profitability.

To implement structural reforms, we are stepping up our efforts to transfer or withdraw from non-core, unprofitable businesses, and we also optimized our workforce and cut costs by offering a voluntary retirement program to employees. Taking management responsibilities and reforming corporate governance, we have reduced the number of directors and executive officers and lowered the compensation levels.

Furthermore, in reviewing the skillset of the Board of Directors based on the current operating environment and challenges faced by management, we are endeavoring to strengthen our management structure and governance system by adding two new outside directors to the Board in February and one in June.

We will strive to regain the trust of society and our stakeholders by carrying out structural reforms and boosting profitability in the Leasing Business to get earnings back on track, in addition to properly dealing with the problem of construction defects.

As to the serious problem of construction defects, the whole company has been working towards solving it as quickly as possible, but as it has continued to draw out, we have been unable to maintain adequate skills and human resources, which has caused repair works to be delayed. Given that a recovery in earnings is essential if we are to properly address the problem of construction defects, we are currently reallocating human and material resources, including the result of the voluntary retirement program, and from July 2020 we downsized temporarily the scale of repair works and organizational setup.

As for measures to prevent the reoccurrence of construction defects, we are making improvements based on the following three policies: (1) fundamental reform of the corporate culture; (2) restructuring of the system for managing compliance and risk; and (3) revision of the construction business framework. So that we never forget this problem, we have designated May 29 as *Change Day 5.29* on which we swear to prevent a reoccurrence by engaging in self-reflection.

I believe it is our *raison d'être*, or reason for existence and social mission to carefully protect and expand the social infrastructure of approximately 570,000 units under management, which we have developed thus far in partnership with 28,000 apartment owners.

Fiscal year 2020 will be an important one in which we steadily execute structural reforms, get earnings back on course by boosting profitability in our mainstay Leasing Business, and regain the trust of our stakeholders. In addition to getting earnings back on track, we will aim to enhance medium- to long-term corporate value by vigorously striving to solve the problem of construction defects.

We look forward to your continued support and understanding.

Bunya Miyao
President and CEO
September 2020

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To Restore

Toward the Recovery of Business Performance and Trust

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, 2019 through March 31, 2020 (fiscal year 2019). The scope is Leopalace21 Corporation (the "Company") and its consolidated subsidiaries in Japan and overseas. Our aim is to publish to the extent possible the latest information available as of the publication date. With the aim of promoting deeper reader comprehension, the report includes macro-economic data relating to our businesses, and the "Data Compilation" section enables readers to understand trends to date. We take care to explain what we present in ways that are readily understandable so that the report serves as an effective communication tool that reaches our many stakeholders.

In this report, we focus on explaining our newly formulated mid- to long-term strategy as well as how we are handling the problem of construction defects. We hope this report helps readers gain a better understanding of the Company.

Trust

Initiatives for Strengthening Management Foundation

Data Compilation

Reference Guidelines

- ISO26000
- GRI Standards

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.

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

Contribute to society by creating and providing

Corporate Philosophy

"Creating New Value"

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

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

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

"10 Promises" of Leopalace21 Group

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

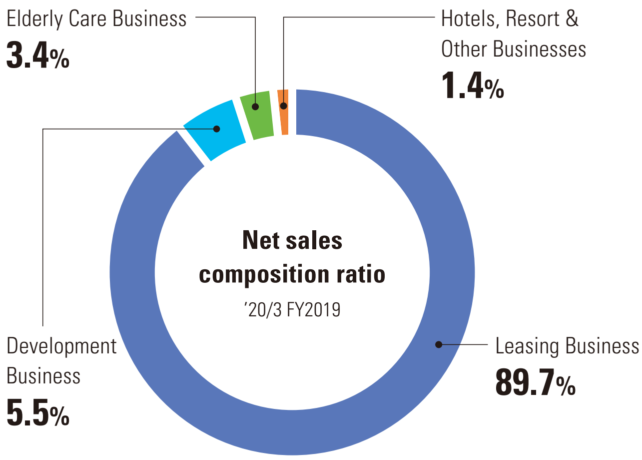
Enacted on April 6, 2018

new value based on the theme of "housing."

Profile

Leopalace21 is a real estate company built on the following core business: our Development Business, now integrated to Leasing Business, which involves real estate development as well as constructing apartments aimed mainly at single person households, and our Leasing Business, which involves renting units of apartments we manage after they are built.

By strengthening the profitability of the Leasing Business, Leopalace21 is moving forward with the establishment of a stock-based business model, which generates stable profits through the rental of managed apartments. At the same time, we are involved in the Elderly Care Business as a strategic business. In these ways, Leopalace21 is a one-stop provider of a wide range of real estate services.



Leopalace21's Mid- to Long-Term Strategy

Given that we have suffered huge net losses for two years in a row—mainly due to our handling of construction defects and the resulting worsened occupancy rate—we conducted a drastic business strategy review and shifted from the business diversification strategy we have used until now to a profitability focus strategy with our Leasing Business once again positioned as a core business through selective concentration. In addition, to drastically improve our constitution in the interest of increasing our corporate value, we are implementing structural reforms that are based on transferring or withdrawing from non-core unprofitable businesses and are aimed at achieving solid business-performance recovery.

Reconstruct business foundation —selective concentration

- Shift from a business diversification strategy to a profitability focus strategy centered on Leasing Business.

Implement structural reforms

- Promote transferring or withdrawing from non-core unprofitable businesses.
- Offer a voluntary retirement program to achieve workforce rightsizing and cost reduction.
- Fulfill management responsibility and corporate governance reforms.
  Reduce the number of directors and executive officers; curtail their compensation; and make redundant the positions of counselor and advisor.

Restore the trust of society

- Recover business performance by implementing structural reforms and strengthening profitability of Leasing Business.
- Execute measures for resolving the construction defects problem.

1. Drastic Business Strategies Reconstruction

In terms of drastic business strategy reconstruction, we have positioned our Leasing Business as a core business and our Elderly Care Business as a strategic business. We will focus on strengthening our Leasing Business, which is positioned as a core business, such as by increasing our workforce for corporate sales and actively utilizing IT to increase the efficiency of our operations. Regarding our Elderly Care Business, we will try to create a synergy effect with our Leasing Business to attract more senior tenants through needs development, etc. In addition, we have integrated our Development Business with the Leasing Segment, and we have stopped taking new orders and reduced the scale of this business in order to concentrate on handling construction defects. We will also promote the transfer of or withdrawal from our Hotels and Resort Business and International Business, both of which are classified as other businesses. Through this selective concentration, we will once again position our Leasing Business as a core business and strengthen its profitability. In addition, we offered a company-wide voluntary retirement program to optimize our workforce and strive to construct a leaner and more efficient business foundation.

Core Business	Leasing Business	Strengthen	• Increase workforce for corporate sales in an attempt to increase the occupancy rate • Make procedures more efficient by use of IT (Web/AI, IoT and others)
	Development Business (Leasing segment)	Shrink	• Stop taking new orders in order to concentrate on repair works and resolve the construction defects problem
Strategic Business	Elderly Care Business	Maintain and continue (expect synergy)	• Create synergy effect with leasing business to attract more senior tenants and needs development for the target audience
Non-core Businesses	Hotels and Resort Business, International Business (Other segment)	Withdraw or transfer	• Withdraw from hotels business in Japan by transferring Hotel Leopalace Nagoya • Withdraw from the resort business in Guam • Withdraw from the international business • Transfer subsidiaries which have low synergy possibility with leasing business
Company Total		Right sizing / Corporate Governance Reform	• Offer a voluntary retirement program for planned 1,000 with the result of 1,067 applications • Reduce the number of directors and executive officers; curtail their compensation; and make redundant the positions of counselor and advisor

Leopalace21's Mid- to Long-Term Strategy

2. Roadmap for Short Term and Mid to Long Term

Our earnings forecast for the fiscal year ending March 2021 is a net loss due mainly to the effects of COVID-19, but we will strive starting in the fiscal year ending March 2022 to improve the occupancy rate of our Leasing Business through efforts that include strengthening our corporate sales, improving our sales efficiency by utilizing IT, and stepping up measures for a new target audience that includes foreign national tenants and senior tenants. Regarding our Elderly Care Business, we will make efforts to increase our profit through continuous operational improvements as we develop and expand rental housing services in response to the needs of senior tenants. Regarding our Development Business, although we will reduce the scale, we will also promote the handling of rebuilding demand by existing property owners centered in three major metropolitan areas. Through these measures—which are focused primarily on strengthening the profitability of our Leasing Business—our goal is to restore our profit to its level before the construction defects were discovered by the fiscal year ending March 2023.

	Short Term (FY21/3 – FY22/3)	Mid to Long Term (FY23/3 onward)
	Structural Reforms	Strengthen profitability and strive for further success
Corporate Policy	• Transfer or withdraw from non-core businesses • Implement a voluntary retirement for about 1,000 expected applicants	• Improve operational efficiency by IT and strengthen measures based on area or new target audience such as foreign national tenants and senior tenants for Leasing Business. • Reinforce cooperation with Development Business for apartment rebuilding demand and Elderly Care Business.
Leasing Business [Strengthen]	• Increase workforce for corporate sales • Make use of IT for efficiency improvement	• Attract more foreign national tenants and senior tenants. • Make leasing management more efficient by measures such as smart lock and web-based contracts. • Increase the number of managed apartments in Tokyo, Nagoya and Osaka where there is high tenancy demand.
Development Business [Shrink] (Leasing Segment)	• Take care of existing landlords • Concentrate on repair works to resolve construction defects	• Ensure to satisfy apartment rebuilding demand by existing landlords centered in three major metropolitan areas.
Elderly Care Business [Maintain and continue]	• Increase profitability by continuous operational improvement • Develop and expand Leasing Business catered for the needs of senior tenants • Provide advises and prepare support services such as meal delivery, room cleaning, safety confirmation and watching-over to materialize the above	
Hotels, Resort and Other Businesses [Withdraw or transfer]	• Transfer properties or withdraw from business	

3. Financial Plans up to FY23/3

Our earnings forecast for the fiscal year ending March 2021 is an operating loss of 9.8 billion yen and a net loss attributable to shareholders of the parent of 8 billion yen primarily because of the effects of COVID-19. On the contrary, for the fiscal year ending March 2022, we expect the occupancy rate of our Leasing Business to improve by strengthening corporate sales and improving sales efficiency resulting from IT (AI and IoT) utilization, so our earnings forecast is an operating profit of 11.3 billion yen and a net income attributable to shareholders of the parent of 9.9 billion yen. For the fiscal year ending March 2023, we plan to restore our profit to the level before the construction defects problem was discovered and to achieve an operating profit of 23.5 billion yen and a net income attributable to shareholders of the parent of 19.1 billion yen.

Consolidated statement of income summary—actual and plan

(Millions of yen)	FY18/3 Actual	FY19/3 Actual	FY20/3 Actual	FY21/3 Plan*1	FY22/3 Plan (ref.)*1	FY23/3 Plan (ref.)*1
Sales	530,840	505,223	433,553	431,100	451,700	475,200
Gross Profit	96,077	76,235	25,441	43,000	63,100	76,300
%	18.1%	15.1%	5.9%	10.0%	14.0%	16.1%
SGAE	73,147	68,844	61,915	52,800	51,900	52,800
Operating profit	22,930	7,390	-36,473	-9,800	11,300	23,500
%	4.3%	1.5%	-8.4%	-2.3%	2.5%	5.0%
Recurring profit	22,354	7,063	-36,341	-10,200	10,700	23,000
%	4.2%	1.4%	-8.4%	-2.4%	2.4%	4.8%
Net income*2	14,819	-68,662	-80,224	-8,000	9,900	19,100

*1 Recorded deferred tax assets based on future taxable income which is conservatively set for one year for FY21/3 (Plan), FY22/3 (Reference), and FY23/3 (Reference).
*2 "Net income" refers to "net income attributable to shareholders of the parent."

Consolidated segment reporting—actual and plan

(Millions of yen)		FY18/3 Actual*1	FY19/3 Actual*1	FY20/3 Actual*1	FY21/3 Plan	FY22/3 Plan (ref.)	FY23/3 Plan (ref.)
Leasing	Sales	512,125	485,381	412,746	413,900	434,800	460,100
	Gross Profit	19.1%*2 97,696	15.9%*2 77,305	6.2%*2 25,432	10.4%*2 43,000	14.3%*2 62,100	16.3%*2 75,000
	OP	29,659	13,991	-26,041	3,600	23,300	34,300
Elderly Care	Sales	12,807	13,922	14,620	14,500	14,900	15,000
	Gross Profit	-105	598	929	600	1,000	1,100
	OP	-1,596	-846	-547	-700	-700	-800
Other*3	Sales	5,907	5,919	6,186	2,700	2,000	100
	Gross Profit	2,042	2,094	1,585	-500	0	200
	OP	-846	-1,346	-996	-2,200	-1,300	0
OP*4	OP	-4,287	-4,407	-8,888	-10,500	-10,000	-10,000

*1 Because we changed our segments due to our drastic business strategy reconstruction, we retroactively adjusted the figures for FY18/3, FY19/3 and FY20/3.
*2 The numbers are calculated by Gross profit dividing by Sales.
*3 Hotels, Resorts and Other Businesses is changed to Other Segment in FY21/3.
*4 Adjustments have been increased for H2FY20/3 and FY21/3 onward as they contain personnel cost allocation related to construction defects problem.

Leopalace21's Mid- to Long-Term Strategy

4. Mid- to Long-term Strategy for Leasing Business

Our mid- to long-term vision for our Leasing Business is to offer comfortable living solutions to society as a leader of the industry. We will also promote the provision of housing offering in terms of quality and quantity demanded by the society as we respond to changes in the business environment including increasing number of foreign national workers and growing single-person households as well as aging population.

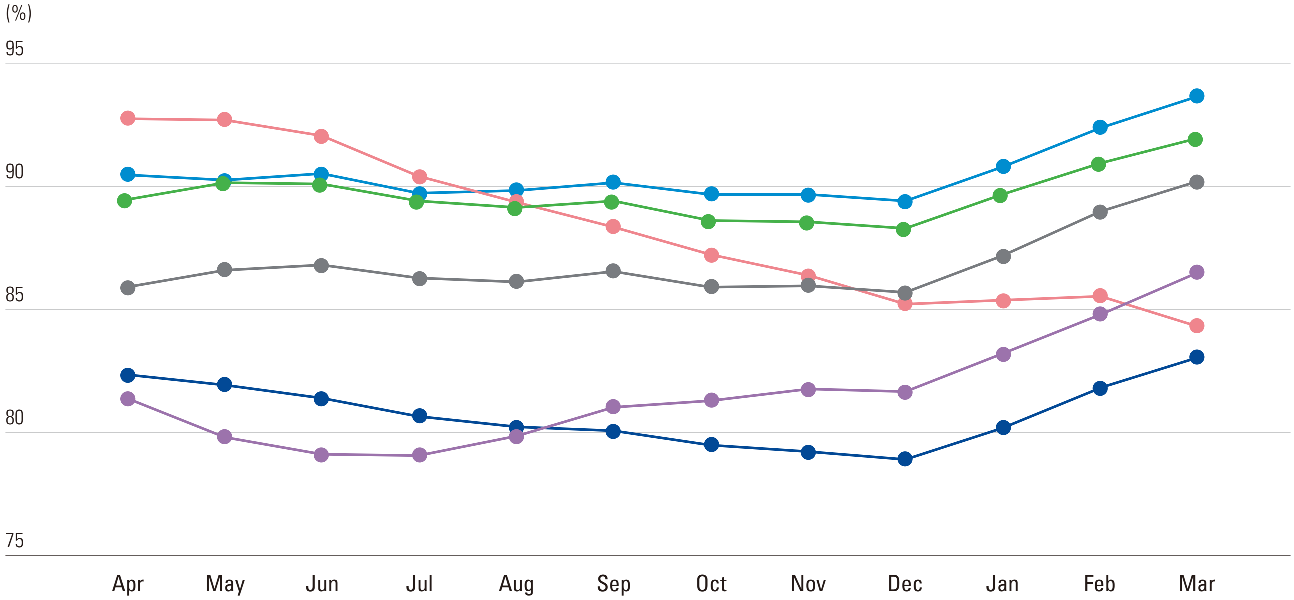
	Status Quo	Short term (FY21/3 – FY22/3)	Mid-long term (FY23/3 onward)
Leasing Business – Target Customers	• Mainly students and corporate customers	• Attract more foreign national tenants	• Attract more senior tenants (create synergy effect with Elderly Care Business)
Leasing Business – Properties and Services	• Studio apartment for single-households (equipped with furniture and home appliances)	• Introduce products and services for foreign national tenants • Increase accessibility by use of IoT devices	• Develop new products/services for senior tenants such as watching-over service • Increase the number of managed apartments in Tokyo, Nagoya and Osaka
Leasing Business – Organization and Operation	• Face-to-face service is mainstream at Leopalace shops	• Increase workforce for corporate sales • Enhance efficiency by IT (AI/ IoT) for business operation P46	• Employ dynamic pricing model for deciding on rent
Development Business	• Insufficient human resources due to focusing construction defects problem • Tightened financing by financial institutions	• Take care of existing landlords • Concentrate on resolving construction defects problem	• May upgrade operation observing the progress in resolving construction defects and change in financial institutions' policy

■Major Indicators for Leasing Business

(Millions of yen)	FY18/3 Actual	FY19/3 Actual	FY20/3 Actual	FY21/3 Plan	FY22/3 Plan (ref.)	FY23/3 Plan (ref.)
Sales*1	512,125	485,381	412,746	413,900	434,800	460,100
Gross profit (Gross profit/Sales)*1	97,696 (19.1%)	77,305 (15.9%)	25,432 (6.2%)	43,000 (10.4%)	62,100 (14.3%)	75,000 (16.3%)
Operating profit*1	26,062	14,987	-20,828	3,600	23,300	34,300
Managed units (Year end)	570,672	574,798	575,798	574,315	573,841	574,064
Occupancy rate (average)	90.59%	88.34%	80.78%	81.63%	86.87%	89.67%
Direct offices (Year end)	189	189	189	168	—	—
Number of corporate sales sections (Year end)	59	54	52	66	—	—
Number of employees (non-consolidated, Year end)	3,247	3,291	2,742	2,600	2,400	2,400
of which, sales employees	1,546	1,494	1,339	1,100	1,000	1,000
Sales from development business*2 (A+B)	63,636	46,138	19,173	12,900	10,600	23,600
of which, construction sub-contracting business (A)	58,807	42,784	14,815	8,500	9,100	17,700
of which, real estate business (B)	4,828	3,354	4,358	4,400	1,500	5,900

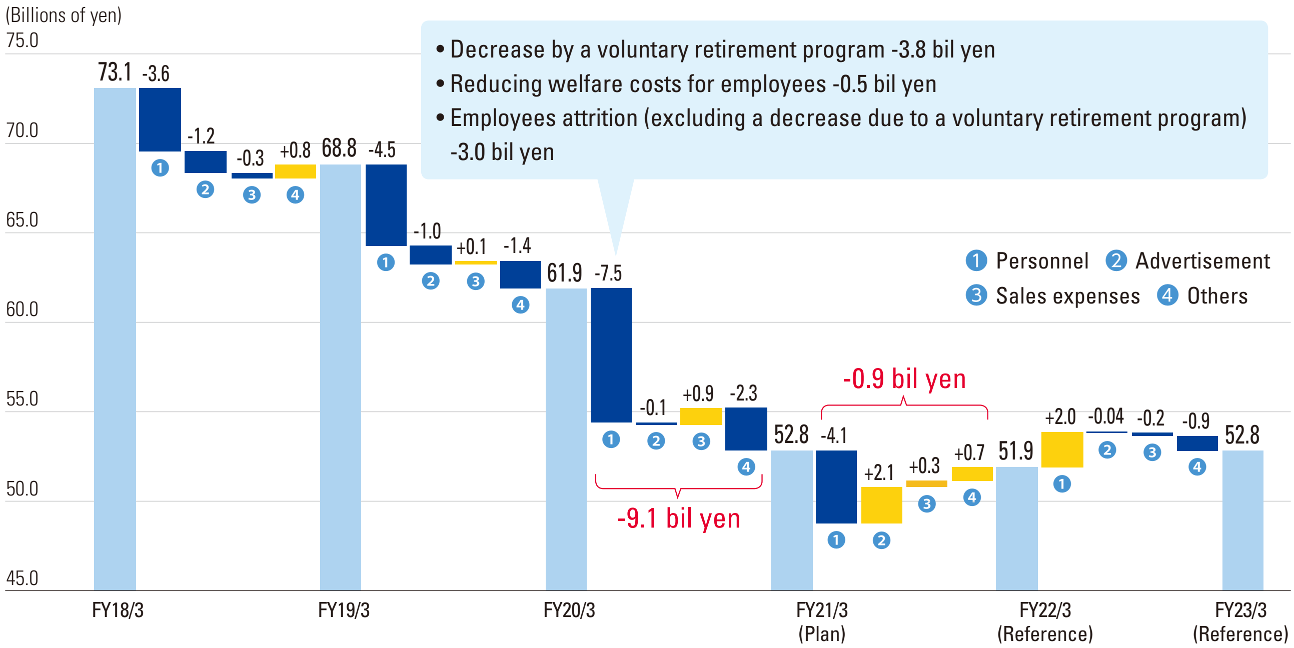
*1 Because we changed our segments due to our drastic business strategy reconstruction, we retroactively adjusted the figures for FY18/3, FY19/3 and FY20/3.
*2 Sales from development business is on a non-consolidated basis.

■Plan for Occupancy Rates



FY18/3 Year end rate **93.72%**	Average rate **90.59%**
FY19/3 Year end rate **84.33%**	Average rate **88.34%**
FY20/3 Year end rate **83.07%**	Average rate **80.78%**
FY21/3 (Plan) Year end rate **86.52%**	Average rate **81.63%**
FY22/3 (Ref.) Year end rate **90.23%**	Average rate **86.87%**
FY23/3 (Ref.) Year end rate **91.99%**	Average rate **89.67%**

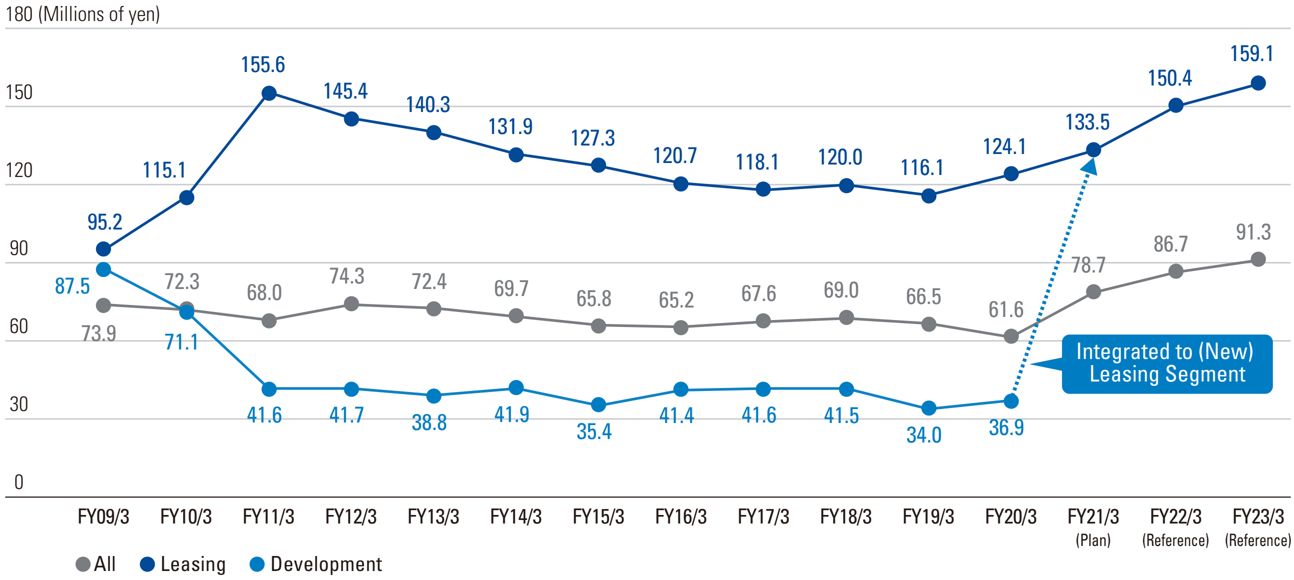
5. SGAE Reduction Perspective



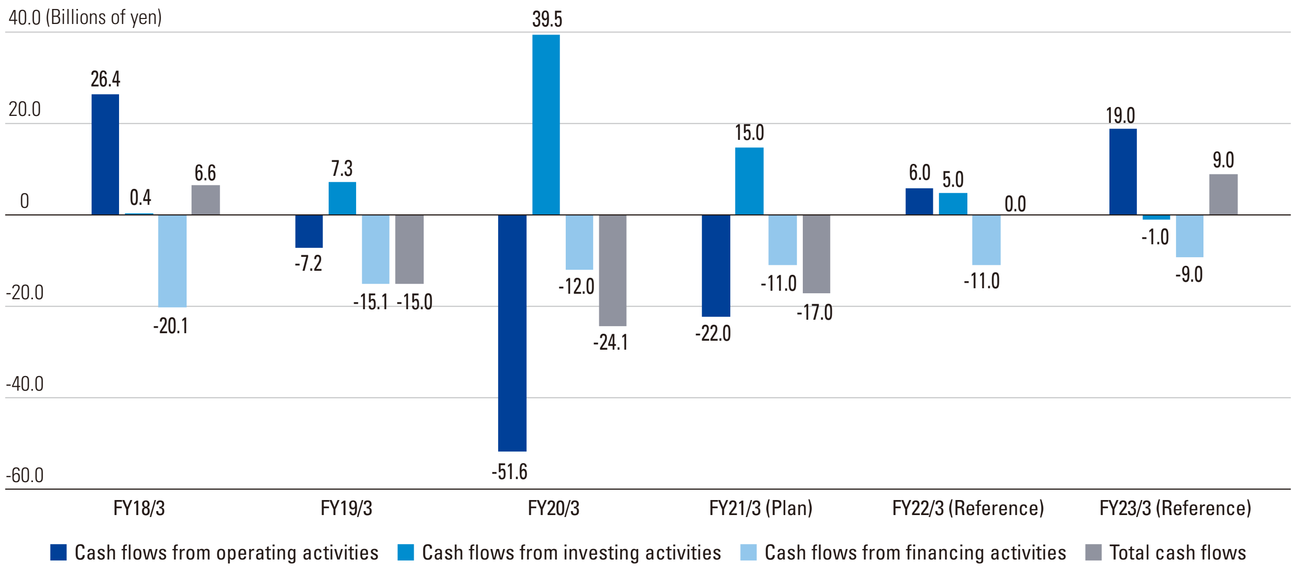
Leopalace21's Mid- to Long-Term Strategy

6. Number of Employees and Productivity (Sales per Person)

Productivity Changes



7. Cash flow Plan



Voice of the Customer

I hope that Leopalace21 will maintain their high level of service and provide even more properties in the peripheral areas away from the metropolitan cities.

My relationship with Leopalace21 goes back around 20 years. Our company has offices throughout the country, and, thanks to Leopalace21—which provides high-quality rooms throughout Japan that are better than the general level—we can relocate our employees in various areas without having to worry. In addition, because all the necessary furniture and appliances are provided, there is little financial stress on employees due to moving, which has been really well received by our employees.

When it comes to searching for properties or the procedures to move in or out, we leave everything to Leopalace Leasing, a Leopalace21 group company, and they are always quick to respond, which is a huge help. I hope that Leopalace21 will maintain their high level of service and provide even more properties in the peripheral areas away from the metropolitan cities.

Feedback from a corporate customer

Mr. Ryuichi Kioka,
IDOM Inc.

Feedback from an institution that accepts international students

Mr. Tsutomu Suzuki,
Kanagawa Institute of Technology

I hope Leopalace21 will finish its repair works quickly and continue providing meticulous services.

In addition to international students who come to Japan for short-term study at our school, our Japanese students also rent Leopalace21 rooms every year. Because the rooms are clean, equipped with all the furniture and appliances necessary for daily life, and even come with bedding—which companies generally neglect to arrange—they have been extremely helpful to us. The rooms also have wireless LAN connections, which have been really well received by our students, who use computers on a daily basis. In particular, because students are currently taking their classes online to help prevent the spread of COVID-19, it is vital for them to have a living environment with a good internet connection, which Leopalace21 provides. Regarding the problem with construction defects, I hope Leopalace21 will finish its repair works quickly and continue providing meticulous services.

I want Leopalace21 to utilize its strength as a company that has set up rental apartments on a nation-wide scale and steadily continue the business.

As an apartment owner, I have been doing business with Leopalace21 for around 20 years. The apartment occupancy rates are fairly easily affected by changes in the external environment. Leopalace21 does business throughout the country, which leads to a sense of security in terms of asset management since I can diversify my risk. In addition, they offer meticulous management—including everything from tenant recruitment to the resolution of problems between inhabitants—and the ability to let owners leave everything to Leopalace21 is extremely useful to me as a property owner. There are no other companies that have set up rental apartments on a nation-wide scale like Leopalace21. I want them to utilize their strength, repair the construction defects and steadily continue their business.

Feedback from an apartment owner

Mr. ZaimaR

Report on Construction Defects

Repairs of properties constructed by the Company

The overall repair situation is as shown by the table below, with a repair start rate of 54.3% and a completion rate of 7.7%. In addition, due to the three factors mentioned under item 2 below, our progress has been delayed, for which we apologize.

1. Overall repair situation

(as of August 31, 2020)		Properties subject to priority investigations			Properties other than those subject to priority investigations	Total
		Nail Series	6 Series	Subtotal	Other series (42 series)	
Overall	Number of constructed buildings	913	14,370	15,283	23,802	39,085
Investi-gation and assess-ment	Number of buildings to be investigated (excluding dismantled buildings)	896	14,265	15,161	23,539	38,700
	Number of assessed buildings	895	14,241	15,136	23,169	38,305
	Assessment rate (versus the number of buildings to be investigated)	99.9%	99.8%	99.8%	98.4%	99.0%
	Number of obviously defective buildings [*1][*2]	851	6,790	7,641	5,985	13,626
	Defect rate (versus the number of assessed buildings)	95.1%	47.7%	50.5%	25.8%	35.6%
Repairs	Number of started buildings	848	5,675	6,523	871	7,394
	Start rate (versus the number of obviously defective buildings)	99.6%	83.6%	85.4%	14.6%	54.3%
	Number of completed buildings [*3]	847	196	1,043	12	1,055
	Completion rate (versus the number of obviously defective buildings)	99.5%	2.9%	13.7%	0.2%	7.7%

(Reference) Number of rooms for which tenant recruitment resumed: 98,522 rooms (+14,378 rooms compared to the end of May)

*1 Obvious defects include obvious parting wall defects in attics, deficiencies of insulation materials in parting walls, exterior wall structures' deviation from certification, ceiling defects, and non-compliant parting walls in fire-proof structures.

*2 Apart from the above, 16,457 out of 38,305 buildings contained minor defects.

*3 Completion is recognized and calculated on a building basis, so the time of completion is delayed compared to calculation on a room basis.

2. Repair-work delay factors

1. Delays in the completion of consultation with specified administrative agencies in relation to the start of repair works

2. Shortages of construction managing engineers and withdrawal of construction companies

3. Suspension of repair works due to the declaration of a state of emergency in response to the COVID-19 pandemic

3. Property investigations and repair works

We investigated all of our buildings, with a focus on the confirmation of existence of parting walls as well as any differences between the actual construction and the construction design documents, etc. We are implementing repair works to eliminate non-conformity with the Building Standards Act and Fire Service Act starting with properties that have obvious defects.

Investigation of all of our buildings

During our property investigations, a third-party first-class architect accompanied our company's investigation team, and we either confirmed the situation on-site or had the third-party first-class architect confirm the situation based on the data of photos taken by the investigation team.

Repair-work situation

Construction-defect repair works

We conduct repair works while being careful to minimize the trouble we cause for property owners and tenants. It takes from a few days to about one week to repair the respective rooms.

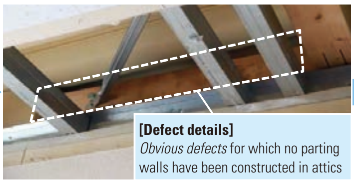
Actual repair-work situation

(1) Laying out curing/protective sheets inside rooms

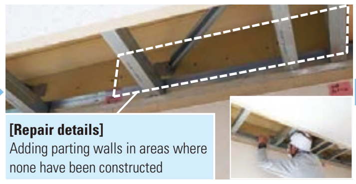
(2) Removing some of the ceiling material

(3) Securing an opening section for work

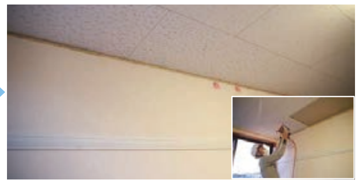
(4) Confirming the defects from the opening section



(5) Correcting defects and completing repairs



(6) Restoring the opening section and completing the work



4. Temporary reduction of scale of repair works and organizational setup to focus on business recovery

The earnings forecast for the fiscal year ending in March of 2021 is a net loss amid the continuing poor business performance. As it is essential to restore the business for the Company to steadily deal with the construction defects, we decided to reallocate the human and physical resources, including a voluntary retirement as a part of structural reforms.

As a result, starting in July of 2020, we temporarily reduced both scale of repair works and organizational setup to tackle the construction defects.

However, there is no change in the policy that resolving the construction defects remains a key issue, and the Company will prepare the operating conditions to deal with the construction defects through structural reforms and steadily carry out the repair works so that the Company can regain the trust of society.

Report on Construction Defects

Preventive measures and progress

After receiving an investigation report concerning the problem of construction defects from the External Investigation Committee, the Company determined its preventive-measure policy on May 29, 2019 and then determined and announced the specific recurrence-prevention details in August 2019. The Company considers its recurrence-prevention efforts to be a top-priority administrative issue, and 60% of the corresponding measures were complete as of the end of August 2020.

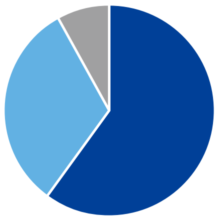
Established the External Investigation Committee and received a report	Established on Feb 27, 2019 Final report released on May 29, 2019

Established the Compliance Management Headquarters *	Determined the policy of preventive measures	Determined and announced the details of measures	Implemented individual measures
April 2019	Announced on May 29, 2019	August 2019	August 2019 to the present

Progress of preventive measures	Current as of the end of August 2020

	Complete	In practice	Started	Total
1. Fundamental reform of the corporate culture	10	6	0	16
2. Restructuring of the system for managing compliance and risk	6	5	1	12
3. Revision of the construction business framework	14	5	3	22
Total	30	16	4	50

92% of the measures announced in August of 2019 have been implemented (46 out of 50 items).



Announcements related to our efforts to prevent the recurrence of construction defects and our progress
https://www.leopalace21.co.jp/info/en/approach.html

* In June 2020, the Compliance Management Headquarters was renamed the Compliance Promotion Headquarters, and the Compliance Management Department was renamed the Compliance Promotion Department.

Message from the Chief of the Compliance Promotion Headquarters

Over a year has passed since we formulated our preventive measures, and I believe my most important duty is to eradicate the corporate culture of not being able to identify risks, as the General Manager of the Compliance Promotion Headquarters. Therefore, during the past year, we built a system that enables employees to state their opinions to the management, established a more open corporate culture, and reviewed our risk management regulations and provided training to make it possible to gain an understanding of risks before they become incidents. In addition to steadily promoting preventive measures, we established May 29 every year as *Change Day 5.29* in an effort to help make every employee more aware of the problem so that it is not forgotten. Our goal is to achieve a more open corporate culture generated by the free and open-minded exchange of opinions and a switch from a top-down to a bottom-up approach.

The management team must endeavor to identify potential risks in the field, while employees should not be afraid to report any bad news to their managers immediately. As such, we will continue to make every effort to foster a sense of ethics and responsibility among all employees, show respect for the personalities of employees, and nurture human capital that respects diverse values.

Mayumi Hayashima
Chief of the Compliance Promotion Headquarters
and Chief Legal Officer

1. Fundamental reform of the corporate culture

We implemented a suggestion box service through which employees can directly propose ideas to the management team, regional small meetings, continuous training on compliance, the delivery of compliance messages from the President and CEO, revisions of our performance management system, and various other measures to help reform our corporate culture.

In addition, we established May 29 as *Change Day 5.29*, a day on which we vow to stop the problem of construction defects from being forgotten and to prevent the recurrence.

Excerpts from individual action plans

Complete

Periodic dissemination of messages concerning our compliance-first policy (started in July 2019)

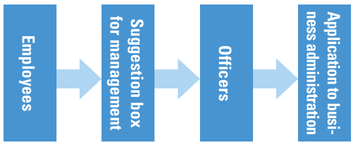
In July 2019, a video message from the President and CEO was distributed to all group employees, notifying them of our new compliance-first management policy. The President and CEO has since sent various messages based on this policy.

A video message from Miyao, President and CEO

Complete

Establishing a suggestion box for management (started in July 2019)

This system is used to directly collect the proposals of officers and employees to the management. The number of posts reached 286 as of March 2020.



Suggestion box for management

Complete

Holding regional small meetings (started in July 2019)

These meetings are held to promote active dialogue between officers, employees, and the management. A total of 37 meetings were held from July to December 2019, and 2,310 people participated.

A regional small meeting

Complete

Reporting the progress of each action plan of preventive measures to the public (started in August 2019)

We made formal announcements on the situation of efforts related to preventive measures to the public.

Complete

Developing a customer-oriented corporate culture (started in October 2019)

All officers and employees were invited to write essays on fostering a customer-oriented corporate culture. 62 essays were submitted.

Complete

Introduction of a performance rating system, including adherence to our compliance-first policy (started in October 2019)

The personnel rating criteria were revised to evaluate whether employees' efforts are in line with compliance.

Complete

Making all officers and employees understand and follow the reporting rules (started in November 2019)

We changed the reporting route to be in line with the changes in compliance regulations. We established a route for reporting to the superior line in each business division and specified rules for simultaneously reporting to the Compliance Promotion Department.

Report on Construction Defects

2. Restructuring of the system for managing compliance and risk

In April 2019, we established the Compliance Promotion Headquarters as a headquarters organization. We employed external instructors in October 2019 and January 2020 to train employees to identify potential risks. In addition, we created a system for collecting information on more potential risks by establishing a Compliance Mailbox operated by the Compliance Promotion Department. We are continuing with existing action plans and revise them if necessary.

Excerpts from individual action plans

In practice

Improving the operation of the Compliance Committee (started in June 2019)

We changed to a system under which the Committee is chaired by an outside director elected from between such directors so that the operation is looked at from an objective external perspective.

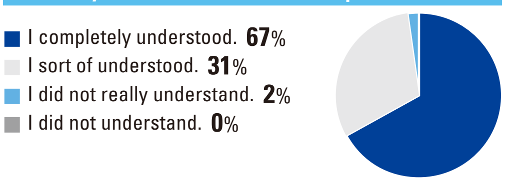
In practice

Improving the risk management method (started in October 2019)

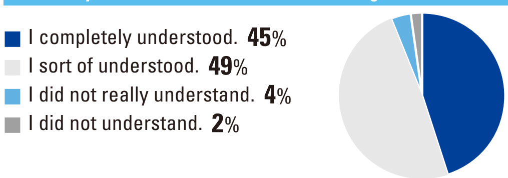
In October 2019 and January 2020, external instructors ran training sessions one and two. This made it possible to analyze and evaluate potential risks identified at each department and to determine the major risks. The results of analyzing and evaluating these risks as well as the corresponding countermeasures have been reported to the Risk Management Committee.

Post-training questionnaire results

Q1: Did you understand the details of part 1?



Q2: Did you understand the method for creating the risk scenario in part 1?



In practice

Preparing a complaint handling manual (started in October 2019)

(1) For cases where specific complaints are considered obvious risks, we established the rules that require each business division to report to the Compliance Promotion Department.

(2) We established rules for sharing information with the Compliance Promotion Department regarding issues that include complaints mentioned by tenants and others during calls to our call centers as well as complaints related to construction defects and others in the negotiations during property-owner visits.

In practice

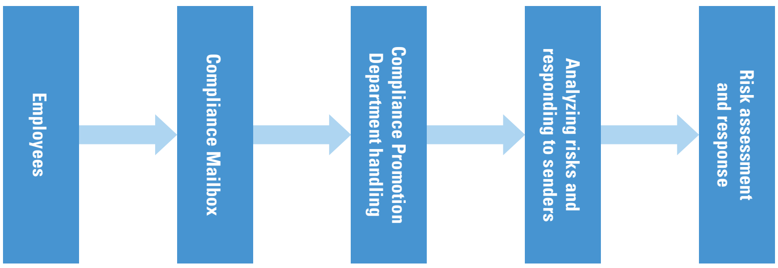
Establishing rules for disseminating information in-house (started in November 2019)

We established rules for disseminating information on how the Compliance Committee works and disclosing the state of implementation to the Company. We disclosed the state of implementation in-house accordingly.

Complete

Establishing a Compliance Mailbox (started in December 2019)

We established a Compliance Mailbox in the Compliance Promotion Department, thereby building a system to collect information on more potential risks.



Compliance Mailbox operation flow

3. Revision of the construction business framework

We reviewed the process up to the completion of products, with a focus on starting to strengthen our check management system in particular, such as reconstructing a system for performing a detailed examination including product legal compliance and adding on-site inspections as a step of construction supervision. We continue to work on strengthening the system up to March 2021.

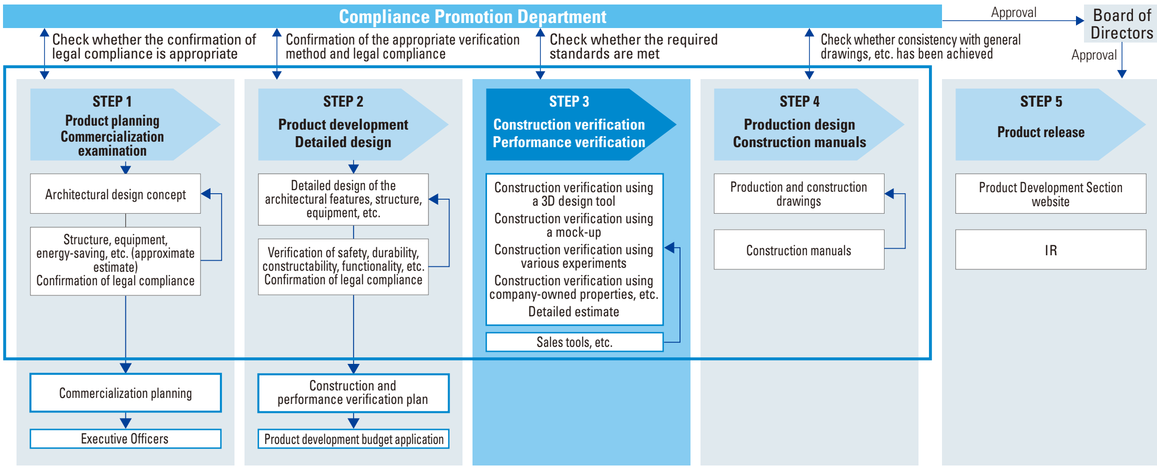
Excerpts from individual action plans

Complete

Reconstructing a system for performing a detailed examination, including product legal compliance (started in August 2019)

We divided the development process into five major steps and established a rule so that each step requires approval by the Compliance Promotion Department, an independent in-house organization.

New product development process after the change



*In cases where there are changes to the design, used materials, or certified and notice specifications after the product release, they shall be approved by the Compliance Promotion Department, followed by consent and approval in accordance with the approval rules.

Started

Measures to prevent inconsistencies when creating construction design documents (started in July 2019)

We employed an outside service provider to start rebuilding our quality standard documents, our former construction manuals, and will also strengthen our system of checks by managers.

In practice

Strengthening inspection mechanism by triple-check system and reviewing document storage system (started in August 2019)

We started triple-check system by three parties: construction contractors' inspections and field engineer inspections as well as inspections conducted by the Inspection Section of the Compliance Promotion Department or an outside inspection agency. We also reviewed the checklist details and storage system for inspection records and other documents.

Complete

Adding on-site inspections as a step of construction supervision (started in October 2019)

To strengthen our construction supervision system, we added construction supervision using an on-site inspection in the eight important processes and started the operations. In addition, we revised the existing guidelines and checklists, provided intensive training for construction supervision using outside consultants, and organized classroom lectures and on-the-job training in the field.

In practice

Establishing inspection items and operation rules (started in October 2019)

We established inspection items and operation rules so that the Construction Legal Section of the Compliance Promotion Department can conduct construction supervision inspections and started the operations.

CEO Message

My first year in office

Focusing on addressing construction defects and fundamentally reforming our corporate culture

More than one year has passed since I took office as President in May last year. During this time I devoted myself to earnestly addressing the problem of construction defects as a top priority. To be more specific, ever since we announced measures aimed at preventing a reoccurrence on May 29, 2019, I have predominantly focused on two things: (1) promoting these prevention measures; and (2) instilling in our employees an awareness of the matter so that such an incident never happens again.

The measures for preventing the reoccurrence of construction defects that we announced in May last year revolve around three pillars: **(1) fundamental reform of the corporate culture; (2) restructuring of the system for managing compliance and risk; and (3) revision of the construction business framework.**

Of these three pillars, I believe that fundamentally reforming the corporate culture is of primary importance in order to prevent this kind of problem from happening again. When it comes to the topic of addressing construction defects, it is all too easy to focus on the technical aspect of how repair works are being carried out, and when that happens, employees with no direct involvement in the repair works, such as those in accounting or sales, will end up taking no interest at all in the matter. Moreover, the construction defects actually originated 25 years ago, so many employees would have been working elsewhere at that time, while some employees had not even been born yet, so for those employees, this problem is somebody else's problem. I therefore came to the realization that irrespective of the fact that this is truly an unprecedented crisis for the Company, our reforms up ahead will gain no traction unless we share this sense of crisis.

Accordingly, in order to push ahead with reforms whilst having all employees carry a sense of ownership in the problem, we aimed to foster a more open corporate culture in which bottom-up proposals can be actively put forward. This is because the External Investigation Committee pointed out that our top-down style of management well entrenched since the Company's founding was likely one factor contributing to the kind of corporate culture in place at the time the problem occurred. I too agreed with this assessment.

Therefore, as part of our initiative on reforming our corporate culture, we started a suggestion box system through which employees can directly propose ideas or offer their opinions to the management team for compliance or enhancement of corporate value. As a result, I get the feeling that the atmosphere of the workplace has gradually become more open. In addition, the Company's officers, including myself, regularly attend regional small meetings held in various locations across Japan to engage in dialogue with employees. My experiences at these meetings are telling me that our management team has changed for the better because it has become more personalized, or in other words, employees can more readily speak their mind to management now. Furthermore, we periodically run employee attitude surveys so that we can improve the way we verify whether an ideal corporate culture is being developed including the entrenchment of a compliance-first policy.

Through these initiatives I certainly feel that our corporate culture is changing, but to make sure that it is not just temporary, we have designated May 29 as "Change Day 5.29." It was on May 29, 2018 that we made an announcement about construction defects in six different series of properties, and exactly one year later on May 29, 2019, we publicly announced the causes of the defects and measures for preventing a reoccurrence after accepting the External Investigation Committee's final report and recommendations. With this day as our annual day of reflection, I believe that not allowing our memories of the past to fade away will be the best deterrent in order for us to prevent a reoccurrence.

Addressing the problem of construction defects

Having completed investigations of all properties, we are now undertaking repair works in stages

In responding to the problem of construction defects, we first launched investigations into all of our apartments, most of which had been completed by the end of October 2019. We then started undertaking repairs and resumed tenant recruitment. As of the end of August 2020, we had commenced repair works on 85.4% of properties subject to priority investigations for a completion rate of 13.7%. The former indicates the percentage of buildings on which necessary repairs have commenced and the latter the percentage of completed buildings in which all rooms have been repaired.

One reason why the completion rate is quite low compared to the work commencement rate is because once repair work starts on a building with multiple tenants, it takes quite some time for work on all rooms to be completed. For example, in a property with ten rooms, even if repair works have been completed on nine rooms, the repair is not considered finished until the remaining one room has also been completed. As explained, even though we are presently undertaking repair works, there are cases where the long-time lapse is required after starting repair works and before completion on a building basis.

Given that we face the dilemma of being unable to accept new tenants without first completing repair works, but at the same time not having enough funds to carry out new repair works because we cannot take in new tenants, we made the decision to temporarily scale down our repair works and organizational setup starting in July 2020 with the reason being that a recovery in earnings is absolutely essential if we are to properly address the problem of construction defects. Accordingly, this means that the repair works on all properties will be completed much later than we initially anticipated, but rest assured that our policy of assigning top priority to solving the problem of construction defects remains unchanged. Going forward, we will step up our efforts to undertake repairs by putting in place a system that allows us to work more rapidly and efficiently by, for example, handling some repair works in-house. Also, because the delayed repair works schedule is a matter of keen interest to all stakeholders, we will announce it as soon as we have a clear view on preparing effective skills and human resources in the responsible organization. We will demonstrate our responsibility and persistent efforts to solve this problem and regain the trust of society.

We will position the Leasing Business as our core business and adopt a strategy geared towards bolstering its profitability.

Fiscal year 2019 earnings

Earnings in the red for two straight years due primarily to construction defects

In consolidated earnings for fiscal year 2019, net sales came to 433.5 billion yen (–14.2% YoY) for an operating loss of 36.4 billion yen (versus operating profit of 7.3 billion yen in fiscal year 2018). This owed to a decrease in operating revenue stemming from the problem of construction defects. Earnings were in the red for the second year in a row with a net loss of 80.2 billion yen (YoY increase in net loss of 11.5 billion yen), mainly reflecting the booking of 24.3 billion yen as a reserve for repairs and other incidental expenses related to construction defects, recording of 7.6 billion yen as impairment loss and 21.4 billion yen recorded as income tax adjustment (loss) by deferred tax asset reversals.

The biggest factor behind the earnings deterioration was our inability to maintain a sufficient occupancy rate. We had targeted a fiscal year-end occupancy rate of 85%, but it stagnated because of the decision to halt recruitment of new tenants for properties subject to priority investigations, as well as the impact of the COVID-19 pandemic. As of the end of fiscal year 2019 (March 31, 2020) the occupancy rate only reached 83.07% (–1.26pp YoY) for an average annual occupancy rate of 80.78% (–7.56pp YoY).

Still, the occupancy rate rose by 4.16pp in the fourth quarter (Jan–Mar), which is when we usually see the strongest demand for occupancy throughout the year. The degree of increase ranks among the best three over the past 15 years, so I do get the feeling that the demand for our managed units is steadily improving. On the other hand, the occupancy rates dipped below 80% in the third quarter (Oct–Dec), which significantly impacted the full-year result and therefore the revenue. Also, the impact of the construction defects problem made it difficult to start new construction work despite the fact that we had received orders, so coupled with such ailing Development Business, earnings fell short of our initial forecasts.

The value of our net assets has been sharply eroded by the booking of enormous losses and subsequently the equity ratio at the end of the previous fiscal year had dropped to as low as 0.7%. With the goal of turning around our earnings in the shortest time possible, we made the decision to drastically restructure our business strategies and carry out structural reforms centering on a policy of selective concentration and the offer of a voluntary retirement to employees.

Drastic business strategy restructuring

Positioning the Leasing Business as a core business and furthering a policy of selective concentration

In June this year we announced the implementation of structural reforms centering on a policy of transferring or withdrawing from non-core unprofitable businesses and offering the voluntary retirement program based on the drastic restructuring of business strategies in order to get the Company's performance back on track and regain the trust of society going forward.

As part of these reforms, we will shift away from our former strategy of business diversification and instead position the Leasing Business as our core business and adopt a strategy geared towards bolstering its profitability. Driven by structural reforms over the two-year period through fiscal year 2021, we will spare no efforts in implementing selective concentration and then subsequently roll out initiatives based on the notion of strengthening profitability and embracing greater challenges in our core

Leasing Business. While aiming to reinforce the Leasing Business up ahead and sustain and continue operations in the Elderly Care Business, we will also apply a selective concentration approach to our other businesses. For instance, we intend to downsize the Development Business and its building construction operations, and transfer or withdraw from the Hotels and Resort Business and the International Business, among others.

In terms of specific initiatives designed to bolster profitability in our mainstay Leasing Business, we will mainly look to beef up our corporate sales workforce, strengthen our ability to acquire foreign national and senior customers, and utilize IT to improve customer-facing work efficiency. We intend to focus on corporate contracts, which account for 60% of the tenants in our properties, increase human resources, and actively engage in sales activities with the companies that source the high number of units under contract. In this way we will strive to improve the occupancy rate and by extension shore up profitability.

Meanwhile, we are selling off, and withdrawing from the non-core unprofitable Hotels and Resort Business and International Business with the sale of assets, including Hotel Leopalace Nagoya and Leopalace Resort Guam. We had thus far pursued synergies in these businesses with the Leasing Business and sought to business diversification, but going forward we will transfer or withdraw from these businesses in order to prioritize our handling of the construction defects problem and focus more heavily on the Leasing Business.

> We will continue to transfer or withdraw from non-core unprofitable businesses.

Furthermore, we will make every effort to reduce labor costs so that our SG&A expenses are more in line with the size of our current business operations. This is why we have offered the voluntary retirement program to some 1,000 employees, the first of its kind since the Company was founded. Leveraging the voluntary retirements, we hope to be able to bring down the ratio of SG&A costs to net sales to around 11% from roughly 14% last fiscal year.

With these measures we plan to return to profitability for the first time since the construction defects came to light. For fiscal year 2021, we are targeting operating profit of 11.3 billion yen and net income attributable to shareholders of the parent of 9.9 billion yen. For fiscal year 2022, we are targeting 23.5 billion yen and 19.1 billion yen respectively.

As we rebuild our business foundation and push ahead with structural reforms by drastically restructuring our business strategies, we will also set up an organizational response for persistent actions and aim to regain the trust of society that was seriously undermined by the construction defects problem.

ESG

Establishing human resources-related materiality themes

As for our ESG initiatives, it is important that we establish and focus on addressing materiality issues that are truly essential to enhancing corporate value. At this point in time, dealing with the problem of construction defects and making sure that similar incidents never occur again is, in my opinion, a materiality issue unique to Leopalace21.

At the same time as addressing the materiality of resolving construction defects problem, we have also identified materiality themes related to human resources, such as work-style reforms and transforming the mindsets of employees who support our basic CSR policy of providing high-quality services and supporting affluent living.

At first glance it might seem contradictory that we identify human resources to be a materiality theme while also having offered the voluntary retirement to some 1,000 employees as part of our structural reforms. However, we believe that employee engagement will be the key after all if Leopalace21 is to grow in a sustained manner further down the track once our structural reforms have been completed.

I think we need to transform ourselves that have the capacity to set in motion the PDCA cycle whereby each and every employee can properly think for themselves and take actions, as well as reflect on the recent construction defects problem. To achieve that, we will require work-style reforms that lead to greater productivity and employees who are ready to change their ways of thinking so they might engage in work more diligently.

This is why, as part of human resources strategy, we endeavor to further improve our performance management system and employee training programs. We first identify the types of employees or managers the Company values highly and then in order to develop the valued talents we analyze what kind of skills and experiences are required. We then have the employees undergo relevant training for skill acquisition purpose. We tailor the performance management system so that the proper evaluation is established in accordance with the degree of goal attainment.

At the same time, we plan to push ahead with another facet of human resources strategy for specialist employees. At Leopalace21 we are in need of not just managers who lead the teams, but also specialists in a broad range of fields such as design, construction management, finance & accounting, and information systems. We intend to establish performance management system and training programs for these people so that we can evaluate their specialist skills—which differ from organization management capabilities—and maximize their contributions to the Company. P51

Employee engagement and working styles hold the key to sustained growth after the completion of structural reforms.

Corporate Governance

Strengthening oversight by outside directors

As we go about tackling the problem of construction defects, it is my belief that strengthening external oversight is more important than anything else, no matter what. We have therefore significantly raised the ratio of outside directors by increasing their number and at the same time, reducing the number of internal directors. Under the current structure, six, or two thirds, of the nine directors hail from outside of the Company.

Not only did we increase the weight of outside directors to two thirds, but we also spent time in analyzing and evaluating what skills each candidate ought to bring to the Board of Directors. Given the Company's current situation, we believed that the skills most required among the newly appointed outside directors should be knowledge of construction, experience in corporate revival, and expert legal knowledge in order to thoroughly implement compliance practices. We therefore appointed three new outside directors, one from each of these fields of expertise.

Of the three, Yutaka Nakamura worked for many years as a specialist in product quality and customer satisfaction at a housing company, while Kazuyasu Fujita plied his trade in corporate revival at a housing hardware company and ultimately served as its president. And last but not least is legal expert Akira Watanabe. To date, he has served as outside director and outside auditor for about 10 companies, so he is certainly considered a professional in his role as an outside officer. We have already received some unsparing opinions from all three regarding what the Company is prepared to do in a scenario in which our business strategy restructuring does not go according to plan.

The new members of the Board will sit alongside our existing outside directors, Tadashi Kodama, Tetsuji Taya, and Hisafumi Koga to form a two-thirds majority. This will allow us to achieve greater transparency in decision making by the Board of Directors, enhance its effectiveness, and strengthen the corporate governance. We also expect at times to hear the critical views of each outside director, based on their extensive careers and wide-ranging knowledge.

Conversely, the outside directors will be unable to engage in swift decision making if they have no inside knowledge of what the Company's operating departments are considering, planning, or putting into action, which would bring our structural reforms to a halt. To avoid this situation and so that the outside directors can do more than just monitor finalized plans, we are devising a framework whereby the outside directors take part in the discussions of operating departments from an earlier stage. P36

Long-term vision

Making sure our rental housing business—as social infrastructure—is sustainable

Our top priorities right now are resolving the construction defects problem and taking steps to improve profitability, but so that we can remain a going concern up ahead, I believe we must also think through a vision of how we want to conduct our business operations over the medium to long term.

Even though Japan is in a stage of population decline and concerns are emerging about abandoned houses, projections indicate that the number of single-person households requiring rental housing—our target market—is unlikely to fall below 10 million anytime in the next 10 years. Going by this forecast, we surmise that demand for our single-person apartments will hold firm for some time to come. On the other hand, there is no denying that competition to claim the last bit of market share is intensifying more than ever before. That is why I believe it is crucial that we harness our facilities, services, and other assets that our competitors lack to establish a competitive advantage and find a way to improve productivity.

At Leopalace21, we currently manage the assets of 28,000 property owners and we supply housing infrastructure to nearly 500,000 tenants. In other words, we bear a heavy responsibility to both owners and tenants and we believe that contributing to regional economies through our business activities is a matter of course. To that end, I think we need to consider how we can further refine the social infrastructure we have built thus far, whilst keeping in mind our goal of firmly gaining a competitive edge in the business of providing rental housing to single household and steadily running that business.

In conclusion

We certainly face difficult circumstances at the moment, but I am confident that the social infrastructure in the shape of rental housing that we constructed over our 50-year-long history is really something and our spirit of endeavor to have built up that infrastructure still remains within the Company as our underlying strength. Therefore, by completing the repairs for construction defects, we will aim for greater heights instead of getting back to the state prior to the problem and push ahead with a whole host of reforms.

I kindly ask for the understanding of all our stakeholders.

Bunya Miyao
President and CEO
September 2020

By completing the repairs for construction defects, we will aim for greater heights instead of getting back to the state prior to the problem and push ahead with a whole host of reforms.

Corporate Governance System and Initiatives

Basic Approach to Corporate Governance

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

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

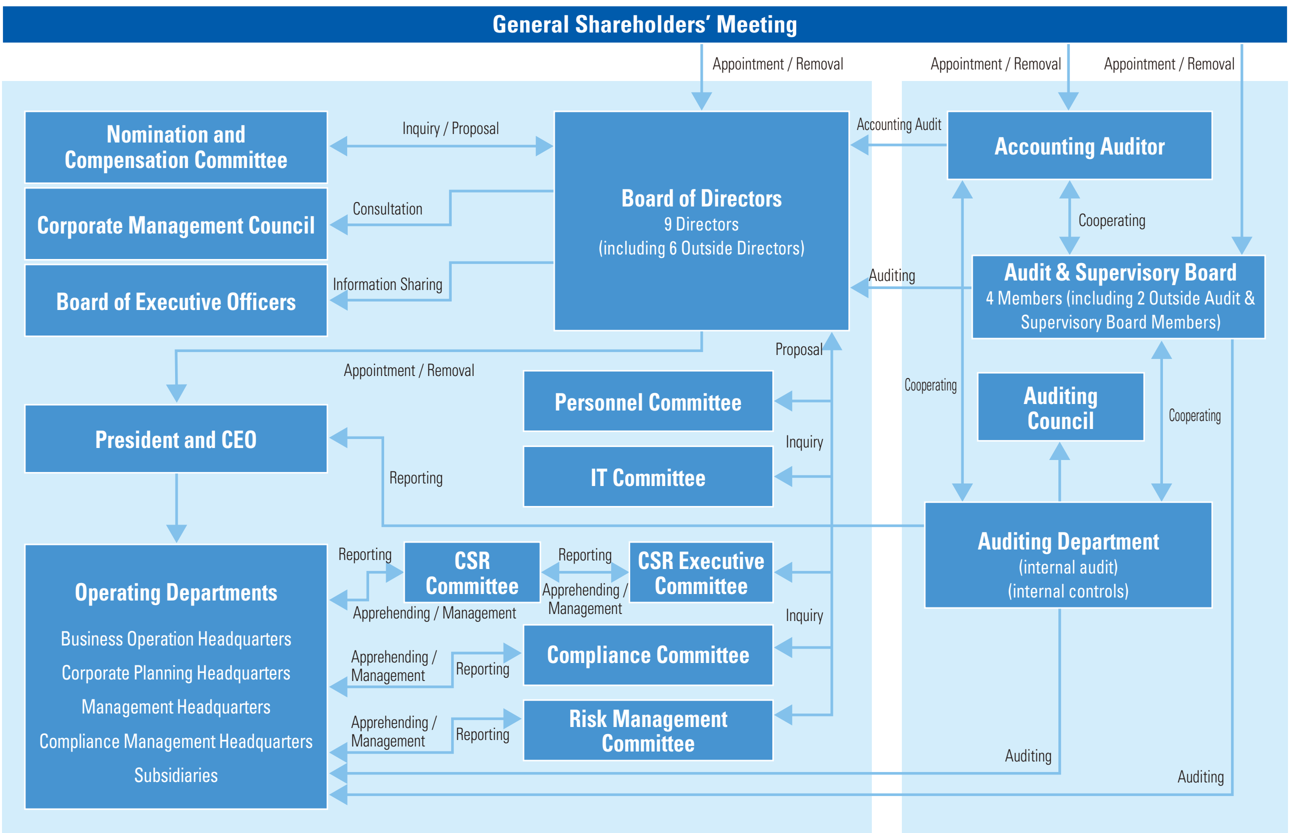
We employ a system comprising four headquarters to execute business: (1) the Business Operation Headquarters oversee business execution and collaboration; (2) the Corporate Planning Headquarters are tasked with management strategy formulation and supervision and also boost collaboration in business divisions;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

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

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

■Corporate Governance System

As of July 22, 2020



Progress towards Strengthening Governance

We have strengthened our corporate governance system in order to achieve our corporate philosophy, attain our management plan, improve our medium- to long-term corporate value, and achieve sustained growth. To apply external points of view to our management, we have been appointing outside Audit & Supervisory Board members for over 25 years, and we appointed outside directors immediately after the collapse of the Lehman Brothers, which had a major effect on the management of the Company. After that, in order to further strengthen the supervisory function of our management, we increased the number of outside directors and at the last General Shareholders' Meeting appointed six, and this has resulted in balanced Board composition, including experience with corporate management, corporate revitalization, business reforms, and legal affairs. In addition, we have established various committees for our Board of Directors to examine major management issues facing the Company. One of them is the Nomination and Compensation Committee, which was established in March 2016. The majority of this committee's members, six out of seven, are outside directors, and they deliberate on the best possible appointments, compensation, and other factors based on their external points of view and knowledge and then propose the results of such deliberation to the Board of Directors.

■Major Corporate Governance Initiatives

Compliance Committee	July 2006 1st meeting →
Risk Management Committee	May 2008 1st meeting →
CSR Committee	July 2008 1st meeting →
Personnel Committee	April 2009 1st meeting →
IT Committee	February 2011 1st meeting →
Nomination and Compensation Committee	March 2016 1st meeting →
CSR Executive Committee	April 2018 1st meeting →

■Members of each established body, etc.

Position	Name	Board of Directors	Corporate Management Council	Board of Executive Officers	Nomination and Compensation Committee	Risk Management Committee	Compliance Committee	Personnel Committee	IT Committee	CSR Executive Committee	CSR Committee
President and CEO	Bunya Miyao	◎	◎	◎	○	◎	○	◎	○	○	○
Director	Shigeru Ashida	○	○	○		○	○	○	○	◎	◎
Director	Mayumi Hayashima	○	○	○		○	○	○	◎	○	
Outside Director	Tadashi Kodama	○			◎	○	○				
Outside Director	Tetsuji Taya	○			○	○	◎				
Outside Director	Hisafumi Koga	○			○	○	○				
Outside Director	Kazuyasu Fujita	○			○	○	○				
Outside Director	Yutaka Nakamura	○			○	○	○				
Outside Director	Akira Watanabe	○			○	○	○				
Audit & Supervisory Board Member	Kenichiro Samejima	Notes 2	○	○		○	○	○	○		○
Audit & Supervisory Board Member	Yoshitaka Murakami	Notes 2									
Outside Audit & Supervisory Board Member	Jiro Yoshino	Notes 2	○	○		○	○	○	○		
Outside Audit & Supervisory Board Member	Takao Yuhara	Notes 2									
Executive Officers	—			8		8	2	4	3	6	
Employees	—			3		11	2	4	8	3	18
Outside Experts, etc.	—					2	2				2

Notes
1. ◎ indicates a chairperson or chairman, while ○ indicates a member.
2. All Audit & Supervisory Board members attend meetings of the Board of Directors, and they supervise the execution of business by the directors.

Strengthening Our Management Structure

Nomination and Compensation Committee

We have established the Nomination and Compensation Committee as an advisory body to the Board of Directors in order to deliberate on the fairness and appropriateness of officer appointment/removal, compensation and other issues to ensure the transparency of our management and improve our accountability. This committee consists of the President and CEO as well as outside directors, and—in order to ensure the independence and neutrality of the committee—all the committee members other than the chairman and the President and CEO are appointed only from outside directors.

Members	Chairman: an outside director Committee members: the President and CEO and five outside directors
Objective	To ensure the appropriateness of decisions related to officer candidates nomination and compensation recommendations
Role	This committee handles the nomination, removal as well as the compensation composition and levels for the President and CEO, directors, Audit & Supervisory Board members, and executive officers considering the company business performance and other factors for objective deliberation. The committee reports the results of such deliberation to the Board of Directors.
Number of meetings held in the fiscal year ending in March 2020	11
Main deliberation content	The committee mainly deliberated on the nomination and removal of directors and Audit & Supervisory Board members as well as officer compensation recommendations. In particular, during the previous fiscal year ended in March 2020, the committee held deep deliberations on the appointment of the President and CEO, the policy of having a majority of outside directors, and the selection of outside director candidates based on this policy.

Reasons for appointing new outside directors

In order to regain the trust of our shareholders and other stakeholders by steadily implementing structural reforms and restoring our business performance, we appointed new outside directors, including the new appointment of Mr. Fujita and Mr. Nakamura at the Extraordinary General Shareholders' Meeting in February 2020 as well as the new appointment of Mr. Watanabe at the Ordinary General Shareholders' Meeting in July 2020. These three outside directors possess skills essential for the execution of Leopalace21's upcoming reforms in the fields of corporate revitalization, quality management, and legal affairs.

Name	Reason for appointment
Kazuyasu Fujita	Mr. Fujita possesses keen insight accumulated through his career as a senior manager and deep knowledge and experience in corporate management, most notably of which was his active involvement in the planning of proposals for rehabilitation plans in accordance with the Private Rehabilitation Guidelines at Toyo Shutter Co., Ltd. along with his implementation of a seven-year reconstruction plan as the President and Representative Director of said company, where he completed reconstruction in a three-year shorter period. Therefore, we believe that he can contribute based on his experience and knowledge regarding business revitalization and construction and technology in pushing through drastic structural reforms and in efforts to realize early recovery of the Company's social trust and business performance, which were undermined by the problem concerning construction defects, and that he can play a role in supervising business execution by the Board of Directors, etc. from an independent and fair perspective. Therefore, the Company has appointed him as an outside director.
Yutaka Nakamura	After joining Panasonic Homes Co., Ltd, Mr. Nakamura was consistently involved in quality and environmental management, achieving strong results in lifting that company's quality and environmental management to the top level in the industry. Moreover, he has experience serving in important positions at multiple organizations in the housing industry. Although he has never participated in the management of a company in the past other than as an outside director or outside Audit & Supervisory Board member, he possesses keen insight accumulated through the above career and deep knowledge and experience in the fields of quality control and environmental management. Therefore, we believe that he can contribute based on his experience and knowledge regarding construction and technology in pushing through drastic structural reforms and in efforts to realize early recovery of the Company's social trust and business performance, which were undermined by the problem concerning construction defects, and that he can play a role in supervising business execution by the Board of Directors, etc. from an independent and fair perspective. Therefore, the Company has appointed him as an outside director.
Akira Watanabe	Mr. Watanabe possesses specialized knowledge as an attorney at law and keen insight accumulated through his career as an outside director of other companies as well as deep knowledge and experience in corporate management. Therefore, we believe that he can contribute based on his experience and knowledge regarding legal compliance in pushing through drastic structural reforms and in efforts to realize early recovery of the Company's social trust and business performance, which were undermined by the problem concerning construction defects, and that he can play a role in supervising business execution by the Board of Directors, etc. from an independent and fair perspective. Therefore, the Company has appointed him as an outside director.

Skills of officers

Our Board of Directors is aiming to strengthen our governance system and to flexibly and promptly solve problems. We reviewed the skill set of the Board of Directors given the current business environment, and, in July 2020, we reduced the total number of directors from 12 to 9 to achieve a suitable board composition. As shown below, the Company's directors possess an extremely broad range of expertise, experience, and knowledge, but—in order to steadily implement structural reforms and improve the profitability of the Leasing Business, our core business, in the fiscal year ending March 2021—the skills we are emphasizing in particular during this year are enclosed by a blue rectangle in the skill matrix below. Our current directors have at least one of these skills—or as many as four in some cases—and we expect them to greatly contribute to our efforts to execute structural reforms, restore our business performance, and regain the trust of society.

Skill set matrix

		Attribute					Expertise, Experience and Knowledge									
	Name	Executive Position	Independency	Nomination and Compensation Committee	Age	Gender	Corporate management	Corporate rehabilitation, business restructuring	Sales and Marketing	Quality management	Legal	Accounting and tax affairs	Finance	IR	Global	Audit
1	Bunya Miyao	President and CEO Chairman of the Board of Directors		Member	60	Male	○							○	○	
2	Shigeru Ashida	Director Managing Executive Officer			56	Male	○		○			○				
3	Mayumi Hayashima	Director Executive Officer			47	Female	○		○		○					
4	Tadashi Kodama	Director	Lead independent Outside	Chairman	72	Male	○		○					○		
5	Tetsuji Taya	Director	independent Outside	Member	56	Male	○	○			○	○	○		○	
6	Hisafumi Koga	Director	Outside	Member	72	Male	○							○		
7	Kazuyasu Fujita	Director	independent Outside	Member	74	Male	○	○	○	○				○		
8	Yutaka Nakamura	Director	independent Outside	Member	61	Male				○						
9	Akira Watanabe	Director	independent Outside	Member	73	Male	○	○			○					○

Critical skill especially for the fiscal year ending March 2021

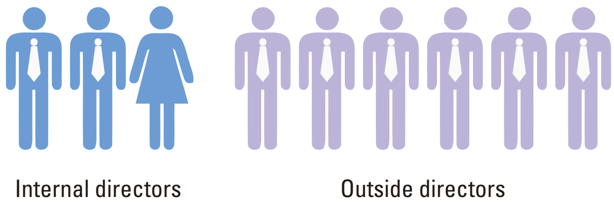
(Note) As of July 22, 2020

Initiatives Aimed at Improving Effectiveness

The Board of Directors

The Board of Directors focuses on both ensuring agile management and achieving comprehensive supervisory functions, and it currently consists of nine directors, including six outside directors. In order to improve corporate value, we consider it important to deliberate on appointing suitable directors, and making compensation recommendations, which we have incorporated in the decision-making process by the Nomination and Compensation Committee with outside directors as its members.

In addition to regularly meeting once a month, the Board of Directors flexibly convenes meetings as necessary to make important management decisions, monitor how business is being executed, and supervise the execution of duties by directors.



Proposals by the Board of Directors

During the fiscal year ended March 2019, 21 meetings of the Board of Directors were held, and there were 124 proposals. In contrast, during the fiscal year ended March 2020, there were 33 meetings of the Board of Directors with 144 proposals, a considerable increase over the previous fiscal year. Like the previous fiscal year, the following three items accounted for a high percentage of the board's discussion: the business strategy and business performance, board member appointment and compensation, and construction defects and recurrence prevention.

Business strategy and business performance

- During the fiscal year ended March 2019, the main proposals were aimed at building new revenue stream, including expanding our International Business and the business plans of Group companies.
- During the fiscal year ended March 2020, there was a decrease in proposals related to new businesses due to a slump in business performance, but the board discussed drastic business strategies reconstruction and formulated a business plan based on strategic review results for drastic business strategies reconstruction.

Board member appointment and compensation

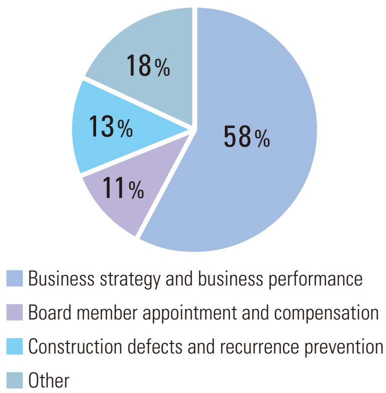
- The board has discussed board member appointment and compensation in the past as well, but, during the fiscal year ended March 2020, the board also discussed how to strengthen the function of the Board of Directors, including analyzing the matrix of skills required of directors.

Construction defects and recurrence prevention

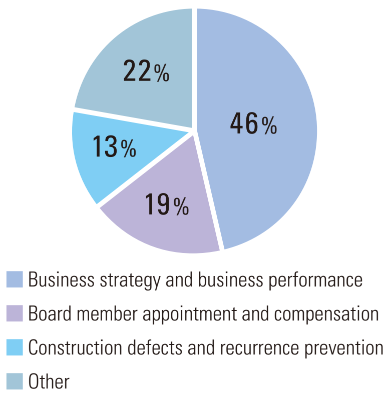
- The board continued its discussions of construction defects and recurrence prevention from the previous fiscal year.
- During the fiscal year ended March 2020, in addition to discussions by the Board of Directors, the director with knowledge of quality management held regular meetings with operating departments.

Content of proposals by the Board of Directors

Fiscal year ended March 2019



Fiscal year ended March 2020



Evaluation of the effectiveness of the Board of Directors

After the end of the fiscal year ended March 2020, we evaluated the function and others to be fulfilled by the Board of Directors, mainly to improve management issues. The evaluation method was an individual evaluation using a questionnaire targeting all the board members. The secretariat of the Board of Directors aggregated data, analyzed it, and reported to the Board of Directors to hold discussions. In the evaluation for the fiscal year ended March 2020, we confirmed that the Company's Board of Directors and governance system functioned effectively in general. More specifically, based on the evaluation of the Board of Directors in the previous fiscal year, we implemented compliance reform, restructured the risk management system, and deepened discussions on our management strategy. The Board of Directors completed the strategic review process for drastic business strategies reconstruction and formulated a new business plan. As to rebuilding our undermined brand, succession planning for the next generation of management, and assisting with female employees' career advancement, the board's initiatives were not sufficient, so the board must continue to make efforts this year. The Board of Directors agreed to implement the new business plan as a top priority and to monitor the progress of, discuss, make decisions on, and make any necessary corrections of initiatives aimed at steadily implementing structural reforms, strengthening the profitability of the Leasing Business, and resolving the problem of construction defects.

	Evaluation of the fiscal year ended March 2020	Challenges during the fiscal year ending March 2021
Positive points	• Implementing compliance reform and restructuring the risk management system • Deepening discussions of management strategy, examining our drastic business strategy reconstruction approach, and formulating a business plan	• Steadily implementing structural reforms • Strengthening the profitability of the Leasing Business • Initiatives aimed at resolving the problem of construction defects
Points to be improved	• Rebuilding our undermined brand • Succession planning • Assisting with female employees' career advancement	

Board members' compensation

The Company's basic policy is to have a compensation system for directors—specifically regarding decisions on the amount of compensation, etc. for directors and the method of calculating it—that will contribute to an improvement in the Company's business performance over a diverse range and the enhancement of its corporate value. The compensation has four components: the basic remuneration as fixed compensation, the stock options, which are designed to boost medium- to long-term Company earnings and corporate value by sharing the advantages and disadvantages of stock price fluctuations with the shareholders, the annual performance bonuses on the attainment of single fiscal year management targets, and the medium-term performance bonuses on the attainment of the medium-term management plan.

The compensation of individual directors is decided on through deliberations by the Nomination and Compensation Committee to ensure appropriateness in fulfilling the above objectives. This Committee consists of outside directors and the President and CEO. Mr. Kodama, an outside director, currently serves as the chairman. Also, to take the responsibility of the management team for the problem of construction defects, we decided to reduce the amount of remunerations paid to board members during the period from February 2019 to March 2021 based on the results of an objective examination carried out by outside directors that sit on the Nomination and Compensation Committee. Remunerations were reduced by 60% for the President and CEO, 45%–55% for the other internal directors, 35% for full-time Audit & Supervisory Board members, and 35%–45% for executive officers. In addition, the remunerations of the President and CEO as well as an executive officer who was a director and senior managing executive officer at the time—both of whom were serving as executive directors when the defects in properties constructed by the Company were announced—were reduced even more, with the President and CEO suffering a 90% reduction in total, an additional 30% cut.

Abolishment of the advisor and counselor system

In accordance with a resolution by the Board of Directors, all existing service agreements with current counselor and advisors were terminated at the end of June 2020, and the advisor and counselor system was abolished.

Compliance

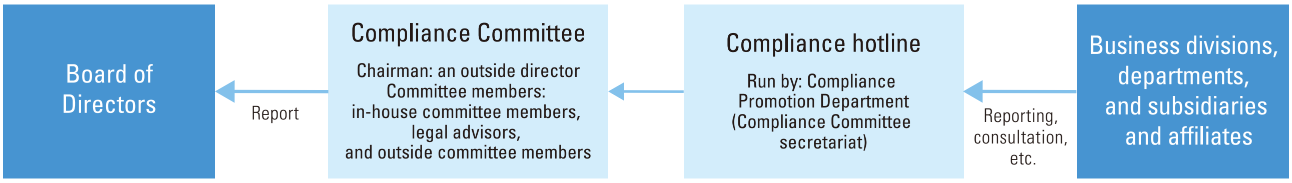
To entrench an enduring compliance-first policy within the organization, we established the Compliance Promotion Department, which verifies the legal compliance of our various businesses and products and also builds and operates information management systems, thereby promoting the development of an organizational framework with strong internal controls.

Compliance system

We established the Compliance Promotion Department in response to the problem of construction defects in order to fundamentally review and rebuild a solid compliance and risk management system for the Group. The Compliance Promotion Department plans and drafts the construction of new systems, verifies the legal compliance of the Group's new businesses, services, products, etc. The Compliance Promotion Department also takes the lead in sharing information with our design, construction, and other departments as well as subsidiaries and affiliates, constructing systems for sharing risk information in the field throughout the Company, and actively promoting training and other initiatives aimed at providing knowledge and raising awareness of compliance. In this way, the department strives to foster an organizational culture defined by our compliance-first policy, thereby setting the stage for successful management.

Compliance consulting service

To handle cases where legal violations or similar acts by officers and employees are discovered, the Leopalace21 Group has established compliance hotline services to deal with the associated consultation and reporting in-house, namely the Compliance Promotion Headquarters, outside of the company—a law firm, and for Audit & Supervisory Board members—the Audit & Supervisory Board. We have also established a business partners hotline to handle cases involving our business partners. In addition, we started up Compliance Mailbox operations to collect a broad range of information from our officers and employees as well as consultation and other contributions, thereby establishing a system for discovering potential risks that helps to minimize the effects on the Company even in cases where incidents do occur.



Compliance hotline
(whistle-blowing system)

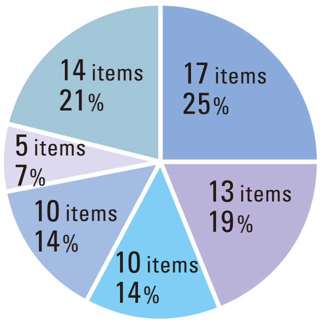
Business partners
hotline

Establishment of a
Compliance Mailbox

Compliance Committee

With one of the outside directors serving as the chairman, the Compliance Committee consists of members that include lawyers and other external experts. To strengthen governance, the committee develops various compliance measures, such as enhancing training and reinforcing information management systems, as well as strengthening monitoring systems and identifying problems for improvement.

■Compliance Committee deliberation content



* Committee meetings held since Mr. Taya, an outside director, assumed office as chairman in June 2019—a total of 10 meetings from June 2019 to March 2020
* The above percentages have been adjusted to come up to 100% in total.

Declaration to eliminate harassment

We adopted the basic policy of eliminating harassment to maintain healthy work conditions and increase mutual trust in the workplace aiming for realizing a vibrant company. We declare the following as a company to eliminate harassment.

Declaration to eliminate harassment

1. **We will not tolerate harassment.**
2. **We will not overlook any acts of harassment.**
3. **We will make serious efforts to eliminate acts of harassment.**

We decided to take following initiatives to make effective the declaration to eliminate harassment.

Initiatives to eliminate harassment

1. Formulate a basic policy for eliminating harassment

2. Raise awareness of human rights

- Since harassment is a violation of human rights, we will raise awareness of human rights within the Company.
- We will increase everyone's awareness to try to understand others' standpoints and feelings and to behave respecting the difference.

3. Conduct the training for harassment prevention

4. Apply stricter penalties against harassment offenders

- An employee's case is handled for decision by the committee of rewarding and penalizing employees with the Chief of Management Headquarters as chair.
- A director's case is handled for decision by the Board of Directors after the case is deliberated at the nomination and compensation committee chaired by the leading outside director.

5. Increase effectiveness of consultation desk

- We will respond to a wide range of consultations and deal with cases, including delicate issues of harassment. We will fairly protect the privacy for both the victim of harassment and alleged harassment offender.

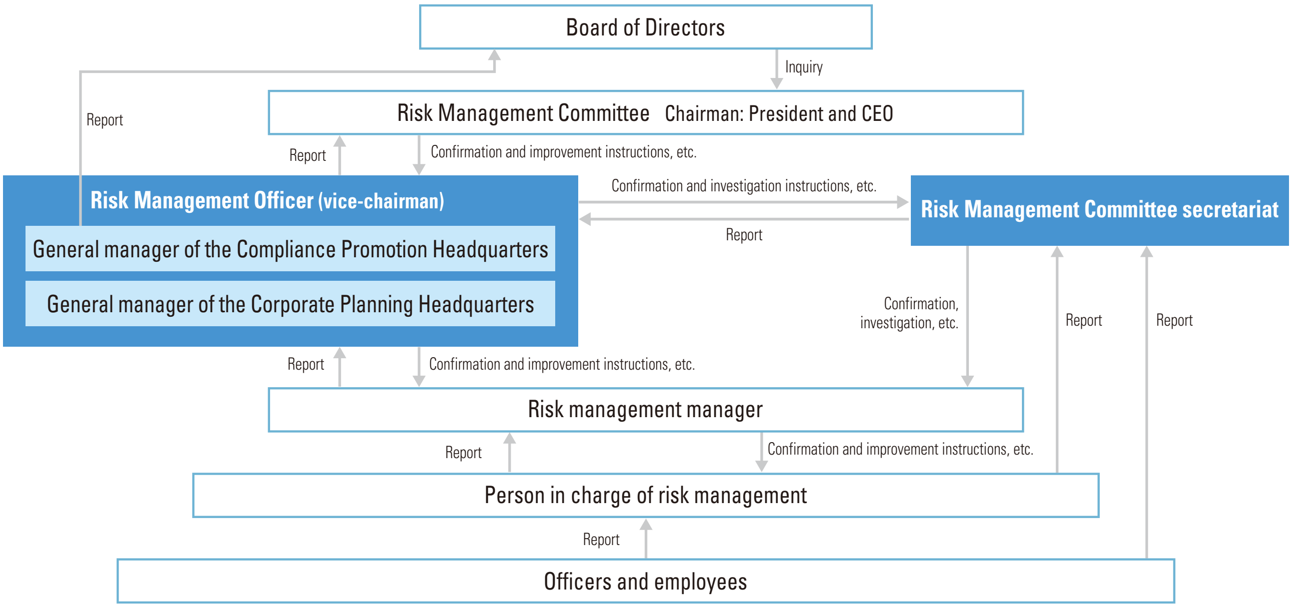
Risk Management

Restructuring of the risk management system

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

The Risk Management Committee regularly meets once a month and whenever the chair determines that an extraordinary meeting is required, and it offers consultation and guidance to ensure that risk is appropriately managed by each department. Furthermore, the general manager of the Compliance Management Headquarters reports on the status of risk management to the Board of Directors on a quarterly basis.

■Risk management system diagram



Review of the risk management method

To manage both materialized risks, or incidents and potential risks, in October 2019 and January 2020, we invited external instructors to hold risk management training sessions and workshops for the senior managers of our departments as well as the top management of the subsidiaries and affiliates.

The objective of these workshop-style training sessions was to make everyone aware of new risk management methods by giving them the opportunity to learn the basics of risk management in particular, gain an awareness of the risk management activities the Company is aiming for, and help them master unified Company-wide risk assessment methods such as risk identification, analysis, and evaluation.

Each of our departments, subsidiaries, and affiliates reports the results of analyzing and evaluating identified risks as well as the corresponding response plan to the Risk Management Committee, and—by continuing to regularly report the response situation to the committee—they strive to achieve highly effective risk management.

Implementing training related to risk management

To achieve objectives that included improving risk sensitivity, we implemented educational training for all of our officers and employees, including Group companies, in October 2019 and January 2020, which gave them the opportunity to learn about differences between risks and incidents, methods and approaches for increasing risk sensitivity, detailed methods and approaches for identifying risks while working, and methods of response when risks are identified.

In addition, in August 2020, we implemented training to help persons in charge of risk management as well as risk management managers understand their roles.

To encourage improved risk sensitivity among all our officers and employees, we will continue implementing E-Learning, posting training materials on our website, thereby striving to ensure that everyone reports and shares risk information to prevent the materialization of risks while improving our corporate culture.

First risk management training session

Part 1: basic risk management training

Objectives	(1) Understand what risk is (2) Master basic knowledge of risk management	
Target audience	Officers, Audit & Supervisory Board members, general managers of business divisions, senior managers of departments, top management of subsidiaries and affiliates, etc.	Number of part 1 participants 86

Part 2: risk identification workshop

Objectives	(1) Master risk assessment methods—risk identification and risk-scenario creation (2) Master methods for managing potential risks	
Target audience	General managers of business divisions, senior managers of departments, top management of subsidiaries and affiliates, etc.	Number of part 2 participants 56

Date and time: Fri, October 4, 2019, 15:00 to 17:30　　Place: head office basement conference room

Second risk management training session

Master risk assessment methods

Training in October 2019	1. Risk identification	Identify risks of which the effects on the Company and business divisions could not be ignored if they occur
Training in January 2020	2. Examination of current measures	Use measures as criteria to determine the risk severity
	3. Risk analysis and evaluation	Assign an order of priority to risks and clarify the risk-response targets
	4. Risk response	Determine risk countermeasures

Date and time: Tue, January 14, 2020, 15:00 to 17:00　　Place: head office basement conference room
Participants: 54 comprising senior managers of the departments and top management of subsidiaries and affiliates

Messages from Outside Directors

Developing a mechanism through which bad news quickly reaches the ears of the president, the head of PR, should be the basis of risk management.

Hisafumi Koga

Outside Director, Leopalace21 Corporation
Executive Chairman, Kyodo Public Relations Co., Ltd.

I have 45 years of experience working as a reporter and manager at K.K. Kyodo News. I also served as president of the news agency for around three years, so based on my knowledge and network of contacts, I help the Company address issues concerning mainly PR, crisis management, and IR. Since my appointment as Outside Director in 2019, I have liaised with the relevant officials at the government ministries and agencies regarding the Company's construction defects by taking advantage of the personal connections I accumulated during my days as a reporter. Having forged some trusting relationships over the course of one year, I think I have been able to considerably deepen the understanding of a number of officials at the relevant authorities.

Also, because risk management is basically information warfare, it can be hard to obtain facts about how much risk is out there and where it comes from. In my opinion, risk management should be founded on the development of a system through which all employees strain their ears as self-made PR officers to keep tabs on negative and positive information about Leopalace21 so that any bad news can quickly reach the ears of the president, who is essentially the head of PR.

Leopalace21 has 570,000 units under management nationwide, most of which are furnished with furniture and home appliances. From this perspective, the Company contributes enormously to the supply of employee lodgings for companies across Japan and it has become a part of public social infrastructure.

The nature of the Company's corporate culture up until now was certainly outdated in some respects, but with the management team led by Bunya Miyao, President and CEO, instigating a fresh wave of reforms, I am confident that it can transition to a corporate character that is more appropriate for a publicly listed company.

No other real estate firm has a business model quite like that of Leopalace21, which serves the best interests of both property owners and tenants. And there are no other companies that can do what Leopalace21 does, so for these reasons I hope to emphatically communicate to all employees just how important the Company's reason for existence is.

While I understand that the Company faces the tough surroundings now, I think one of my roles is to safeguard this business model and create situations that help various stakeholders gain a better understanding of it.

To prevent similar problems from occurring in the future, a system must be put in place so that employees can report even the smallest of incidents to management.

Kazuyasu Fujita

Outside Director, Leopalace21 Corporation
Former President and Representative Director, Toyo Shutter Co., Ltd.

I worked as a public servant for roughly five years before joining Toyo Shutter Co., Ltd. After working in almost all of the company's departments, including production and sales, I then served as officer and president.

How I will utilize my former experience to help Leopalace21 is something of an unknown even to me, but given my background in manufacturing, I believe the employees working in the field are of the utmost importance.

The construction defects that occurred did not happen all at once. They started occurring more than 20 years ago, but ultimately there was no awareness of the issues for all that time.

Manufacturers like Toyo Shutter, which is where I worked, recall products if they are found to be faulty because a defective product could be the cause of a fatal accident. However, Leopalace21's management never presupposed that such an incident would ever occur, which is probably why it did eventually happen. Moving forward, I think a reoccurrence can be prevented if a system is developed that enables management to collect reports from employees about even the smallest incidents.

In order to develop such a framework, it is vital that management, which includes the leadership team and executive officers, first visits every nook and cranny of the Company's worksites to hear for themselves the thoughts of employees and what concerns them in the field.

It is said that having employees who sense that they too are playing a part in the Company's management raises both spirits and capabilities by roughly 50%, as opposed to when they simply do as they are told. I am guessing that up until now the management team have not set up very many opportunities to directly listen to the opinions of employees who are close to the customers.

I myself plan to hear what the employees have to say by getting around all the main branches and offices throughout Japan so that I can deepen my knowledge of worksite operations. And I also hope to assist in the development of a system that let employees accurately relay to the head office their thoughts and opinions.

Messages from Outside Directors

For 38 years I worked at Panasonic Homes in the administration departments responsible for product quality, environment, IT, and information security. The business of building a home for customers to live in for a lengthy period of time and sustaining its value as an asset is also a common theme at Leopalace21, so I think I can utilize what I have experienced in my career so far.

In particular, I recognize my chief missions to be assisting the appropriate and swift repair of construction defects and establishing a quality control system.

Firstly regarding the Company's response to the construction defects problem, the majority of the repair works are being carried out on defects that are in violation of the Building Standards Act, but during the investigations employees in charge discovered issues other than those non-conformities, and they assumed that they need to deal with such new issues in addition to the core violation defects, meaning that the scope of repairs was expanded to include repair works not originally planned.

The Company is therefore narrowing its focus on the defects that violate the Building Standards Act and is working hard to prioritize the completion of those repair works. And in terms of cost control, I work together with everyone in the Emergency Headquarters for Construction Defects to repair as many units as possible at minimal cost in the tough financial circumstances, by implementing budget control on every unit for continuously streamlining repair works.

Addressing the construction defects is a challenge that the whole Company must prioritize and follow it through to the very end in an effort to turn the business back on track and regain the trust of society. Quality is the result of management. Quality control is to manage to improve or correct the results. The essence of quality control is to employ the available means in advance to prevent problems from occurring. It is urgent for all employees, and in particular the management team, to seriously reflect on why the construction defects occurred and set about rebuilding all of the Company's systems and contracts, including product development, sales, design, construction, and after-sales service.

Leopalace21 is a pioneer in the housing market by introducing the subleasing approach to apartment management and establishing a business model that involves property owners. But just as this approach was steadily gaining momentum, the problem of construction defects came to light. While management has agonized over how to deal with the problem, ultimately the experience it gains from overcoming the critical situation it currently faces will most likely be what sustains the creation of new Leopalace21. I feel that there are many talented employees at the Company. I will do everything in my power to assist the management team and employees as they work together to find solutions to the immediate challenges, get the Company on track towards a new growth strategy, and in doing so, turn earnings around so that property owners and shareholders can rest at ease.

I possess expert knowledge as an attorney at law and I have also been directly involved in the rehabilitation of a number of companies. With the aim of regaining the trust of society that was lost as a result of the Company's construction defects problem and improving earnings as soon as possible, I hope to throw my support behind the Company's revival by drawing on all of my accumulated knowledge and experience.

In order to recover this lost confidence and prevent a reoccurrence, the Company is striving to instill a compliance-first policy into its business practices as one prevention measure. I hope to see the Company knuckle down on this because it is extremely important that top management emphasizes compliance and spreads awareness about it among employees, including the management team. I think that trust can be regained in the future if all employees align their aspirations in the same direction and go about their work positively and honestly, no matter what their roles are in the Company.

This is because when it comes to company reconstruction, everyone is in uncharted waters, so in that sense, nobody knows the right formula. Accordingly, everyone must think for themselves. Presuming that somebody else will provide for you is out of the question.

In addition, each and every employee needs to set their own five- or ten-year plan and make it with concrete time-bound actions. It is crucial that employees review whether they are meeting their daily goals. If they fail to achieve them, they must examine the reasons why. Even bigger goals can be achieved if this process of review and self-awareness is perpetually repeated. Quite simply, anything can be achieved if you put your mind to it.

While the Company's credibility has been severely damaged by this recent problem, I think the change in leadership has afforded Leopalace21 the opportunity to change course and create a new business model. I feel upbeat about the current restructuring and I intend to harness my experience to support the Company in any way I can.

Directors and Audit & Supervisory Board Members

Internal Director (As of July 22, 2020)

President and CEO
GM of Business Operation Headquarters

Bunya Miyao

Apr. 1983	Joined Nakamichi Leasing Co., Ltd.
Jun. 1990	Joined Leopalace21 Corporation
Sep. 2000	Deputy Manager of the Financial Department
Jul. 2008	General Manager of the Resort Business Headquarters
Jul. 2010	General Manager of the Corporate Planning Department
Jul. 2012	Administrative Officer
Apr. 2013	Executive Officer
Jun. 2016	Director and Executive Officer
May 2017	Representative in charge of the Corporate Planning Department, the Public Relations Department
Apr. 2018	Director and Managing Executive Officer Representative in charge of Corporate Planning and Investor Relations
May 2019	President and CEO (current)
Jun. 2019	GM of Business Operation Headquarters (current)

Director, Managing Executive Officer, Chief of the Corporate Planning Headquarters, Chief of the Emergency Headquarters for Construction Defects (concurrent)

Shigeru Ashida

Apr. 1988	Joined Leopalace21 Corporation
Nov. 2003	Deputy Manager of the Financial Department
Apr. 2010	General Manager of the Corporate Planning Department
May 2012	General Manager of Business Operation Headquarters
Apr. 2013	Administrative Officer
Apr. 2014	Executive Officer
Jun. 2019	Director and Managing Executive Officer (current) Chief of the Emergency Headquarters for Construction Defects (current)
Jul. 2020	Chief of the Corporate Planning Headquarters (current)

Director, Executive Officer, Chief of the Management Headquarters, Chief of the Compliance Promotion Headquarters, CLO*(concurrent) *CLO: Chief Legal Officer

Mayumi Hayashima

Apr. 1996	Joined Leopalace21 Corporation
Apr. 2009	Deputy Department Manager of the East Japan Corporate Sales Section, Leasing Business 3rd Sales Department, Leasing Business Division
Jul. 2010	Department Manager of the East Japan 2nd Corporate Sales Department, Leasing Business Division
Apr. 2014	Department Manager of the Corporate Business Promotion Department
Apr. 2015	Administrative Officer
Apr. 2018	Executive Officer
Jun. 2019	Director and Executive Officer (current) Chief of the Compliance Management Headquarters, Chief Legal Officer (CLO)
Jun. 2020	Chief of the Compliance Promotion Headquarters, Chief Legal Officer (CLO) (current)
Jul. 2020	Chief of the Management Headquarters (current)

Outside Directors (As of July 22, 2020)

Outside Director

Tadashi Kodama

Apr. 1970	Joined The Dai-Tokyo Fire & Marine Insurance Co., Ltd. (now Aioi Nissay Dowa Insurance Co., Ltd.)
Jun. 2001	Director, Aioi Insurance Co., Ltd. (now Aioi Nissay Dowa Insurance Co., Ltd.)
Apr. 2002	Managing Director, Aioi Insurance Co., Ltd.
Apr. 2003	Senior Managing Director, Aioi Insurance Co., Ltd.
Apr. 2004	Representative Director, President, Aioi Insurance Co., Ltd.
Apr. 2010	Representative Director, Vice Chairman of the Board of Directors, Aioi Insurance Co., Ltd. Representative Director, Executive Officer, MS&AD Insurance Group Holdings, Inc.
Oct. 2010	Representative Director, Vice Chairman of the Board of Directors, Aioi Nissay Dowa Insurance Co., Ltd.
Jun. 2011	Director, Vice Chairman of the Board of Directors, Aioi Nissay Dowa Insurance Co., Ltd.
Jun. 2012	Senior Advisor, Aioi Nissay Dowa Insurance Co., Ltd.
Jun. 2015	Retired from Aioi Nissay Dowa Insurance Co., Ltd.
Jun. 2016	Outside Director, Leopalace21 Corporation (current)

Outside Director

Tetsuji Taya

Apr. 1987	Joined The Fuji Bank, Limited (now Mizuho Bank, Ltd.)
Jun. 1998	Joined Merrill Lynch Securities Co., Ltd.
Apr. 2003	Managing Director, Industrial Revitalization Corporation of Japan
Apr. 2007	Board Member & Managing Director, Industrial Growth Platform, Inc.
Sep. 2009	Representative Director, Acting CEO, Industrial Growth Platform, Inc.
Jun. 2010	Outside Director, Leopalace21 Corporation (current)
Mar. 2011	Board Member & Managing Director, Industrial Growth Platform, Inc.
Dec. 2019	Board Member & Managing Director, CFO, Industrial Growth Platform, Inc. (current)

Outside Director

Hisafumi Koga

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

Outside Directors (As of July 22, 2020)

Outside Director
Kazuyasu Fujita

Apr. 1965 Joined the Osaka Prefectural Government
Nov. 1970 Joined Toyo Shutter Co., Ltd.
Oct. 1999 Business Administration Manager, Toyo Shutter Co., Ltd.
Jun. 2000 Director, Manager of Business Promotion Department and Purchasing Department, Toyo Shutter Co., Ltd.
Jun. 2002 President and Representative Director, Toyo Shutter Co., Ltd.
Apr. 2006 President and Representative Director, Executive Officer for General Supervision, Toyo Shutter Co., Ltd.
Jun. 2010 Special Adviser, Toyo Shutter Co., Ltd.
Jun. 2011 Resigned from Toyo Shutter Co., Ltd.
Sep. 2011 Established Management Consulting Partners Inc., President and Representative Director, Management Consulting Partner, Inc. (current)
Feb. 2020 Outside Director, Leopalace21 Corporation (current)

Outside Director
Yutaka Nakamura

Apr. 1981 Joined National Housing Materials Co., Ltd. (now Panasonic Homes Co., Ltd.)
Oct. 2002 Manager of Quality & Environmental Promotion Department, Panasonic Homes Co., Ltd.
Oct. 2006 Manager of Quality, Environment & IT Department, Panasonic Homes Co., Ltd.
Apr. 2011 Councilor, Manager of Corporate Quality & Environmental Division, Panasonic Homes Co., Ltd.
Apr. 2012 Senior Councilor, Manager of Corporate Quality & Environmental Division, Panasonic Homes Co., Ltd.
Apr. 2018 Senior Principal for Quality & Customer Satisfaction, Panasonic Homes Co., Ltd.
Mar. 2019 Resigned from Panasonic Homes Co., Ltd.
Feb. 2020 Outside Director, Leopalace21 Corporation (current)

Outside Director
Akira Watanabe

Apr. 1973 Registered as an attorney at law
Nov. 2006 External Statutory Auditor, FAST RETAILING CO., LTD.
Jun. 2007 Outside Director, MAEDA CORPORATION
Jun. 2007 Outside Audit & Supervisory Board Member, KADOKAWA GROUP HOLDINGS, INC. (now KADOKAWA CORPORATION) (current)
Apr. 2010 Outside Director, MS&AD Insurance Group Holdings, Inc
Mar. 2013 Outside Director, DUNLOP SPORTS CO., LTD.
Oct. 2015 Director, ASIA PILE HOLDINGS CORPORATION (current)
Sep. 2018 Partner, Comm & Path Law Office (current)
Jun. 2019 Outside Director, MAEDA ROAD CONSTRUCTION Co., Ltd. (current)
Jul. 2020 Outside Director, Leopalace21 Corporation (current)

Audit & Supervisory Board Members (As of July 22, 2020)

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

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

Full-time Audit & Supervisory Board Member
Kenichiro Samejima

Apr. 1984 Joined Nikkei House Co., Ltd.
Feb. 1986 Joined Leopalace21 Corporation
Apr. 1999 Department Manager of the Store Management Department, Leopalace World Shinjuku, Leasing Business Division
Oct. 1999 Department Manager of the Planning Department, Head Office, Leasing Business Division
Apr. 2009 Executive Officer and Department Manager of the Operations Department, Leasing Business
Feb. 2010 Department Manager of the Planning and Operations Department, Leasing Business Division
Apr. 2012 Department Manager of the Information Systems Department
Jul. 2012 Administrative Officer
Apr. 2014 Executive Officer
Jul. 2019 Management Headquarters, in charge of Information Systems
Jun. 2020 Administrative Officer and Head of Audit & Supervisory Board Members Office
Jul. 2020 Full-time Audit & Supervisory Board Member (current)

Audit & Supervisory Board Member (Outside)
Takao Yuhara

Apr. 1969 Joined NIPPON CHEMICAL INDUSTRIAL CO.,LTD.
May 1971 Joined Sony Corporation
Jun. 2003 Corporate Senior Vice President and Group CFO, Corporate Executive Officer, Sony Corporation
Dec. 2007 Managing Executive Officer, Zensho Co., Ltd. (now ZENSHO HOLDINGS CO., LTD.)
Jun. 2008 Audit & Supervisory Board Member, Ricoh Company, Ltd.
May 2011 Managing Executive Director and CFO, Zensho Co., Ltd.
Jun. 2013 Audit & Supervisory Board Member, mofiria Corporation
Jun. 2014 Auditor, KAMEDA SEIKA CO., LTD. (current)
Jun. 2015 Audit & Supervisory Board Member, Leopalace21 Corporation (current)
Dec. 2015 Auditor, T.HASEGAWA CO., LTD.
Dec. 2019 Outside Director, T.HASEGAWA CO., LTD. (current)

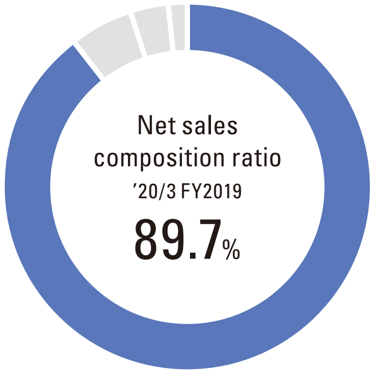
Audit & Supervisory Board Member
Yoshitaka Murakami

Apr. 1972 Joined Ministry of Finance
Jul. 1993 Management and Co-ordination Assistant Regional Commissioner, Tokyo Regional Taxation Bureau
Jul. 1998 Large Enterprise Examination and Criminal Investigation Deputy Commissioner, National Tax Agency
Jun. 2000 Taxation Deputy Commissioner, National Tax Agency
Jun. 2003 First Deputy Commissioner, National Tax Agency
Oct. 2005 Senior Executive Officer, East Nippon Expressway Company Limited
Jun. 2011 Full-time Audit & Supervisory Board Member, Credit Saison Co., Ltd.
Jun. 2019 Outside Director, Leopalace21 Corporation
Jul. 2020 Audit & Supervisory Board Member, Leopalace21 Corporation (current)

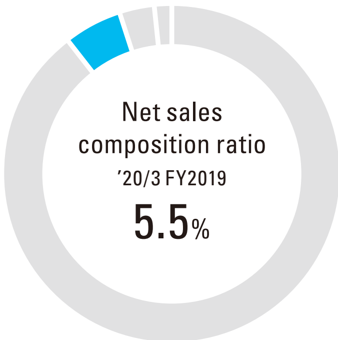
Business Overview At a Glance

–FY2019

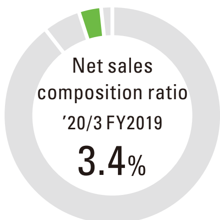
Leasing Business



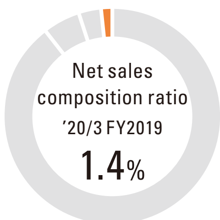
Development Business



Elderly Care Business



Hotels, Resort and Other Businesses



FY2020–

Core Business

Leasing Business

→P44

- Increase workforce for corporate sales in an attempt to increase the occupancy rate
- Make operations more efficient by use of IT (Web/AI, IoT and others)
- Attract more foreign national tenants and senior tenants
- Make leasing management more efficient by measures such as smart lock and web-based contracts
- Increase the number of managed apartments in Tokyo, Nagoya and Osaka where there are high tenancy demand

Core Business

Development Business (Leasing Segment)

→P47

- Stop taking new orders in order to concentrate on repair works and resolve the construction defects problem
- Ensure to satisfy apartment rebuilding demand by existing landlords centered in three major metropolitan areas

Strategic Business

Elderly Care Business

→P48

- Create synergy effect with leasing business to attract more senior tenants and needs development for the target audience

Non-core Business

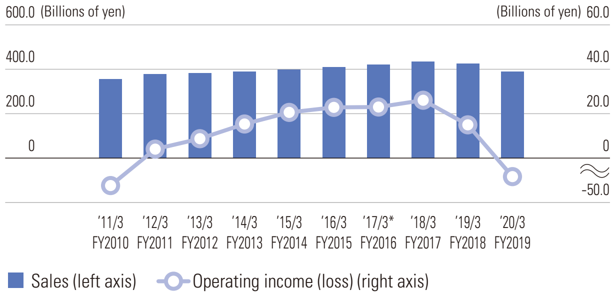
Other Businesses

- Hotels & Resort Business: transfer the business as soon as possible
- International Business: transfer or withdraw from the business

→P49

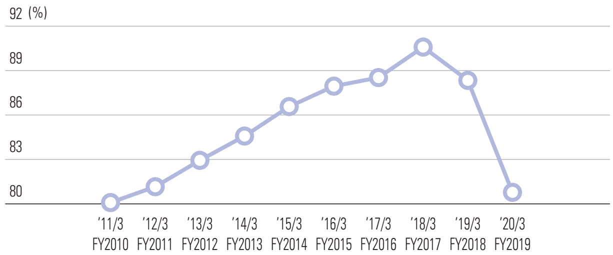
Business Overview Leasing Business

Sales and Operating Income

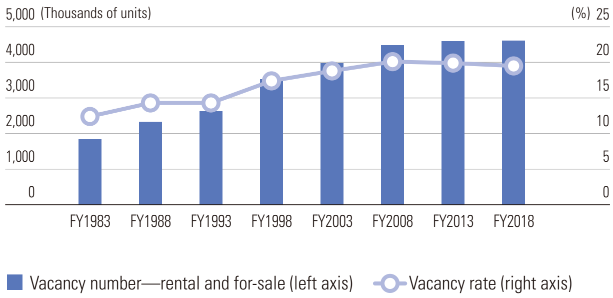


*Figures for FY2016 (ended March 31, 2017) and after are adjusted to new segments.

Average Occupancy Rates



Rental Housing Vacancy Numbers and Rates (Japan)



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

Business results

During the fiscal year ended March 2020, our Leasing Business net sales were 388,939 million yen (–8.8% YoY), and operating loss was 20,828 million yen (compared to operating profit of 14,987 million yen in the previous fiscal year). These decreases were due to the fiscal-year-end occupancy rate of 83.07% (–1.26 points YoY) and the average annual occupancy rate of 80.78% (–7.56 points YoY). The disappointing results were caused by (1) delays in the completion of repair works and resumption of tenant recruitment due to prioritizing inspections of all our buildings for parting walls and other construction defects as well as delays in setting up organizational preparation and (2) reduced demand by the companies' restricted new hires and relocations as a result of COVID-19 toward the end of the fiscal year—generally our busiest months. The number of rooms under management was 575,798 (+1,000 rooms YoY) at the end of the fiscal year ended March 2020.

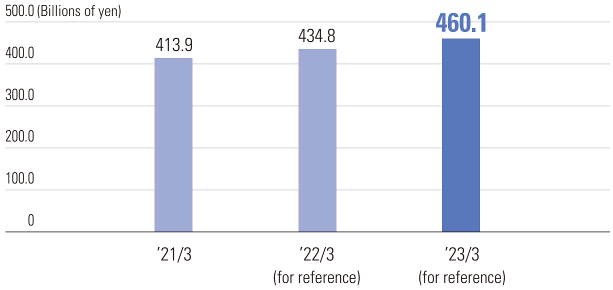
Business conditions and issues

The number of new rental housing construction starts decreased for the third year in a row. In addition, the number of construction starts for properties no larger than 30 square meters—our target market—decreased for the second year in a row, while the number of vacant houses for rent continued to increase, which suggests that a recovery in nationwide demand is unlikely. In this environment, we believe a differentiation strategy is key: specifically, a concentrated supply of properties in areas where we anticipate high occupancy rates in the future and the provision of value-added services leveraging our unique strengths.

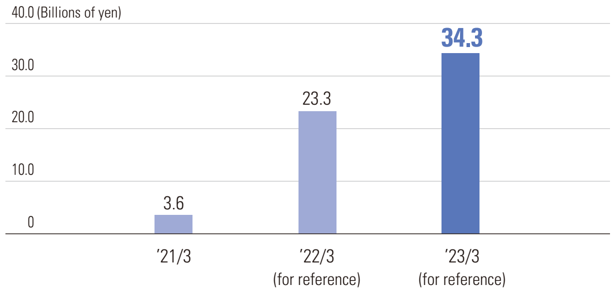
Mid- to long-term strategy

Under our mid- to long-term strategy—based on the theme of rebuilding our business foundation—we are shifting from our past business diversification strategy to a profitability focus strategy for the Leasing Business. Regarding the medium-term market environment for the Leasing Business, we expect solid rental demand from corporate customers as well as foreign national customers. The companies are decreasing the use of the company-owned housing system and instead mainly utilize rental housing for the employees under corporate contract. The Japanese government plans to accept up to around 350,000 foreign workers during the five-year period starting in 2019 based on the enforcement of revisions to the Immigration Control Act to help deal with Japan's domestic labor shortage. As a short-term measure, we stop the flagging occupancy rates by increasing our workforce for corporate sales and utilizing IT to improve sales efficiency. In the medium to long term, we aim to meet the housing demand in terms of quality and quantity required by society and regain the profit level we had before the problem of construction defects was discovered. To realize the aims, we are going to employ the measures such as attracting additional foreign national tenants and senior tenants, increasing the efficiency of our lease management operation through the use of smart locks, electronic contracts, etc., and increasing the number of rooms under management in Tokyo, Nagoya, Osaka, and other areas with high rental needs.

Sales



Operating Income



Key Products and Services

Rental agreements :

These are general rental agreements that are initially agreed to for at least one year and are then renewed every two years after that. This service is for people searching for rental properties to use for at least one year. No brokerage fees are required for any of these properties, which helps decrease initial costs at the time of move-in. The tenants pay the monthly rent.

Monthly agreements :

These are fixed-term rental agreements that are used in the short-term period as short as 30 days. Because all of the rooms are fully furnished with furniture and home appliances, tenants can move in only with their personal belongings. There is no need of monthly utility payment, which makes the rooms fit for people who need accommodations for their long-term business trips or attending training sessions. The tenants pay usage fees in lump sum upfront according to the usage period.

my DIY :

With this service, even rental properties can be customized to one's liking. The number of contracts for my DIY service, which allows tenants to change the wallpaper on one wall for free, has reached 48,716 as of the end of June 2020. The ratio of men versus women using the service is 50-50, which means a higher percentage of women tenants opt for the service as the overall tenants ratio is 70-30.

Promoting smart apartments :

Leo Remocon enables tenants to use their smartphones to operate home appliances remotely and is provided as standard equipment with all newly constructed apartments completed since October 2016. Leo Lock, a smart lock that enables tenants to lock and unlock the front door using a smartphone, has been installed as standard on properties completed since October 2017.

Business Overview Leasing Business

Priority measures

Utilizing IT to improve sales efficiency

In our drastic business strategy reconstruction, we are shifting to a profitability focus strategy centered on our Leasing Business, and in particular during the fiscal years ending March 2021 and 2022 we have identified the improvement of the sales efficiency of the Leasing Business by utilizing IT as a priority measure. Below, we are introducing three initiatives to realize this priority measure.

Web-based rental agreements

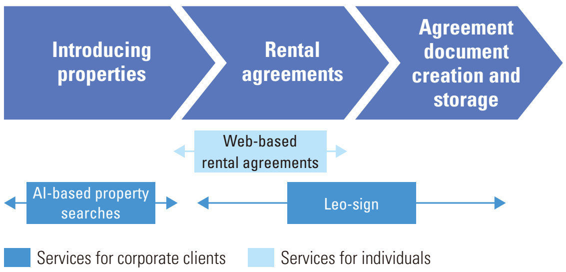
We started this initiative in June 2019 and had 392 contracts during the fiscal year ended March 2020. The number of contracts reached a cumulative total of 833 by the end of August 2020. Normally, customers have to visit our offices for us to explain important matters regarding the agreement, but this is handled via a video call. In the case of properties with Leo Lock—7,760 rooms nationwide, there is no need for customers to visit our offices for key handover.

Because we have implemented a voluntary retirement system, the number of employees has decreased. We are reducing the number of directly managed leasing sales offices to improve the productivity of the Leasing Business, and we can achieve further labor savings by promoting web-based rental agreements.

The web-based rental agreements are available to all Leopalace21-managed properties, and there are needs for both rental agreements and monthly agreements. In addition, we expect a considerable increase in efficiency as a result of using Leo-sign service, digitized contract for corporate clients once restrictions are removed by legislation.

We are currently aiming for 20,000 agreements per year, and we have specified this figure as a CSR-activity KPI for the fiscal year ending March 2021. We are focusing on this as a way to respond to the new lifestyle of our customers in the world with Coronavirus. P55

We are introducing advanced IT for each step of the agreement process and promoting smarter rental agreements.



Leo-sign—digitized contract

The computerized contract service was introduced for our corporate clients in January 2015. As of the end of June 2020, the service was used in 8,407 cases, or 26.9% of our corporate contracts.

Because rental agreements can be concluded without having to meet face-to-face, the time necessary to mail documents can be eliminated, which achieves speedier handling from when customers submit requests until they move in. As the service allows the client company to set up an in-house approver, agreements can be completed with necessary approval procedure in place all on the web. Because agreement documents can be approved even in telecommuting work conditions at both ends, Leo-sign satisfies online and paperless needs in the world with Coronavirus. The paperless approach reduces paper use, thus contributes to decrease environmental impact.

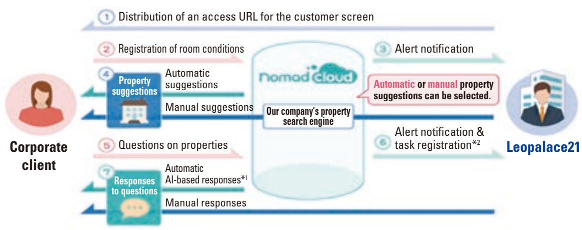
Leo-sign service is only used for rental agreements but not for monthly agreements because of legal reasons. Handling agreement documents online greatly reduces the operational burden faced by our employees and the corporate clients, so we can expect increasing level of acceptance by the companies.

AI-based property searches—automatic property suggestions

The service started operating in September 2018. The system acquires room-search requests from customers and then automatically sends them back information on properties that match the conditions the customers indicate. The service utilizes nomad cloud, which is provided by ITANDI, Inc.

Approximately 20% of room-search requests from corporate clients are dealt with AI-based suggestions, and yielded just under 70% contract closing, which is as good as the outcome by human beings.

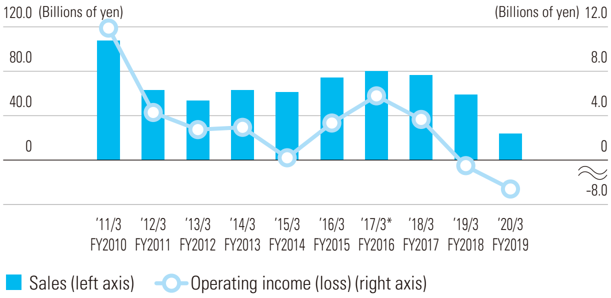
Our AI-aided property-search system is linked to NAVITIME and LINE. We started introducing the service to leasing offices in October 2019, aiming to reduce both working hours and costs.



*1 The automatic AI-based response rate is over 50%.
*2 In cases where an AI-based response is not possible, task registration is executed.

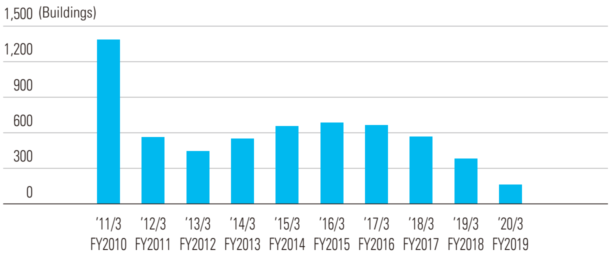
Business Overview Development Business (Leasing Segment)

Sales and Operating Income

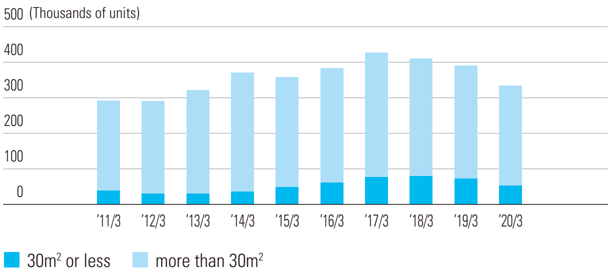


*Figures for FY2016 (ended March 31, 2017) and after are adjusted to new segments.

Number of Completed Apartment Buildings



Number of New Rental Housing Starts



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

Business results

During the fiscal year ended March 2020, our Development Business net sales were 23,806 million yen (–59.6% YoY), and operating loss was 5,181 million yen (an additional loss of 4,185 million yen YoY). Our total orders received amounted to 7,814 million yen (–87.9% YoY), and the backlog of orders at the end of the fiscal year amounted to 27,696 billion yen (–55.6% YoY).

These decreases were due to stopping acceptance of new orders because of construction defects including parting walls in addition to more fierce competition in major metropolitan areas and changes in the apartment-loan financing environment.

Business conditions and issues

The number of new rental housing construction starts decreased for the third year in a row. In addition, the number of construction starts for properties no larger than 30 square meters—our target market—decreased for the second year in a row, while the number of vacant houses for rent continued to increase, which suggests that a recovery in nationwide demand is unlikely. At the same time, there is an ongoing population influx into the three major metropolitan areas, and the number of international students is on an increasing trend, which mean there are areas where rental demand remains fairly solid. In this environment, we believe a differentiation strategy is key: specifically, focusing on areas where we anticipate high occupancy rates in the future and the provision of value-added services built on our strengths.

Mid- to long-term strategy

Under our mid- to long-term strategy—based on the theme of rebuilding our business foundation—we are shifting from our past business diversification strategy to a profitability focus strategy for the Leasing Business. Based on this policy, we implemented reorganization by transferring the previous construction subcontracting sales departments in the Development Business to the Leasing Business, thereby renewing the Leasing Business by integrating the Development Business into it. In addition, we established Wealth Management Departments under the umbrella of Leasing Business Division to strengthen our connection with property owners and regain their trust. There was a shortage of human resources to handle construction defects in the Development Business, and the financial institutions stopped new loans for apartment buildings, we will take care of property owners and focus on handling construction defects through the Wealth Management Departments in the short term. In the medium to long term, depending on the progress of repairing construction defects and loan resumption, we will ensure to meet rebuilding demand by existing property owners centered in the three major metropolitan areas—where demand by companies and foreign workers is expected to remain solid—thereby increasing our scale and contributing to stronger Leasing Business profitability.

Business Overview Elderly Care Business

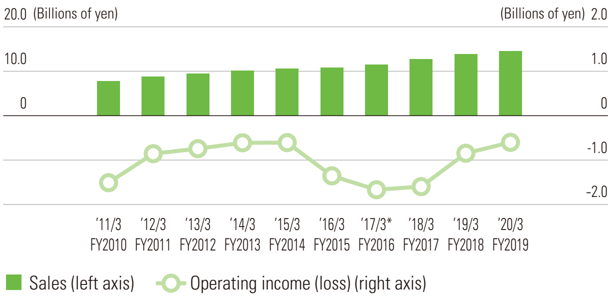
Business results

During the fiscal year ended March 2020, the net sales of our Elderly Care Business, which runs nursing care facilities, were 14,620 million yen (+5.0% YoY). The overall profitability improved as a result of the occupancy rate of existing facilities starting to increase, leading to a YoY improvement in the operating profit of 286 million yen, with a loss of 559 million yen. During the fiscal year ended March of 2020, no new facilities were opened, but as a result of initiatives aimed at improving customer satisfaction, we were able to increase the utilization rate of all our services, starting with our core day service.

Business conditions and issues

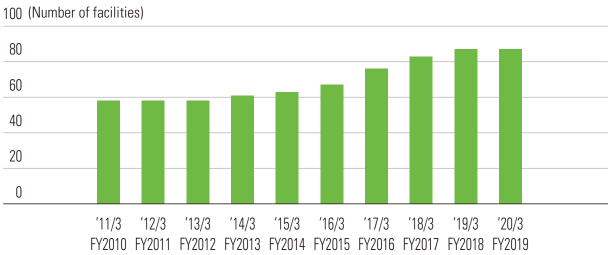
Conditions in the Elderly Care Business are mixed. On the one hand, the population of elderly people requiring care is rising, so the market for related services is expected to continue growing. On the other hand, the number of facilities for seniors is also increasing, giving rise to intense competition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

Sales and Operating Income (Loss)

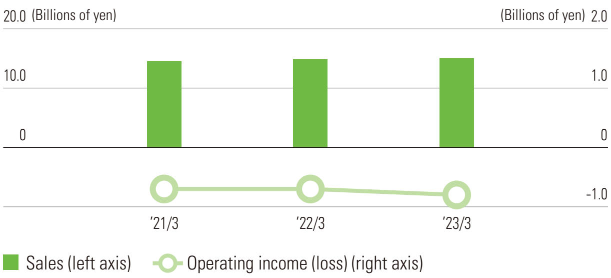


*Figures for FY2016 (ended March 31, 2017) and after are adjusted to new segments.

Number of Nursing Care Facilities



Sales and Operating Income (Loss) Plans



Key Products and Services

Azumi En :

As of March 31, 2020, we managed 87 Azumi En facilities in the Kanto and Chubu regions. Services at each facility include fee-based homes for seniors that offer support for their daily lives in a homelike 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 short-term stays.

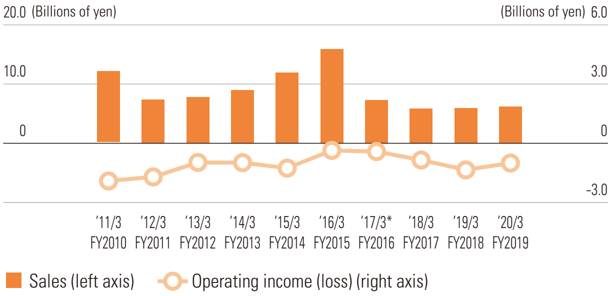
Business Overview Other Businesses

Business results and our future policy

During the fiscal year ended March 2020, the net sales of Hotels, Resort, and Other Businesses were 6,186 million yen (+4.5% YoY), and operating loss improved by 346 million yen YoY, for a total loss of 1 billion yen. In an attempt to increase efficiency for the use of assets and capital, of our four hotels in Sapporo, Sendai, Nagoya, Fukuoka (Hakata), we sold the ones in Sapporo, Sendai, and Fukuoka in October 2019.

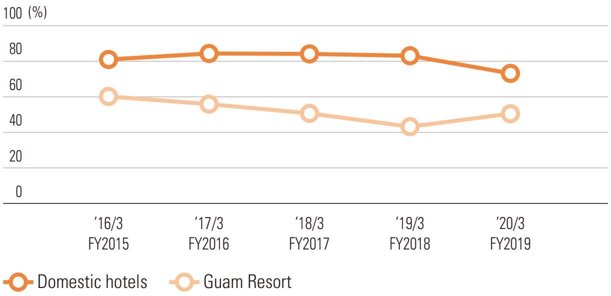
In line with our policy of promoting the transfer of or withdrawal from non-core businesses as part of drastic business strategy re-structuring, we sold our hotel in Nagoya in September 2020 to further reduce the Hotels & Resort Business. We also plan to transfer the Resort Business in Guam as soon as possible, observing the global spread of COVID-19 and its effects to determine the optimal time.

Sales and Operating Income (Loss)

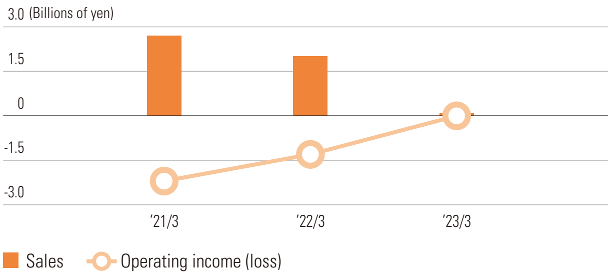


*Figures for FY2016 (ended March 31, 2017) and after are adjusted to new segments.

Guam/Domestic Hotels Occupancy Rates (Annual Average)



Sales and Operating Income (Loss) Plans



Key Products and Services

Leopalace Resort Guam :

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

Leopalace21's ESG Management

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

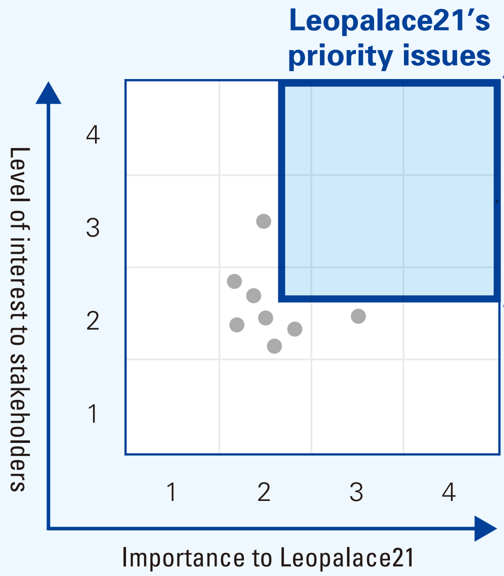
Achieving a Sustainable Society

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

Identifying new material issues given the contribution to resolving SDG issues, etc.

To identify social challenges that we will actively strive to resolve in the future, we plotted issues on a materiality map that has two axes: level of interest to stakeholders and importance to Leopalace21. In addition, of the many plotted issues, we defined the ones we need to prioritize in particular as highly material, and we classified them into three categories: E (environment), S (social), and G (governance). We have also specified KPIs for each material issue and are promoting specific initiatives to resolve these issues.

By working to resolve the identified issues, we can not only create value for our various stakeholders but also help achieve the SDGs adopted at the UN Sustainable Development Summit.



In addition to organizing the identified material issues within an ESG (environment/social/governance) framework, we have incorporated the corresponding issues into our five-theme Basic CSR Action Policy. We have also specified KPIs for each material issue and are promoting specific initiatives to resolve these issues.

Leopalace21's Basic CSR Action Policy

1. Providing high-quality services and supporting affluent living
2. Contributing to local communities
3. Creating pleasant work environments and developing diverse human resources
4. Creating an environmentally friendly society
5. Engaging in sound, constructive communication with stakeholders

Field	Materiality	Basic CSR Policy	KPI	Related SDGs
G Governance	Strengthening the Compliance System —Preventing the Recurrence of the Problem of Construction Defects	5	Number of submissions to our Suggestion Box for Management: 200	16 Peace, Justice and Strong Institutions
		3、5	Number of calls/posts received via our compliance hotline: 100	16 Peace, Justice and Strong Institutions
	Regaining the Trust of Property Owners	5	Number of *regular individual consultation meetings* held for property owners: 80	11 Sustainable Cities and Communities; 16 Peace, Justice and Strong Institutions

Field	Materiality	Basic CSR Policy	KPI	Related SDGs
S Social	Handling Construction Defects	1	Reducing vacancies with suspended tenant recruitment: reduction to approximately 30,000 rooms by the end of March 2021	11 Sustainable Cities and Communities; 16 Peace, Justice and Strong Institutions
	Handling New Lifestyles in Response to the World with Coronavirus	1	Number of web-based rental agreements: 20,000	11 Sustainable Cities and Communities; 16 Peace, Justice and Strong Institutions
	Work-Style Reform and Human Resource Development	3	Ratio of paid leave usage: 85%	4 Quality Education; 8 Decent Work and Economic Growth
			Productivity improvement: net sales per person of 78.7 million yen	
			Career development support: implementing career development training for 265 young employees	
			Organizational hierarchy-based training program: implementing a program targeting grade II staff, including grade III in some cases	
			Disabled employee ratio: meet the target of 2.30%	
			Implementing training for foreign nursing care staff: 9 times	

Field	Materiality	Basic CSR Policy	KPI	Related SDGs
E Environment	Environmental Accounting	4	Reducing Scope 1 and 2 CO_2 emissions: a 26% reduction by FY 2030 compared to FY 2016	13 Climate Action

Leopalace21's ESG Management

Strengthening the Compliance System —Preventing the Recurrence of the Problem of Construction Defects

KPIs

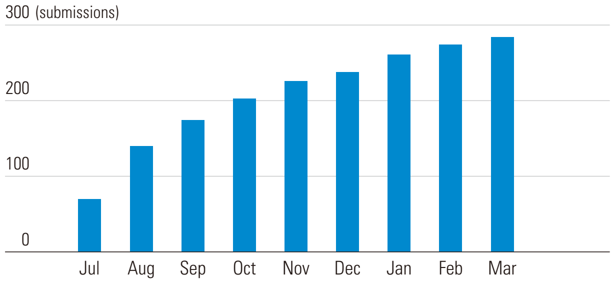
- Number of submissions to our Suggestion Box for Management —a suggestion box service through which employees can directly propose ideas to the management team: 200
- Number of calls/posts received via our compliance hotline: 100

Leopalace21's initiatives

Suggestion Box for Management

In July 2019, we started operating a *Suggestion Box for Management* as a system for employees to make direct suggestions to the management. Submissions to this suggestion box are divided into seven categories that include *improving our corporate value*, *improving our corporate culture*, and *improving our work environment*. After these submissions are reported to the management, they are discussed by directors, outside directors, and executive officers and then reflected in the business administration.

■ Number of suggestion box submissions (accumulated total)



* The suggestion box was established in July 2019.

(FY ended March '20)

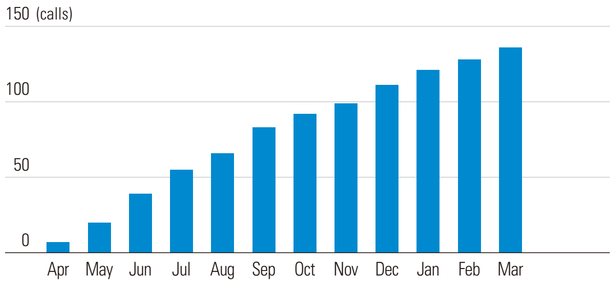
Compliance Hotline

We have set up multiple channels of compliance hotline both in-house run by Legal Affairs Group and outside the Company, a contact in a law firm, to handle consultation and reporting in cases where legal violations or similar acts by officers and employees are discovered.

We run the compliance hotline in accordance with both whistleblower-protection and our internal reporting regulations, and—in addition to protecting whistleblowers—we take suitable action based on the investigation results in order to improve problems.

In addition, to deepen everyone's understanding of compliance, all of our officers and employees always carry the card which indicates our compliance hotlines.

■ Number of calls/posts received via our hotline (total)



(FY ended March '20)

Regaining the Trust of Property Owners

KPI

- Number of *regular individual consultation meetings* held for property owners: 80

Leopalace21's initiatives

Regular individual consultation meetings for property owners

Leopalace21 holds regular individual consultation meetings throughout the country as a way to support better life plan designs for the various assets of property owners. Because property owners can consult with tax accountants and other experts at these meetings regarding their questions concerning tax affairs, inheritance, assets, etc., they can take advantage of in-depth consultation.

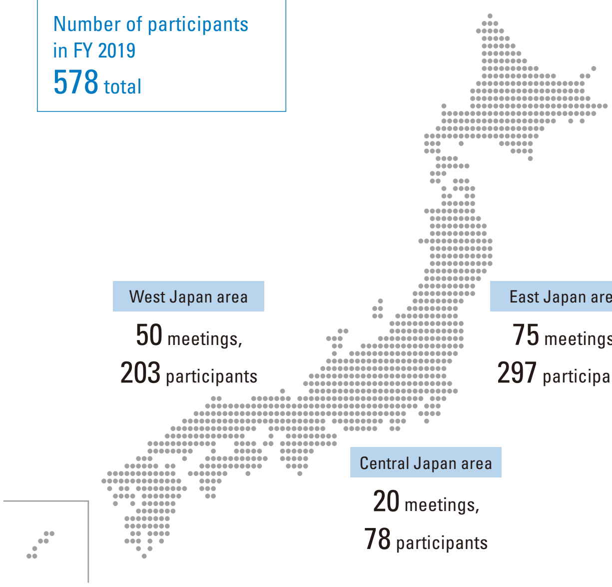
We respond to any requests to explain the problem of construction defects, our financial status, and other issues, thereby striving to regain the trust of our property owners. In addition to individual consultation meetings, we also regularly hold property owner briefing sessions throughout the country as a way for Leopalace property owners all over Japan to interact with our employees.

Due to the effects of the COVID-19, we are not currently holding these briefing sessions, whereas our President and other officers explained the problem of construction defects and measures we are taking to prevent reoccurrence, our financial status and the business development to property owners at the briefing sessions held in fiscal year 2019.

We have received a lot of feedbacks from property owners, including their questions and anxieties as well as matters that interest them, and opinions on the problem of construction defects and preventive measures in particular accounted for approximately 61% of everything we heard. We will continue to listen to feedback from our property owners as we strive to regain their trust and build a good relationship with them.

Number of meetings held in FY 2019
145 total

Number of participants in FY 2019
578 total



Leopalace21's ESG Management

S Handling Construction Defects

KPI

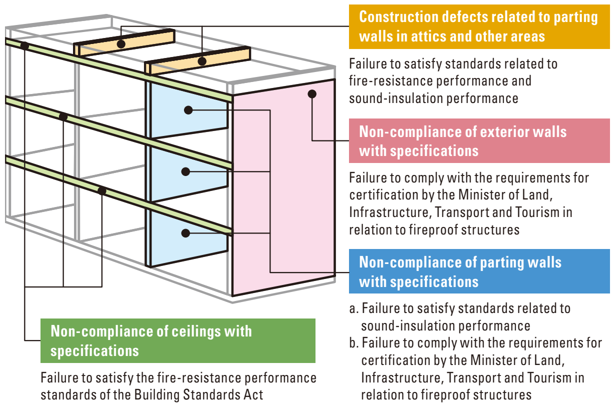
• Reducing vacancies with suspended tenant recruitment: reduction to approximately 30,000 rooms by the end of March 2021

Leopalace21's initiatives

Resuming tenant recruitment in apartment rooms

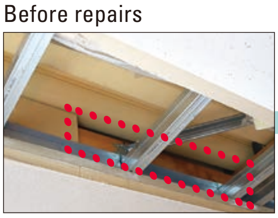
The number of vacancies increased as a result of suspending tenant recruitment for properties that have construction defects. We are working hard to reduce the number of vacancies with suspended tenant recruitment to approximately 30,000 by the end of March 2021 from around 50,000 as of the end of March 2020.

Regarding properties with confirmed defects, we are gradually resuming tenant recruitment when the repair work is complete. At the same time, regarding rooms for which a certain level of fireproof performance has been confirmed through fire-resistance verification, we are carefully explaining to tenants that there is no serious problem with living in the rooms as we resume recruiting new tenants to improve the occupancy rate.



Example of an obvious defect

Before repairs



Only some of the required parting wall for the second-floor attic was constructed.

After repairs

Gypsum boards was installed to serve as parting walls throughout the attic, and fire-resistant putty was used to prevent the gap in roofing material and beam. The corner-bracing joint was also filled with fire-resistant putty. Therefore, there remains no gap.

Example of a gap or other minor defect

Before repairs

This is the space above the ceiling of a first-floor unit. The parting wall does not extend to the flooring material of the second floor, which has resulted in a gap.

After repairs

We filled the gap between the top of the parting wall and the flooring material of the second floor with fire-resistant putty. This eliminated the gap.

Handling New Lifestyles in Response to the World with Coronavirus

KPI

• Number of web-based rental agreements: 20,000

Leopalace21's initiatives

Web-based application system for rental properties

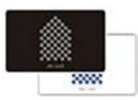
In June 2019, we introduced the *online tenancy application system*, a web-based application system provided by ITANDI, Inc., thereby building a system that enables customers to conclude agreements without visiting our offices. In addition, in February 2020, we started up operations enabling non-face-to-face key delivery—for properties with Leo Lock, therefore making it possible for our customers to conclude rental agreements and even move in without ever visiting our offices.

Furthermore, in September 2020, to help deal with life in the world with coronavirus, we started accepting *web-based rental agreements* at directly managed sales offices throughout the country. Our web-based rental agreement service enables customers to perform the entire agreement procedure without having to meet face-to-face by making it possible to fill out the tenancy application form and submit identity verification documents online and hear explanations of important matters via video call.

Until now, we have accepted all web-based agreements through our Leopalace21 Niigata Call Center, and by expanding this service to directly managed sales offices throughout the country, we can provide information on the surrounding environment and other local details, thereby offering almost similar service to face-to-face at our offices.

In terms of our web-based agreement results, we concluded 833 such agreements from the outset of the service in June 2019 to August 2020. Through the recent service expansion, we are aiming for results of 20,000 agreements per year, including the handling of overseas target audience.

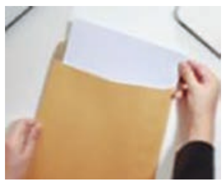
■ Rental agreements for which it is not necessary to visit our offices



When contracts are sent, they come with a special Leo Lock card

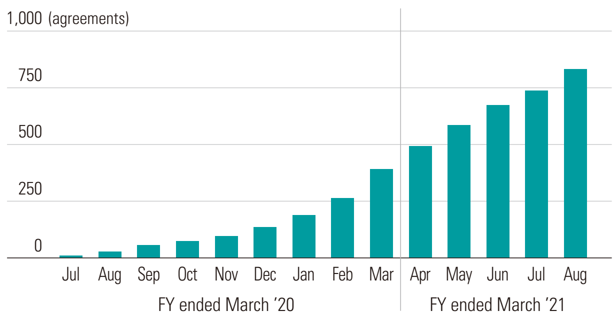
Tenants are notified of their PIN codes by email on the day they move in

Tenants use the PIN code to unlock the door the first time when they move in



Tenants receive a key-delivery confirmation letter enclosed with mailed web-based agreement documents

■ Number of web-based rental agreements (accumulated total)



Leopalace21's ESG Management

Work-Style Reform and Human Resource Development

KPIs

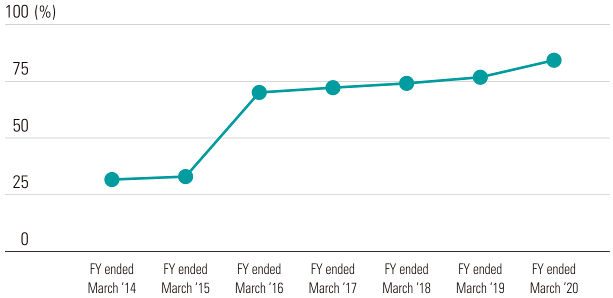
- Ratio of paid leave usage: 85%
- Productivity improvement: net sales per person of 78.7 million yen

Leopalace21's initiatives

Promoting paid leave usage

We consider work-life balance promotion an important issue, and part of this includes creating a system and work environment that make it easy for our employees to use their paid leave entitlement. More specifically, we are promoting the usage of the summer and winter planned five-day annual leave as well as the three-day refreshment leave, which can be used anytime throughout the year, and we have also introduced a half-day paid leave and hourly paid leave system. These efforts resulted in a paid leave usage ratio of 84.3% in the fiscal year ended March 2020, a considerable improvement over the ratio of 31.7% in the fiscal year ended March 2014.

■ Changes in the ratio of paid leave usage

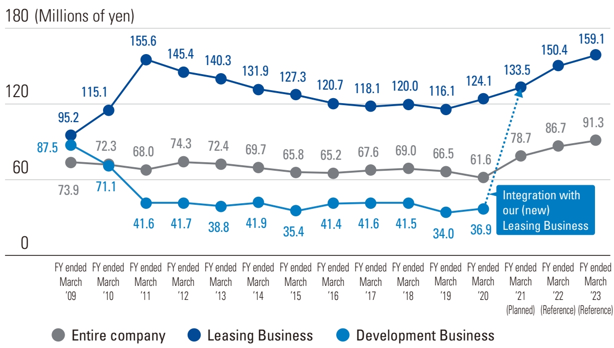


Improving productivity

Due to the combined effects of the problem of construction defects and the COVID-19 impact, our business performance is in a major slump. During the current fiscal year ended March 2021, as the number of employees decreases due to both the implementation of a voluntary retirement system and attrition, it is essential to rebuild our business performance, so improving the productivity per person is an extremely important issue.

In addition to promoting the utilization of a flexible work system—including telecommuting—to support for the balance of work and childcare, nursing care, etc., we are also implementing various types of training to improve the ability of each of our employees and try to increase our net sales per person.

■ Changes in the net sales per person



KPIs

- Career development support: implementing career development training for 265 young employees
- Organizational hierarchy-based training program: implementing a program targeting grade II*1 staff, including grade III in some cases *2

*1. The grade equivalent to the junior grade in our job grading system

*2. A total of 11 times from December 2020 to December 2022 with one time during the fiscal year ending March 2021

Leopalace21's initiatives

Career development support

In order to support the autonomous career development and career formation of our employees, we have implemented a career planning system under which each employee considers their career plan and then meets with their superior concerning its details. We are also running a job posting system that includes the disclosure of in-house recruitment opportunities and gives each employee the chance to apply to departments that match the employee's personal career goals.

In the past, we have implemented the training of career development support specific to young, middle-aged, and senior employees, but—given the situation surrounding the spread of COVID-19 this fiscal year—we are planning to implement training limited to young employees in the Tokyo metropolitan area.

Organizational hierarchy-based training program

Our goal is to be an organization at which each employee can pursue self-actualization by independently striving to develop their abilities as an autonomous and self-propelled member of our team, and we run a training system in line with this goal. Our organizational hierarchy-based training program—which helps employees develop the abilities required at each level of our hierarchy—includes not only group-based training but also pre- and post-training assignments as well as E-Learning, all of which are intended to help employees continuously and gradually master required abilities. To start, we are implementing E-Learning-based training from fiscal year 2020 to fiscal year 2022 for employees on grade II and grade III in some cases, which are equivalent to the junior grades in our job grading system. In the future, we plan to expand our training program to encompass employees on other grades as well.

Leopalace21's ESG Management

S Work-Style Reform and Human Resource Development

KPIs

- Disabled employee ratio: meet the target of 2.30%
- Implementing training for foreign nursing care staff: 9 times

Leopalace21's initiatives

Ensuring the job satisfaction of disabled persons

Leopalace21 is aiming to expand its hiring of disabled persons. To do so, we established Leopalace Smile Co., Ltd. in August 2009 and received the authorization as a special subsidiary company in November 2009. This company currently handles the Leopalace Group's mail sorting, shipping, and related outsourced work. Our operations are aimed at achieving the normalization of society.

Training foreign nursing care staff

To deal with our shortage of nursing care staff, we are striving to promote the hiring of foreign nationals through a comprehensive range of support systems, including the introduction of a tablet-based nursing care record system that supports English, rent subsidies on our apartments for staff that have come to Japan from abroad, and covering the costs of such staff returning to their home countries once per year.

As of the end of August 2020, we had 34 foreign nursing care employees—mainly Filipinos—and we plan to hire more.

Foreign staff in training

Environmental Accounting

KPI

• Reducing Scope 1 and 2 CO_2 emissions: a 26% reduction by FY 2030 compared to FY 2016

Leopalace21's initiatives

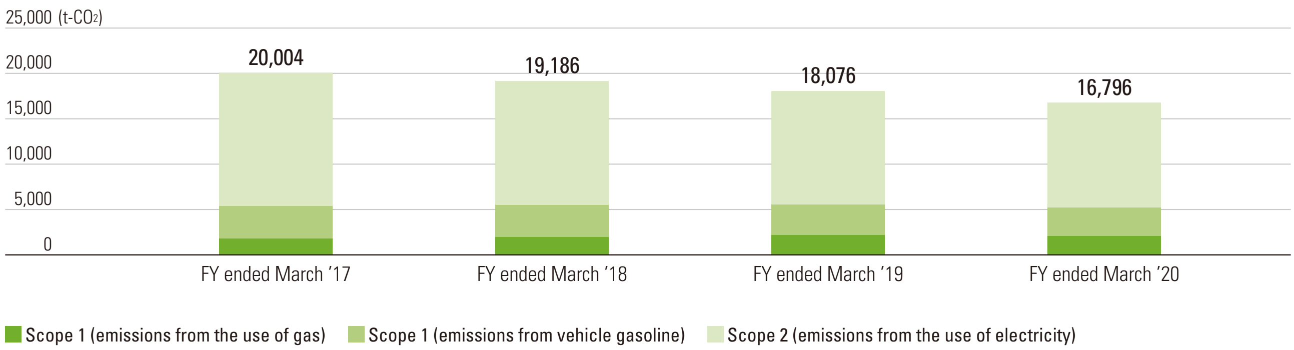
Environmental accounting

The Japanese government's new greenhouse gas emission reduction goal starting in 2020 is to reduce such emissions by 26% by fiscal year 2030 compared to fiscal year 2013, or by 24.5% compared to fiscal year 2005. In line with this goal, we have set a goal of reducing the Scope 1 and 2 CO_2 emissions—emissions from the use of electricity and gas, and vehicle gasoline— of our facilities by 26% by FY 2030 compared to FY 2016.

In fiscal year 2016, we started disclosing our total CO_2 emissions, and the total results for each fiscal year are shown on our website and in the integrated reports. Regarding our totalization process and results, we have obtained the guarantee of an independent third party to increase the reliability of the information we present.

Each of our employees will continue to maintain an awareness of the environment as they go about their work, and as a company we will continue to conduct environmental protection activities, including the reduction of company cars and the green procurement of business supplies.

■ CO_2 emissions (Scope 1 and 2)



Leopalace21's ESG Management

Environmental Initiatives

Leopalace21's initiatives

Operation under our CSR Procurement Guidelines

In September 2019, we established our CSR Procurement Guidelines, and our overall Group operates in accordance with them. These guidelines stipulate a number of *environmental consideration* items, including striving to reduce our environmental impact to help attain the SDGs as well as following environmental laws and regulations not only in Japan but also in other countries and regions where we do business.

In addition, by explaining these guidelines to our stakeholders through business partners, etc., we also conduct publicity activities regarding our environmental activities.

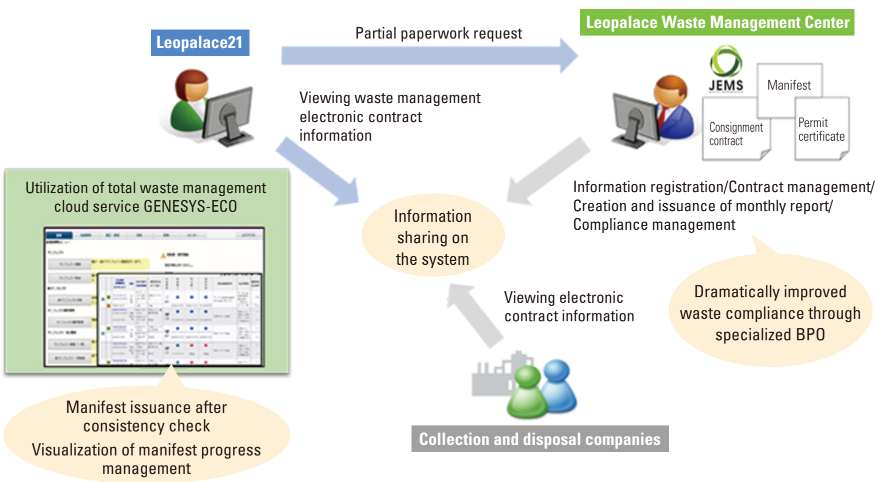
Consideration for the environment
(an excerpt from our CSR Procurement Guidelines)

- Observe environmental laws and regulations in countries and regions in which we operate
- Strive to reduce our environmental impact in order to help build a sustainable society
- Strive to reduce and appropriately manage waste
- Conduct business activities considering the surrounding environment and biodiversity

The Leopalace21 Group CSR Procurement Guidelines

Introducing a total waste management system

Companies are required to appropriately manage industrial waste generated as a result of their business activities in line with the Waste Management and Public Cleansing Act. Therefore, we introduced a total waste management system provided by JEMS Inc. at all of our branches with construction responsibilities starting in August 2019. This system enables us to centrally manage waste by utilizing a cloud service to handle permits possessed by industrial waste disposal companies, waste disposal consignment contracts concluded with disposal companies, and electronic manifests for waste.



Data Compilation

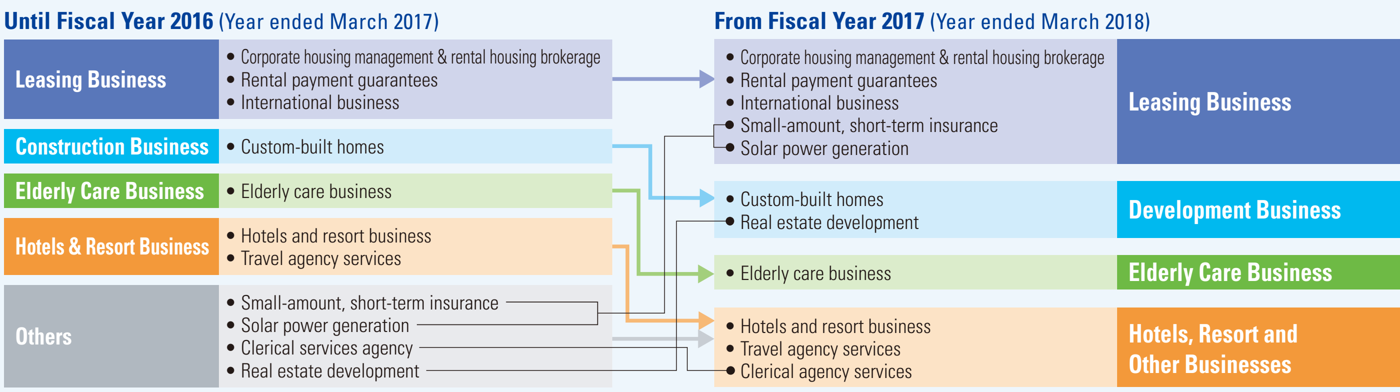
Ten-Year Consolidated Financial Highlights

For the years ended March 31	'11/3 FY2010	'12/3 FY2011	'13/3 FY2012	'14/3 FY2013
Net sales	483,537	458,220	454,285	470,883
Leasing Business	355,752	379,091	383,637	388,562
Construction Business (current Development Business)	107,821	62,913	53,369	63,135
Elderly Care Business	7,785	8,845	9,482	10,171
Hotel, Resort & Other Businesses	12,178	7,370	7,795	9,013
Cost of sales	448,392	403,572	396,508	401,510
Selling, general and administrative expenses	59,605	51,278	50,299	55,906
Operating income (loss)	(24,460)	3,369	7,477	13,467
Leasing Business	(30,865)	4,052	8,750	15,364
Construction Business (current Development Business)	11,888	4,290	2,748	2,951
Elderly Care Business	(1,508)	(855)	(742)	(610)
Hotel, Resort & Other Businesses	(1,689)	(1,702)	(970)	(981)
Adjustments	(2,286)	(2,415)	(2,308)	(3,256)
EBITDA (Operating income + depreciation)	(18,009)	9,416	13,161	19,460
Recurring income (loss)	(32,662)	1,133	11,154	11,368
Net income (loss)	(41,742)	372	13,398	15,730
At year-end:				
Total assets	298,274	264,783	261,649	288,165
Net assets	32,187	31,761	56,145	103,354
Interest-bearing debt	43,858	51,654	49,026	37,227
Cash and deposit balance	40,674	41,477	56,681	74,767
Cash flow:				
Cash flow from operating activities	(28,337)	(3,174)	6,069	15,584
Cash flow from investing activities	13,143	(3,537)	(6)	(6,929)
Cash flow from financing activities	(15,890)	7,245	9,148	8,848
Amounts per share: (Yen)				
Net assets	190.84	187.50	265.32	393.05
Net income (loss)	(266.48)	2.21	74.85	69.38
Cash dividend	–	–	–	–
Ratio:				
Units under management	571,656	556,207	546,204	548,912
Average annual occupancy rate (%)	80.09	81.16	82.94	84.58
Orders received (Millions of yen)	80,338	50,019	73,006	81,139
Equity ratio (%)	10.8	12.0	21.5	35.9
Return on equity (ROE) (%)	(81.0)	1.2	30.5	19.7
Return on assets (ROA) (%)	(9.4)	0.4	4.2	4.1
Dividend payout ratio (%)	–	–	–	–
Debt/equity ratio (%)	1.4	1.6	0.9	0.4
Number of employees	7,114	6,165	6,277	6,758

*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 ¥108.83 = U.S. $1, the approximate rate prevailing at March 31, 2020.
2. Return on equity (ROE) = Net income/average net assets during the fiscal year x 100
3. Return on assets (ROA) = Recurring income/average total assets during the fiscal year x 100
4. Debt/equity ratio = Interest-bearing debt/(net assets – non-controlling interests)
5. In this report, net income attributable to shareholders of the parent is stated as "net income."
6. Regarding the Hotels, Resort & Other Businesses, we added the results of the Hotels & Resort Business to the results of Others for the period from the fiscal year ended March 2011 to the fiscal year ended March 2016, and then we changed the segments in the fiscal year ended March 2018, so we retroactively changed the figures for the fiscal year ended March 2017 to the new segment (Hotels, Resort & Other Businesses).

Reorganized Business Portfolio



(Millions of yen)						(Thousands of U.S. dollars)
'15/3 FY2014	'16/3 FY2015	'17/3 FY2016	'18/3 FY2017	'19/3 FY2018	**'20/3 FY2019**	**'20/3 FY2019**
483,247	511,513	520,488	530,840	505,223	**433,553**	**3,983,769**
399,375	410,641	421,342	435,537	426,388	**388,939**	**3,573,827**
61,312	74,160	80,321	76,587	58,992	**23,806**	**218,753**
10,608	10,798	11,536	12,807	13,922	**14,620**	**134,346**
11,950	15,913	7,287	5,908	5,919	**6,186**	**56,841**
407,433	422,604	427,820	434,762	428,988	**408,112**	**3,749,996**
60,992	67,823	69,769	73,147	68,844	**61,915**	**568,916**
14,822	21,085	22,898	22,930	7,390	**(36,473)**	**(335,143)**
20,590	22,848	23,009	26,062	14,987	**(20,828)**	**(191,384)**
211	3,340	5,786	3,663	(995)	**(5,181)**	**(47,607)**
(606)	(1,354)	(1,667)	(1,596)	(846)	**(559)**	**(5,145)**
(1,257)	(360)	(417)	(846)	(1,346)	**(1,000)**	**(9,193)**
(4,116)	(3,388)	(3,812)	(4,353)	(4,407)	**(8,903)**	**(81,812)**
22,558	30,700	32,235	34,656	20,336	**(24,316)**	**(223,436)**
13,483	19,909	22,355	22,354	7,063	**(36,341)**	**(333,929)**
15,175	19,631	20,401	14,819	(68,662)	**(80,224)**	**(737,150)**
308,882	327,609	337,828	337,134	291,790	**196,953**	**1,809,735**
124,928	144,865	158,870	159,438	81,338	**1,589**	**14,605**
44,487	50,824	49,918	53,829	48,047	**36,137**	**332,059**
75,221	88,043	104,432	106,543	84,536	**60,501**	**555,929**
15,715	22,104	27,504	27,338	(7,212)	**(51,639)**	**(474,501)**
(17,550)	(11,087)	(8,653)	(2,336)	7,379	**39,533**	**363,263**
1,747	1,374	(14,048)	(18,354)	(15,181)	**(12,048)**	**(110,709)**
475.17	550.94	603.76	630.84	331.87	**5.34**	**0.05**
57.73	74.68	77.61	58.02	(278.58)	**(328.77)**	**(3.02)**
–	10.00	22.00	22.00	–	**–**	**–**
554,948	561,961	568,739	570,672	574,798	**575,798**	
86.57	87.95	88.53	90.59	88.34	**80.78**	
87,395	86,439	87,139	75,905	64,495	**7,814**	**71,807**
40.4	44.2	47.0	47.2	27.7	**0.7**	
13.2	14.6	13.4	9.3	(57.2)	**(195.1)**	
4.5	6.3	6.7	6.6	2.2	**(14.9)**	
–	13.4	28.3	37.9	–	**–**	
0.4	0.4	0.3	0.3	0.6	**23.0**	
7,339	7,846	7,695	7,690	7,600	**7,043**	

Reference: Fiscal Year 2019 (Millions of yen)

Net sales	Operating income (loss)
388,939	(20,828)
23,806	(5,181)
14,620	(559)
6,186	(1,000)

From Fiscal Year 2020 (Year ending March 2021)

Core Business	Leasing Business Development Business (Leasing Segment)
Strategic Business	Elderly Care Business
Non-core Businesses	Other Businesses

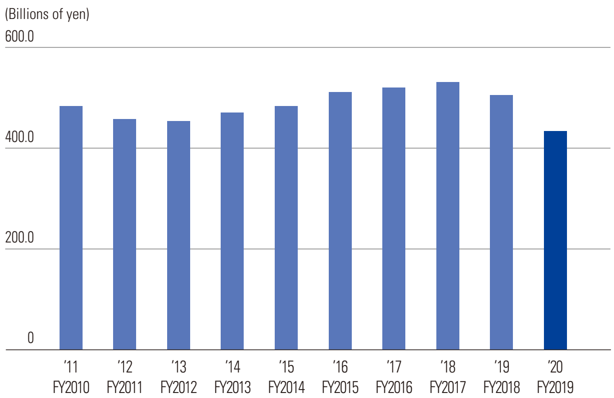
Toward the Recovery of Business Performance and Trust
Initiatives for Strengthening Management Foundation
Data Compilation

Consolidated Financial Highlights

Net sales

433.5 billion yen

Down 14.2% y/y



Starting in the fiscal year ended March 2010, the net sales of our Leasing Business in particular were continuously on an increasing trend—due in part to our efforts to strengthen the profitability of the Leasing Business—but our sales declined for the second year in a row starting in the fiscal year ended March 2019 due to the construction defects problem causing a decrease in occupancy rates, which led to a decrease in rental income, etc., as well as the effects of stopping new orders for apartment construction.

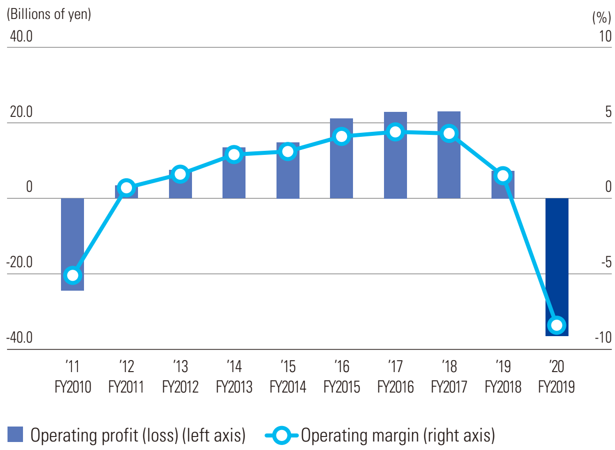
Operating profit (loss) / Operating margin

-36.4 billion yen

7.3 billion yen in fiscal 2018

-8.4 %

Down 9.9 points y/y

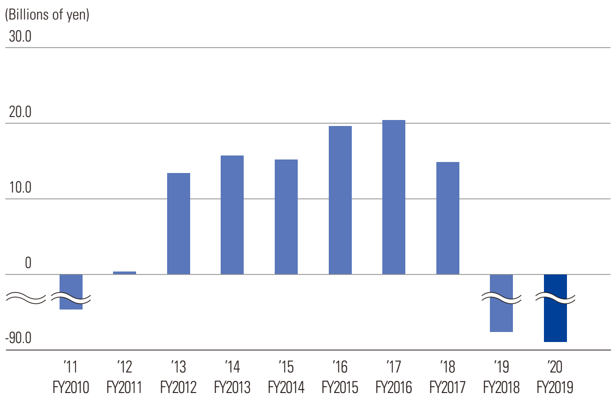


The earnings of the Leasing Business were decreased by the impact of the global financial crisis, and our operating profit fell into the red for the second year in a row in the fiscal year ended March 2011. Later, we shifted to a business model focused on our Leasing Business, and we recorded seven straight years of profit growth starting in the fiscal year ended March 2012, but our profit declined for two years in a row starting in the fiscal year ended March 2019 due to decreased business earnings resulting from the construction defects problem.

Net income attributable to shareholders of the parent

-80.2 billion yen

-68.6 billion yen in fiscal 2018

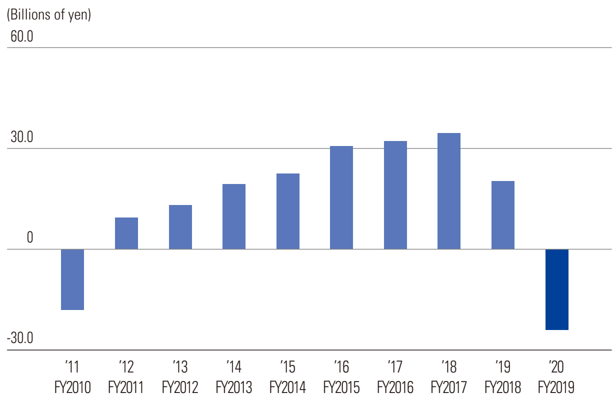


Just like operating profit, earnings in the Leasing Business were dented by the impact of the global financial crisis, and our net profit attributable to shareholders of the parent fell into the red for the second year in a row in the fiscal year ended March 2011. Later, we shifted to a business model focused on our Leasing Business, and our net profit returned to the black in the fiscal year ended March 2012 and continued to increase thereafter, but our profit declined for three years in a row after that as a result of booking an impairment loss in the fiscal year ended March 2018 as well as the construction defects problem starting in the fiscal year ended March 2019.

EBITDA (Operating profit + depreciation)

-24.3 billion yen

20.3 billion yen in fiscal 2018

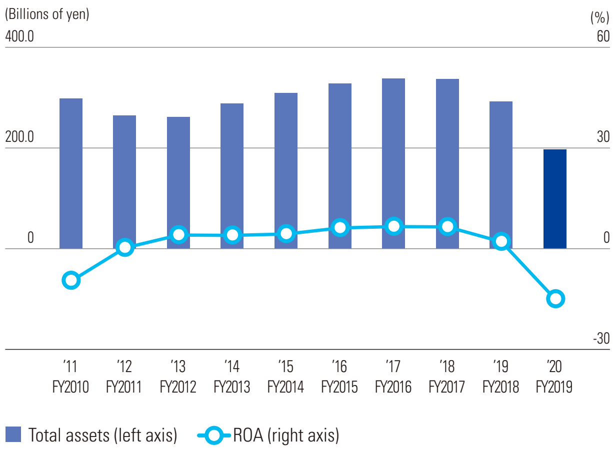


Our EBITDA—mainly the combination of operating profit and depreciation—steadily increased starting in the fiscal year ended March 2012 owing to sustained operating profit growth due to the recovery of our earnings as well as higher depreciation stemming from increased capital investments in new businesses in the last few years, including serviced apartments in the ASEAN region. However, our EBITDA declined for two years in a row starting in the fiscal year ended March 2019 due to the construction defects problem.

Total assets | ROA

196.9 billion yen
Down 32.5% y/y

-14.9 %
Down 17.1 points y/y

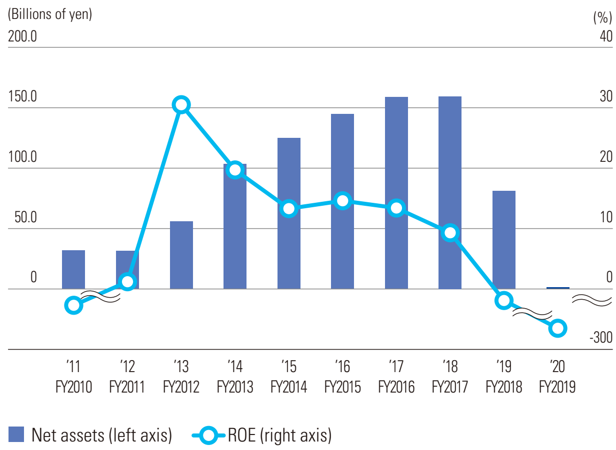


Our ROA recovered rapidly after returning to the black in the fiscal year ended March 2012. In particular, it roughly trended in the 4% to 6% range starting in the fiscal year ended March 2013, climbing to 6.6% in the fiscal year ended March 2018, but it then declined starting in the fiscal year ended March 2019 due to a major drop in our profit resulting from the impact of the construction defects problem, reaching –14.9% in the fiscal year ended March 2020.

Net assets | ROE

1.5 billion yen
Down 98.0% y/y

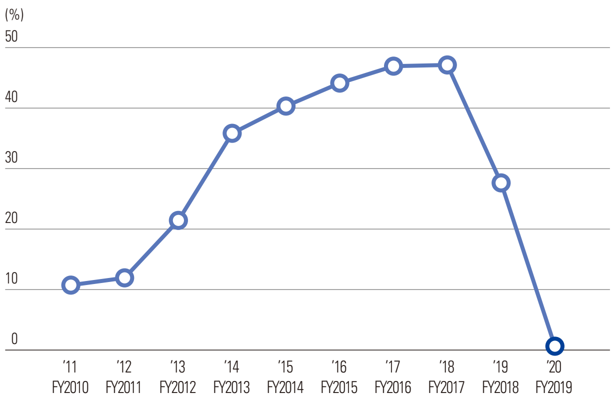
-195.1 %
Down 137.8 points y/y



As a result of our earnings steadily increasing due to our Leasing Business in particular, our ROE hovered in the 10% range starting in the fiscal year ended March 2015. However, it then declined starting in the fiscal year ended March 2019 due to a major drop in our profit resulting from the impact of the construction defects problem, reaching a negative value for the second year in a row in the fiscal year ended March 2020.

Equity ratio

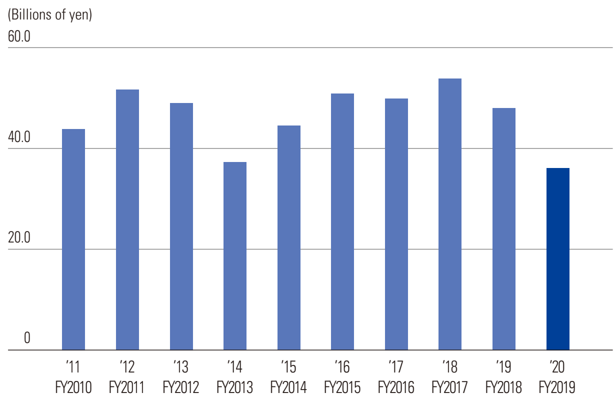
0.7 %
Down 27 points y/y



When earnings remained in the red for the second straight year in the fiscal year ended March 2011, the equity ratio had slumped as far as 10.8%. In step with the earnings recovery since then, however, we have endeavored to raise the equity ratio and achieve financial soundness. Accordingly, the equity ratio recovered to 47.2% at the end of March 2018, but it was dragged back down starting at the end of March 2019 due to the impact of the construction defects problem, and at the end of March 2020 we ended up booking net losses of 80.2 billion yen and an equity ratio of 0.7%.

Interest-bearing debt —incl. Lease obligations

36.1 billion yen
Down 24.8% y/y

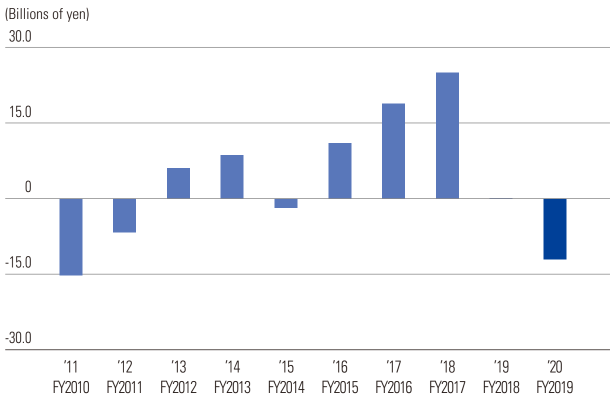


In the last 10 years, we have focused on reducing and curtailing the debt ratio in consideration of our repayment capacity as well as the compression of our total liabilities. These efforts reduced our liabilities to 36.1 billion yen at the end of March 2020, and our debt ratio has since remained low.

Free cash flow

-12.1 billion yen

0.1 billion yen in fiscal 2018

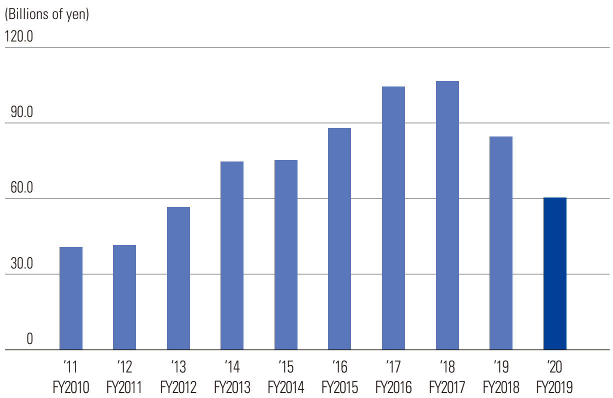


While we have increased our cash flows from operating activities mainly in the form of net income before tax adjustments since the global financial crisis, we have curtailed the outflow of cash used for capital investments and other investing activities. However, our cash flows from operating activities were negative for two years straight starting in the fiscal year ended March 2019, and, in the fiscal year ended March 2020, our free cash flow was –12.1 billion yen.

Cash and deposit balance

60.5 billion yen

Down 28.4% y/y

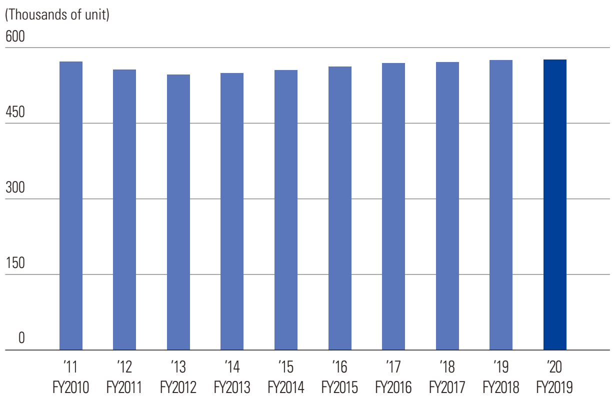


Since the global financial crisis, as a result of an increase in our cash flows from operating activities, curtailing the outflow of cash used for capital investments and other investing activities, and selling off owned assets, our cash and deposit balance increased. However, due to factors that included our cash flows from operating activities becoming negative starting in the fiscal year ended March 2019, our cash and deposit balance dropped to 60.5 billion yen at the end of March 2020.

Units under management

575,798 unit

Up 0.2% y/y

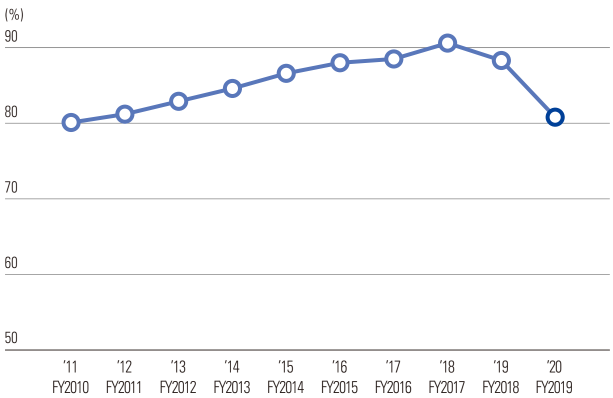


Because expanding our number of units under management strengthens our earnings base, we strived to expand our number of units under management by supplying more properties in areas where we expect strong tenant demand, with a focus on Japan's three major metropolitan areas in particular. However, we are currently focused on improving the occupancy rate of properties we already manage as opposed to increasing the quantity of properties. At the end of March 2020, we increased our units under management by 1,000 compared to the previous year to 575,798.

Average annual occupancy rate

80.8 %

Down 7.5 points y/y

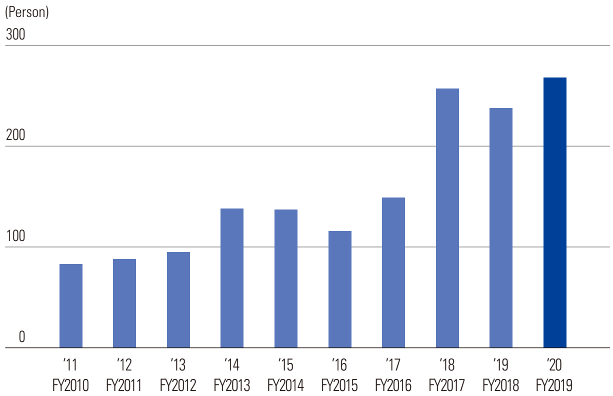


Rental housing occupancy rates tend to peak in March ahead of the new school year and before new company recruits head off to work. Occupancy rates then typically decrease in April, before gradually picking up again. To encourage long-term tenancy, we have been working to enhance the value of our properties and implementing measures to try to weaken the impact of this seasonal cycle. As a result, our average annual occupancy rate had gradually increased before it was pulled back down for two years straight starting in the fiscal year ended March 2019 by the impact of the construction defects problem.

Non-financial Highlights

No. of employees on childcare leave

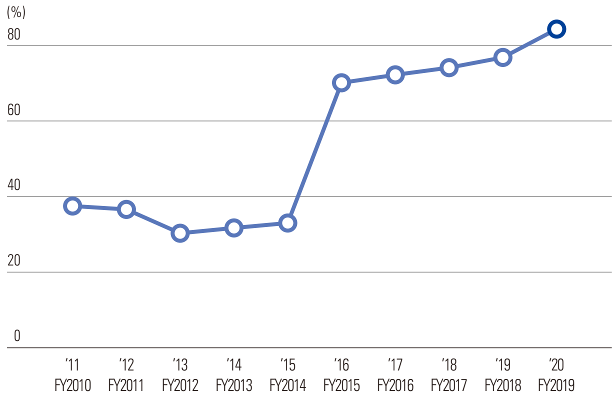
268 people
Up 12.6% y/y



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

Ratio of paid leave usage

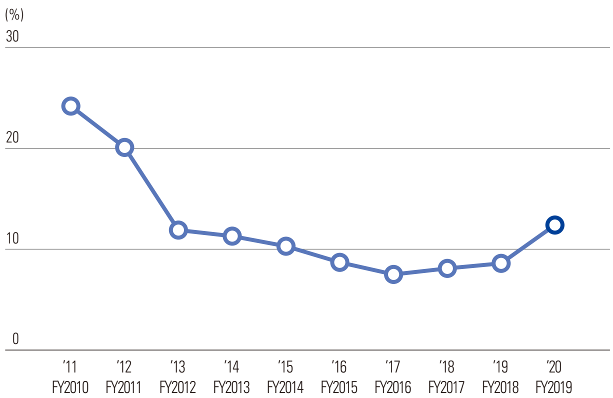
84.3 %
Up 7.5 points y/y



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

Rate of workforce turnover

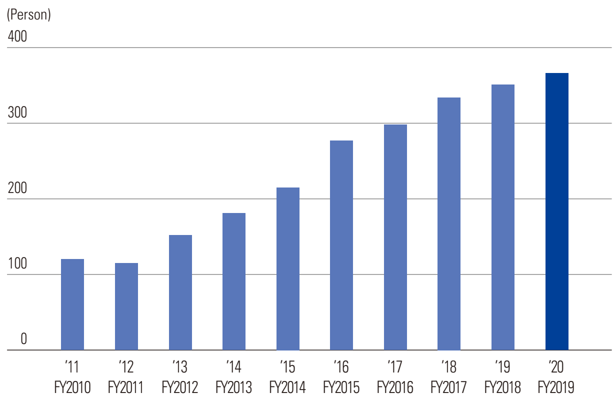
12.4 %
Up 3.8 points y/y



The Company places utmost importance on "human resources," and implements employee training programs and other measures that facilitate all employees in expressing their diverse individuality and harnessing their capabilities. In addition to this, we aim to build pleasant workplaces where people enjoy work as part of an effort to improve issues with long working hours that are specific to this industry. As a result, we successfully reduced the employee turnover rate, which was 24.2% in the fiscal year ended March 2011 (nine years ago), to 12.4% in the fiscal year ended March 2020.

No. of employees with foreign citizenship

366 people
Up 4.3% y/y



We believe that a workforce of people from a broad array of backgrounds with diverse values helps create new value and greatly contributes to the Company's growth. We are therefore actively hiring foreign national employees in order to secure the personnel needed to achieve such levels of diversity. Our number of non-Japanese employees increased again by the end of March 2020, reaching 366 employees.

Financial Section

Management's Discussion and Analysis

1. Operating Environment

During the subject consolidated fiscal year, although the domestic economy showed gradual progression supported by improvements in employment and individual income, we are afraid that the economic prospects have very much worsened because of slow economic activities on a global scale due to COVID-19 impact.

New housing starts of leased units decreased three years in a row (down 14.2% year on year), due to the financial institutions' stringent loan screening policy for apartment loans. As the number of vacant houses continues to increase and recovery in nationwide demand becomes difficult, achieving stable occupancy rates requires differentiation strategy, which means constructing apartments in areas with high demand, in addition to providing value-added products and services that meet tenants' needs.

Under these conditions, in the subject consolidated fiscal year, Leopalace21 Corporation with its consolidated subsidiaries (the "Company" and collectively the "Companies") posted a significant loss for the second consecutive year, mainly due to repair expenses incurred to tackle the construction defects and a deterioration in the occupancy rate caused by the construction defects. In response, on June 5, 2020, the Company announced a business plan (medium-to long-term strategies) centered on *Reconstruct business foundation – selective concentration*, *Implement structural reforms*, and *Restore social trust*, and worked to offer a voluntary retirement program and reduce the number of directors and executive officers. Also, in order to resolve the problem concerning construction defects as soon as possible, we have been intensively working on to carry out repair works.

2. Analysis of Business Results

(1) Net Sales

Company earnings deteriorated, and consolidated net sales for the subject fiscal year came to 433,553 million yen (down 14.2% year on year). New tenant recruitments on properties were delayed because of prioritization on priority investigations and belated organizational response to support repair works, as well as restricted demand for new hires and relocations because of COVID-19 impact in the busiest months. As a result, net sales of the Leasing Business decreased to 388,939 million yen (down 8.8% year on year). In the Development Business, net sales came to 23,806 million yen (down 59.6% year on year).

Net Sales by Segment

(Million of Yen)	FY2018	FY2019	Change
Leasing Business	426,388	**388,939**	**(37,449)**
Development Business	58,992	**23,806**	**(35,185)**
Elderly Care Business	13,922	**14,620**	**698**
Hotels, Resort, & Other Business	5,919	**6,186**	**266**
Total	505,223	**433,553**	**(71,669)**

(2) Earnings

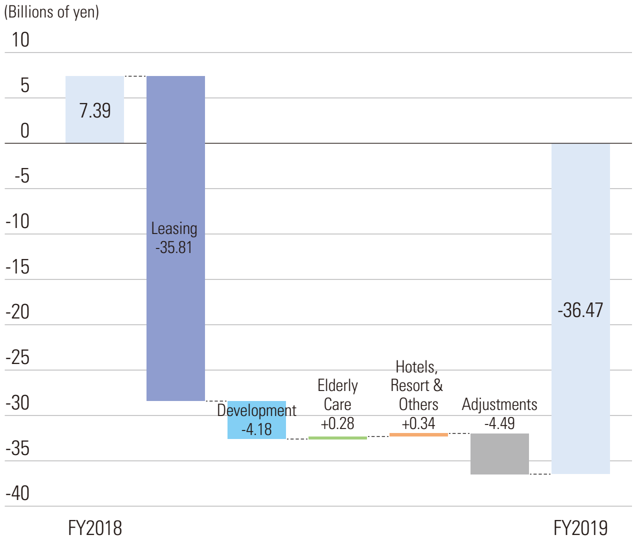
Gross profit was 25,441 million yen (down 66.6% year on year), operating loss was 36,473 million yen (operating profit of 7,390 million yen for previous fiscal year) and recurring loss was 36,341 million yen (recurring profit of 7,063 million yen for previous fiscal year) and net loss attributable to shareholders of the parent was 80,224 million yen (down 11,561 million yen compared to the previous fiscal year).

This was due to extraordinary losses of 24,395 million yen recorded as a reserve for repairs and other incidental expenses related to construction defects, 7,620 million yen recorded as an impairment loss for non-current assets and goodwill, and 21,485 million yen recorded as income taxes adjustment (loss).

Operating Profit by Segment

(Millions of Yen)	FY2018	FY2019	Change
Leasing Business	14,987	**(20,828)**	**(35,815)**
Development Business	(995)	**(5,181)**	**(4,185)**
Elderly Care Business	(846)	**(559)**	**286**
Hotels, Resort, & Other Business	(1,346)	**(1,000)**	**346**
Adjustments	(4,407)	**(8,903)**	**(4,496)**
Total	7,390	**(36,473)**	**(43,864)**

Change in Operating Profit



(3) Segment Information

Leasing Business

The Company offers the industry-first electronic rental agreement service, security systems in alliance with large security companies as a part of the value-added services. In addition, to achieve stable occupancy rates, we are strengthening sales towards corporate customers to respond to their dormitory and housing demand and increasing support for foreign tenants.

Since new tenant recruitments on properties were delayed because of prioritization on priority investigations and belated organizational response to support repair works, as well as corporate customers' restricted demand for new hires and relocations because of COVID-19 impact in the busiest months, the occupancy rate at the end of the subject fiscal year was 83.07% (down 1.26 points from the end of the previous fiscal year) and the average occupancy rate was 80.78% (down 7.56 points year on year). The number of units under management at the end of the subject fiscal year was 575 thousand (increased by one thousand from the end of the previous fiscal year).

As a result, net sales amounted to 388,939 million yen (down 8.8% year on year) and operating loss was 20,828 million yen (operating profit of 14,987 million yen for the previous fiscal year) due to decrease of rent income and others caused by deterioration of the occupancy rate and increase of 3,178 million yen in reserve for apartment vacancy loss.

Development Business

In the Development Business, the Company focused on supplying apartments in the three metropolitan areas where solid leasing demand is anticipated supported by an increase in population.

As a result of orders becoming sluggish due to intensified competition in the metropolitan areas and changes in the environment of apartment loans, in addition to stop taking new orders for apartment construction because of the construction defect problems, orders received during the subject fiscal year amounted to 7,814 million yen (down 87.9% year on year) and the orders received outstanding stood at 27,696 million yen (down 55.6% from the end of the previous fiscal year).

The Company sold the shares in Life Living Co., Ltd., which was a consolidated subsidiary, and therefore the orders received and outstanding orders of Life Living Co., Ltd. are not included in the consolidated results.

Consequently, net sales came to 23,806 million yen (down 59.6% year on year) and operating loss was 5,181 million yen (a loss increase of 4,185 million yen compared to the previous fiscal year).

Elderly Care Business

The profitability of the Elderly Care Business, a strategic growth business, improved due to increases in the occupancy rate of existing facilities, and is steadily transitioning to turn profitable.

Net sales were 14,620 million yen (up 5.0% year on year) and operating loss was 559 million yen (improvement of 286 million yen year on year).

Hotels, Resort & Other Businesses

Net sales of the Hotels, Resort & Other Businesses, including resort facilities in Guam, hotels in Japan, travelling business and finance business, were 6,186 million yen (up 4.5% year on year) and operating loss was 1,000 million yen (an improvement of 346 million yen year on year).

3. Analysis of Consolidated Financial Position

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

Total assets at the end of the fiscal year decreased by 94,837 million yen from the end of the previous fiscal year to 196,953 million yen. This was mainly attributable to a decrease of 24,034 million yen in cash and cash equivalents, a decrease of 16,678 million yen in buildings and structures (net) due to sale of apartment buildings for rental use and hotels and posting impairment loss and others, 12,328 million yen in land, 4,534 million yen in leased assets (net), 4,043 million yen in securities and investment securities, and 22,352 million yen in deferred tax assets.

Total liabilities decreased by 15,088 million yen from the end of the previous fiscal year to 195,363 million yen. This was mainly due to an increase of 5,540 million yen in reserve for losses related to repairs and 3,178 million yen in reserve for apartment vacancy loss, whereas a decrease of 11,909 million yen in interest-bearing debt, 5,056 million yen in short and long-term advances received, and 3,469 million yen in accounts payable for completed projects.

Net assets decreased by 79,748 million yen from the end of the previous fiscal year to 1,589 million yen. This was mainly due to an increase of 766 million yen in net unrealized gains on “other securities,” and a recording of 80,224 million yen in net loss attributable to shareholders of the parent. The ratio of shareholders’ equity to assets dropped by 27.0 points from the end of the previous fiscal year to 0.7%.

(2) Cash Flow Position

Cash flow from operating activities was a net outflow of 51,639 million yen (an increase of net outflow of 44,427 million yen compared to the previous fiscal year). This was mainly due to a recording of 12,157 million yen in depreciation, 7,620 million yen of impairment loss and an increase of 21,501 million yen in reserve for losses related to repairs, and an increase of 3,178 million yen in reserve for apartment vacancy loss, whereas a recording of 58,013 million yen of net loss before taxes and other adjustments, 7,973 million yen of gain on sales of property, plant and equipment, 2,368 million yen of gain on sale of investment securities, a decrease of 5,032 million yen of advances received and 18,855 million yen of payment related to repairs.

Cash flow from investing activities was a net inflow of 39,533 million yen (an increase of 32,154 million yen in net inflow compared to the previous fiscal year). This was mainly due to a recording of 3,601 million yen of purchase of property, plant and equipment, whereas a recording of 32,057 million yen of proceeds from sale of property, plant and equipment and 8,213 million yen of proceeds from sale of investment securities.

Cash flow from financing activities was a net outflow of 12,048 million yen (a decrease of 3,132 million yen in net outflow from the previous fiscal year). This was mainly due to 5,093 million yen of repayment of lease obligations and 6,955 million yen of repayment of debt and redemption of bonds.

As a result, cash and cash equivalents at the end of the subject fiscal year stood at 58,916 million yen, decreased by 24,102 million yen from the end of the previous fiscal year.

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

Forward-looking statements in the discussion below are based on judgments by the Company as of the time of preparing this integrated report.

(1) Management Policies

The Company recorded a significant loss for the second consecutive year, mainly due to the construction defects problem and resultant decrease in the occupancy rate. In the light of the situation we determined to employ a strategy of concentration with the Leasing Business turning to the core and becoming more profitable and shift away from the business diversification.

We have been preparing the operating environments for the strategy to work and are in the middle of implementing the structural reforms such as (i) promoting to transfer or withdraw from non-core unprofitable businesses, (ii) offering the voluntary retirement program to achieve workforce rightsizing and cost reduction, and (iii) reducing the number of directors and executive officers, to curtail their compensation and make redundant the positions of counselor and advisor to fulfill management responsibility and execute corporate governance reforms.

(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 after the peak of 2025 but single-person households is expected to increase up to 2030 and keep the level of about 20 million households till 2040. Net domestic migration to the three major metro regions (inflows exceed outflows) will continue. Furthermore, the population aged 65 or over will mark 30% of the total population and continue to rise for the following years. The decreasing trend in productive population (aged 15 – 64) will continue and a planned increase in foreign workers will partly compensate for the lacking workforce in the aging society.

The number of new housing starts of leased units continued to decline for the three consecutive years due to changes in the business environment, including the financial institutions' tighter lending criteria for apartment loans and the dropout of demand for the inheritors' strategies to reduce inheritance tax.

Under these circumstances, we need to turnaround the business by acquiring the additional corporate demand for providing their employees with company-provided housing or dormitories. We increased the number of staff for the corporate sales to capture the demand and make use of IT for efficiency improvement so that we can raise the occupancy rates. We will continue to execute 50 itemized actions to avoid the recurrence of construction defects problem in parallel to conducting the repair works with available resources after reallocated manpower and physical resources considering the voluntary retirement program impact.

We aim to restore social trust by recovering the business performance and by addressing the construction defects problem so that we can resume the tenant recruitment as soon as possible.

Business Strategies

We conducted a strategic review for drastic business strategies reconstruction. The review yielded the new business strategies and the need to implement structural reforms so that we should drastically improve the financial base for increased corporate value.

Core business:

We determined to reorganize the structure centered on the Leasing Business and focus on it to increase the profitability by improving operational efficiency through IT and strengthen measures on areas or new target customers such as foreign national tenants and senior tenants. The former Development Business is integrated to the Leasing Business to focus on landlords support and on resolving construction defects and ensure to satisfy apartment rebuilding demand by existing landlords in the three major metropolitan areas.

Strategic business:

We consider the Elderly Care Business as strategic and aims to create synergy effect with the Leasing Business to attract further senior tenants and develop needs for the target customers.

Structural reforms:

We withdrew from hotel business in Japan by transferring Hotel Leopalace Nagoya. Regarding resort business in Guam and the International Business, we will look for opportunities to transfer the respective businesses.

Voluntary retirement program:

We offered the voluntary retirement program to respond to the business structure changes based on selective concentration strategy with the aim to realize workforce rightsizing to the future operations in the tough business conditions, and further reduce the fixed cost.

Financial Strategies

We aim to secure stable funds necessary for its business activities and maintain liquidity by selling the Company-owned properties, thereby securing sufficient funds to meet anticipated demand based on its funding plans.

To make firmer the Company's financial base, we endeavor to eliminate the excessive liabilities and realize improvement of the financial structure by increasing its equity capital, and to raise necessary funds to meet the essential funding requirements, such as payment of repair works expenses related to construction defects, repayment for the existing borrowings and redemption of bonds.

Please see the details in 33. Subsequent Events (4) Issuance of New Shares through Third Party Allotment, (5) Issuance of the Stock Acquisition Rights in connection with the Loan with Stock Acquisition Rights through Third Party Allotment, and Fundraising through the Loan with Stock Acquisition Rights, and (6) Issuance of Preferred Stock by a Consolidated Subsidiary Through Third Party Allotment.

We keep securing funds to meet the demand and sold a number of Company-owned properties for lease in the following fiscal year. Please see the details in 33. Subsequent Events (7) Sale of Non-current Assets.

We sold the Company-owned shares in a certain listed company in order to secure stable funds for the operations and maintain adequate liquidity. Please see the details in 33. Subsequent Events (2) Sale of investment securities.

Financial Section

Consolidated Balance Sheet

Leopalace21 Corporation and consolidated subsidiaries
March 31, 2020 and 2019

	Notes	Millions of yen		Thousands of U.S. dollars (Note 1)
		2020	2019	2020
ASSETS				
Current assets:				
Cash and cash equivalents	3, 5, 6, 12	60,501	84,536	555,929
Trade receivables	6	7,260	6,908	66,714
Accounts receivable for completed projects	6	532	1,709	4,889
Operating loans	6	132	256	1,219
Securities	3, 6, 7, 12	5,951	1,254	54,685
Real estate for sale		1,189	1,027	10,927
Real estate for sale in process		2,797	5,554	25,702
Payment for construction in progress	3	725	680	6,662
Raw materials and supplies		539	565	4,961
Prepaid expenses		3,053	2,952	28,054
Other accounts receivable		1,242	1,198	11,416
Others		4,543	4,255	41,747
Allowance for doubtful accounts	3, 6, 11	(164)	(142)	(1,512)
Total current assets		88,304	110,757	811,398
Non-current assets:				
Property, plant and equipment:	3, 4, 9, 11, 15, 28, 33			
Buildings and structures	3, 4, 12, 15, 16, 17	64,333	88,833	591,137
Accumulated depreciation		(40,469)	(48,291)	(371,861)
Net		23,863	40,542	219,276
Machinery, equipment, and vehicles		20,690	21,414	190,119
Accumulated depreciation		(10,892)	(10,228)	(100,088)
Net		9,798	11,185	90,030
Land	9, 15, 16, 17	36,893	49,221	338,997
Leased assets	3, 17, 26	30,756	32,178	282,614
Accumulated depreciation		(23,558)	(20,446)	(216,475)
Net		7,197	11,732	66,139
Construction in progress		208	3,470	1,915
Other		16,817	15,283	154,525
Accumulated depreciation		(9,244)	(8,220)	(84,940)
Net		7,572	7,062	69,585
Total property, plant and equipment		85,534	123,215	785,944
Intangible fixed assets:				
Goodwill	3, 28, 33	127	2,324	1,176
Others	3, 17	5,376	7,250	49,402
Total intangible fixed assets		5,504	9,575	50,578
Investments and other assets:				
Investment securities	3, 6, 7, 12, 33	8,163	16,903	75,008
Long-term loans	6	1,025	501	9,424
Bad debts	6, 10	225	214	2,073
Long-term prepaid expenses	3	2,250	3,252	20,682
Deferred tax assets	3, 4, 11	1,297	23,650	11,921
Others		5,328	4,333	48,962
Allowance for doubtful accounts	3, 6, 11	(905)	(941)	(8,324)
Total investments and other assets		17,385	47,914	159,748
Total non-current assets		108,424	180,705	996,271
Deferred assets:				
Bond issuance cost		224	327	2,064
Total deferred assets		224	327	2,064
Total assets		196,953	291,790	1,809,735

The accompanying notes are an integral part of these statements.

	Notes	Millions of yen		Thousands of U.S. dollars (Note 1)
		2020	2019	2020
LIABILITIES AND NET ASSETS				
Current liabilities:				
Electronically recorded obligations - operating		176	897	1,621
Accounts payable	6	3,376	4,037	31,029
Accounts payable for completed projects	6	1,245	4,715	11,447
Short-term borrowings	6, 12	847	1,070	7,790
Current portion of long-term debt	12	2,659	2,768	24,436
Bonds due within one year	6	3,066	3,966	28,172
Lease obligations	6, 12	4,344	5,320	39,923
Accounts payable - other		14,935	14,922	137,232
Accrued income taxes		840	798	7,725
Advances received	3, 11	31,997	34,635	294,009
Customer advances for projects in progress		1,783	3,651	16,383
Reserve for warranty obligations on completed projects	3, 11	117	347	1,080
Reserve for fulfillment of guarantees	3, 11	1,200	1,138	11,026
Reserve for losses related to repairs (short-term)		8,302	50,707	76,284
Reserve for apartment vacancy loss (short-term)		11,715	8,826	107,649
Asset retirement obligations	11, 24	44	44	405
Others		3,354	3,919	30,818
Total current liabilities		90,006	141,765	827,036
Non-current liabilities:				
Bonds	6, 12	5,037	8,103	46,283
Long-term debt	6, 12	15,650	18,318	143,809
Lease obligations	6, 12	4,532	8,501	41,644
Long-term advances received	3	9,451	11,869	86,847
Lease/guarantee deposits received		6,286	6,599	57,768
Deferred tax liabilities		5	5	47
Reserve for losses related to repairs		47,945	—	440,557
Reserve for apartment vacancy loss	3, 11	4,191	3,902	38,514
Liability for retirement benefit		8,701	8,213	79,957
Asset retirement obligations	11, 24	89	86	822
Others		3,465	3,086	31,840
Total non-current liabilities		105,357	68,687	968,092
Total liabilities		195,363	210,452	1,795,129
Net assets				
Shareholders' equity:				
Common stock:	25			
Authorized: 500,000,000 shares in 2020 and 2019 Issued: 244,882,515 shares in 2020 and in 2019		75,282	75,282	691,742
Capital surplus		45,148	45,148	414,853
Retained earnings		(118,874)	(38,635)	(1,092,291)
Treasury stock: 771,210 shares in 2020 and 1,067,510 shares in 2019	25	(473)	(655)	(4,349)
Total shareholders' equity		1,083	81,140	9,955
Accumulated other comprehensive income:				
Net unrealized gains on other securities	3, 11	1,047	280	9,620
Foreign currency translation adjustments	3	(280)	(176)	(2,577)
Remeasurements of defined benefit plans	13	(546)	(327)	(5,018)
Total accumulated other comprehensive income		220	(224)	2,024
Share subscription rights		269	404	2,471
Non-controlling interests		16	17	154
Total net assets		1,589	81,338	14,605
Total liabilities and net assets		196,953	291,790	1,809,735

The accompanying notes are an integral part of these statements.

Financial Section

Consolidated Statement of Income

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2020 and 2019

	Notes	Millions of yen		Thousands of U.S. dollars (Note 1)
		2020	2019	**2020**
Net sales	28	**433,553**	505,223	**3,983,769**
Sales from Leasing Business		**388,939**	426,388	**3,573,827**
Sales from Development Business		**23,806**	58,992	**218,753**
Sales from Other Businesses		**20,807**	19,842	**191,188**
Cost of sales		**408,112**	428,988	**3,749,996**
Cost of sales from Leasing Business		**368,094**	363,651	**3,382,288**
Cost of sales from Development Business		**19,415**	44,597	**178,403**
Cost of sales from Other Businesses		**20,601**	20,739	**189,303**
Gross profit		**25,441**	76,235	**233,772**
Selling, general and administrative expenses		**61,915**	68,844	**568,916**
Advertising expenses		**1,964**	3,008	**18,055**
Sales commission expense		**2,111**	1,978	**19,401**
Transfer to reserve for bad debt		**117**	112	**1,083**
Directors' bonuses		**493**	997	**4,531**
Salary and bonuses		**26,282**	30,134	**241,497**
Transfer to reserve for Directors' bonuses		**—**	(10)	**—**
Retirement benefit cost		**1,878**	1,809	**17,264**
Rent expense		**2,899**	2,727	**26,643**
Depreciation and amortization		**2,582**	2,731	**23,730**
Taxes and public charges		**5,958**	5,221	**54,749**
Other		**17,626**	20,132	**161,959**
Operating profit	28	**(36,473)**	7,390	**(335,143)**
Non-operating income		**1,788**	891	**16,436**
Interest income		**146**	113	**1,342**
Dividend income		**181**	172	**1,667**
Investment returns from anonymous associations		**977**	—	**8,982**
Gains on valuation of investment securities		**166**	185	**1,529**
Foreign exchange gain		**—**	148	**—**
Share of profit of entities accounted for using equity method		**—**	1	**—**
Other		**317**	270	**2,913**
Non-operating expenses		**1,656**	1,218	**15,222**
Interest expenses		**624**	748	**5,740**
Bond issuance cost		**161**	191	**1,487**
Foreign exchange losses		**157**	—	**1,445**
Share of loss of entities accounted for using equity method		**72**	—	**662**
Commission income refund		**255**	—	**2,349**
Other		**384**	278	**3,536**
Recurring profit		**(36,341)**	7,063	**(333,929)**
Extraordinary income		**11,681**	245	**107,337**
Gain on sale of property, plant and equipment		**8,945**	245	**82,197**
Gain on sale of investment securities		**2,368**	—	**21,765**
Gain on reversal of share subscription rights		**17**	—	**157**
Gain on cancelling contracts		**350**	—	**3,216**
Extraordinary losses	3, 33	**33,353**	72,148	**306,475**
Loss on sale of property, plant and equipment		**972**	0	**8,934**
Loss on retirement of property, plant and equipment		**71**	117	**657**
Impairment loss		**7,620**	7,560	**70,024**
Provision of reserve for losses related to repairs		**21,501**	50,707	**197,566**
Loss related to repairs		**2,894**	4,079	**26,596**
Provision of reserve for apartment vacancy loss		**—**	9,684	**—**
Loss on sale of shares in subsidiaries		**2**	—	**21**
Repair expenses		**63**	—	**584**
Special severance allowance		**227**	—	**2,089**
Income before income taxes		**(58,013)**	(64,840)	**(533,067)**
Income taxes	3	**22,211**	3,880	**204,089**
Current		**726**	756	**6,671**
Deferred		**21,485**	3,124	**197,418**
Net income		**(80,224)**	(68,720)	**(737,157)**
Net loss attributable to non-controlling interests		**(0)**	(58)	**(6)**
Net loss attributable to shareholders of the parent	32	**(80,224)**	(68,662)	**(737,150)**

The accompanying notes are an integral part of these statements.

Financial Section

Consolidated Statement of Comprehensive Income

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2020 and 2019

	Notes	Millions of yen		Thousands of U.S. dollars (Note 1)
		2020	2019	2020
Net income		(80,224)	(68,720)	(737,157)
Other comprehensive income				
Net unrealized gains on other securities		766	(306)	7,046
Foreign currency translation adjustments	3	(100)	(1,045)	(924)
Remeasurements of defined benefit plans		(218)	14	(2,008)
Share of other comprehensive income of entities accounted for using equity method		(3)	(4)	(30)
Total		444	(1,342)	4,083
Comprehensive income		(79,780)	(70,063)	(733,073)
Comprehensive income attributable to shareholders of the parent		(79,779)	(70,004)	(733,065)
Comprehensive income attributable to non-controlling interests		(0)	(58)	(8)

The accompanying notes are an integral part of these statements.

	Notes	Millions of yen		Thousands of U.S. dollars (Note 1)
		2020	2019	2020
Net unrealized gains on other securities				
Amount accrued in the fiscal year		1,691	(442)	15,543
Rearrangements and adjustments		(586)	—	(5,387)
Amount before tax effects adjustments		1,105	(442)	10,156
Tax effects		(338)	135	(3,109)
Net unrealized gains on other securities		766	(306)	7,046
Foreign currency translation adjustments	3			
Amount accrued in the fiscal year		(100)	(1,045)	(924)
Rearrangements and adjustments		—	—	—
Amount before tax effects adjustments		(100)	(1,045)	(924)
Tax effects		—	—	—
Foreign currency translation adjustments		(100)	(1,045)	(924)
Remeasurements of defined benefit plans				
Amount accrued in the fiscal year		(249)	(216)	(2,295)
Rearrangements and adjustments		175	237	1,616
Amount before tax effects adjustments		(73)	20	(679)
Tax effects		(144)	(6)	(1,328)
Remeasurements of defined benefit plans		(218)	14	(2,008)
Share of other comprehensive income of entities accounted for using equity method				
Amount accrued in the fiscal year		(3)	(4)	(30)
Total		444	(1,342)	4,083

Financial Section

Consolidated Statement of Changes in Equity

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2020 and 2019

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on other securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share Subscription rights	Non-controlling interests	Total net assets
Balance as of March 31, 2018	75,282	45,235	37,839	(430)	157,926	586	872	(341)	1,117	284	109	159,438
Dividend of surplus			(3,025)		(3,025)							(3,025)
Net income attributable to shareholders of the parent			(68,662)		(68,662)							(68,662)
Acquisition of treasury stock				(5,012)	(5,012)							(5,012)
Disposal of treasury stock			—		—					—		—
Retirement of treasury stock			(4,787)	4,787	—					—		—
Change in share of parent from transactions with non-controlling interests		(86)			(86)							(86)
Net change of items other than shareholders' equity						(306)	(1,049)	14	(1,342)	120	(92)	(1,313)
Total change during period	—	(86)	(76,474)	(225)	(76,786)	(306)	(1,049)	14	(1,342)	120	(92)	(78,100)
Balance as of March 31, 2019	75,282	45,148	(38,635)	(655)	81,140	280	(176)	(327)	(224)	404	17	81,338
Dividend of surplus			—		—							—
Net income attributable to shareholders of the parent			**(80,224)**		**(80,224)**							**(80,224)**
Acquisition of treasury stock				—	—							—
Disposal of treasury stock			**(47)**	**181**	**134**					—		**134**
Retirement of treasury stock			—	—	—					—		—
Change in the scope of consolidation			**33**		**33**							**33**
Net change of items other than shareholders' equity						**766**	**(103)**	**(218)**	**444**	**(135)**	**(0)**	**(307)**
Total change during period	—	—	**(80,238)**	**181**	**(80,056)**	**766**	**(103)**	**(218)**	**444**	**(135)**	**(0)**	**(79,748)**
Balance as of March 31, 2020	**75,282**	**45,148**	**(118,874)**	**(473)**	**1,083**	**1,047**	**(280)**	**(546)**	**220**	**269**	**16**	**1,589**

	Thousands of U.S. dollars (Note 1)											
	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on other securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share Subscription rights	Non-controlling interests	Total net assets
Balance as of March 31, 2019	691,742	414,853	(355,009)	(6,020)	745,566	2,574	(1,624)	(3,010)	(2,061)	3,719	162	747,387
Dividend of surplus			—		—							—
Net income attributable to shareholders of the parent			**(737,150)**		**(737,150)**							**(737,150)**
Acquisition of treasury stock				—	—							—
Disposal of treasury stock			**(436)**	**1,671**	**1,234**					—		**1,234**
Retirement of treasury stock			—	—	—					—		—
Change in the scope of consolidation			**304**		**304**							**304**
Net change of items other than shareholders' equity						**7,046**	**(952)**	**(2,008)**	**4,085**	**(1,247)**	**(8)**	**(2,829)**
Total change during period	—	—	**(737,282)**	**1,671**	**(735,611)**	**7,046**	**(952)**	**(2,008)**	**4,085**	**(1,247)**	**(8)**	**(732,781)**
Balance as of March 31, 2020	**691,742**	**414,853**	**(1,092,291)**	**(4,349)**	**9,955**	**9,620**	**(2,577)**	**(5,018)**	**2,024**	**2,471**	**154**	**14,605**

The accompanying notes are an integral part of these statements.

Financial Section

Consolidated Statement of Cash Flows

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2020 and 2019

	Notes	Millions of yen		Thousands of U.S. dollars (Note 1)
		2020	2019	2020
Cash flows from operating activities:				
Income before income taxes		(58,013)	(64,840)	(533,067)
Depreciation and amortization		12,157	12,945	111,706
Impairment loss		7,620	7,560	70,024
Loss related to repairs		2,894	4,079	26,596
Amortization of goodwill		260	560	2,393
Increase (decrease) in allowance for doubtful accounts		40	(1,105)	375
Increase (decrease) in liability for retirement benefits		413	895	3,802
Increase (decrease) in reserve for apartment vacancy loss		3,178	9,684	29,204
Increase (decrease) in reserve for losses related to repairs		21,501	50,707	197,566
Interest and dividend income		(327)	(285)	(3,010)
Interest expense		624	748	5,740
Foreign exchange loss (gain)		157	(148)	1,445
Share of loss (profit) of entities accounted for using equity method		72	(1)	662
Loss (gain) on valuation of investment securities		(166)	(185)	(1,529)
Loss (gain) on sale of property, plant and equipment		(7,973)	(245)	(73,262)
Loss on retirement of property, plant and equipment		71	117	657
Loss (gain) on sale of investment securities		(2,368)	—	(21,765)
Investment returns from anonymous associations		(977)	—	(8,982)
Gain on reversal of share subscription rights		(17)	—	(157)
Gain on cancelling contracts		(350)	—	(3,216)
Loss on sale of shares in subsidiaries		2	—	21
Decrease (increase) in accounts receivable		1,095	1,310	10,065
Decrease (increase) in real estate for sale in progress		(852)	(3,058)	(7,830)
Decrease (increase) in payment for construction in progress		(46)	(222)	(424)
Decrease (increase) in long-term prepaid expenses		878	571	8,072
Increase (decrease) in accounts payable		(1,922)	(8,125)	(17,669)
Increase (decrease) in customer advances for projects in progress		(1,868)	(940)	(17,170)
Increase (decrease) in advances received		(5,032)	(9,311)	(46,245)
Increase (decrease) in guarantee deposits received		(383)	(372)	(3,523)
Increase (decrease) in accrued consumption taxes		113	(890)	1,038
Others		(2,810)	(2,612)	(25,828)
Subtotal		(32,029)	(3,165)	(294,310)
Interest and dividends received		455	465	4,182
Interest paid		(574)	(749)	(5,277)
Reserve for losses related to repairs paid		(18,855)	(2,960)	(173,253)
Income taxes paid		(635)	(800)	(5,841)
Net cash provided by operating activities		(51,639)	(7,212)	(474,501)

The accompanying notes are an integral part of these statements.

	Notes	Millions of yen		Thousands of U.S. dollars (Note 1)
		2020	2019	**2020**
Cash flows from investing activities:				
Payment for purchase of property, plant and equipment		**(3,601)**	(7,718)	**(33,094)**
Proceeds from sale of property, plant and equipment		**32,057**	10,059	**294,563**
Payment for purchase of intangible assets		**(142)**	(1,083)	**(1,312)**
Payment for purchase of investment securities		**(1,082)**	(231)	**(9,951)**
Proceeds from sale of investment securities		**8,213**	21	**75,467**
Payments for sale of shares in subsidiaries that result in change in scope of consolidation		**(101)**	—	**(933)**
Proceeds from sale of shares in subsidiaries that result in change in scope of consolidation		**4,292**	—	**39,439**
Payment for loans		**(657)**	(1)	**(6,037)**
Proceeds from collection of loans		**960**	14	**8,829**
Payments for purchase of time deposits		**(68)**	(1,500)	**(625)**
Proceeds from withdrawal of time deposits		**—**	8,126	**—**
Others		**(335)**	(308)	**(3,080)**
Net cash provided by (used in) investing activities		**39,533**	7,379	**363,263**
Cash flows from financing activities:				
Proceeds from short-term borrowings		**—**	1,070	**—**
Repayment of short-term borrowings		**(222)**	(50)	**(2,041)**
Proceeds from long-term debt		**—**	3,960	**—**
Repayment of long-term debt		**(2,767)**	(2,397)	**(25,425)**
Repayment of finance lease obligations		**(5,093)**	(5,640)	**(46,802)**
Payment for redemption of bonds		**(3,966)**	(3,966)	**(36,442)**
Payment for purchases of treasury stock		**—**	(5,012)	**—**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation		**—**	(112)	**—**
Dividends paid to non-controlling interests		**—**	(8)	**—**
Proceeds from exercise of stock options		**0**	—	**2**
Cash dividends paid		**—**	(3,025)	**—**
Net cash provided by (used in) financing activities		**(12,048)**	(15,181)	**(110,709)**
Effect of exchange rate changes on cash and cash equivalents		**51**	(213)	**476**
Net increase (decrease) in cash and cash equivalents		**(24,102)**	(15,227)	**(221,471)**
Cash and cash equivalents at beginning of year		**83,019**	98,246	**762,834**
Cash and cash equivalents at end of year	5	**58,916**	83,019	**541,363**

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, 2020 and 2019

1. Basis of Presenting Consolidated Financial Statements

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

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

The translation of the Japanese yen amounts into U.S. dollars is prepared solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2020, which was 108.83 yen to US$1.00. Such translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange. Certain amounts in the previous year's financial statements have been reclassified to conform to the current fiscal year's presentation.

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

2. Going concern assumption

There are no issues applicable to the going concern assumption.

3. Summary of Significant Accounting Policies

(1) Consolidation

Names of significant subsidiaries (24 in total)
Leopalace Leasing Corporation
Plaza Guarantee Co., Ltd.
Leopalace Power Corporation
Leopalace Energy Corporation
ASUKA SSI
Enplus Inc.
Leopalace21 Business Consulting (Shanghai) Co., Ltd.
LEOPALACE21 VIETNAM CO., LTD.
Leopalace21 (Thailand) CO., LTD.
Leopalace21 (Cambodia) Co., Ltd.
LEOPALACE21 PHILIPPINES INC.
PT. Leopalace Duasatu Realty
Leopalace21 Singapore Pte. Ltd.
Morizou Co., Ltd.
Azu Life Care Co., Ltd.
Leopalace Guam Corporation
WING MATE CO., LTD.
Leopalace Smile Co., Ltd.

Leopalace Trust Co., LTD. (now Mirai Support Trust Co., Ltd.) has been excluded from the scope of consolidation in the year ended March 2020 because the Company's share of holding in Mirai Support Trust was decreased as a result of the Company's partial sale of shares in Mirai Support Trust and its third party allotment.

The Company sold all the shares in Life Living Co., Ltd. in the year ended March 2020 and excluded it from the scope of consolidation.

The accompanying consolidated financial statements as of March 31, 2020 include the accounts of the Company and its 24 (26 as of March 31, 2019) subsidiaries and four associated companies Woori & Leo PMC Co., Ltd, Ancora Residential Fund LP, PT TEGUH BINA KARYA, and Learn JP Corp. in equity method (together, "the Companies"). Among these four associated companies, Ancora Residential Fund LP, PT TEGUH BINA KARYA, and Learn JP Corp. are newly consolidated in equity method in the current fiscal year. The fiscal year closing dates of these three companies are different from the consolidated balance sheet date. The respective financial statements of the Companies were used for consolidation. Associated companies over which the Company exercises significant influence in terms of the operating and financial policies have been included in the consolidated financial statements in equity method. All significant intercompany balances and transactions have been eliminated.

The Company acquired the shares in TRUMAN HOLDINGS LIMITED during the fiscal year ended March 2020 and included it in the companies where the Company applies the equity method for consolidation. The total assets, sales, net income (loss) and retained earnings both on an equity method basis and other items do not make material impact on the consolidated financial statements.

The balance sheet dates of Leopalace Guam Corporation, Leopalace Guam Distributing Corporation, and 15 other subsidiaries are all the same, being December 31. For the consolidated entities whose fiscal year ends different from that of the Company but within 3 months, their financial results are used in the preparation of consolidated financial statements. When significant transactions occur to those subsidiaries between their fiscal year ends and the Company's fiscal year end, those transactions are necessarily adjusted to consolidate.

(2) Cash and cash equivalents

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

(3) Inventories

Real estate for sale and real estate for sale in process are primarily stated at cost (presented in net book value less write-down when profitability declines) determined by the specific identification method.

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

Raw materials and supplies are primarily stated at cost (presented in net book value less write-down when profitability declines) determined by the last purchase price method.

Cost of sales for the Development Business includes the reduced book value which is caused by the declined contribution of inventories to profitability.

	Millions of yen		Thousands of U.S. dollars
Item	**2020**	2019	**2020**
Loss from inventory revaluation	**634**	—	**5,827**

(4) Securities

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

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

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

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

(5) Derivative financial instruments and hedge accounting

Accounting principles: Fair value

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

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

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

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

(7) Intangible fixed asset

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

(8) Long-term prepaid expenses

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

(9) Bond issuance cost

Bond issuance costs are amortized evenly until maturity.

(10) Allowance for doubtful accounts

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

(11) Liability for retirement benefit

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

Actuarial gains/losses, which are prorated according to the straight-line method over a specified period (5 years) within the average remaining service years of employees at the time of accrual, are amortized starting from the next fiscal year of the respective accruals. Unrecognized actuarial gains/losses are posted after tax effects, as the cumulative amount of adjustments attributed to accumulated other comprehensive income in the net assets. Certain consolidated subsidiaries have adopted a simplified method of calculation with liability for retirement benefits and retirement benefits expense. Under this simplified method, retirement benefit obligation is deemed to be equal to the amount which would be required to pay if all eligible employees voluntarily retire at the end of the fiscal year.

(12) Reserve for apartment vacancy loss

Reserve for vacancy losses on apartment units managed under master lease agreements is calculated according to the projected loss that could incur during a reasonably estimable period to prepare for the risk of increasing vacancies. It is based on estimated losses resulting from current rental income and expected future occupancy rates for each rental property managed by the leasing business division of the Company and included in the cost of sale of the leasing business division.

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

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

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

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

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

(21) Foreign currency transactions
All monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates as of each balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income.

(22) Foreign currency financial statements
The assets and liabilities of consolidated overseas subsidiaries are translated into Japanese yen at the spot exchange rates as of each balance sheet date, and income and expenses are translated at the average exchange rates of the fiscal year. Foreign currency translation adjustments resulting from the translation of assets, liabilities and net assets are reclassified into foreign currency translation adjustments and non-controlling interests.

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

Capitalized interests included in carrying value of property, plant and equipment were 318 million yen ($2,924 thousand) as of March 31, 2020.

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

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

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

4. Additional Information

(1)Unapplied Accounting Standards for Revenue Recognition and related Implementation Guidances

- Accounting Standard for Revenue Recognition (ASBJ Statement No.29 issued on March 31, 2020 by Accounting Standards Board of Japan)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No.30 issued on March 31, 2020 by Accounting Standards Board of Japan)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No.19 issued on March 31, 2020 by Accounting Standards Board of Japan)

(a) Summary

The International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) jointly developed the converged accounting standards for revenue recognition and announced, "Revenue from Contracts with Customers" (IFRS 15 in IASB and Topic 606 in FASB) in May 2014. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018 and Topic 606 is effective for annual reporting periods beginning on or after December 15, 2017. Accounting Standards Board of Japan (ASBJ) then developed and announced ASBJ Statement No.29, ASBJ Guidance No.30 and ASBJ Guidance No.19 to progress with the change.

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

(b) Effective date

The new standards will be effective from the beginning of the fiscal year ending March 2022.

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

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

(2) Unapplied Accounting Standards for Fair Value Measurement and related Implementation Guidances

- Accounting Standard for Fair Value Measurement (ASBJ Statement No.30 issued on July 4, 2019 by Accounting Standards Board of Japan)
- Accounting Standard for Measurement of Inventories (ASBJ Standard No.9 issued on July 4, 2019 by Accounting Standards Board of Japan)
- Accounting Standard for Financial Instruments (ASBJ Statement No.10 issued on July 4, 2019 by Accounting Standards Board of Japan)
- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No.31 issued on July 4, 2019 by Accounting Standards Board of Japan)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No.19 issued on March 31, 2020 by Accounting Standards Board of Japan)

(a) Summary

Considering nearly identical details of fair value measurement by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), namely IFRS 13 "Fair Value Measurement" under International Financial Reporting Standards (IFRS) and Topic 820 of "Fair Value Measurement" in the Accounting Standards Codification under U.S. GAAP Accounting Standards, the Accounting Standards Board of Japan disclosed the "Accounting Standards for Fair Value Measurement" in an effort to ensure Japanese GAAP is consistent with international accounting principles principally with respect to the guidance and disclosures about fair value of financial instruments.

The Accounting Standards Board of Japan adopted a basic policy that a uniform calculation method should be employed in the development of the accounting standard for improving the comparability of financial statements between the companies in and outside Japan and accepted the provisions of IFRS No. 13. In addition, the Accounting Standards Board of Japan accepted the other handling of individual items without affecting the financial comparability of financial statements, considering the accounting practices that had been conducted so far in Japan.

(b) Effective date

The new standards will be effective from the beginning of the fiscal year ending March 2022.

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

The impact of the application of the Accounting Standard for Measurement of Fair Value on consolidated financial statements has not been determined at this time.

(3) Unapplied Accounting Standard for Accounting Policy Disclosure, Accounting Changes and Error Corrections

- Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No.24 issued on March 31, 2020 by Accounting Standards Board of Japan)

(a) Summary

The Accounting Standards Board of Japan made necessary amendments and published as accounting standard for accounting policy disclosure, accounting changes and error corrections, in response to the recommendations for enhancing the notes to "accounting principles and procedures adopted in cases where relevant accounting standards are unclear."

As to the notes related to "accounting principles and procedures adopted in cases where the provisions of relevant accounting standards are unclear," the Accounting Standards Board of Japan determined to follow the annotation No.1-2 of the Corporate Accounting Principles in order to avoid the impact on the practices in cases where relevant accounting standards are clear.

(b) Effective date

The new standards will be effective from the end of the fiscal year ending March 31, 2021.

(4) Unapplied Accounting Standard for Disclosure of Accounting Estimates

- Accounting Standards for the Disclosure of Accounting Estimates (ASBJ Statement No. 31 issued on March 31, 2020 by Accounting Standards Board of Japan)

(a) Summary

As to the "sources of estimation uncertainty" which are required in the paragraph 125 of International Accounting Standards No. 1, "Presentation of Financial Statements," issued by the International Accounting Standards Board (IASB) in 2003 ("IAS No.1"), the Accounting Standards Board of Japan received requests for examining the disclosure of information as a note in the Japanese standard as highly useful information to the users of financial statements. The Accounting Standards Board of Japan developed and published Accounting Standard for Disclosure of Accounting Estimates (hereinafter, "Accounting Standard for Disclosure").

The Accounting Standards Board of Japan adopted a policy of displaying principles and respecting the company's judgment on individual disclosure in the light of their purpose of disclosure instead of expanding specific details of the individual notes. The Accounting Standards Board of Japan determined to refer to the provisions of IAS No. 1, Paragraph 125.

(b) Expected date

The new standards will be effective from the end of the fiscal year ending March 31, 2021.

(5) Changes in the purpose of holding tangible fixed assets

The Companies transferred 49 million yen ($453 thousand) to buildings and structures, 344 million yen ($3,161 thousand) in land, and 4 million yen ($37 thousand) in other (tools, furniture and fixtures) to 102 million yen ($938 thousand) in real estate for sale and 295 million yen ($2,714 thousand) in real estate for sale in progress due to a change in the purpose of holding a part of property, plant and equipment during the year ended March 2020.

(6) Provision of reserve for losses related to repair works

The entire amount of provision of reserve for losses related to repair works was recorded as current liabilities. Considering the progress of repair works, a portion of the provision recognized as not used within one year in the current fiscal year, is recorded as non-current liabilities.

(7) Accounting estimates for the spread of COVID-19 and its impact

The Companies assume that the spread of COVID-19 and the resulting economic sluggishness will continue for the time being and affect their overall business.

In particular the number of tenancy agreements in Leasing Business, our mainstay business, will remain weak until June 2020. Based on the assumption, accounting estimates such as the recoverability of deferred tax assets are made.

The best estimates are made based on a variety of information available at the time of preparation of the consolidated financial statements. In the event of a change in the time for the ending of COVID-19 pandemic and its impact on the economic environment due to uncertainty in the assumptions used in the estimates, this may have an impact on the companies' financial position and results of operations.

5. Cash and Cash Equivalents

(1) A reconciliation between cash and cash equivalents in the consolidated balance sheet and consolidated statement of cash flows are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Cash and cash equivalents in the consolidated balance sheet	**60,501**	84,536	**555,929**
Time deposits with original maturities of more than three months	**(1,585)**	(1,517)	**(14,565)**
Cash and cash equivalents in the consolidated statement of cash flows	**58,916**	83,019	**541,363**

(2) Major assets and liabilities related to the company which were excluded from consolidation as a result of the Company's sale of shares in the company

The breakdown of assets and liabilities at the time of sale of shares in Life Living Co., Ltd., selling price and revenue from the sale, which excluded Life Living Co., Ltd. from consolidation, for the year ended March 31, 2020 were as follows.

	Millions of yen	Thousands of U.S. dollars
	2020	2020
Current assets	5,435	49,943
Non-current assets	722	6,638
Goodwill	953	8,757
Current liabilities	(1,389)	(12,767)
Non-current liabilities	(12)	(116)
Loss on sale of shares	(2)	(21)
Sale value	5,706	52,433
Cash and cash equivalents	(1,414)	(12,993)
Proceeds from sale	4,292	39,439

For the year ended March 2019
None

6. Financial Instruments

(1) The financial instruments and related disclosures

(a) Policy for financial instruments

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

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

Operating receivables and loans outstanding are exposed to credit risk.

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

Securities and investment securities are mainly held-to-maturity securities and shares of the companies with which the Company has a business or capital alliance, and those securities are exposed to market risk and credit risk associated with the issuers.

Almost all electronically recorded obligations, accounts payable, accounts payable for completed projects which are operating liabilities, and account payable-other 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 12 years subsequent to the fiscal year end.

As of end of the year ended March 2020, there was no balance of derivative transactions.

(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, and each division is also organized for early detection and loss reduction of accounts where collection is doubtful due to worsening credit or similar problems.

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

The basic policy of derivatives trading is determined by the board of directors, and the execution and administration of derivatives transactions are conducted in accordance with the Company's "Derivatives Trading Management Rules". The derivatives trading management situation is periodically reported to the board of directors for comprehensive risk management.

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

(d) Supplementary explanations on fair value of financial instruments

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

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

(2) Fair value of financial instruments

The carrying value on the consolidated balance sheet and fair value of financial instruments as of March 31, 2020 and 2019 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.

March 31, 2020	Millions of yen		
	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	60,501	60,501	—
(2) Trade receivables and accounts receivable for completed projects	7,792	7,792	—
(3) Securities and investment securities	2,713	2,724	10
(4) Operating loans	132		
Allowance for doubtful accounts *(i)	(5)		
Net	126	140	13
(5) Long-term loans	1,025		
Allowance for doubtful accounts *(i)	(83)		
Net	942	942	—
(6) Bad debts	225		
Allowance for doubtful accounts *(i)	(225)		
Net	—	—	—
Total	72,077	72,102	24
(1) Electronically recorded obligations	176	176	—
(2) Accounts payable and accounts payable for completed projects	4,622	4,622	—
(3) Accounts payable-other	14,935	14,935	—
(4) Short-term borrowings	847	847	—
(5) Bonds *(ii)	8,103	8,117	14
(6) Long-term debt *(ii)	18,310	18,436	126
(7) Lease obligations	8,877	9,705	828
Total	55,872	56,841	969

*Notes:

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

(ii) As of March 31, 2020, bonds due within one year of 3,066 million yen and current portion of long-term debt of 2,659 million yen are included in bonds and long-term debt.

March 31, 2019	Millions of yen		
	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	84,536	84,536	—
(2) Trade receivables and accounts receivable for completed projects	8,617	8,617	—
(3) Securities and investment securities	3,518	3,534	16
(4) Operating loans	256		
Allowance for doubtful accounts *(i)	(27)		
Net	229	269	39
(5) Long-term loans	501		
Allowance for doubtful accounts *(i)	(91)		
Net	409	409	—
(6) Bad debts	214		
Allowance for doubtful accounts *(i)	(214)		
Net	—	—	—
Total	97,311	97,367	55
(1) Electronically recorded obligations	897	897	—
(2) Accounts payable and accounts payable for completed projects	8,752	8,752	—
(3) Accounts payable-other	14,922	14,922	—
(4) Short-term borrowings	1,070	1,070	—
(5) Bonds *(ii)	12,069	12,102	33
(6) Long-term debt *(ii)	21,086	21,309	222
(7) Lease obligations	13,821	13,669	(152)
Total	72,620	72,723	103

*Notes:

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

(ii) As of March 31, 2019, bonds due within one year of 3,966 million yen, and current portion of long-term debt of 2,768 million yen are included in bonds and long-term debt.

March 31, 2020	Thousands of U.S. dollars		
	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	**555,929**	**555,929**	**—**
(2) Trade receivables and accounts receivable for completed projects	**71,604**	**71,604**	**—**
(3) Securities and investment securities	**24,936**	**25,031**	**94**
(4) Operating loans	**1,219**		
Allowance for doubtful accounts *(i)	**(53)**		
Net	**1,166**	**1,294**	**128**
(5) Long-term loans	**9,424**		
Allowance for doubtful accounts *(i)	**(763)**		
Net	**8,661**	**8,661**	**—**
(6) Bad debts	**2,073**		
Allowance for doubtful accounts *(i)	**(2,073)**		
Net	**—**	**—**	**—**
Total	**662,296**	**662,519**	**222**
(1) Electronically recorded obligations	**1,621**	**1,621**	**—**
(2) Accounts payable and accounts payable for completed projects	**42,477**	**42,477**	**—**
(3) Accounts payable-other	**137,232**	**137,232**	**—**
(4) Short-term borrowings	**7,790**	**7,790**	**—**
(5) Bonds *(ii)	**74,455**	**74,587**	**131**
(6) Long-term debt *(ii)	**168,245**	**169,410**	**1,164**
(7) Lease obligations	**81,567**	**89,176**	**7,608**
Total	**513,390**	**522,295**	**8,904**

*Notes:

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

(ii) As of March 31, 2020, bonds due within one year of $28,172 thousand and current portion of long-term debt of $24,436 thousand are included in bonds and long-term debt.

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

Assets

Cash and cash equivalents

Trade receivables and accounts receivable for completed projects

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

Securities and investment securities

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

For notes to securities by holding purposes, please refer to "7. Securities".

Operating loans

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

Long-term loans

Bad debts

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

Liabilities

Electronically recorded obligations

Accounts payable and accounts payable for completed projects

Account payable-other

Short-term borrowings

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

Bonds

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

Long-term debt,

Lease obligations

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

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

Item	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Unlisted shares	**2,935**	4,510	**26,974**
Unconsolidated subsidiaries and associates	**1,060**	70	**9,741**
Unlisted bonds (subordinate corporate bonds)	**6,424**	6,424	**59,030**
Subordinate beneficiary rights to loans and accounts receivable in trust	**866**	870	**7,961**
Investments in silent partnership	**114**	2,764	**1,050**
Total	**11,400**	14,640	**104,757**

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 amounts of monetary claims and investment securities with maturity subsequent to fiscal year end

March 31, 2020	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	**60,501**	—	—	—
Trade receivables and accounts receivable for completed projects	**7,792**	—	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1) Government and municipal bonds	**200**	**200**	**500**	—
(2) Corporate bonds	—	—	—	—
Other securities with maturities				
(1) Government and municipal bonds	**150**	—	**36**	—
(2) Bonds (Corporate bonds)	**5,600**	—	—	**824**
(3) Others	—	—	—	**866**
Operating loans	**46**	**52**	**21**	**12**
Long-term loans	**145**	**414**	**18**	**447**
Bad debts	—	—	—	**225**
Total	**74,436**	**666**	**575**	**2,376**

March 31, 2019	Millions of yen			
	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	84,536	—	—	—
Trade receivables and accounts receivable for completed projects	8,617	—	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1) Government and municipal bonds	400	400	500	—
(2) Corporate bonds	—	—	—	—
Other securities with maturities				
(1) Government and municipal bonds	852	150	—	—
(2) Bonds (Corporate bonds)	—	5,600	—	824
(3) Others	—	—	—	870
Operating loans	109	104	26	16
Long-term loans	11	23	16	451
Bad debts	—	—	—	214
Total	94,526	6,277	542	2,377

March 31, 2020	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	**555,929**	—	—	—
Trade receivables and accounts receivable for completed projects	**71,604**	—	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1) Government and municipal bonds	**1,837**	**1,837**	**4,594**	—
(2) Corporate bonds	—	—	—	—
Other securities with maturities				
(1) Government and municipal bonds	**1,378**	—	**330**	—
(2) Bonds (Corporate bonds)	**51,456**	—	—	**7,573**
(3) Others	—	—	—	**7,961**
Operating loans	**430**	**478**	**199**	**110**
Long-term loans	**1,332**	**3,810**	**166**	**4,115**
Bad debts	—	—	—	**2,073**
Total	**683,968**	**6,126**	**5,291**	**21,834**

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

March 31, 2020	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	**847**	—	—	—	—	—
Bonds	**3,066**	**3,066**	**1,971**	—	—	—
Long-term debt	**2,659**	**2,639**	**2,437**	**1,396**	**1,405**	**7,771**
Lease obligations	**4,344**	**3,113**	**1,151**	**238**	**28**	—
Total	**10,918**	**8,818**	**5,560**	**1,634**	**1,434**	**7,771**

March 31, 2019	Millions of yen					
	Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years	Due after 5 years
Short-term borrowings	1,070	—	—	—	—	—
Bonds	3,966	3,066	3,066	1,971	—	—
Long-term debt	2,768	2,660	2,639	2,438	1,396	9,182
Lease obligations	5,320	4,267	3,029	1,060	144	—
Total	13,124	9,993	8,735	5,469	1,541	9,182

March 31, 2020	Thousands of U.S. dollars					
	Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years	Due after 5 years
Short-term borrowings	**7,790**	—	—	—	—	—
Bonds	**28,172**	**28,172**	**18,110**	—	—	—
Long-term debt	**24,436**	**24,250**	**22,399**	**12,829**	**12,916**	**71,413**
Lease obligations	**39,923**	**28,606**	**10,583**	**2,193**	**260**	—
Total	**100,322**	**81,028**	**51,093**	**15,023**	**13,177**	**71,413**

7. Securities

(1) On March 31, 2020 and 2019, information with respect to held-to-maturity debt securities for which market prices are available is summarized as follows:

	Millions of yen		
March 31, 2020	Consolidated balance sheet amount	Fair value	Difference
Securities whose fair value exceeds the consolidated balance sheet amount:			
Government and municipal bonds	**905**	**915**	**10**
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	**905**	**915**	**10**
Securities whose fair value does not exceed the consolidated balance sheet amount:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	—	—	—
Total	**905**	**915**	**10**

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

March 31, 2020	Thousands of U.S. dollars		
	Consolidated balance sheet amount	Fair value	Difference
Securities whose fair value exceeds the consolidated balance sheet amount:			
Government and municipal bonds	8,317	8,412	94
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	8,317	8,412	94
Securities whose fair value does not exceed the consolidated balance sheet amount:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	—	—	—
Total	8,317	8,412	94

(2) Investment securities classified as other securities as of March 31, 2020 and 2019 are as follows:

March 31, 2020	Millions of yen		
	Consolidated balance sheet amount	Acquisition cost	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Stock	1,610	100	1,510
Bonds:			
Government and municipal bonds	112	111	0
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	1,722	211	1,510
Securities whose consolidated balance sheet amount does not exceed their acquisition cost:			
Stock	12	13	(0)
Bonds:			
Government and municipal bonds	74	74	(0)
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	86	87	(0)
Total	1,808	299	1,509

Note:
March 31, 2020
2,935 million yen of unlisted shares, 1,060 million yen of unconsolidated subsidiary shares and associates, 6,424 million yen of unlisted bonds (subordinate corporate bonds), 866 million yen of subordinate beneficiary rights to loans and accounts receivable in trust, and 114 million yen of investments in silent partnership, are not included in the other securities given above, because they have no fair value and assigning them fair market prices is recognized to be extremely difficult. The Company acquired the unlisted bonds (subordinate corporate bonds) and the subordinate beneficiary rights to loans and accounts receivable in trust, as a result of the securitization of non-recourse apartment loans that financial institutions had loaned to clients as funds for paying construction charges to the Company.

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

Note:

March 31, 2019

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

March 31, 2020	Thousands of U.S. dollars		
	Consolidated balance sheet amount	Acquisition cost	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Stock	**14,793**	**918**	**13,874**
Bonds:			
Government and municipal bonds	**1,029**	**1,029**	**0**
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	**15,823**	**1,947**	**13,875**
Securities whose consolidated balance sheet amount does not exceed their acquisition cost:			
Stock	**112**	**119**	**(7)**
Bonds:			
Government and municipal bonds	**683**	**684**	**(1)**
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	**795**	**804**	**(8)**
Total	**16,618**	**2,752**	**13,866**

Note:
March 31, 2020
$26,974 thousand of unlisted shares, $9,741 thousand of unconsolidated subsidiary shares and associates, $59,030 thousand of unlisted bonds (subordinate corporate bonds), $7,961 thousand of subordinate beneficiary rights to loans and accounts receivable in trust, and $1,050 thousand of investments in silent partnership, are not included in the other securities given above, because they have no fair value and assigning them fair market prices is recognized to be extremely difficult. The Company acquired the unlisted bonds (subordinate corporate bonds) and the subordinate beneficiary rights to loans and accounts receivable in trust, as a result of the securitization of non-recourse apartment loans that financial institutions had loaned to clients as funds for paying construction charges to the Company.

(3) Proceeds from sales of other securities and gain or loss on these sales for the years ended March 31, 2020 and 2019 are summarized as follows:

March 31, 2020	Millions of yen		
	Proceeds from sale	Gain on sale in total	Loss on sale in total
Stock	**4,782**	**2,368**	—
Bonds:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Others	**3,400**	**977**	—
Total	**8,182**	**3,346**	—

March 31, 2019
None

March 31, 2020	Thousands of U.S. dollars		
	Proceeds from sale	Gain on sale in total	Loss on sale in total
Stock	**43,947**	**21,765**	**—**
Bonds:			
Government and municipal bonds	**—**	**—**	**—**
Corporate bonds	**—**	**—**	**—**
Others	**—**	**—**	**—**
Others	**31,241**	**8,982**	**—**
Total	**75,189**	**30,748**	**—**

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Investment securities (stocks)	**1,060**	70	**9,741**
Of which, investment in joint venture	**77**	70	**715**

8. Derivative Transactions

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

For the year ended March 31, 2020

None

For the year ended March 31, 2019

None

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

For the year ended March 31, 2020

None

For the year ended March 31, 2019

None

9. Main Properties

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Residential properties for rent	**7,334**	17,134	**67,395**
Domestic hotels	**1,401**	13,034	**12,873**
Head office and branches	**25,940**	28,760	**238,355**
Leopalace Resort Manenggon Hills Guam	**21,586**	26,632	**198,347**
Leopalace Power (solar power systems)	**8,896**	10,088	**81,748**

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Machinery, equipment, and vehicles	**155**	155	**1,424**

(3) The Companies recognize impairment loss on the following asset groups for the years ended March 31, 2020 and 2019:

March 31, 2020

Purpose	Category	Location	Impairment loss	
			Millions of yen	Thousands of U.S. dollars
Rental assets (Apartment buildings and others, 3 units)	Land	Minami-ku, Yokohama-shi etc.	**285**	**2,621**
Hotel	Buildings and Structures	Chigusa-ku, Nagoya-shi	**298**	**2,738**
	Land		**941**	**8,648**
	Construction in progress		**41**	**379**
Resort facilities	Buildings and Structures	Guam	**2,749**	**25,260**
	Land		**1,068**	**9,816**
Rental assets (Serviced apartments)	Buildings and Structures	Bangkok, Thailand	**191**	**1,763**
	Land		**111**	**1,020**
Rental assets (Serviced apartments)	Buildings and Structures	Phnom Penh, Cambodia	**693**	**6,372**
Business assets	Software	Nakano-ku, Tokyo	**45**	**417**
Shared assets	Buildings and Structures	Construction (Development) Section, Nakano-ku, Tokyo etc.	**102**	**938**
	Land		**59**	**542**
Shared assets	Buildings and Structures	Elderly Care Section, Kanuma-shi, Tochigi etc.	**51**	**473**
Others	Goodwill	—	**982**	**9,031**
Total			**7,620**	**70,024**

The Companies recognize each property in domestic rental assets as a unit, domestic shared assets as a business section, and group the overseas assets by managerial accounting segmentation. In addition, the Companies group by company the assets which a part of consolidated subsidiaries possess.

The Companies wrote down book value of rental assets whose profitability seriously declined, a hotel, resort facilities, and etc. to recoverable amount and recognized the reduced values as impairment losses.

Recoverable amount of rental assets, a hotel, and etc. are measured in the higher of their values in use or their net realizable values. Recoverable amount of overseas real estates for lease and resort facilities was based on the appraisal value by a real estate appraiser. Value in use is computed by discounting its future cash flows at 5.7%, while net realizable value is determined based on publicly appraised value.

For the domestic business, which has been in a continuous operating loss, the book values of shared assets were reduced to the recoverable amount, and the amount of the reduction was recorded as impairment loss.

The recoverable amount of shared assets is measured based on the net selling price based on the value in use and posted prices.

In addition, for the goodwill posted when the Company acquired Morizou Co. Ltd., the Company recorded all of the unamortized balance of the goodwill as impairment loss because profitability in the original business plan examined at the time of acquisition was no longer expected.

March 31, 2019

Purpose	Category	Location	Impairment loss
			Millions of yen
Rental assets (Apartment buildings and others, 113 units)	Buildings and Structures	Odawara-shi, Kanagawa etc.	938
	Land		6,621
Total			7,560

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

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

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

10. Bad Debts

Bad debts are claims as stipulated under Article 32, Paragraph 1, and Item 10 of the Regulation concerning Financial Statements. Bad debts on March 31, 2020 and 2019 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Bad debts	**70**	70	**649**
Others	**154**	144	**1,423**
Total	**225**	214	**2,073**

11. Income Taxes

(1) Significant components of deferred tax assets and liabilities as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Deferred tax assets:			
Loss carried forward for tax purposes *(ii)	**42,165**	33,935	**387,446**
Reserve for losses related to repairs	**17,223**	15,526	**158,256**
Impairment loss	**7,288**	7,294	**66,975**
Reserve for apartment vacancy loss	**4,870**	3,897	**44,755**
Retirement benefit liability	**4,346**	4,096	**39,938**
Advances received	**683**	601	**6,277**
Elimination of unrealized gain	**513**	573	**4,713**
Reserve for fulfillment of guarantees	**415**	393	**3,815**
Excess amortization on software	**377**	463	**3,467**
Allowance for doubtful accounts	**332**	494	**3,053**
Advances from customers	**254**	253	**2,339**
Loss on valuation of real estate for sale	**206**	188	**1,897**
Deposits received	**202**	239	**1,862**
Accounts payable - other	**168**	110	**1,548**
Asset retirement obligations	**145**	139	**1,336**
Accrued enterprise tax	**100**	99	**921**
Loss on valuation of property, plant and equipment	**57**	57	**529**
Reserve for warranty obligations on completed project	**36**	105	**330**
Sales promotion cost	**8**	55	**79**
Accrued bonuses	**7**	775	**72**
Asset adjustments	**—**	307	**—**
Others	**1,251**	605	**11,495**
Sub total	**80,655**	70,216	**741,115**
Valuation allowance for tax loss carryforwards *(ii)	**(42,045)**	(23,985)	**(386,338)**
Valuation allowance for deductible temporary differences	**(36,769)**	(22,324)	**(337,861)**
Less: valuation allowance *(i)	**(78,814)**	(46,309)	**(724,199)**
Total deferred tax assets	**1,840**	23,907	**16,915**
Deferred tax liabilities:			
Reserve for special depreciation	**(66)**	(112)	**(612)**
Net unrealized gain on other securities	**(462)**	(123)	**(4,245)**
Fixed asset retirement expenses	**(19)**	(26)	**(183)**
Total deferred tax liabilities	**(548)**	(262)	**(5,041)**
Net deferred tax assets	**1,292**	23,644	**11,873**

*Notes:

(i) The valuation allowance increases by 32,505 million yen from the previous fiscal year. The main increases were 18,059 million yen in valuation allowance for loss carryforwards due to change in the company classification and 14,445 million yen in valuation allowance from temporary differences.

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

March 31, 2020	Millions of yen						
	Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years	Due after 5 years	Total
Tax loss carryforwards *(i)	**7,197**	**4,596**	**664**	**816**	**1,174**	**27,717**	**42,165**
Valuation allowance	**(7,197)**	**(4,596)**	**(664)**	**(816)**	**(1,103)**	**(27,666)**	**(42,045)**
Deferred tax asset	**—**	**—**	**—**	**—**	**70**	**50**	**120*(ii)**

*Notes:
(i) Tax loss carryforwards are calculated by multiplying the statutory tax rate.
(ii) Deferred tax assets of 120 million are recorded for tax loss carryforwards of 42,165 million (the amount multiplied by the statutory tax rate). The Company does not recognize a valuation allowance for such tax loss carryforwards to the extent that it is deemed recoverable based on projected future taxable income.

March 31, 2019	Millions of yen						
	Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years	Due after 5 years	Total
Tax loss carryforwards *(iii)	4,715	7,200	4,599	640	881	15,899	33,935
Valuation allowance	(4,715)	(4,499)	(2,289)	(640)	(826)	(11,013)	(23,985)
Deferred tax asset	—	2,700	2,309	—	54	4,885	9,950*(iv)

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

March 31, 2020	Thousands of U.S. dollars						
	Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years	Due after 5 years	Total
Tax loss carryforwards *(v)	**66,131**	**42,236**	**6,105**	**7,499**	**10,790**	**254,683**	**387,446**
Valuation allowance	**(66,131)**	**(42,236)**	**(6,105)**	**(7,499)**	**(10,143)**	**(254,221)**	**(386,338)**
Deferred tax asset	**—**	**—**	**—**	**—**	**646**	**461**	**1,108*(vi)**

*Notes:
(v) Tax loss carryforwards are calculated by multiplying the statutory tax rate.
(vi) Deferred tax assets of US$1,108 thousand dollars are recorded for tax loss carryforwards of US$387,446 thousand (the amount multiplied by the statutory tax rate). The Company does not recognize a valuation allowance for such tax loss carryforwards to the extent that it is deemed recoverable based on projected future taxable income.

(2) Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2019 and 2020:

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

12. Short-term Borrowings and Long-term Debt

(1) Short-term borrowings, long-term debt and lease obligations on March 31, 2019 and 2020 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Short-term borrowings	**847**	1,070	**7,790**
Current portion of long-term debt, with average interest rate of 0.96%	**2,659**	2,768	**24,436**
Current portion of lease obligations, with average interest rate of 2.79%	**4,344**	5,320	**39,923**
Long-term debt, due 2021 to 2032, with average interest rate of 1.46%	**15,650**	18,318	**143,809**
Long-term lease obligations, due 2021 to 2025, with average interest rate of 2.78%	**4,532**	8,501	**41,644**
Total	**28,034**	35,978	**257,603**

Note:
The average interest rates above are calculated in weighted average in terms of the fiscal year-end balance of the borrowings and debts. Please note, however, that the current portion of lease obligations and lease obligations (net of the current portion) are recorded in the consolidated balance sheet in the amount before deducting the interest portion from total lease liabilities for certain consolidated subsidiaries, and that such lease obligations are not included in the calculation of the average interest rate.

(2) The amounts of long-term debt and lease obligations (excluding their current portion) scheduled for repayment in five years from fiscal year ended March 31, 2020 are as follows:

	Millions of yen			
	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years
Long-term debt	**2,639**	**2,437**	**1,396**	**1,405**
Lease obligations	**3,113**	**1,151**	**238**	**28**

	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	**24,250**	**22,399**	**12,829**	**12,916**
Lease obligations	**28,606**	**10,583**	**2,193**	**260**

(3) Assets pledged as collateral for short-term borrowings and long-term debt on March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Cash and cash equivalents	**130**	105	**1,199**
Others (current assets)	**251**	—	**2,314**
Buildings and structures	**54**	63	**497**
Machinery, equipment, and vehicles	**83**	113	**767**
Others (intangible fixed assets)	**730**	767	**6,711**
Investment securities	**36**	55	**334**
Others (investments and other assets)	**108**	116	**998**
Total	**1,395**	1,221	**12,822**

(4) Liabilities with collateral at March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Current portion of long-term debt	**76**	79	**704**
Long-term debt	**629**	714	**5,782**
Total	**706**	793	**6,487**

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

(5) Securities and investment securities which have been deposited with the Legal Affairs Bureau on March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Deposit for housing construction warranty	**1,156**	1,122	**10,622**
Advanced payment certificate in accordance with Payment Services Act	**628**	628	**5,770**
Deposit for business security under the Insurance Business Act	**120**	120	**1,104**
Deposit for housing defect warranty	**109**	109	**1,001**
Deposit for operation stipulated in Building Lots and Buildings Transaction Business Act	**95**	136	**878**
Guarantee deposits based on the Trust Business Act	**—**	25	**—**
Others	**9**	4	**86**

(6) Bond balances on March 31, 2020 and 2019 consist of the following:

			Millions of yen		Thousands of U.S. dollars
Company name	Name of bond	Issuance date	**2020**	2019	**2020**
Leopalace21 Corporation	13th unsecured straight bond	October 31, 2014	**—** **(—)**	900 (900)	**—** **(—)**
Leopalace21 Corporation	14th unsecured straight bond	September 30, 2015	**4,403** **(1,666)**	6,069 (1,666)	**40,457** **(15,308)**
Leopalace21 Corporation	15th unsecured straight bond	September 30, 2015	**3,700** **(1,400)**	5,100 (1,400)	**33,997** **(12,864)**
Total			**8,103** **(3,066)**	12,069 (3,966)	**74,455** **(28,172)**

Note:
Figures in parentheses represent the current portion.

Company name	Name of bond	Interest rate (%)	Collateral	Date of maturity
Leopalace21 Corporation	13th unsecured straight bond	0.21	None	October 31, 2019
Leopalace21 Corporation	14th unsecured straight bond	0.13	None	September 30, 2022
Leopalace21 Corporation	15th unsecured straight bond	0.63	None	September 30, 2022

(7) The amount of bonds maturity in 5 years from the consolidated balance sheet date are as follows:

Millions of yen				
Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years
3,066	3,066	1,971	—	—

Thousands of U.S. dollars				
Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years
28,172	28,172	18,110	—	—

13. Retirement Benefit Plans

(1) Outline of retirement benefit plans

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

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

Certain consolidated subsidiaries have adopted a simplified method in calculating the liability for retirement benefits and retirement benefit liabilities expense. Since the amount is immaterial, it is included in following notes based on the general rule.

(2) Defined benefit pension plan

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Beginning balance of retirement benefit obligations	**13,215**	12,338	**121,431**
Service cost	**1,468**	1,401	**13,492**
Interest cost	**67**	63	**621**
Actuarial gains and losses accrued	**11**	59	**103**
Retirement benefits paid	**(1,186)**	(648)	**(10,897)**
Closing balance of retirement benefit obligations	**13,576**	13,215	**124,750**

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Beginning balance of pension assets	**5,001**	5,000	**45,955**
Expected return on plan assets	**111**	158	**1,028**
Actuarial gains and losses accrued	**(238)**	(157)	**(2,191)**
Closing balance of pension assets	**4,874**	5,001	**44,792**

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Funded retirement benefit obligations	**13,576**	13,215	**124,750**
Pension assets	**(4,874)**	(5,001)	**(44,792)**
	8,701	8,213	**79,957**
Unfunded retirement benefit obligations	**—**	—	**—**
Net amount of the liabilities and assets posted in the consolidated balance sheet	**8,701**	8,213	**79,957**
Liability for retirement benefit	**8,701**	8,213	**79,957**
Net amount of the liabilities and assets posted in the consolidated balance sheet	**8,701**	8,213	**79,957**

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Service cost	**1,468**	1,401	**13,492**
Interest cost	**67**	63	**621**
Expected return on plan assets	**(111)**	(158)	**(1,028)**
Amortization of actuarial gain or loss	**175**	237	**1,616**
Retirement benefit expenses related to the defined benefit plan	**1,599**	1,543	**14,701**

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Actuarial gains/losses	**73**	(20)	**678**
Total	**73**	(20)	**678**

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Unrecognized actuarial gains/losses	**546**	472	**5,018**
Total	**546**	472	**5,018**

(g) Matters concerning pension assets are as follows:

(1) Major components of pension assets

	2020	2019
Bonds	**99%**	92%
Shares	**—**	6%
Others	**1%**	2%
Total	**100%**	100%

Note:
Total of pension assets is the amount contributed to retirement benefits trust from the lump-sum retirement distribution plan.

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

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

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

	2020	2019
Discount rate	**0.03 – 0.89%**	0.03 – 0.97%
Expected long-term rate of return on pension assets	**1.43%**	2.17%

(3) Defined contribution pension plan

The necessary contribution amount for the defined contribution plan was 566 million yen ($5,201 thousand) and 597 million yen for the years ended March 31, 2020 and 2019, respectively.

14. Stock Options

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Selling, general and administrative expenses	**15**	100	**142**

(2) Gain recorded relating to unused and expired share subscription rights

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Gain on reversal of share subscription rights	**17**	—	**157**

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

(a) Outline of stock options:

	2009 Stock Option	2016 Stock Option	2017 Stock Option	2018 Stock Option
Title and number of grantees	Executive officers (excluding Directors) and employees of Leopalace21 Corporation, and Directors and employees of significant subsidiaries 33 people	8 Directors (excluding outside Directors) and 12 executive officers of Leopalace21 Corporation	8 Directors (excluding outside Directors) and 15 executive officers of Leopalace21 Corporation, and 9 Directors of subsidiaries	8 Directors (excluding outside Directors) and 16 executive officers of Leopalace21 Corporation, and 15 Directors of subsidiaries
Type and number of stock options*	Common stock: 71,000 shares	Common stock: 252,700 shares	Common stock: 282,800 shares	Common stock: 348,000 shares
Grant date	August 17, 2009	August 18, 2016	September 14, 2017	September 14, 2018
Vesting conditions	Continuous services from the grant date (August 17, 2009) to the end of vesting period (August 17, 2011)	Not applicable vesting conditions are specified	Not applicable vesting conditions are specified	Not applicable vesting conditions are specified
Vesting period	From August 17, 2009 to August 17, 2011	Not applicable period of service is specified	Not applicable period of service is specified	Not applicable period of service is specified
Exercise period	From August 18, 2011 to June 27, 2019	From August 19, 2016 to August 18, 2046	From September 15, 2017 to September 14, 2047	From September 15, 2018 to September 14, 2048

* Note:

Reported by converting to the number of shares

(b) Stock option transactions:

Number of stock options as of the fiscal year ended March 31, 2020 is reported by converting to the number of shares.

Number of stock options:

	2009 Stock Option	2016 Stock Option	2017 Stock Option	2018 Stock Option
Non-vested (number of shares)				
Previous fiscal year-end	—	—	—	—
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	—	—	—	—
Outstanding	—	—	—	—
Vested (number of shares)				
Previous fiscal year-end	62,000	252,700	282,800	348,000
Vested	—	—	—	—
Exercised	—	81,700	92,500	122,100
Forfeited	62,000	—	—	—
Outstanding	—	171,000	190,300	225,900

Price information (yen):

	2009 Stock Option	2016 Stock Option	2017 Stock Option	2018 Stock Option
Exercise price	826	1	1	1
Average stock price at exercise	—	292	293	288
Fair value at the grant date	277	547	528	332

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

None

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

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

15. Gain on Sale of Property, Plant and Equipment

Gain on sale of non-current assets for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Buildings and structures	**3,137**	242	**28,827**
Machinery, equipment, and vehicles	**0**	2	**0**
Land	**5,808**	—	**53,369**
Others (Property, plant, and equipment)	**—**	0	**—**
Total	**8,945**	245	**82,197**

16. Loss on Sale of Property, Plant and Equipment

Loss on sale of non-current assets for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Buildings and structures	**697**	0	**6,407**
Machinery, equipment, and vehicles	**0**	0	**0**
Land	**274**	0	**2,526**
Others (Property, plant and equipment)	**—**	0	**—**
Total	**972**	0	**8,934**

17. Loss on Retirement of Non-current Assets

Loss on disposal of non-current assets for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Buildings and structures	**64**	82	**589**
Construction in progress	**1**	0	**13**
Land	**—**	3	**—**
Leased assets	**0**	—	**0**
Others (Property, plant and equipment)	**3**	9	**36**
Others (Intangible fixed asset)	**1**	21	**17**
Total	**71**	117	**657**

18. Loss related to repairs

For the year ended March 2019 and the year ended March 2020, repair costs and incidental expenses are incurred as repair works to the defect properties constructed by the Company.

19. Provision of reserve for losses related to repairs

For the year ended in March 2019 and the year ended in March 2020, the Company recorded the provision for estimated losses related to repairs based on the rate of construction defects and other factors in order to prepare for the repair costs and incidental expenses for the construction defects related to the properties constructed by the Company.

20. Provision of reserve for apartment vacancy loss

For the year ended March 2019, we estimated the reduction of occupancy rates and resultant vacancy loss because of suspended recruitment for tenants arising from the construction defects problem. As the estimated loss was temporary and a large amount which was not stemmed from ordinary business operations, the Company recorded it as provision of reserve for apartment vacancy loss in extraordinary losses.

For the year ended March 2020

None

21. Special severance allowance

For the year ended March 2020, the special severance allowance was paid to the employees who left the Company as a result of sale of the three domestic hotels in Sapporo, Sendai and Hakata.

For the year ended March 2019

None

22. Repair expenses

For the year ended March 2020, the repair expenses were related to the repairs conducted for the properties which were sold in the previous fiscal years.

For the year ended March 2019

None

23. Rental Properties

The Companies possesses rental apartments in major cities and regions throughout Japan. Some subsidiaries possess rental residences and office buildings, in addition they develop and possess serviced apartments. For the years ended March 31, 2020 and 2019, income arising from these rental properties are 910 million yen ($8,368 thousand) and 1,902 million yen, and impairment losses are 1,407 million yen ($12,931 thousand) and 7,560 million yen, respectively.

Furthermore, the changes in book value of rental properties during the years ended March 31, 2020 and 2019, and the fair value as of March 31, 2020 and 2019 are as follows:

March 31, 2020

Millions of yen			
Balance as of April 1, 2019	Increase/(Decrease)	Balance as of March 31, 2020	Fair value as of March 31, 2020
27,036	**(13,150)**	**13,886**	**17,585**

March 31, 2019

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

March 31, 2020

Thousands of U.S. dollars			
Balance as of April 1, 2019	Increase/(Decrease)	Balance as of March 31, 2020	Fair value as of March 31, 2020
248,431	**(120,837)**	**127,593**	**161,588**

Notes:

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

(ii) For the years ended March 31, 2020 and 2019, the main decreases are due to the sale of rental properties in 11,714 million yen ($107,638 thousand) and 9,556 million yen, and impairment losses in 1,407 million yen ($12,931 thousand) and 7,560 million yen, respectively.

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

24. Asset Retirement Obligations

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

25. Supplemental Information to the Statement of Changes in Equity

(1) Main changes in net assets for the year ended March 31, 2020

(a) Shares issued and treasury stocks for the year ended March 31, 2020 are as follows:

	Shares			
Type of shares	April 1, 2019	Increase	Decrease	March 31, 2020
Shares issued				
Common stock	244,882,515	—	—	244,882,515
Total	244,882,515	—	—	244,882,515
Treasury stock				
Common stock	1,067,510	—	296,300	771,210
Total	1,067,510	—	296,300	771,210

Note:
The 296 thousand shares decrease in treasury stock is resulting from the exercise of subscription rights to shares.

(b) Stock acquisition rights (SAR) and treasury share acquisition rights for the year ended March 31, 2020 are as follows:

Type	Class of shares issued upon exercise of SARs	Number of shares issued upon exercise of SARs				Outstanding as of March 31, 2020	
		April 1, 2019	Increase	Decrease	March 31, 2020	Millions of yen	Thousands of U.S. dollars
SARs as stock option	—	—	—	—	—	**269**	**2,471**
Total	—	—	—	—	—	**269**	**2,471**

(c) Matters concerning dividends for the year ended March 31, 2020 are as follows:
None

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

(2) Main changes in equity for the year ended March 31, 2019

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

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

*Notes:
(i) The 7,800 thousand shares decrease in common stock issued is due to the retirement of treasury stock resolved at the meeting of Board of Directors.
(ii) The 8,300 thousand shares increase in treasury stock is due to the 8,300 thousand shares acquisition resolved at the meeting of Board of Directors, accompanied with the purchase of 0 thousand shares less than one unit.
(iii) The 7,800 thousand shares decrease in treasury stock is due to the retirement of treasury stock resolved at the meeting ofBoard of Directors.

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

Type	Class of shares issued upon exercise of SARs	Number of shares issued upon exercise of SARs				Outstanding as of March 31, 2019
		April 1, 2018	Increase	Decrease	March 31, 2019	Millions of yen
SARs as stock option	—	—	—	—	—	404
Total	—	—	—	—	—	404

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

- Dividends paid:

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

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

26. Leased assets

(1) Finance lease transactions

The Company primarily leases furniture and electronic appliances to apartments in their leasing business. Leased assets are depreciated in the straight-line method over the lease-term of respective assets as their useful lives, with no residual value.

(2) Operating lease transactions

Future minimum lease payments related to non-cancelable operating leases subsequent to March 31, 2020 and 2019 are as follows:

March 31, 2020	Millions of yen		
	Future lease payments	Prepaid lease payments	Differences
Due within one year	**234,427** **(234,225)**	**805** **(805)**	**233,622** **(233,420)**
Due after one year	**100,070** **(99,774)**	**1,089** **(1,089)**	**98,981** **(98,684)**
Total	**334,498** **(333,999)**	**1,894** **(1,894)**	**332,603** **(332,104)**

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

March 31, 2020	Thousands of U.S. dollars		
	Future lease payments	Prepaid lease payments	Differences
Due within one year	**2,154,072** **(2,152,215)**	**7,402** **(7,402)**	**2,146,670** **(2,144,813)**
Due after one year	**919,516** **(916,788)**	**10,008** **(10,008)**	**909,507** **(906,779)**
Total	**3,073,588** **(3,069,003)**	**17,410** **(17,410)**	**3,056,178** **(3,051,593)**

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

27. Guarantee Obligations

Guaranteed obligations as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Guarantee obligations to financial institutions for customers who have a home mortgage	**468**	505	**4,303**
Guarantee obligations to financial institutions for customers who have a membership loan	**3**	3	**33**
Total	**472**	509	**4,337**

28. Segment Information

(1) Overview of Reportable Segments

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

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

The Leasing Business operations comprise the leasing and management of apartment buildings and other properties, repair works, broadband internet service, rent obligation guarantee, the company residence agency business, solar power generation business, and small-amount short-term insurance business and others. The Development Business operations comprise the construction subcontracting of apartments, detached houses and others. The Elderly Care Business operates elderly care facilities. The Hotels, Resort and Other Business operates hotels and resort facilities etc.

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

The accounting methods for reportable segments are in accordance to accounting policies adopted in the preparation of consolidated financial statements. The reportable segment profits (losses) represent operating profits (losses). Inter-segment sales and transfers are based on prevailing market prices.

(3) Information Regarding Sales, Profits and Losses, Assets, Liabilities, and other Items by Reportable Segment for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen						
	Reportable segment						
March 31, 2020	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort, & Other Business	Segment Total	Adjustments	Consolidated Total
Sales							
Sales to customers	**388,939**	**23,806**	**14,620**	**6,186**	**433,553**	**—**	**433,553**
Inter-segment sales and transfers	**257**	**27**	**—**	**2,410**	**2,695**	**(2,695)**	**—**
Total	**389,197**	**23,834**	**14,620**	**8,596**	**436,249**	**(2,695)**	**433,553**
Segment profit (loss)	**(20,828)**	**(5,181)**	**(559)**	**(1,000)**	**(27,569)**	**(8,903)**	**(36,473)**
Segment assets	**75,099**	**11,150**	**3,470**	**27,452**	**117,173**	**79,779**	**196,953**
Other items							
Depreciation	**8,351**	**112**	**100**	**1,441**	**10,005**	**2,151**	**12,157**
Increase in property, plant, and equipment, and intangible fixed asset	**3,269**	**83**	**0**	**480**	**3,833**	**45**	**3,879**

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

	Millions of yen	Thousands of U.S. dollars
Inter-segment eliminations	**(91)**	**(840)**
Corporate expenses*	**(8,812)**	**(80,972)**
Total	**(8,903)**	**(81,812)**

*Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.
Adjustments in segment assets (79,779 million yen, $733,068 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 fixed asset (45 million yen, $422 thousand) consist of capital expenditures which do not belong to reportable segments.
(ii) Segment profit (loss) is adjusted to operating profit (loss) on the consolidated statement of income.

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

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

	Millions of yen
Inter-segment eliminations	(166)
Corporate expenses*	(4,240)
Total	(4,407)

*Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.
Adjustments in segment assets (110,303 million yen) 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 fixed asset (909 million yen) consist of capital expenditures which do not belong to reportable segments.
(ii) Segment profit (loss) is adjusted to operating profit (loss) on the consolidated statement of income.

March 31, 2020	Thousands of U.S. dollars						
	Reportable segment					Adjustments	Consolidated Total
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort, & Other Business	Segment Total		
Sales							
Sales to customers	3,573,827	218,753	134,346	56,841	3,983,769	—	3,983,769
Inter-segment sales and transfers	2,368	250	—	22,152	24,772	(24,772)	—
Total	3,576,195	219,004	134,346	78,994	4,008,541	(24,772)	3,983,769
Segment profit (loss)	(191,384)	(47,607)	(5,145)	(9,193)	(253,330)	(81,812)	(335,143)
Segment assets	690,064	102,459	31,890	252,252	1,076,666	733,068	1,809,735
Other items							
Depreciation	76,742	1,032	919	13,244	91,939	19,766	111,706
Increase in property, plant, and equipment, and intangible fixed asset	30,043	767	2	4,415	35,229	422	35,651

Related information

1. Products and services

Information concerning products and services is omitted, since similar information is reported in “28. Segment Information”.

2. Geographic area

(1) Sales

Information concerning sales by geographic area is omitted, since more than 90% of sales reported in the consolidated statement of income are generated in Japan.

(2) Plant, property, and equipment

March 31, 2020

Millions of yen					
Japan	Trust territory of U.S.A. Guam	Kingdom of Thailand	Kingdom of Cambodia	Other	Total
62,071	21,586	887	755	232	85,534

March 31, 2019

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

March 31, 2020

Thousands of U.S. dollars					
Japan	Trust territory of U.S.A. Guam	Kingdom of Thailand	Kingdom of Cambodia	Other	Total
570,352	198,351	8,158	6,943	2,138	785,944

3. Major customers

Information concerning sales to major customers is omitted, since no sales to any particular customer exceed 10% of sales reported in the consolidated statement of income.

Information concerning impairment loss on non-current assets by reportable segments

March 31, 2020

	Millions of yen					
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort, & Other Business	Adjustments	Consolidated total
Impairment loss	**1,327**	**1,144**	**51**	**5,097**	**—**	**7,620**

March 31, 2019

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

March 31, 2020

	Thousands of U.S. dollars					
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort, & Other Business	Adjustments	Consolidated total
Impairment loss	**12,195**	**10,512**	**473**	**46,843**	**—**	**70,024**

Information concerning goodwill amortization and unamortized balance by reportable segments

March 31, 2020

	Millions of yen					
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort, & Other Business	Adjustments	Consolidated total
Goodwill amortization	**45**	**215**	**—**	**—**	**—**	**260**
Balance	**127**	**—**	**—**	**—**	**—**	**127**

Note:

The Company posted 982 million yen ($9,031 thousand) of impairment loss for goodwill in Development Business. The Company sold all the shares in Life Living Co., Ltd. in the year ended March 2020 and excluded it from the scope of consolidation, which resulted in the reduction of goodwill by 953 ($8,757 thousand) million yen in Development Business.

March 31, 2019

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

March 31, 2020

	Thousands of U.S. dollar					
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort, & Other Business	Adjustments	Consolidated total
Goodwill amortization	**414**	**1,979**	**—**	**—**	**—**	**2,393**
Balance	**1,176**	**—**	**—**	**—**	**—**	**1,176**

Information concerning gain on negative goodwill by reportable segments

For the years ended March 31, 2020 and 2019

None

29. 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, 2020 and 2019

	Yen		U.S. dollars
	2020	2019	**2020**
Net assets	**5.34**	331.87	**0.04**
Net loss attributable to shareholders of the parent	**328.77**	278.58	**3.02**

Note that diluted net income per share is not indicated because net loss per share is indicated, although there are potential common shares with dilutive effects.

(2) Basis of computation of basic and diluted net income per share for the years ended March 31, 2020 and 2019 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Net loss attributable to shareholders of the parent	**80,224**	68,662	**737,150**
Amount not attributable to common stock	**—**	—	**—**
Net loss attributable to common stock	**80,224**	68,662	**737,150**
Basic weighted-average shares during the year (Thousands of shares)	**244,011**	246,473	**244,011**
Dilutive securities without dilutive effects and excluded from calculation of diluted net income per share.	**—**	Stock acquisition rights (620)	**—**

30. Related Party Transactions

The following tables set forth related party transactions for the years ended March 31, 2020 and 2019.

For the year ended March 31, 2020

None

For the year ended March 31, 2019

(a) Unconsolidated subsidiaries and associates

None

(b) Directors and major individual shareholders

Attribute	Name	Address	Capital stock	Business or position	Percentage of share ownership	Relation
			Millions of yen			
Directors and close relatives	Kei Ishida	—	—	—	—	Real estate brokerage, etc.
Directors and close relatives	Toshiko Miyoshi	—	—	—	—	Leasing of land and building

Attribute	Name	Transaction	Transaction amount	Account	Balance
			Millions of yen		Millions of yen
Directors and close relatives	Kei Ishida	Leasing brokerage commissions	**17**	Accounts payable	**0**
Directors and close relatives	Toshiko Miyoshi	Leasing of apartments	**26**	—	—

Notes:

(i) Consumption taxes are not included in amounts.

(ii) Conditions on real estate brokerage and leasing of land and building are the same as those on transactions with third parties.

(iii) Kei Ishida is a close relative of Eisei Miyama, Director of the Company.

(iv) Toshiko Miyoshi is a close relative of Tadahiro Miyama, Director of the Company.

(v) Both Eisei Miyama and Tadahiro Miyama retired as Directors at the Ordinary General Meeting of Shareholders held on June 27, 2019.

31. Business Combinations

Business Combination under common control

None

32. Other

The following tables set forth quarterly information for the year ended March 31, 2020.

Cumulative period	First quarter	Second quarter	Third quarter	Full-year
Net sales (Millions of yen)	**113,324**	**221,517**	**328,721**	**433,553**
Income (loss) before income taxes (Millions of yen)	**(7,652)**	**(24,706)**	**(25,199)**	**(58,013)**
Net income (loss) attributable to shareholders of the parent (Millions of yen)	**(5,736)**	**(24,435)**	**(24,137)**	**(80,224)**
Net income (loss) per share (yen)	**(23.53)**	**(100.17)**	**(98.93)**	**(328.77)**

Accounting period	First quarter	Second quarter	Third quarter	Full-year
Net income (loss) per share (yen)	**(23.53)**	**(76.62)**	**1.22**	**(229.76)**

Cumulative period	First quarter	Second quarter	Third quarter	Full-year
Net sales (Thousands of U.S. dollars)	**1,041,300**	**2,035,443**	**3,020,502**	**3,983,769**
Income (loss) before income taxes (Thousands of U.S. dollars)	**(70,319)**	**(227,017)**	**(231,549)**	**(533,067)**
Net income (loss) attributable to shareholders of the parent (Thousands of U.S. dollars)	**(52,708)**	**(224,526)**	**(221,793)**	**(737,150)**
Net income (loss) per share (dollars)	**(0.21)**	**(0.92)**	**(0.90)**	**(3.02)**

Accounting period	First quarter	Second quarter	Third quarter	Full-year
Net income (loss) per share (dollars)	**(0.21)**	**(0.70)**	**0.01**	**(2.11)**

33. Subsequent Events

(1) Offer a voluntary retirement program

The Board of Directors resolved at the meeting held on June 5, 2020 to offer a voluntary retirement program as part of implementing structural reforms so that the Company should be able to realize drastically reviewed business strategies and increase the corporate value.

(a) Reasons for offering the voluntary retirement program

In the continuing tough business climate surrounding the Company, it decided on offering the voluntary retirement program to respond to the business structure changes based on selective concentration strategy with the aim to realize workforce rightsizing to the future operations and to further reduce the fixed cost.

(b) Outline of voluntary retirement

(i) Eligible applicants; Employees aged 35 or older as of April 1, 2020

(ii) Expected number of applicants; About 1,000

(iii) Application period; From June 22, 2020 to July 31, 2020

(iv) Planned leave date; August 31, 2020

(v) Others;

In addition to the retirement allowances stipulated in the retirement allowance regulations, the Company will pay special severance allowance to the applicants and will provide them with outplacement service.

(c) Estimated loss due to the voluntary retirement

The Company posted 2,481 million yen ($22,799 thousand) of special severance allowance as extraordinary losses for the first quarter of the fiscal year ending March 2021.

(2) Sale of investment securities

Pursuant to a resolution at the Board of Directors meeting held on June 26, 2020, the Company determined to sell the shares owned by the Company in a certain listed company in order to secure stable funds for the operations and maintain adequate liquidity. The Company started selling the shares in July, 2020 and completed the sale. The Company will record 4,063 million yen ($37,340 thousand) as gain on sale of the investment securities in extraordinary income for the second quarter of the fiscal year ending March 2021. The sales price was 4,162 million yen ($38,251 thousand) and the book value was 1,610 million yen ($14,793 thousand).

(3) Changes in reportable segmentation

The Company determined at the Board of Directors meeting held on June 4, 2020 that the Company's business should be reported in three segments, "Leasing Business," "Elderly Care Business," and "Other Businesses" from the year ending March 2021 in comparison to the previous four reportable segments as "Leasing Business," "Development Business," "Elderly Care Business," and "Hotels, Resort & Other Businesses."

This is in line with the Company's announcement dated June 5, 2020 in the "Notice Concerning Implementing Structural Reforms based on Strategic Review Results for Drastic Business Strategies Reconstruction" where the Companies made the drastic business strategies reconstruction and determined to shift from a strategy of business diversification to a strategy of strengthening profitability of Leasing Business. As a result, "Development Business" was newly classified as a part of "Leasing Business" because it is responsible for strengthening the relationship with the existing owners who lease their apartments to the Company and for providing comprehensive services to those owners; "Hotels, Resort & Other Businesses" was renamed "Other Businesses" based on the policy of withdrawing from the business related to the hotels and resort.

The sales, operating loss, assets and other items for the year ended March 2020 in accordance with the segments after the change are as follows.

(a) Information Regarding Sales, Profits and Losses, Assets, and other Items by Reportable Segment for the year ended March 31, 2020

	Millions of yen					
	Reportable segment					
March 31, 2020	Leasing Business	Elderly Care Business	Other Businesses	Segment Total	Adjustments	Consolidated Total
Sales						
Sales to customers	412,746	14,620	6,186	433,553	—	433,553
Inter-segment sales and transfers	209	—	2,410	2,620	(2,620)	—
Total	412,956	14,620	8,596	436,174	(2,620)	433,553
Segment profit (loss)	(26,041)	(547)	(996)	(27,585)	(8,888)	(36,473)
Segment assets	86,250	3,470	27,452	117,173	79,779	196,953
Other items						
Depreciation	8,464	100	1,441	10,005	2,151	12,157
Increase in property, plant, and equipment, and intangible fixed asset	3,353	0	480	3,833	45	3,879

	Thousands of U.S. dollars					
	Reportable segment					
March 31, 2020	Leasing Business	Elderly Care Business	Other Businesses	Segment Total	Adjustments	Consolidated Total
Sales						
Sales to customers	3,792,580	134,346	56,841	3,983,769	—	3,983,769
Inter-segment sales and transfers	1,927	—	22,152	24,080	(24,080)	—
Total	3,974,508	134,346	78,994	4,007,849	(24,080)	3,983,769
Segment profit (loss)	(239,282)	(5,031)	(9,156)	(253,471)	(81,671)	(335,143)
Segment assets	792,524	31,890	252,252	1,076,666	733,068	1,809,735
Other items						
Depreciation	77,775	919	13,244	91,939	19,766	111,706
Increase in property, plant, and equipment, and intangible fixed asset	30,810	2	4,415	35,229	422	35,651

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

	Millions of yen	Thousands of U.S. dollars
Inter-segment eliminations	**(85)**	**(787)**
Corporate expenses*	**(8,802)**	**(80,884)**
Total	**(8,888)**	**(81,671)**

*Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.
Adjustments in segment assets (79,779 million yen, $733,068 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 fixed asset (45 million yen, $422 thousand) consist of capital expenditures which do not belong to reportable segments.
(ii) Segment profit (loss) is adjusted to operating profit (loss) on the consolidated statement of income.

(b) Information concerning impairment loss on non-current assets by reportable segments

March 31, 2020

	Millions of yen				
	Leasing Business	Elderly Care Business	Hotels, Resort, & Other Business	Adjustments	Consolidated total
Impairment loss	**2,471**	**51**	**5,097**	—	**7,620**

March 31, 2020

	Thousands of U.S. dollars				
	Leasing Business	Elderly Care Business	Hotels, Resort, & Other Business	Adjustments	Consolidated total
Impairment loss	**22,708**	**473**	**46,843**	—	**70,024**

(c) Information concerning goodwill amortization and unamortized balance by reportable segments

March 31, 2020

	Millions of yen				
	Leasing Business	Elderly Care Business	Hotels, Resort, & Other Business	Adjustments	Consolidated total
Goodwill amortization	**260**	—	—	—	**260**
Balance	**127**	—	—	—	**127**

Note:
The Company posted 982 million yen ($9,031 thousand) of impairment loss for goodwill in Development Business. The Company sold all the shares in Life Living Co., Ltd. in the year ended March 2020 and excluded it from the scope of consolidation, which resulted in the reduction of goodwill by 953 ($8,757 thousand) million yen in Development Business.

March 31, 2020

	Thousands of U.S. dollar				
	Leasing Business	Elderly Care Business	Hotels, Resort, & Other Business	Adjustments	Consolidated total
Goodwill amortization	**2,393**	—	—	—	**2,393**
Balance	**1,176**	—	—	—	**1,176**

(4) Issuance of New Shares through Third Party Allotment

Pursuant to a resolution at the Board of Directors meeting held on September 30, 2020 to the issuance of new shares through third party allotment ("New Shares"), the Company entered into the agreement for issuance of new shares through third party allotment on the same date as follows.

[Offering related to the Issuance of New Shares]

(1) Type and number of shares to be issued	Common stock, 84,507,000 shares
(2) Issue price	142 yen ($1.3) per share
(3) Amount to be raised	11,999,994,000 yen ($110,263 thousand)
(4) Per-share amount for capital incorporation	71 yen ($0.6) per share
(5) Amount of capital incorporation	5,999,997,000 yen ($55,131 thousand)
(6) Date of payment	November 2, 2020
(7) Method of offering or allotment (Scheduled Allottee)	All shares will be allotted to Chidori Godo Kaisha (Note 1) through third party allotment
(8) Use of funds (Note 2)	- Payment of repair work expenses related to construction defects such as parting walls found in the properties constructed by the Company - Repayment of Leopalace Power Corporation's existing borrowings - Redemption of bonds
(9) Others	Each item above shall be subject to the effectiveness of the securities registration statement under the Financial Instruments and Exchange Act of Japan, and the completion of the prior notification procedures under the Foreign Exchange and Foreign Trade Act of Japan ("Foreign Exchange Act") by the Scheduled Allottee in respect of the Issuance of New Shares.

(Notes)

1. Chidori Godo Kaisha is a related company of Fortress Investment Group LLC.
2. The Company believes that the fundraising methods described below (collectively the "Scheme"), from the viewpoints of eliminating the Company's excessive liabilities and its medium-to long-term financial strategy, form an integral part of the Scheme. The Company therefore describes the use of funds which corresponds to the total amount of fundraising.
   (i) Issuance of the New Shares through third party allotment,
   (ii) Issuance of the stock acquisition rights in connection with the loan with stock acquisition rights through third party allotment, and
   (iii) Issuance of the preferred stock of Leopalace Power Corporation, a Company's wholly-owned subsidiary.

(5) Issuance of the Stock Acquisition Rights in connection with the Loan with Stock Acquisition Rights through Third Party Allotment, and Fundraising through the Loan with Stock Acquisition Rights

Pursuant to resolutions at the Board of Directors meeting held on September 30, 2020 to the issuance of 5th Series of Stock Acquisition Rights ("Stock Acquisition Rights") in connection with the Loan with stock acquisition rights ("Loan") through third party allotment, the Company entered into the agreement for the third party allotment agreement and loan agreement on the same date as follows.

[Offering related to the Issuance of the Stock Acquisition Rights]

(1) Date of allotment	November 2, 2020
(2) Total number of stock acquisition rights	159,748,700 units
(3) Issue price	215,660,745 yen ($1,981 thousand) (in total) (1.35 yen ($0.0) per unit of the Stock Acquisition Rights)
(4) Number of dilutive shares resulting from the issuance	159,748,700 shares
(5) Exercise price	142 yen ($1.3)
(6) Method of offering or allotment (Scheduled Allottee)	All units will be allotted to Chidori Godo Kaisha, the Scheduled Allottee, through third party allotment.
(7) Exercise period	From November 2, 2020 (inclusive) to November 2, 2025 (inclusive)
(8) Others	Each item above shall be subject to the effectiveness of the securities registration statement under the Financial Instruments and Exchange Act of Japan, and the completion of the prior notification procedures under the Foreign Exchange Act by the Scheduled Allottee in respect of the Issuance of New Shares.

[Outline of the Loan]

(1) Borrower	Leopalace21 Corporation
(2) Lender	Kaede Godo Kaisha (Note 1)
(3) Principal amount of loan	30,000,000,000 yen ($275,659 thousand)
(4) Date of execution of agreement	September 30, 2020
(5) Loan drawdown date	November 2, 2020
(6) Maturity date	November 4, 2025
(7) Voluntary prepayment	Prepayment may be made after three (3) years from the loan drawdown date; provided, however, that, after two (2) years from the drawdown date, prepayment may be made only during the period when the occupancy rate of the Company's properties reaches a certain level.
(8) Applicable interest rate	14.5% per annum However, only during the period when the occupancy rate of the Company's properties reaches a certain level, the applicable interest rate is 10.0% per annum.
(9) Up-front fee	2.00%
(10) Security interests	Real estate, loan receivables held against the Company's subsidiaries, stock of subsidiaries (Leopalace Leasing Corporation, Plaza Guarantee Co., Ltd., and Azu Life Care Co., Ltd.), etc.
(11) Guaranty	Joint and several guarantees by the Company's subsidiaries (Leopalace Leasing Corporation, Plaza Guarantee Co., Ltd., and Azu Life Care Co., Ltd.)
(12) Use of funds (Note 2)	- Payment of repair work expenses related to construction defects such as parting walls found in the properties constructed by the Company - Repayment of Leopalace Power Corporation's existing borrowings - Redemption of bonds
(13) Exercise of stock acquisition rights	If contributions in cash are made upon exercise of the stock acquisition rights, the amount of such contribution in cash will be used to prepay a portion of the principal amount of the loan principal receivables and the loan interest receivables to the Company under a loan agreement concerning the Loan between the Company and the Loan lender (the loan principal receivables and the loan interest receivables shall be hereinafter referred to as the "the Loan Receivables"). If contributions in the Loan Receivables are made upon exercise of the stock acquisition rights, the Loan Receivables so contributed will be deemed to have become due and payable and extinguished by merger up to the amount of such claim at the same time as such contribution.

(Notes)

1. Kaede Godo Kaisha is a related company of Fortress Investment Group LLC.
2. The Company believes that from the viewpoints of eliminating the Company's excessive liabilities and its medium-to long-term financial strategy, the fundraising through the Loan with stock acquisition rights forms an integral part of the Scheme. The Company therefore describes the use of funds which corresponds to the total amount of fundraising.

(6) Issuance of Preferred Stock by a Consolidated Subsidiary Through Third Party Allotment

Leopalace Power Corporation, a wholly owned subsidiary of the Company, pursuant to a resolution of its Board of Directors meeting held on September 30, 2020 to the issuance of preferred stock ("Preferred Stock") through third party allotment, entered into the Preferred Stock allotment agreement on the same date as follows.

[Outline of Leopalace Power Corporation and details of issuance of Preferred Stock]

(1) Company Name	Leopalace Power Corporation
(2) Location	2-54-11, Honcho, Nakano-ku, Tokyo
(3) Representative	Shigeru Ashida
(4) Ownership ratio	Wholly-owned subsidiary of the Company
(5) Type and number of shares to be issued	Class A Preferred Stock, 750,000 shares
(6) Issue price	20,000 yen ($183.7) per share
(7) Total issue price	15,000,000,000 yen ($137,829 thousand)
(8) Per-share amount for capital incorporation	10,000 yen ($91.8) per share
(9) Amount of capital incorporation	7,500,000,000 yen ($68,914 thousand)
(10) Date of payment	November 2, 2020
(11) Method of offering or allotment (Scheduled Allottee) (Note 1)	All of the Preferred Stock will be allotted to Kikyo Godo Kaisha and Willow Investment Holdings L.P. through third party allotment.
(12) Preferred dividend	- The rate which is the higher of 7 percent per annum or the internal rate of return for the Preferred Stock approved at the class shareholders' meeting comprising the preferred stock holders - Preferred dividend is cumulative and non-participating, and no dividends of surplus will be paid in excess of the preferred dividend and unpaid and cumulating preferred dividend.
(13) Use of funds (Note 2)	- Payment of repair work expenses related to construction defects such as parting walls found in the properties constructed by the Company - Repayment of Leopalace Power Corporation's existing borrowings - Redemption of bonds
(14) Others	- The Preferred Stock may be converted into shares of Leopalace Power Corporation's common stock. The voting ratio will be 99.78%, assuming that all the Preferred Stock are converted into common stock. The total number of issued and outstanding shares of Leopalace Power Corporation is 1,600. - The Scheduled Allottee of Preferred Stock may request Leopalace Power Corporation to purchase the Preferred Stock. - The number of one full unit of the Preferred Stock is 909 shares, and the total number of voting rights carried by the Preferred Stock represents 34.0% of the total voting rights of Leopalace Power Corporation.

(Notes)
1. Kikyo Godo Kaisha and Willow Investment Holdings L.P. are the related companies of Fortress Investment Group LLC.
2. The Company believes that from the viewpoints of eliminating the Company's excessive liabilities and its medium-to long-term financial strategy, the fundraising through the Issuance of Preferred Stock forms an integral part of the Scheme. The Company therefore describes the use of funds which corresponds to the total amount of fundraising.

(7) Sale of Non-current Assets

The Company resolved at the Board of Directors meeting held on July 30, 2020 to sell 17 residential properties for lease and completed the sale process as of August 31, 2020. It is intended for the Company to realize the efficient utilization of its managerial resources and to strengthen the financial base. The sales price was 2,297 million yen ($21,108 thousand) and the book value was 5,633 million yen ($51,763 thousand).

34. Contingent Liabilities

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

The Company also declared that the Company will investigate all the properties in the two series and carry out repair works to the properties with such discrepancies in the light of the responsibilities as a construction company.

In addition, the Company announced on May 29, 2018 that because a part of six apartment series constructed by the Company from 1996 to 2009, “Gold Residence, New Silver Residence, New Gold Residence, Special Steel Residence, Better Steel Residence, and Con Grazia” (hereinafter, the “Six Series”), were considered to have the possibility of violating the Building Standards Act in Japan, the Company will investigate all properties constructed by the Company and carry out repair works for the properties in question.

For apartment series other than the above “Nail Series” and “Six Series” which are subject to priority investigation, it was confirmed that part of those properties had defects due to the lack of adequate construction supervision.

Subsequently, it was newly confirmed that during the all-building investigations, the parting walls and exterior walls of part of the three apartment series “Gold Residence, New Gold Residence, and Villa Alta” constructed from 1996 to 2001 were built with foamed urethane, instead of glass wool described in the design drawings and documents, and there were defects in the construction finish of the ceilings that make up the floor of the rooms in a part of “Gold Residence” series. The Company identified the defective buildings based on manufacturing list of the building components for those properties with foamed urethane instead of glass wool, and based on the description in the design drawings and documents for those properties with defective construction finish of the ceilings. Since the properties in which these identified defects were not constructed in accordance with the notification of the Ministry of Land, Infrastructure, Transport and Tourism (hereinafter, “MLIT”) or the specifications certified by the Minister of Land, Infrastructure, Transport and Tourism, the Company reported these issues to the MLIT and announced on February 7, 2019 that the Company will carry out the repair works to make the properties conform to the statutory specifications.

In the process of continuing the all-building investigations, it was confirmed that the fire-resistant structures in parting walls of some of the steel-framed properties constructed by the Company did not conform to the specifications certified by the Minister of Land, Infrastructure, Transport and Tourism. As a result, the Company reported it to MLIT and announced on May 29, 2019 that the Company will carry out repair works to make the properties conform to the statutory specifications.

The Company has been making concerted efforts to quickly resolve construction defects. Amid the failing business performance and worsened financial position, the Company is reallocating human and material resources including a voluntary retirement program as a part of the structural reforms, and temporarily reduced the scale of repair works and organizational setup to deal with the construction defects.

Under these circumstances, the Company made a tentative repair plan to complete the repairs by the end of December 2020 for approximately 2,000 rooms mainly composed of the vacant rooms for which the tenant recruitment had been suspended. The Company announced on August 28, 2020 that it would review the scale of repair works and organizational setup, and notify the further repair plan once the Company confirms prospect for business recovery and improvement for financial position.

As a result of these events, to prepare for incurrence of repair costs and incidental expenses, such as expenses to compensate for the rent of vacancies of properties managed by other companies, relocation expenses for tenants, and external investigation expenses, related to the defects in properties constructed by the Company, the Company reasonably estimated and recorded the amount for reserve for losses related to repairs at the end of the current fiscal year, depending on changing conditions of the details of the defects including the repair method, repair unit cost and necessity or method for the tenant to relocate.

However, as the repair works are currently in progress, and in the event that there are any changes in the assumptions on which the calculation of reserve for losses related to repairs is based going forward, repair costs incurred and incidental expenses and others may exceed the amount for which the reserve has already been made.

Accordingly, depending on the progress of repair works and other factors in the following fiscal years, there may be an impact on the Companies’ consolidated financial results due to the additional reserve for losses related to repairs.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of LEOPALACE21 Corporation

Opinion

We have audited the consolidated financial statements of LEOPALACE21 Corporation (the Company) and its consolidated subsidiaries (together, the Companites), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairy, in all material respects, the consolidated financial position of the Companies as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S.dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Companies in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Without qualifying our opinion, we draw attention to ;

1) Note 34 in the consolidated financial statements, which describes the construction defects in part of the apartments constructed by the Company. The company recorded reserve for losses related to repairs and incidental expenses related to the defects. Depending on the progress of the repair work in the following fiscal years, there may be an impact on the Companies' consolidated financial results due to the additional reserve for losses related to repairs.

2) Note 33 (4) in the consolidated financial statements, which describes the fact that the Company resolved at the Board of Directors meeting held on September 30, 2020 to issue new shares through third party allotment and entered into the agreement for issuance of new shares through third party allotment on the same date.

3) Note 33 (5) in the consolidated financial statements, which describes the fact that the Company resolved at the Board of Directors meeting held on September 30, 2020 to issue the 5th Series of Stock Acquisition Rights in connection with the Loan with stock acquisition rights through third party allotment and raise funds through the Loan with stock acquisition rights, and entered into the agreement for the third party allotment agreement and loan agreement on the same date.

4) Note 33 (6) in the consolidated financial statements, which describes the fact that Leopalace Power Corporation, a wholly owned subsidiary of the Company, resolved at the Board of Directors meeting held on September 30, 2020 to issue preferred stock through third party allotment and entered into the preferred stock allotment agreement on the same date.

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Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board 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.

In preparing the consolidated financial statements, management is responsible for assessing the Companies' ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Companies' financial reporting process.

Auditor's Responsibilities for the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Companies' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Companies' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Companies to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures of the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Companies to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board Members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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We also provide Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Companies which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Takefumi Sato

Takefumi Sato
Designated Engagement Partner
Certified Public Accountant

Hidetoshi Nakano

Hidetoshi Nakano
Designated Engagement Partner
Certified Public Accountant

Daishi Nishimura

Daishi Nishimura
Designated Engagement Partner
Certified Public Accountant

Grant Thornton Taiyo LLC
Tokyo, Japan
October 20, 2020

Leopalace21 Data Compilation

External Environment

Number of New Housing Starts

In fiscal year 2019, the number of new housing starts decreased by 7.3% year on year. Meanwhile, rental housing starts decreased for the second year in a row, falling by 14.3% year on year to 334,509 units. Starts of rental units of less than 30 square meters aimed mainly at single-person households also declined, falling by 27.8% year on year to 52,640 units.

(1,000 units)

	FY2017	FY2018	FY2019
Rental housing	410	390	**335**
Of which, rental units under 30m^2	79	73	**53**
Other	536	563	**549**
Total	946	953	**884**

Source: New housing starts statistics, the Ministry of Land, Infrastructure, Transport, and Tourism

Number of Households

The number of households in Japan is expected to decline starting 2025 due to the nation's trends of an aging population and low fertility rate.
On the other hand, the number of single-person households is expected to continue increasing steadily until 2030.

(1,000 households)

	2010	2015	2020 (forecast)	2025 (forecast)	2030 (forecast)	2035 (forecast)	2040 (forecast)
Single-person households	16,785	18,418	19,342	19,960	20,254	20,233	19,944
Of which, under age 25	2,060	2,021	2,009	1,879	1,781	1,681	1,584
Of which, age 25-34	2,999	2,987	2,830	2,795	2,705	2,558	2,429
Of which, age 35-64	6,745	7,157	7,479	7,774	7,809	7,577	6,968
Of which, age 65 or older	4,980	6,253	7,025	7,512	7,959	8,418	8,963
Married couples	10,269	10,758	11,101	11,203	11,138	10,960	10,715
Married couples with children	14,474	14,342	14,134	13,693	13,118	12,465	11,824
Single-parent with children	4,535	4,770	5,020	5,137	5,141	5,074	4,924
Others	5,779	5,044	4,510	4,123	3,833	3,583	3,350
Total	51,842	53,332	54,107	54,116	53,484	52,315	50,757

Source: 2018 estimates on the number of households and forecasts, the National Institute of Population and Social Security Research

Number of Vacant Homes in Japan

Amid the concentration of populations in cities, the number of vacant homes is growing, especially in rural areas. The number of vacant properties in Japan available for rent or sale stands at 4,600,000 units, or one in five homes, according to the most recent Housing and Land Survey, published in fiscal 2018, and is becoming a social problem.

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

Source: Housing and Land Survey (2018), the Ministry of Internal Affairs and Communications

Leasing Business Data

Apartment Rooms under Management

As of March 31, 2020, apartments under management—the earnings base for our Leasing Business—numbered 575,798, rising for the seventh consecutive year. The growth rate in our focus regions of Kanto (the Tokyo metropolitan area and Kita-Kanto), Chubu, and Kinki remained high and accounted for around 70% of the total number.

(Rooms)

	FY2017	FY2018	FY2019
Hokkaido	13,932	13,909	**13,866**
Tohoku	35,434	35,652	**35,623**
Kita-Kanto	40,321	40,494	**40,494**
Tokyo metro area	168,313	170,358	**171,080**
Hokuriku-Koshinetsu	40,095	40,003	**39,981**
Chubu	87,916	88,194	**88,086**
Kinki	80,362	80,861	**81,011**
Chugoku	38,945	39,208	**39,415**
Shikoku	14,671	14,691	**14,736**
Kyushu-Okinawa	50,683	51,428	**51,506**
Total	570,672	574,798	**575,798**

Leases by Contract Type

We are strengthening our marketing efforts aimed at corporations, where we can expect stable, long-term earnings. As of March 31, 2020, the number of corporate contracts for apartments stood at 272,566 units, down 2.9% from a year earlier due to the ongoing effects of the construction defects problem. Nevertheless, the composition ratio was 57.0%, accounting for more than 50% of our lease portfolio for the seventh consecutive year.

	FY2017		FY2018		**FY2019**	
	Units	%	Units	%	**Units**	**%**
Corporations	309,062	57.8	280,643	57.9	**272,566**	**57.0**
Individuals	178,643	33.4	163,318	33.7	**165,594**	**34.6**
Students	47,142	8.8	40,757	8.4	**40,135**	**8.4**
Total	534,847	100.0	484,718	100.0	**478,295**	**100.0**

Average Annual Occupancy Rate

Both the year-end occupancy rate and the average annual occupancy rate declined due to the impact of the construction defects problem. The year-end occupancy rate in the fiscal year ended March 2020 fell 1.2 points from a year earlier, while the average annual occupancy rate fell 7.5 points from a year earlier.

(%)

	FY2017	FY2018	**FY2019**
Average annual occupancy rate	90.6	88.3	**80.8**

Fiscal Yearend Occupancy Rates by Region

Last year, although the occupancy rate continued to decline in many regions of Japan due to the effects of the construction defects problem, the amount of the decline is decreasing. The Chubu region showed the largest decrease, falling by 3.2 points year on year. Meanwhile, the Hokkaido region, which showed a significant decrease last year, actually increased by 4.1 points year on year.

(%)

	End-FY2017	End-FY2018	**End-FY2019**
Hokkaido	87.1	69.0	**73.1**
Tohoku	94.5	84.8	**84.7**
Kita-Kanto	90.7	80.3	**77.2**
Tokyo metro area	94.2	86.0	**84.9**
Hokuriku-Koshinetsu	92.7	79.1	**79.1**
Chubu	94.5	85.1	**81.9**
Kinki	93.8	83.1	**81.5**
Chugoku	93.1	88.0	**87.0**
Shikoku	91.8	84.3	**83.4**
Kyushu-Okinawa	96.1	87.6	**87.4**
Total	93.7	84.3	**83.1**

Number of Leasing Sales Offices and Sales Personnel

For our Leasing Business, we are forging ahead by building a network balanced between directly managed leasing sales offices and offices run by franchisees (partners). We are continuing to optimize our sales force, which totaled 1,339 people as of March 31, 2020, down 10.4% year on year.

	FY2017	FY2018	**FY2019**
No. of lease sales offices	307	302	**295**
Of which, Leopalace Centers	189	189	**189**
Of which, Leopalace Partners (franchisees)	118	113	**106**
No. of leasing sales personnel	1,546	1,494	**1,339**

Subsidiary Equipments and Services

	FY2017	FY2018	**FY2019**
Security systems installed (cumulative, rooms)	296,564	308,944	**313,382**
Security cameras installed (cumulative, buildings)	12,824	14,410	**14,671**
Services centers, no. of incoming calls	515,750	387,398	**382,518**
Of which, inquiries	361,678	254,334	**266,644**
Of which, maintenance related	121,672	106,508	**92,762**
Of which, complaints or claims	32,400	26,556	**23,112**
Tenant response rates from Internet (new contracts only)	45,971	30,009	**16,360**

Development Business Data

Orders

In the fiscal year ended March 2020, our orders showed a significant decrease for the second year in a row, falling to 7,814 million yen due to the impact of apartment orders being curbed by factors that included us focusing on the resolving the construction defects problem. Our custom-built home orders of subsidiary Morizou also decreased to 2,526 million yen.

(Millions of yen)

	FY2017	FY2018	FY2019
Building categories			
Apartments	69,712	56,859	**4,852**
Elderly care facilities	706	931	**156**
Stores & commercial space	1,390	1,934	**280**
Custom-built homes*	4,097	4,771	**2,526**
Solar power systems	0	0	**0**
Total	75,905	64,495	**7,814**

*Subsidiary Morizou

Apartments Completions

The number of apartment buildings completed in the fiscal year ended March 2020 declined by 57.2% year on year to 163. Completed wooden, steel-frame and reinforced-concrete buildings all decreased due to the impact of curbed orders. Approximately 70% of the completed apartments were wooden.

(Buildings)

	FY2017	FY2018	FY2019
Apartments completions	566	381	**163**
Wooden	369	259	**109**
Steel-frame	185	116	**50**
Reinforced-concrete	12	6	**4**

Apartment Completions by Region

By area, the number of apartment completions is declining in Tohoku, Kita-Kanto, the Tokyo metropolitan area, Chubu, Kinki, Chugoku, and Kyushu-Okinawa due to the impact of measures to curb orders.

(Buildings)

	FY2017	FY2018	FY2019
Tohoku	20	25	**2**
Kita-Kanto	13	9	**4**
Tokyo metro area	317	196	**82**
Hokuriku-Koshinetsu	1	0	**2**
Chubu	43	39	**6**
Kinki	79	54	**30**
Chugoku	32	18	**17**
Shikoku	2	2	**2**
Kyushu-Okinawa	59	38	**18**
Total	566	381	**163**

Sales Offices Accepting Construction Orders, Sales Personnel

Long-term demand for apartment construction is expected to decline nationwide. In this environment, our strategy is to concentrate our sales offices and personnel in regions where strong demand can be expected. However, we are currently committing our workforce to the resolution of the construction defects problem, which we consider our top priority.

	FY2017	FY2018	FY2019
Sales offices responsible for construction orders (offices)	60	35	**29**
Sales personnel responsible for construction orders (personnel)	530	475	**105**

Elderly Care Business Data

Number of Facilities

We have positioned our Elderly Care Business as a growth strategy business, and our plan is to work on increasing the stability of this business to handle Japan's aging population. At the end of March 2020, we had a total of 87 facilities.

(Facilities)

	FY2017	FY2018	FY2019
Fee-based homes	21	21	21
Day services, Short stays	60	64	64
Group homes	2	2	2
Total	83	87	87

Utilization Rate

The utilization rate of fee-based homes for seniors and group homes as well as short stays remained high, exceeding 90%. We are focusing on temporary-type offerings, notably day services and short stays, and the utilization rate of both is improving every year.

(Utilization rate, %)

	FY2017	FY2018	FY2019
Day services	72.8	72.6	72.8
Short stays	90.2	93.6	95.6
Fee-based homes & group homes	88.8	91.6	92.4

Hotels and Resort Business Data

Leopalace Resort Guam

Before, we were encouraging the usage of Leopalace Resort Guam, a resort operated in Guam, by our corporate clients and other stakeholders, but we have decided to withdraw from or reduce this business in line with the structural reforms we announced in June 2020.

	2017	2018	2019
No. of visitors to Guam* (thousands)	1,545	1,549	1,667
No. of visitors to Leopalace Resort Country Club (users) (thousands)	47	45	45
No. of stakeholder visitors (people who stayed, recreational facility users) (thousands)	55 (53.4% of the total)	46 (53.6% of the total)	39 (43.5% of the total)

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

(Utilization rate, %)

	2017	2018	2019
Leopalace Resort Guam	50.7	43.2	50.5

Leopalace Hotels

Before, Leopalace Hotels was encouraging the usage of business hotels by corporate clients on business trips and other stakeholders, but we have decided to withdraw from or reduce this business in line with the structural reforms we announced in June 2020.

(Utilization rate, %)	FY2017	FY2018	FY2019
Sapporo	83.6	82.2	79.0
Sendai	77.8	76.4	67.4
Nagoya	79.6	78.8	58.5
Hakata	94.9	94.9	83.2
No. of stakeholder stays (persons)	11,788 (8.6% of the total)	11,707 (7.4% of the total)	12,581 (8.7% of the total)

Social Key Performance Indicators

The Company engages in the respective CSR initiatives under the leadership of the CSR Committee, which is chaired by the CSR officer, in collaboration with divisions and departments. Meeting four times a year, the CSR Committee receives reports on the progress of initiatives in line with the five themes of the Basic CSR Action Policy, based on the quarterly quantitative targets set by each division and department, and moves initiatives to the next phase of the PDCA cycle. Key topics and KPIs are approved by the CSR Committee, and these are periodically reported to the Board of Directors to conduct CSR activities. In addition, this year, we identified new material issues related to ESG (environment, social, and governance) and specified KPIs for each of these issues.

Governance

	FY2017	FY2018	FY2019
Outside directors	3	3	**7**
Female directors	1	1	**2**
Directors' compensation (millions of yen)	655	595	**228**
Directors (excludes outside directors)	563	495	**131**
Audit & Supervisory Board members (excludes outside ASB members)	19	19	**13**
Outside directors and ASB members	71	80	**83**

Employee Composition (Parent company)

	FY2017			FY2018			FY2019		
	Total	Men	Women	Total	Men	Women	**Total**	**Men**	**Women**
No. of employees	6,494	4,509	1,985	6,331	4,395	1,936	**5,814**	**4,035**	**1,779**
No. of regular employees	5,998	4,265	1,733	5,833	4,142	1,691	**5,461**	**3,830**	**1,631**
No. of temporary hires	496	244	252	498	253	245	**353**	**205**	**148**
Average age	36 years, 11 months	38 years, 0 months	34 years, 5 months	37 years, 7 months	38 years, 7 months	35 years, 2 months	**38 years, 8 months**	**39 years, 3 months**	**36 years, 4 months**
Average cumulative years of service	8 years, 11 months	10 years, 2 months	6 years, 1 months	9 years, 7 months	10 years, 10 months	6 years, 7 months	**10 years, 6 months**	**11 years, 10 months**	**7 years, 6 months**

Work-life Balance (Parent company)

	FY2017			FY2018			FY2019		
	Total	Men	Women	Total	Men	Women	**Total**	**Men**	**Women**
Total number of working hours per month	176.7			173.0			**166.3**		
Overtime work hours per month	18.2			15.0			**13.3**		
No. of employees with reduced working hours	188	12	176	199	11	188	**277**	**15**	**262**
No. of employees on childcare leave	257	80	177	238	55	183	**268**	**37**	**231**
Rate of paid leave usage	74.1%	70.6%	82.5%	76.8%	74.4%	82.6%	**84.3%**	**83.1%**	**87.1%**
Rate of workforce turnover	8.1%	6.3%	12.2%	8.6%	7.2%	12.0%	**12.4%**	**11.2%**	**15.1%**
Ratio of new hires	12.5%	14.6%	10.3%	19.1%	18.2%	20.3%	**22.1%**	**17.3%**	**28.3%**

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

	FY2017			FY2018			FY2019		
	Total	Men	Women	Total	Men	Women	**Total**	**Men**	**Women**
No. of disabled employees (annual average)	159.7			161.9			**154.0**		
% of disabled employees (annual average rate)	2.17%			2.23%			**2.26%**		
No. of mandatory retirees that have been rehired*	22	19	3	31	24	7	**21**	**17**	**4**
No. of employees with foreign citizenship	334	124	210	351	144	207	**366**	**143**	**203**
No. of foreign national managers	20	15	5	25	20	5	**26**	**20**	**6**
Number of people newly employed	722	327	395	725	336	389	**523**	**229**	**294**
Gender ratio for new hires	100.0%	45.3%	54.7%	100.0%	46.3%	53.7%	**100.0%**	**44.7%**	**55.3%**
No. of managers	1,707	1,603	104	1,758	1,648	110	**1,671**	**1,549**	**122**
Gender ratio for managers	100.0%	93.9%	6.1%	100.0%	93.7%	6.3%	**100.0%**	**92.7%**	**7.3%**

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

Support for Employees Seeking to Obtain Qualifications

	FY2017	FY2018	FY2019
No. using support for obtaining qualifications	742	368	**266**
No. using support system for obtaining specified qualifications	651	245	**144**
No. in program for language skills improvement	16	15	**13**
No. awarded an incentive payment for obtaining Takken qualification	75	108	**109**

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

Certified Employees (as of March 2020)

Real estate broker	899
Rental property manager	537
General insurance solicitor (basic course/fire insurance course)	994
Architect (first-class, second-class)	374
Building construction management engineer (1st Grade, 2nd Grade)	296
Certified skilled worker of financial planning (1st Grade, 2nd Grade)	283
Land surveyor, Assistant land surveyor	34
Care worker	705
Care support specialist	178
Home-visit care worker (1st Grade, 2nd Grade)	373

Labor Safety and Health

	FY2017	FY2018	FY2019
No. of labor accidents	44	55	56
Accidents requiring time off work	3	14	21
Accidents not requiring time off work	41	41	35

Stakeholder Communication Initiatives

	FY2017	FY2018	FY2019
No. of property owner briefing sessions	424	517	381
No. of IR events (meetings for individual investors, etc.)	22	19	5
Career-support activity programs	35	35	0

Community Contributions

	FY2017	FY2018	FY2019
No. of cleanup campaign participants	14,013	6,142	2,309
Of which, in vicinity of existing properties	3,037	—**	0
Of which, in vicinity of construction sites	10,976	6,142	2,309
Total sum of donations (thousands of yen)	2,378	3,754	3,708
No. joining observation tours and OTJ training at Leopalace Smile*	444	417	111

* Leopalace Smile Co., Ltd. is a special subsidiary set up to employ the disabled under Article 44 of the Act for Employment Promotion etc. of Persons with Disabilities.

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

Efforts to Reduce our Environmental Impact

	FY2017	FY2018	FY2019
CO_2 emissions from the use of electricity and gas use (t-CO_2)	15,696	14,730	13,624
Head office and branches	7,710	6,185	6,343
Azumi En nursing care facilities	6,043	6,056	4,899
Leopalace hotels	1,943	2,489	2,381
CO_2 emissions from vehicle gasoline (t-CO_2)	3,490	3,345	3,172
Scope 3 CO_2 emissions (t-CO_2)	864,448	786,510	692,463
Category 1 (purchased materials)	44,810	31,263	10,898
Category 2 (capital goods)	34,127	29,835	12,692
Category 3 (electricity-related)			
Category 6 (business travel)	4,409	4,338	5,701
Category 7 (employee commuting)			
Category 13 (electricity and gas use by rental housing)	781,102	724,543	663,171

SUSA
Sustainability Accounting Co.,Ltd.

Independent Assurance Statement

September 23, 2020

Mr. Bunya Miyao
President and CEO
Leopalace21 Corporation

1. Purpose

We, Sustainability Accounting Co., Ltd., have been engaged by Leopalace21 Corporation (thereinafter "the Company") to provide limited assurance on the CO_2 emissions of the Company in FY2019, which are 13,624t-CO_2 (electricity & gas use), 3,172t-CO_2 (vehicle gasoline), and 692 thousand t-CO_2 (Categories 1,2,3,6,7 and 13 of Scope 3). The CO_2 emissions are disclosed in the Company's Integrated Report 2020. The purpose of this task is to carry out our assurance procedures and express our conclusion on whether the CO_2 emissions were calculated in accordance with the Company's standards. The Company's management is responsible for calculating the CO_2 emissions. 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 CO_2 emissions 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 CO_2 emissions 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, 2020)

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:	7,043 (consolidated basis) 5,820 (non-consolidated basis)

Members of Board of Directors and Auditors (As of July 22, 2020)

Directors

President and CEO	Bunya Miyao
Director	Shigeru Ashida
Director	Mayumi Hayashima
Director (Outside)	Tadashi Kodama
Director (Outside)	Tetsuji Taya
Director (Outside)	Hisafumi Koga
Director (Outside)	Kazuyasu Fujita
Director (Outside)	Yutaka Nakamura
Director (Outside)	Akira Watanabe

Audit & Supervisory Board Members

Full-time Audit & Supervisory Board Member (Outside)	Jiro Yoshino
Full-time Audit & Supervisory Board Member	Kenichiro Samejima
Audit & Supervisory Board Member (Outside)	Takao Yuhara
Audit & Supervisory Board Member	Yoshitaka Murakami

Major Shareholders (Top10) (As of May 28, 2020)

	Shareholders	Thousands of Shares	Percentage of Outstanding Shares
1	Ardisia Investment, Inc	48,683	19.94
2	City Index Eleventh Co., Ltd.	21,904	8.97
3	S-GRANT.CO.,LTD.	16,456	6.74
4	The Master Trust Bank of Japan, Ltd. (Trust Account)	7,640	3.13
5	Japan Trustee Services Bank, Ltd. (Trust Account5)	5,283	2.16
6	Stockholding Association for Leopalace21's Business Connection	4,975	2.03
7	JP MORGAN BANK (IRELAND) PLC 380423	4,742	1.94
8	Stockholding Association for Leopalace21's Employees	4,013	1.64
9	UBS AG LONDON A/C IPB SEGREGATED CLIENT ACCOUNT	3,825	1.56
10	STATE STREET BANK AND TRUST COMPANY 505103	3,639	1.49

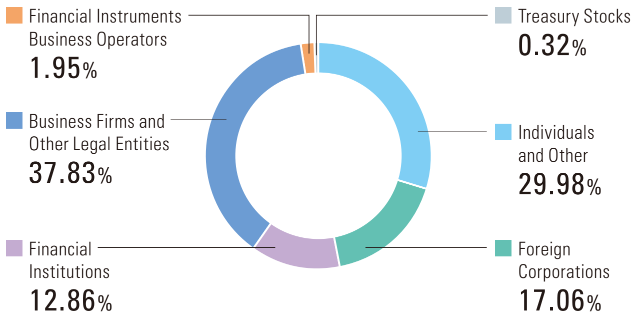
Note1: The number of shares held in trust accounts for trust bank operations by The Master Trust Bank of Japan, Ltd. (Trust Account) and Japan Trustee Services Bank, Ltd. (Trust Account5) as of May 28, 2020 are not included because they could not be confirmed.

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

Stock Information (As of May 28, 2020)

Number of Shares:	
Authorized:	500,000,000
Outstanding:	244,882,515
Number of Shareholders:	58,902
Listing:	First Section of the Tokyo Stock Exchange (Security code: 8848)
Administrator of Shareholder Registry:	Sumitomo Mitsui Trust Bank

Shareholder Composition (As of May 28, 2020)

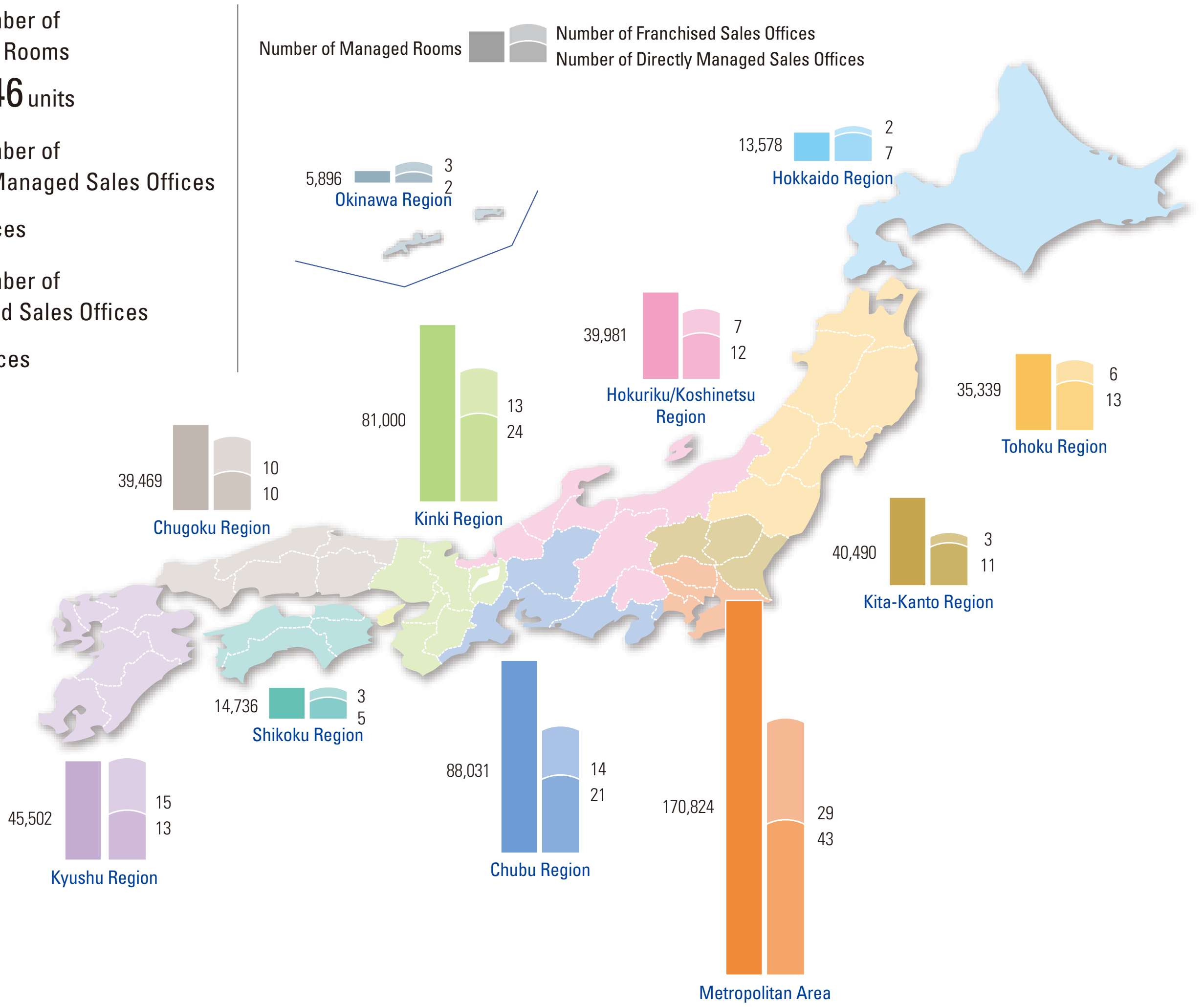


Number of Apartment Rooms under Management and Domestic Leasing Sales Offices by Region (As of August 31, 2020)

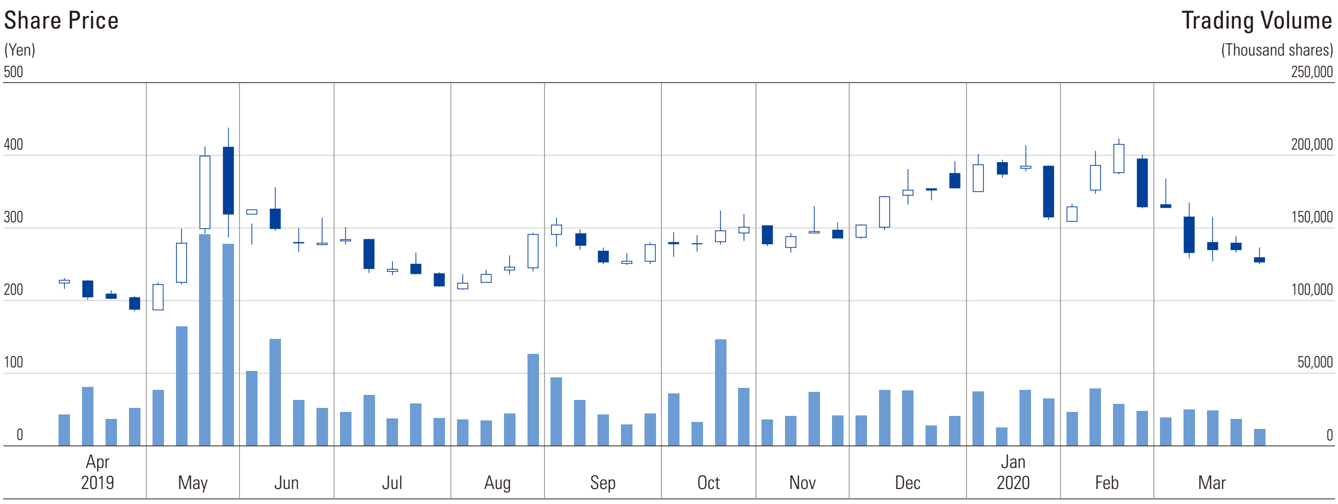
Total Number of Managed Rooms
574,846 units

Total Number of Directly Managed Sales Offices
161 offices

Total Number of Franchised Sales Offices
105 offices



Share Price and Trading Volume (As of March 31, 2020)



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